

**Board Room of the FASB Offices—401 Merritt 7  
Norwalk, Connecticut  
Tuesday, September 25, 2018  
Agenda**

- 8:30 – 9:25 am (55 minutes) **Administrative Session: (Attendees: FASAC members, FASB members, and Official Observers only)**
- 9:25 – 9:30 am **BREAK (5 minutes)**
- 9:30-9:35 am (5 minutes) **Public Meeting Begins: Introductions and Opening Remarks**  
(Mr. Andy McMaster)
- 9:35 – 9:50 am (15 minutes) **Topic 1 – Highlights on Current Hot Topics**
- FASB Highlights (Mr. Russell Golden)
  - SEC Highlights (Mr. Sagar Teotia)
  - PCAOB Highlights (Ms. Jennifer Rand)
- 9:50 – 10:50 am (1 hour) **Topic 2 – Tax Reform and Income Tax Disclosures**  
*Session Structure:*
- Introductions and description of the breakout group tasks from FASB staff (15 minutes)
  - Breakout discussions - 10:05 – 10:50 am (45 minutes)
- 10:50 – 11:00 am **BREAK – (10 minutes)**
- 11:00 am – 12:00 pm (1 hour) **Topic 2 – Tax Reform and Income Tax Disclosures (continued)**  
Reconvene to analyze and further explore the similarities, differences, and other linkages in Council members' views from the breakout groups

12:00 pm – 1:00 pm      **LUNCH (60 minutes)**

1:00 – 1:45 pm      **Topic 3 – SEC’s Disclosure Update and Simplification**  
(45 minutes)

- Introduction from FASB staff *(5-10 minutes)*
- Discuss Council members’ views and feedback on the disclosure requirements that were referred to the FASB in the SEC’s final rule.

1:45 – 2:55 pm      **Topic 4 - Accounting and Reporting Alternatives within GAAP**  
(70 minutes)

- Introduction from FASB staff *(5-10 minutes)*
- Solicit Council members views about options in transition and other accounting provisions within recent standards, such as practical expedients, focusing on the potential costs and benefits and implications in the systems used to prepare or analyze/model the financial statements.

**3:00 pm              ADJOURNMENT**

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## **REPORT OF THE FASB CHAIRMAN**

**April 1, 2018 through June 30, 2018**

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### **ITEM 1: STANDARDS-SETTING ACTIVITIES**

#### **A. FINAL STANDARDS AND DOCUMENTS ISSUED FOR PUBLIC COMMENT**

1. The Board issued the following final documents:
  - a. Accounting Standards Update 2018-06, *Codification Improvements to Topic 942, Financial Services—Depository and Lending*, issued May 7, 2018.
  - b. Accounting Standards Update 2018-07, *Compensation—Stock Compensation (Topic 718): Improvements to Nonemployee Share-Based Payment Accounting*, issued June 20, 2018.
  - c. Accounting Standards Update 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*, issued June 21, 2018.
2. The Board issued the following proposed documents for public comment:
  - a. Proposed Accounting Standards Update, *Collaborative Arrangements (Topic 808): Targeted Improvements* (issued April 26, 2018). Comment deadline: June 11, 2018.
  - b. Proposed Accounting Standards Update, *Not-for-Profit Entities (Topic 958): Updating the Definition of Collections* (issued June 26, 2018). Comment deadline: August 10, 2018.

#### **B. CHANGES TO THE STANDARDS-SETTING AGENDA**

1. The Board did not add any new projects to either its agenda or the EITF's agenda.

#### **C. SIGNIFICANT TECHNICAL DECISIONS**

1. Insurance—Targeted Improvements to the Accounting for Long-Duration Contracts
  - a. The Board redeliberated the proposal and decided:
    - i. To revise the modified retrospective transition method discount rate
    - ii. The effective date should be as follows:

- (1) For public business entities, the amendments will be effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2020.
  - (2) For all other entities, the amendments will be effective for fiscal years beginning after December 15, 2021, and interim periods within fiscal years beginning after December 15, 2022.
2. Distinguishing Liabilities from Equity (Including Convertible Debt)
  - a. The Board began deliberations by discussing the direction of the project and directed the staff to further research:
    - i. Convertible instruments. The research will focus on accounting for convertible instruments with embedded conversion features as a single unit of account based on the model for traditional convertible debt.
    - ii. The classification, disclosures, and earnings per share related to two paths for determining whether a contract is indexed to an entity's own stock within the context of the derivative scope exception—monetary value and antidilution.
3. Consolidations Targeted Improvements to Related Party Guidance for Variable Interest Entities
  - a. The Board redeliberated the proposal and decided:
    - i. To confirm its decision to allow a private company (reporting entity) to elect an accounting alternative through an accounting policy election to not apply variable interest entity (VIE) guidance to legal entities under common control if both the parent and the legal entity being evaluated for consolidation are not public business entities.
    - ii. To clarify and provide illustrative guidance on how control is established for purposes of applying the private company accounting alternative
    - iii. To confirm its decision to require indirect interests held through related parties in common control arrangements to be considered on a proportional basis when determining whether fees paid to decision makers and service providers are variable interests (decision-making fee guidance)
    - iv. To not make any amendments to the VIE related party guidance for determining the primary beneficiary of a VIE.
    - v. The effective date should be as follows:

- (1) For private companies, the amendments will be effective for fiscal years beginning after December 15, 2020.
  - (2) Private companies may early adopt the amendments.
  - (3) Private companies must apply the amendments retrospectively with a cumulative-effect adjustment to retained earnings at the beginning of the earliest period presented.
- 4. Revenue Recognition of Grants and Contracts by Not-for-Profit Entities
  - a. The Board decided to amend the effective date for transactions in which an entity is a resource recipient as follows:
    - i. For a public business entity or 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 an over-the-counter market, the amendments would be effective for annual periods beginning after June 15, 2018, including interim periods within those annual periods.
    - ii. For all other entities, the effective date would be aligned with the effective date of Topic 606, Revenue from Contracts with Customers.
- 5. The Board is in the final stages of initial deliberations and redeliberations on several other projects, and while the Board made a number of decisions, none of those decisions were individually significant.

## **ITEM 2: PREAGENDA RESEARCH**

### **A. CHANGES TO THE RESEARCH AGENDA**

- 1. The Board added a project on Variable Interest Entity Related Party Guidance to its research agenda (May).

### **B. SIGNIFICANT RESEARCH ACTIVITIES**

- 1. The staff performed research on:
  - a. Debt instruments with paid-in-kind interest
  - b. Share-based payments
  - c. Non-GAAP measures.

C. ACTIVITIES OF THE FINANCIAL ACCOUNTING STANDARDS ADVISORY COUNCIL (FASAC) AND FASB ADVISORY COMMITTEES

1. FASAC meeting:
  - a. Six Board members and several FASB staff members participated in the June 8, 2018 FASAC meeting. The meeting topics focused on financial performance reporting—disaggregation of performance information and subsequent accounting for goodwill and possible decision-making factors.
2. The following advisory committee meetings were held:
  - a. Public meeting of the Small Business Advisory Committee (SBAC) (May 10). Six Board members, the technical director, and several FASB staff participated. Topics included disclosure framework—disclosures by business entities about government assistance, income taxes, revenue recognition, and open discussion on small public company considerations.
  - b. Meeting of the Investor Advisory Committee (IAC) (June 28): Six Board members (on a rotational basis), the technical director, and several FASB staff participated in the closed meeting of the IAC. A public meeting that summarized those discussions followed. Topics included IAC emerging issues and trends, income tax reform—disclosure focus, FASB ongoing project efforts, and disclosure review research project.
3. Advisory committee membership changes:
  - a. The appointments of the following three SBAC members were announced in April 2018: K. Scott Gray, Dominick Kerr, and Ryan LaFond.
  - b. The appointments of the following three IAC members were announced in May 2018: Yoni Engelhart, Brian Kleinhanzl, and Janet Pegg.

D. INTERACTION WITH PRIVATE COMPANY STAKEHOLDERS

1. Public meetings with the Private Company Council (PCC) were held on April 20 and June 26, 2018. Six Board members attended the April meeting and five Board members attended the June meeting. The technical director and several FASB staff members participated in both meetings. The PCC provided input on FASB projects, including collaborative arrangements, consolidations—targeted improvements to related party guidance, revenue recognition, and share-based payments. The PCC also discussed the EITF project on cloud computing.

2. A Town Hall meeting was held in Las Vegas, NV, at the AICPA Engage conference on June 12, 2018, with one Board member, four PCC members, and two FASB staff members participating as panelists. Another Town Hall meeting was held in Missoula, MT, at the 105<sup>th</sup> Montana Society of CPAs' Annual Conference with one Board member, the technical director, two PCC members, and two FASB staff members participating as panelists. Town Hall participants provided feedback on variable interest entity guidance, share-based compensation, implementation of Topic 606, Revenue from Contracts with Customers, and other financial reporting topics.

#### E. OTHER SIGNIFICANT STAKEHOLDER OUTREACH ACTIVITIES

1. A Board member met privately with the Institute of Management Accountants' Financial Reporting Committee in June. Topics included the implementation of leases, credit losses, and hedging and FASB projects on disclosure framework, financial performance reporting, improvements to the statement of cash flows, and segment reporting.
2. Four Board members and an FASB staff member met publicly with members of the Financial Executives International's Committee on Corporate Reporting in June. Topics included the implementation of leases and FASB projects on government assistance disclosures, distinguishing liabilities from equity, segment reporting, and disaggregation of performance information.
3. A Board member and three FASB staff members met privately with the Accounting Administrative Committee of the American Bankers Association in May. Topics included the implementation of credit losses.
4. Five Board members and seven FASB staff members met publicly with members of the Transition Resource Group for Credit Losses. Topics included general technical inquiries recently answered, capitalized interest, accrued interest, transfer of loans from held-for-sale to held-for-investment and transfer of credit impaired debt securities from available-for-sale to held-to-maturity, recoveries, and refinancing and loan prepayments.
5. Six Board members, the technical director, and several FASB staff members met publicly with the Healthcare Financial Management Association on April 27, 2018. Issues discussed included current topics important to the healthcare sector, the implementation of revenue recognition and financial statement presentation for not-for-profit organizations, and FASB projects on financial performance reporting, goodwill, and collaborative arrangements.

## F. SIGNIFICANT PROJECT-SPECIFIC OUTREACH ACTIVITIES

1. Individual meetings with stakeholders:
  - a. FASB members and staff conducted 241 meetings (10% with investors and other users, 40% with practitioners, 32% with preparers, 7% with regulators, 6% with trade group representatives, and 5% with others including academics, consultants, and other standard setters) to discuss issues on 27 different FASB and EITF projects.
2. Broad stakeholder outreach through comment letters:
  - a. Through comment letters, the Board received feedback from a range of stakeholder types (2% from investors and other users, 25% from auditors, 50% from representatives of public companies, private companies, and not-for-profit organizations, and 23% from professional, trade, and advocacy organizations and others [including state societies, regulators, and other standard setters]) on different FASB and EITF projects.

## G. EMERGING ISSUES TASK FORCE (EITF) ACTIVITIES

1. Six Board members attended the June 7, 2018 EITF meeting. The Task Force reached a consensus on Issue No. 17-A, “Customer’s Accounting for Implementation, Setup, and Other Upfront Costs (Implementation Costs) Incurred in a Cloud Computing Arrangement That Is Considered a Service Contract,” and a consensus-for-exposure on Issue No. 18-A, “Recognition under Topic 805 for an Assumed Liability in a Revenue Contract.” Issue No. 18-B, “Improvements to Accounting for Episodic Television Series,” also was discussed. The Board ratified the consensus on Issue 17-A and the consensus-for-exposure on Issue 18-A and directed the staff to draft an Update finalizing the consensus and a proposed Update reflecting the consensus-for-exposure for vote by written ballot.

## H. INTERNATIONAL ACTIVITIES

1. Activities between the FASB and the IASB were as follows:
  - a. The FASB technical director and her counterpart on the IASB staff held periodic conference calls to discuss matters of mutual interest.
  - b. The FASB and IASB held a joint Board meeting in London and discussed segment reporting, financial performance reporting/primary financial statements,

disclosure framework/disclosure initiative, fair value measurement disclosures/fair value post-implementation review, goodwill and impairment, implementation of revenue and leases standards, conceptual framework, distinguishing liabilities from equity/financial instruments with characteristics of equity, and improving the accounting for asset acquisitions and business combinations.

- c. The FASB chairman and FASB vice chairman participated in the IASB's Accounting Standards Advisory Forum in London.
- 2. Activities among the FASB and other national standards setters included the following:
  - a. A Board member participated in the Three-Way Dialogue meeting in New York.
  - b. The FASB chairman, a Board member, and FASB staff participated in a private meeting with representatives from several different national standards-setting organizations.
  - c. Three Board members and the technical director met with representatives of the Board and staff of the Accounting Standards Board of Canada.
  - d. Two Board members and various FASB staff met with representatives from the Organismo Italiano di Contabilità (the Italian accounting standard setter) in Norwalk.
  - e. An FASB staff member participated in the International Forum of Accounting Standard Setters meeting in Mumbai, India.
  - f. STAKEHOLDER EDUCATION AND COMMUNICATIONS

## I. WEBINARS AND VIDEOS

- 1. The FASB posted 4 featured videos/webinars:
  - a. Video: FASB Grants and Contracts
  - b. Video: FASB Income Tax Accounting
  - c. Video: FASB XBRL 2018 GAAP and SEC Reporting Taxonomies Improvements, Including New Revenue Modeling, and SEC Update (April 3)
  - d. Webinar: FASB Update for Private Companies and Not-for-Profit Organizations.

## J. SPEECHES DELIVERED

1. FASB members or staff delivered 58 speeches at different conferences/events. The more significant conferences follow:
  - a. Accounting CPE Network 2018 Not-for-Profit Accounting Auditing and Tax Update
  - b. AICPA National Advanced Accounting & Auditing Technical Symposium (NAAATS) ENGAGE Conference
  - c. AICPA Not-for-Profit Industry Conference
  - d. Deloitte and University of Kansas Audit Symposium
  - e. EY Tax Accounting Executive Forum
  - f. Florida Institute of Certified Public Accountants Mega CPE Conference
  - g. Houston Texas Society of CPAs Financial Reporting Symposium
  - h. Montana Society of CPAs FASB and PCC Town Hall Meeting
  - i. Ohio Council IMA 44<sup>th</sup> Meonske Professional Development Conference
  - j. Practicing Law Institute Audit Committees and Financial Reporting 2018
  - k. The Robert Zicklin Center for Corporate Integrity, Baruch College, CUNY 17<sup>th</sup> Annual Financial Reporting Conference
  - l. University of Tulsa School of Accounting and CIS 72<sup>nd</sup> Annual Conference of Accountants
  - m. University of Washington Financial Reporting Conference
  - n. University of Wisconsin-Madison Fireside Chat
  - o. WSJ CFO Network Conference.

## K. PRESS RELEASES, MEDIA ADVISORIES, AND SOCIAL MEDIA

1. The FASB issued 15 press releases, media advisories, or stakeholder emails on a variety of topics with accompanying social media.

## L. OTHER COMMUNICATIONS ACTIVITIES AND EDUCATION

1. The 2<sup>nd</sup> Quarter FASB Outlook was issued on April 23, 2018.
2. The 2017 FAF Annual Report—Standards That Work—was issued on May 23, 2018.

3. Interviews, statements, and background interviews on credit losses, accounting for subsequent events, financial instruments: recognition and measurement, segment reporting, leases practical expedients, not-for-profit grants and contracts, and other topics.
4. The FASB held its Doctoral Student Program. Participants observed the FASAC and EITF meetings and participated in various discussions with members of the Board and FASB staff.

### **ITEM 3: STRATEGIC, ADMINISTRATIVE, AND PROCEDURAL ACTIVITIES**

#### **A. STRATEGIC PLAN ACTIVITIES**

1. The FASB chairman participated in the FAF's strategic planning process.

#### **B. ADMINISTRATIVE MATTERS**

1. None.

#### **C. PROFESSIONAL DEVELOPMENT PROGRAMS**

1. Preventing Sexual Harassment in the Workplace
2. Financial Reporting and the Tax Cuts and Jobs Act
3. FASB Quarterly Update
4. A Preparer Bank Perspective on Implementing the FASB's CECL Standard
5. New York Ethics
6. FASB Board Member Roundtable with Marc Siegel.

### **ITEM 4: FEDERAL GOVERNMENT AND REGULATORY LIAISON ACTIVITIES**

#### **A. REPRESENTATIVES OF CONGRESS AND FEDERAL REGULATORY BODIES**

1. The FASB chairman, an FASB member, and the FASB technical director participated in a routine, private liaison meeting with representatives of the banking regulators to discuss matters of mutual interest.
2. The FASB chairman met with the SEC chief accountant and the PCAOB chairman to discuss matters of mutual interest.
3. The FASB technical director observed the PCAOB's Standing Advisory Group Meeting.

## **ITEM 5: FAF/FASB/GASB INTERACTION**

1. GASB and FASB meeting minutes were shared with the FASB and GASB Board members and staff.

### **B. MEETINGS**

1. The FASB and GASB directors met monthly to discuss their technical agenda projects and other matters of mutual interest.
2. The FASB and GASB chairmen and their respective directors held their quarterly meeting to discuss technical issues and other matters of mutual interest.

### **C. DOCUMENT DRAFT REVIEWS**

1. The GASB staff distributed the following documents to the FASB staff for review:
  - a. Final Implementation Guide
  - b. Final standard on accounting for interest cost during the period of construction
  - c. Final standard on accounting and financial reporting for majority equity interests
  - d. Exposure draft on conduit debt obligations.
2. The FASB staff distributed the following drafts to the GASB for review:
  - a. Concepts Statement, *Conceptual Framework for Financial Reporting—Chapter 8, Notes to Financial Statements*
  - b. Concepts Statement, *Conceptual Framework for Financial Reporting—Chapter 3, Qualitative Characteristics of Useful Financial Information*
  - c. Accounting Standards Update, *Codification Improvements to Topic 942, Financial Services—Depository Lending*
  - d. Accounting Standards Update, *Codification Improvements*
  - e. Accounting Standards Update, *Compensation—Fair Value Measurement (Topic 820): Disclosure Framework—Changes to the Disclosure Requirements for Fair Value Measurement*
  - f. Accounting Standards Update, *Compensation—Retirement Benefits—Defined Benefit Plans—General (Subtopic 715-20): Disclosure Framework—Changes to the Disclosure Requirements for Defined Benefit Plans*
  - g. Accounting Standards Update, *Codification Improvements to Topic 842, Leases*

- h. Accounting Standards Update, *Financial Services—Insurance (Topic 944): Targeted Improvements to the Accounting for Long-Duration Contracts*
- i. Accounting Standards Update, *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* (a consensus of the EITF)
- j. Accounting Standards Update, *Leases (Topic 842): Targeted Improvements*
- k. Proposed Accounting Standards Update, *Not-for-Profit Entities (Topic 958): Updating the Definition of Collections*
- l. Proposed Accounting Standards Update, *Business Combinations (Topic 805): Recognition and Measurement of an Assumed Liability from Revenue Contracts with Customers* (a consensus of the EITF).

## **ITEM 7: XBRL ACTIVITIES**

The FASB is responsible for the ongoing development and maintenance of the GAAP Financial Reporting Taxonomy (Taxonomy) and new for 2018, the SEC Reporting Taxonomy (SRT) applicable to public issuers registered with the U.S. Securities and Exchange Commission (SEC).

### **A. TECHNICAL ACTIVITIES**

- 1. The FASB published Taxonomy Updates as final for:
  - a. Accounting Standards Update 2018-06—*Codification Improvements to Topic 942, Financial Services—Depository and Lending*
  - b. Accounting Standards Update 2018-07—*Compensation—Stock Compensation (Topic 718): Improvements to Nonemployee Share-Based Payment Accounting*
  - c. Accounting Standards Update 2018-08—*Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*
- 2. The FASB published Taxonomy Exposure Drafts for:
  - a. Proposed Accounting Standards Update—*Collaborative Arrangements (Topic 808): Targeted Improvements*

- b. Proposed Accounting Standards Update—*Not-for-Profit Entities (Topic 958): Updating the Definition of Collections*.
- 3. The FASB published Taxonomy Implementation Guides for:
  - a. Other Comprehensive Income (including selected financial statements)
  - b. Dimensional Modeling for Disclosures of Consolidated and Nonconsolidated Entities
  - c. Revenue from Contracts with Customers (including remodeling of revenue and cost of revenue presentation in the statement of income).

## B. OUTREACH ACTIVITIES

- 1. The more significant Taxonomy-related outreach activities this quarter included the following:
  - a. Presented at two XBRL US webinars—“Using the SEC Reporting Taxonomy (SRT)” on May 1, 2018, and “Revenue Recognition: Impact of the New Accounting Standards on XBRL” on June 4, 2018.
  - b. Hosted or participated in meetings of the FASB Taxonomy Advisory Group (including a two-day face-to-face meeting in Norwalk), industry working groups, XBRL US Data Quality Committee, various XBRL International technical working groups (including the Entity Specific Disclosure Task Force co-chaired by FASB Chief of Taxonomy Development), the IASB IFRS Taxonomy Consultative Group, and the SEC Division of Economic and Risk Analysis (DERA) staff.

## Technical Agenda Overview

Revised July 26, 2018

| <b>FRAMEWORK PROJECTS</b>                       | <b>Current Stage</b>     | <b>Timing</b>  |
|-------------------------------------------------|--------------------------|----------------|
| Conceptual Framework: Elements                  | Initial deliberations    |                |
| Conceptual Framework: Measurement               | Initial deliberations    |                |
| Conceptual Framework: Presentation              | ED redeliberations       |                |
| Disclosure Framework: Board's Decision Process  | Drafting final Concepts  | <b>Q3 2018</b> |
| Disclosure Framework: Entity's Decision Process | Drafting final amendment | <b>Q3 2018</b> |

| <b>RECOGNITION &amp; MEASUREMENT: BROAD PROJECTS</b>                           | <b>Current Stage</b>    | <b>Timing</b>  |
|--------------------------------------------------------------------------------|-------------------------|----------------|
| Distinguishing Liabilities from Equity (including convertible debt)            | Initial deliberations   |                |
| Insurance: Targeted Improvements to the Accounting for Long-Duration Contracts | Drafting final standard | <b>Q3 2018</b> |

| <b>RECOGNITION &amp; MEASUREMENT: NARROW PROJECTS</b>                                                                                                            | <b>Current Stage</b>    | <b>Timing</b>  |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------|----------------|
| Codification Improvements ( <i>next phase</i> )                                                                                                                  | Initial deliberations   |                |
| Codification Improvements—Financial Instruments                                                                                                                  | Initial deliberations   |                |
| Codification Improvements—Financial Instruments—Credit Losses                                                                                                    | Drafting ED             | <b>Q3 2018</b> |
| Collaborative Arrangements: Targeted Improvements                                                                                                                | Drafting final standard | <b>Q4 2018</b> |
| Consolidation Reorganization and Targeted Improvements                                                                                                           | ED redeliberations      |                |
| Consolidation Targeted Improvements to Related Party Guidance for Variable Interest Entities                                                                     | Drafting final standard | <b>Q3 2018</b> |
| Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That is Considered a Service Contract (EITF 17-A)                       | Drafting final standard | <b>Q3 2018</b> |
| Hedging—Last of Layer Method                                                                                                                                     | Initial deliberations   |                |
| Improvements to Accounting for Episodic Television Series (EITF 18-B)                                                                                            | Initial deliberations   |                |
| Improving the Accounting for Asset Acquisitions and Business Combinations                                                                                        | Initial deliberations   |                |
| 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 | ED redeliberations      |                |
| Leases—Targeted Amendments to Topic 842                                                                                                                          | Drafting final standard | <b>Q3 2018</b> |

|                                  |             |                |
|----------------------------------|-------------|----------------|
| Lessor Narrow Scope Improvements | Drafting ED | <b>Q3 2018</b> |
|----------------------------------|-------------|----------------|

| <b>RECOGNITION &amp; MEASUREMENT: NARROW PROJECTS <i>(continued)</i></b>               | <b>Current Stage</b>      | <b>Timing</b>                |
|----------------------------------------------------------------------------------------|---------------------------|------------------------------|
| Recognition under Topic 805 for an Assumed Liability in a Revenue Contract (EITF 18-A) | Drafting ED               |                              |
| Updating the Definition of Collections                                                 | ED out for public comment | <b>Ends<br/>Aug 10, 2018</b> |

| <b>PRESENTATION &amp; DISCLOSURE PROJECTS</b>                             | <b>Current Stage</b>    | <b>Timing</b>  |
|---------------------------------------------------------------------------|-------------------------|----------------|
| Disclosure Framework: Disclosure Review—Defined Benefit Plans             | Drafting final standard | <b>Q3 2018</b> |
| Disclosure Framework: Disclosure Review—Fair Value Measurement            | Drafting final standard | <b>Q3 2018</b> |
| Disclosure Framework: Disclosure Review—Income Taxes                      | ED redeliberations      |                |
| Disclosure Framework: Disclosure Review—Inventory                         | ED redeliberations      |                |
| Disclosure Framework: Disclosures—Interim Reporting                       | Initial deliberations   |                |
| Disclosures by Business Entities about Government Assistance              | ED redeliberations      |                |
| Financial Performance Reporting—Disaggregation of Performance Information | Initial deliberations   |                |
| Segment Reporting                                                         | Initial deliberations   |                |
| Simplifying the Balance Sheet Classification of Debt                      | Drafting final standard | <b>Q3 2018</b> |

| <b>RESEARCH PROJECTS</b>                                                                                                                                            |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Accounting for Certain Identifiable Intangible Assets in a Business Combination & Subsequent Accounting for Goodwill for Public Business Entities & Not-for-Profits |
| Disclosure Review—Intangibles, Share-based Payment, and Foreign Currency                                                                                            |
| Financial Performance Reporting:<br>Financial Statements of Not-for-Profit Entities<br>Structure of the Performance Statement                                       |
| Income Taxes—Backwards Tracing                                                                                                                                      |

|                                                      |
|------------------------------------------------------|
| Inventory and Cost of Sales                          |
| Simplifications to Accounting for Income Taxes       |
| Targeted Improvements to the Statement of Cash Flows |
| Variable Interest Entity Related Party Guidance      |

**TAX REFORM AND INCOME TAX DISCLOSURES  
FINANCIAL ACCOUNTING STANDARDS ADVISORY COUNCIL  
SEPTEMBER 25, 2018**

### **Purpose of This Session**

The purpose of this session is to obtain feedback from Council members about (1) additional disclosures that should be required as a result of the Tax Cuts and Jobs Act,<sup>1</sup> and (2) whether certain disclosures in the 2016 [proposed Accounting Standards Update, Income Taxes \(Topic 740\): Disclosure Framework—Changes to the Disclosure Requirements for Income Taxes](#), would still be relevant as a result of the new tax law.

Discussion questions are included on pages 3 through 5.

### **The Proposed Changes to the Disclosure Requirements for Income Taxes**

In mid-2016, the Board issued a proposed Update as part of its disclosure framework project to improve disclosures about income taxes. The Board received and reviewed extensive feedback before deciding which disclosures to propose changing. That feedback indicated that users' primary areas of focus on taxes are as follows:

- (a) The sustainability of an entity's tax rates
- (b) Tax consequences of remittance of undistributed foreign earnings
- (c) Tax exposure in significant countries.

On the basis of that feedback, the Board proposed adding the following disclosures about income taxes to the *FASB Accounting Standards Codification*<sup>®</sup>:

- (a) Description of an enacted change in tax law that is probable to have an effect on the reporting entity in a future period
- (b) Income (or loss) from continuing operations before income tax expense (or benefit) disaggregated between domestic and foreign (formerly only a U.S. Securities and Exchange Commission [SEC] requirement)
- (c) Income tax expense (or benefit) from continuing operations disaggregated between domestic and foreign (formerly only an SEC requirement)

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<sup>1</sup>On December 22, 2017, the U.S. federal government enacted a tax bill, H.R.1, An Act to Provide for Reconciliation Pursuant to Titles II and V of the Concurrent Resolution on the Budget for Fiscal Year 2018 (Tax Cuts and Jobs Act).

- (d) Income taxes paid disaggregated between domestic and foreign, and the amount of income taxes paid to any country that is significant to total income taxes paid
- (e) An explanation of circumstances that caused a change in assertion about the indefinite reinvestment of undistributed foreign earnings and the corresponding amount of those earnings
- (f) The aggregate of cash, cash equivalents, and marketable securities held by foreign subsidiaries.

For public companies, the Board proposed adding the following:

- (a) Within the reconciliation of the total amounts of unrecognized tax benefits at the beginning and end of the period, settlements using existing deferred tax assets separate from those that have been or will be settled in cash.
- (b) The line items in the statement of financial position in which the unrecognized tax benefits are presented and the related amounts of such unrecognized tax benefits. If the unrecognized tax benefits are not presented in the statement of financial position, those amounts should be disclosed separately.
- (c) The amount and explanation of the valuation allowance recognized and/or released during the reporting period.
- (d) The total amount of unrecognized tax benefits that offsets the deferred tax assets for carryforwards.
- (e) The amounts of federal, state, and foreign carryforwards (not tax effected) by time period of expiration for each of the first five years after the reporting date and a total for any remaining years.
- (f) The amounts of deferred tax assets for federal, state, and foreign carryforwards (tax effected) before the valuation allowance. Those amounts would be further disaggregated by time period of expiration for each of the first five years after the reporting date and a total for any remaining years.<sup>2</sup>

The Board also proposed:

- (a) Modifying the existing rate reconciliation requirement for public business entities to be consistent with SEC guidance, which requires separate disclosure of reconciling items that meet a certain threshold
- (b) Adding a requirement to explain the changes in those reconciling items from year to year.

---

<sup>2</sup>An entity other than a public business entity would be required to disclose the total amounts of federal, state, and foreign carryforwards (not tax effected) and their expiration dates.

The Board proposed removing the future-oriented disclosure of the nature and estimate of the range of a reasonably possible change in the unrecognized tax benefits balance in the next 12 months (or a statement that an estimate of that range cannot be made).

After the Board received feedback on the proposed amendments from comment letter respondents, the project was put on hold because of the potential for tax reform that was contemplated at the time. As a result of the Tax Cuts and Jobs Act, the Board directed the FASB staff to perform additional outreach on income tax disclosures.

### **Additional Disclosures As a Result of the Tax Cuts and Jobs Act**

The Tax Cuts and Jobs Act included several key changes to the U.S. Federal Tax Code. On the basis of initial research, the FASB staff identified existing or proposed disclosures that would address several of the key provisions of the Tax Cuts and Jobs Act as follows:

- Change in the corporate tax rate—addressed by paragraphs 740-10-50-9(g) and 740-10-50-12
- Indefinite net operating loss carryforward that is now subject to additional limitation—addressed by proposed paragraph 740-10-50-6A
- Interest expense limitation and carryforward—addressed by proposed paragraph 740-10-50-6A
- Bonus depreciation for qualified property—addressed by paragraph 740-10-50-6
- Dividends received deduction—addressed by paragraph 740-10-50-12.

However, the FASB staff noted that there are no existing or proposed disclosures that address a company's exposure to certain of the new international tax provisions in the Tax Cuts and Jobs Act (for example, taxes on global intangible low-taxed income [GILTI] or the base erosion anti-abuse tax [BEAT]). Initial outreach with users indicated that information related to the exposure to those two taxes would be useful.

### **Discussion Questions**

#### **Question 1:**

- *(for investors/users)* Would disclosure of the effect of GILTI and BEAT on income tax expense for the year provide useful information? If so, would that information be best provided as a required line item in the effective tax rate reconciliation, a quantitative disclosure, or through some other method?
- *(for preparers/practitioners)* What challenges or costs would you expect in disclosing the effect of GILTI and BEAT on income tax expense for the year?

**Question 2:** Should companies be required to provide similar disclosures for the foreign derived intangible income deduction, which is treated as a special deduction?

**Question 3 (for investors/users):** What other information do you need as a result of the Tax Cuts and Jobs Act in considering the sustainability of a company's tax rates?

### **Disclosures That May Be Irrelevant As a Result of the Tax Cuts and Jobs Act**

An entity may still make an indefinite reinvestment assertion for its foreign earnings so that it is not required to record a liability for the state and withholding tax consequences of unremitted foreign earnings. The significance of these tax consequences would likely be far less than the tax consequences of the indefinite reinvestment assertion before the Tax Cuts and Jobs Act because state and withholding tax rates are typically much lower than the federal income tax rate that previously would have been applied to the unremitted foreign earnings.

### **Discussion Questions**

**Question 4 (for investors/users):** Given the change in significance of the tax consequences of unremitted foreign earnings, would the following disclosures still be relevant?

- (a) An explanation of circumstances that caused a change in assertion about the indefinite reinvestment of undistributed foreign earnings and the corresponding amount of those earnings (proposed paragraph 740-30-50-3)
- (b) The aggregate of cash, cash equivalents, and marketable securities held by foreign subsidiaries (proposed paragraph 740-10-50-24)
- (c) The cumulative amount of each type of temporary difference when a deferred tax liability is not recognized because of the exceptions to comprehensive recognition of deferred taxes related to subsidiaries and corporate joint ventures (paragraph 740-30-50-2(b)).

**Question 4 (for preparers/practitioners):** What challenges and costs do you expect in providing (or continuing to provide) the disclosures listed in (a)-(c) above?

Federal net operating loss and interest carryforwards no longer expire under the Tax Cuts and Jobs Act. However, foreign tax credit carryforwards (which may be less significant under the new law), capital loss carryforwards, and others may still expire. The amendments in the proposed Update would require an entity to disclose the amounts of federal, state, and foreign carryforwards by time period of expiration for each of the first five years after the reporting date and a total for any remaining years (proposed paragraph 740-10-50-6A).

**Question 5 (for investors/users):** Is it useful for companies to disclose the time period of expiration for carryforwards if those that are likely to be the most significant have no expiration date?

**Question 5 (for preparers/practitioners):** What are the most significant carryforwards that have an expiration date that companies expect to have?

The FASB staff identified disclosures about the indefinite reinvestment assertion and federal carryforwards as disclosures that may be irrelevant as a result of the Tax Cuts and Jobs Act.

**Question 6:** Are there other disclosures (existing or proposed) that are irrelevant as a result of the Tax Cuts and Jobs Act?

**SEC'S DISCLOSURE UPDATE AND SIMPLIFICATION  
FINANCIAL ACCOUNTING STANDARDS ADVISORY COUNCIL  
SEPTEMBER 25, 2018**

### **Purpose of This Session**

The purpose of this session is to obtain feedback from Council members about a potential FASB project on the disclosures the Securities and Exchange Commission (SEC) referred to the Board.

### **Summary of the SEC's Disclosure Effectiveness Initiative**

On August 17, 2018, the SEC voted to adopt amendments to its disclosure requirements that it believed were duplicative, overlapping, or outdated in light of other SEC disclosure requirements, GAAP, or changes in the information environment after reviewing feedback it received on its 2016 proposal.

The SEC also referred certain disclosure requirements to the Board for consideration for potential incorporation into GAAP. Those requirements currently overlap with GAAP, but require incremental information. The SEC has requested that the Board determine whether the referred disclosures will be added to its agenda for potential standard setting within 18 months of when the final release is published in the Federal Register. The SEC has not removed its disclosure requirements that were referred to the Board. However, it stated that it would consider the outcome of any standard setting undertaken by the Board as it considers amendments to its disclosure requirements.

Attachment 3A includes the specific disclosures referred to the Board; they are in the following areas:

- (a) Consolidations
- (b) Assets subject to lien
- (c) Debt, including debt in default
- (d) Preferred shares
- (e) Discounts on shares
- (f) Income tax expense
- (g) Related parties

- (h) Repurchase agreements and reverse repurchase agreements
- (i) Interim reporting disclosures
- (j) Products or services
- (k) Major customers
- (l) Derivatives
- (m) Foreign currency accounting
- (n) Equity compensation plans
- (o) Industry specific disclosures for oil and gas producing activities and REITs

The disclosures about debt in default and income tax expense have already been exposed as part of the Board's projects on the balance sheet classification of debt and disclosure framework—income taxes, respectively.

### ***Scope of the Potential FASB Project***

The Board could narrowly address the referred disclosures by requiring them only for public business entities, or it could consider evaluating whether the disclosures also should be required for other entities.

The SEC noted in its final release that “any incorporation of these incremental Commission disclosure requirements into U.S. GAAP could potentially affect all entities that prepare financial statements under U.S. GAAP, including those outside the scope of our regulatory authority. Because U.S. GAAP historically has scaled disclosure requirements only by public business entities versus other entities, and not by issuer status, incorporation into U.S. GAAP could result in the application of some of these requirements to [Smaller Reporting Companies] SRCs and issuers relying on Regulation A or Regulation Crowdfunding.”

### **Discussion Questions**

**Question 1:** How broad should the potential FASB project be on the disclosures referred by the SEC?

- (a) Should the Board consider addressing whether the disclosures also should be required for entities other than public business entities?
- (b) Should the Board consider that some public business entities have not been historically required to provide some of the SEC's disclosures (for example, public business entities that are not SEC filers, certain classes of issuer)?
- (c) Should the scope of the potential FASB project be limited to the specific disclosures referred by the SEC, or should the Board also consider other

disclosure requirements in these areas (or in other GAAP disclosure requirements that are similar)?

***Specific Disclosures***

The FASB staff is performing initial research on the referred disclosures and would like feedback on some of the specific disclosures referred by the SEC.

**Question 2:** What are your views on including names of other entities in the financial statements (for example, entities no longer in the consolidated financial statements, concentrated counterparties, or major customers)?

**Question 3:** Are there any referred disclosures (see Attachment 3A) that the Board should not consider incorporating into GAAP? Why?



## SEC's Disclosure Update and Simplification

# Consolidations

| SEC Disclosure Summary           |                                                                                                                                                                                                                                                                                                                                                                               |
|----------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Current US GAAP Requirements     | Paragraph 810-10-50-5A requires certain disclosures about changes in consolidation conclusions for VIEs, but that disclosure is specific to VIEs and doesn't require disclosure of the name of the entity.                                                                                                                                                                    |
| Referred Disclosure              | "As to each consolidated financial statement and as to each combined financial statement, if there has been a change in the persons included or excluded in the corresponding statement for the preceding fiscal period filed with the Commission which has a material effect on the financial statements, the persons included and the persons excluded shall be disclosed." |
| Potential Location of Disclosure | Section 810-10-50 on Consolidation                                                                                                                                                                                                                                                                                                                                            |

# Assets Subject to Lien

| SEC Disclosure Summary                  |                                                                                                                                                                                                                                                                  |
|-----------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Current US GAAP Requirements</b>     | Topic 440 requires disclosure of assets pledged as security for loans, and Topic 860 requires disclosure of assets pledged as collateral for repurchase agreements. However, assets subject to lien include more than assets that are collateral for borrowings. |
| <b>Referred Disclosure</b>              | “Assets mortgaged, pledged, or otherwise subject to lien, and the approximate amounts thereof, shall be designated and the obligations collateralized briefly identified.”                                                                                       |
| <b>Potential Location of Disclosure</b> | Topic 440 on Commitments                                                                                                                                                                                                                                         |

# Debt in Default

## SEC Disclosure Summary

### Current US GAAP Requirements

Topic 470 requires disclosure of the circumstances related to a long-term obligation that is classified as a long-term liability because it is probable that a violation will be cured within the required grace period.

### Referred Disclosure

“The facts and amounts concerning any default in principal, interest, sinking fund, or redemption provisions with respect to any issue of securities or credit agreements, or any breach of covenant of a related indenture or agreement, which default or breach existed at the date of the most recent balance sheet being filed and which has not been subsequently cured, shall be stated in the notes to the financial statements. If a default or breach exists but acceleration of the obligation has been waived for a stated period of time beyond the date of the most recent balance sheet being filed, state the amount of the obligation and the period of the waiver.”

### Potential Location of Disclosure

Section 470-10-50 on Debt

# Authorized Amount of Debt

| SEC Disclosure Summary           |                                                                                                                                                                                                   |
|----------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Current US GAAP Requirements     | Topic 855 states that the sale of a bond issued after the balance sheet date is a nonrecognized subsequent event that should be disclosed.                                                        |
| Referred Disclosure              | “Any significant changes in the authorized amounts of bonds, mortgages and similar debt since the date of the latest balance sheet being filed for a particular person or group shall be stated.” |
| Potential Location of Disclosure | Paragraph 855-10-55-2 on Subsequent Events                                                                                                                                                        |

# Debt

## SEC Disclosure Summary

### Current US GAAP Requirements

There is no similar requirement in US GAAP today.

### Referred Disclosure

“The amount and terms (including commitment fees and the conditions under which lines may be withdrawn) of unused lines of credit for short-term financing shall be disclosed, if significant, in the notes to the financial statements. The weighted average interest rate on short term borrowings outstanding as of the date of each balance sheet presented shall be furnished in a note. The amount of these lines of credit which support a commercial paper borrowing arrangement or similar arrangements shall be separately identified.

The amount and terms (including commitment fees and the conditions under which commitments may be withdrawn) of unused commitments for long-term financing arrangements that would be disclosed under this rule if used shall be disclosed in the notes to the financial statements if significant.”

### Potential Location of Disclosure

Section 470-10-50 on Debt

# Preferred Shares

| SEC Disclosure Summary           |                                                                                                                                                                                        |
|----------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Current US GAAP Requirements     | Aggregate preferences on involuntary liquidation, if <u>considerably in excess</u> of par or stated value, shall be shown parenthetically in the equity section of the balance sheet.” |
| Referred Amended Disclosure      | “Aggregate preferences on involuntary liquidation, if <u>other than par</u> or stated value, shall be shown parenthetically in the equity section of the balance sheet.”               |
| Potential Location of Disclosure | Paragraph 505-10-50-4 on Equity                                                                                                                                                        |

# Discounts on Shares

| SEC Disclosure Summary           |                                                                                                                                                             |
|----------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Current US GAAP Requirements     | There is no similar requirement in US GAAP today.                                                                                                           |
| Referred Disclosure              | “Discount on shares, or any unamortized balance thereof, shall be shown separately as a deduction from the applicable account(s) as circumstances require.” |
| Potential Location of Disclosure | Section 505-10-45 on Equity                                                                                                                                 |

# Income Tax Expense

## SEC Disclosure Summary

|                                         |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           |
|-----------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Current US GAAP Requirements</b>     | There is no similar requirement in US GAAP today.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         |
| <b>Referred Disclosure</b>              | <p>“The components of income (loss) before income tax expense (benefit) as either domestic or foreign;</p> <p>Amounts applicable to United States Federal income taxes, to foreign income taxes and the other income taxes shall be stated separately for each major component. Amounts applicable to foreign income (loss) and amounts applicable to foreign or other income taxes which are less than five percent of the total of income before taxes or the component of tax expense, respectively, need not be separately disclosed. For purposes of this rule, foreign income (loss) is defined as income (loss) generated from a registrant's foreign operations, i.e., operations that are located outside of the registrant's home country.”</p> |
| <b>Potential Location of Disclosure</b> | Section 740-10-50 on Income Taxes                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         |

# Income Tax Expense (continued)

## SEC Disclosure Summary

### Current US GAAP Requirements

Topic 740 requires a rate reconciliation, but no threshold is included in Topic 740.

### Referred Disclosure

“If no individual reconciling item amounts to more than five percent of the amount computed by multiplying the income before tax by the applicable statutory Federal income tax rate, and the total difference to be reconciled is less than five percent of such computed amount, no reconciliation need be provided unless it would be significant in appraising the trend of earnings. Reconciling items that are individually less than five percent of the computed amount may be aggregated in the reconciliation.

Where the reporting person is a foreign entity, the income tax rate in that person's country of domicile should normally be used in making the above computation, but different rates should not be used for subsidiaries or other segments of a reporting entity. When the rate used by a reporting person is other than the United States Federal corporate income tax rate, the rate used and the basis for using such rate shall be disclosed.”

### Potential Location of Disclosure

Section 740-10-50 on Income Taxes

# Related Parties

## SEC Disclosure Summary

|                                         |                                                                                                                                                                                                                                                                                                                                                                                                                           |
|-----------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Current US GAAP Requirements</b>     | Topic 850 requires disclosure of material related party transactions and the dollar amount related to those transactions, but disclosure is not required on the face of the financial statements.                                                                                                                                                                                                                         |
| <b>Referred Disclosure</b>              | <p>“Related party transactions should be identified and the amounts stated on the face of the balance sheet, income statement, or statement of cash flows.</p> <p>In cases where separate financial statements are presented for the registrant, certain investees, or subsidiaries, any intercompany profits or losses resulting from transactions with related parties and the effects thereof shall be disclosed.”</p> |
| <b>Potential Location of Disclosure</b> | Sections 850-10-45 and 850-10-50 on Related Party Disclosures and Section 810-10-50 on Consolidation                                                                                                                                                                                                                                                                                                                      |

# Repurchase Agreements

| SEC Disclosure Summary           |                                                                                                                                                                                                                                                                |
|----------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Current US GAAP Requirements     | Topic 860 requires that liabilities incurred by either the secured party or obligor in securities borrowing or resale transactions be separately classified, but it does not explicitly state that accrued interest payable should be included in that amount. |
| Referred Disclosure              | “Liabilities, <u>including accrued interest payable</u> , incurred by either the secured party or obligor in securities borrowing or resale transactions shall be separately classified.”                                                                      |
| Potential Location of Disclosure | Paragraph 860-30-45-2 on Secured Borrowing and Collateral of Transfers and Servicing                                                                                                                                                                           |

# Repurchase Agreements (continued)

| SEC Disclosure Summary           |                                                                                  |
|----------------------------------|----------------------------------------------------------------------------------|
| Current US GAAP Requirements     | There is no similar requirement in US GAAP today.                                |
| Referred Disclosure              | “Disclose the interest rates associated with certain repurchase liabilities.”    |
| Potential Location of Disclosure | Section 860-30-50 on Secured Borrowing and Collateral of Transfers and Servicing |

# Repurchase Agreements (continued)

## SEC Disclosure Summary

### Current US GAAP Requirements

Topic 275 requires disclosure of current vulnerabilities to the risk of a near-term severe impact due to concentrations.

### Referred Disclosure

“If, as of the most recent balance sheet date, the amount at risk under repurchase agreements or reverse repurchase agreements with any individual counterparty or group of related counterparties exceeds 10% of stockholders' equity (or in the case of investment companies, net asset value), disclose the name of each such counterparty or group of related counterparties, the amount at risk with each, and the weighted average maturity of the repurchase agreements or reverse repurchase agreements with each. The amount at risk under repurchase agreements is defined as the excess of carrying amount (or market value, if higher than the carrying amount or if there is no carrying amount) of the securities or other assets sold under agreement to repurchase, including accrued interest plus any cash or other assets on deposit to secure the repurchase obligation, over the amount of the repurchase liability (adjusted for accrued interest). (Cash deposits in connection with repurchase agreements shall not be reported as unrestricted cash.) The amount at risk under reverse repurchase agreements is defined as the excess of the carrying amount of the reverse repurchase agreements over the market value of assets delivered pursuant to the agreements by the counterparty to the registrant (or to a third party agent that has affirmatively agreed to act on behalf of the registrant) and not returned to the counterparty, except in exchange for their approximate market value in a separate transaction.”

# Repurchase Agreements (continued)

## SEC Disclosure Summary (continued)

### Potential Location of Disclosure

Section 860-30-50 on Secured Borrowing and Collateral of Transfers and Servicing

# Reverse Repurchase Agreements

## SEC Disclosure Summary

### Current US GAAP Requirements

Topic 860 requires a similar disclosure for repurchase agreements, but no disclosure is required for reverse repurchase agreements.

### Referred Disclosure

"If, as of the most recent balance sheet date, the aggregate carrying amount of "reverse repurchase agreements" (securities or other assets purchased under agreements to resell) exceeds 10% of total assets, disclose separately such amount in the balance sheet."

### Potential Location of Disclosure

Section 860-30-50 on Secured Borrowing and Collateral of Transfers and Servicing

# Reverse Repurchase Agreements (continued)

| SEC Disclosure Summary           |                                                                                                                                                                                                                                                                                     |
|----------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Current US GAAP Requirements     | There is no similar requirement in US GAAP today.                                                                                                                                                                                                                                   |
| Referred Disclosure              | “For a reverse repurchase agreement, disclose whether or not there are any provisions to ensure that the market value of the underlying assets remains sufficient to protect the registrant in the event of default by the counterparty and if so, the nature of those provisions.” |
| Potential Location of Disclosure | Section 860-30-50 on Secured Borrowing and Collateral of Transfers and Servicing                                                                                                                                                                                                    |

# Interim – Earnings per Share

| SEC Disclosure Summary           |                                                                                                                                                                                                                                                           |
|----------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Current US GAAP Requirements     | Topic 260 requires disclosure of the number of shares used in the computation of basic and diluted earnings per share for “each period for which an income statement is presented,” but there is no requirement to disclose the basis of the computation. |
| Referred Disclosure              | “The basis of the earnings per share computation shall be stated together with the number of shares used in the computation.”                                                                                                                             |
| Potential Location of Disclosure | Section 270-10-50 on Interim Reporting or Section 260-10-50 on Earnings Per Share                                                                                                                                                                         |

# Interim – Changes in Reporting Entity

## SEC Disclosure Summary

### Current US GAAP Requirements

Topic 250 requires disclosure of a change in the reporting entity and information about such change in the “period of change,” but it does not require disclosure of the effect upon the balance of retained earnings. In addition, Topic 250 requires disclosure of changes in accounting principles and corrections of errors in “interim financial statements,” so the reference to “period of change” for a change in reporting entity is not as explicit.

### Referred Disclosure

“Any material retroactive prior period adjustment made during any period covered by the interim financial statements shall be disclosed, together with the effect thereof upon net income—total and per share—of any prior period included and upon the balance of retained earnings. If results of operations for any period presented have been adjusted retroactively by such an item subsequent to the initial reporting of such period, similar disclosure of the effect of the change shall be made.”

### Potential Location of Disclosure

Paragraph 250-10-50-6 on Accounting Changes and Error Corrections

# Interim – Common Control Transactions

## SEC Disclosure Summary

### Current US GAAP Requirements

Subtopic 805-50 requires that financial statements and financial information presented for a transaction of entities under common control for prior years be retrospectively adjusted to furnish comparative information. All adjusted financial statements and financial summaries shall indicate clearly that financial data of previously separate entities are combined.

### Referred Disclosure

“If, during the most recent interim period presented, the registrant or any of its consolidated subsidiaries entered into a combination between entities under common control, supplemental disclosure of the separate results of the combined entities for periods prior to the combination shall be given, with appropriate explanations.”

### Potential Location of Disclosure

Section 805-50-50 on Business Combinations

# Products or Services

| SEC Disclosure Summary           |                                                                                                                                                                                        |
|----------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Current US GAAP Requirements     | Topic 280 requires disclosure of the revenues from external customers for each product and service or each group of similar products and services unless it is impracticable to do so. |
| Referred Disclosure              | Remove the practicability exception to be in line with SEC disclosure requirement.                                                                                                     |
| Potential Location of Disclosure | Paragraph 280-10-50-40 on Segments                                                                                                                                                     |

# Major Customers

## SEC Disclosure Summary

### Current US GAAP Requirements

Topic 280 requires disclosure of the extent of an entity's reliance on its major customers. If revenues from transactions with a single external customer amount to 10 percent or more of a entity's revenues, the entity is required to disclose that fact, the total amount of revenues from each such customer, and the identity of the segment or segments reporting the revenues. The entity is not required to disclose the identity of a major customer or the amount of revenues that each segment reports from that customer.

### Referred Disclosure

"Disclose the name of a major customer if sales to the customer by one or more segments are made in an aggregate amount equal to 10 percent or more of the registrant's consolidated revenues and the loss of such customer would have a material adverse effect on the registrant and its subsidiaries taken as a whole."

### Potential Location of Disclosure

Paragraph 280-10-50-42 on Segments

# Derivative Accounting Policies

## SEC Disclosure Summary

### Current US GAAP Requirements

Paragraph 815-10-50-4A requires disclosure of the location and amount of the gains and losses on derivative instruments reported in the statement of financial performance and the statement of financial position.

### Referred Disclosure

Disclosures regarding derivatives should include “where and when derivative financial instruments and derivative commodity instruments, and their related gains and losses, are reported in the statement of cash flows.”

### Potential Location of Disclosure

Paragraph 815-10-50-4A on Derivatives and Hedging

# Foreign Currency

## SEC Disclosure Summary

### Current US GAAP Requirements

Section 830-10-45 provides guidance on how a reporting entity determines the functional currency of a foreign subsidiary, how to translate those financial statements into the reporting currency, and how to determine a highly inflationary economy. However, no guidance is provided on how to determine these items for a parent entity with a different reporting currency (for example, a Chinese company issuing financial statements reported using the US Dollar).

### Referred Disclosure

“Notwithstanding the currency selected for reporting purposes, the issuer shall measure separately its own transactions, and those of each of its material operations (e.g., branches, divisions, subsidiaries, joint ventures, and similar entities) that is included in the issuer's consolidated financial statements and not located in a hyperinflationary environment, using the particular currency of the primary economic environment in which the issuer or the operation conducts its business.”

### Potential Location of Disclosure

Paragraphs 830-10-45-2 and 830-10-45-12 on Foreign Currency Matters

# Equity Compensation Plans

## SEC Disclosure Summary

|                                         |                                                                                                                                                                                                                                                                                                                                                                                                                   |
|-----------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Current US GAAP Requirements</b>     | Topic 718 requires disclosure of the number of shares authorized for awards of equity share options or other equity instruments.”                                                                                                                                                                                                                                                                                 |
| <b>Referred Amended Disclosure</b>      | “If an equity compensation plan contains a formula for calculating the number of securities available for issuance under the plan, including, without limitation, a formula that automatically increases the number of securities available for issuance by a percentage of the number of outstanding securities of the registrant, a description of this formula shall be disclosed in a footnote to the table.” |
| <b>Potential Location of Disclosure</b> | Paragraph 718-10-50-2(a) on Stock Compensation                                                                                                                                                                                                                                                                                                                                                                    |

# Oil and Gas Producing Activities

## SEC Disclosure Summary

### Current US GAAP Requirements

Subtopic 932-235 requires certain disclosures, but it is not clear that the disclosures apply to all periods presented.

### Referred Disclosure

“FASB ASC Subtopic 932-235 disclosures that relate to annual periods shall be presented for each annual period for which an income statement is required, FASB ASC Subtopic 932-235 disclosures required as of the end of an annual period shall be presented as of the date of each audited balance sheet required, and FASB ASC Subtopic 932-235 disclosures required as of the beginning of an annual period shall be presented as of the beginning of each annual period for which an income statement is required.”

### Potential Location of Disclosure

Subtopic 932-235 on Notes to the Financial Statements of Oil and Gas Extractive Activities

# REIT Disclosures

| SEC Disclosure Summary           |                                                                                                                                |
|----------------------------------|--------------------------------------------------------------------------------------------------------------------------------|
| Current US GAAP Requirements     | There is no similar requirement in US GAAP today.                                                                              |
| Referred Disclosure              | “The tax status of distributions per unit shall be stated (e.g., ordinary income, capital gain, return of capital) for REITs.” |
| Potential Location of Disclosure | Section 974-10-50 or Subtopic 974-740 (New) on Real Estate Investment Trusts                                                   |

**ACCOUNTING AND REPORTING ALTERNATIVES WITHIN GENERALLY ACCEPTED  
ACCOUNTING PRINCIPLES (GAAP)  
FINANCIAL ACCOUNTING STANDARDS ADVISORY COUNCIL  
SEPTEMBER 25, 2018**

**Purpose of This Session**

The purpose of this session is to discuss various accounting and reporting alternatives, focusing on alternatives that describe how and when companies are required (or permitted) to adopt new accounting standards. For this session, Council members will be asked for their views—specifically on whether (and how) these alternatives affect the potential costs and benefits and system-related implications in preparing or analyzing financial statements.

The materials include background information about existing accounting and reporting alternatives in GAAP. Discussion questions are on page 5.

**Background**

Various accounting and reporting alternatives exist in GAAP primarily to provide companies with the ability to reduce the complexity and costs of preparing financial statements while maintaining the quality of information reported to investors. Those alternatives allow companies to decide whether and when to apply certain guidance in GAAP. Companies are required to disclose significant accounting policies or alternative measures to explain the information that is included in financial statements.

The most common accounting alternatives are within transition and permit companies some flexibility in how and when they adopt new accounting standards. Some alternatives also are included within recognition and measurement, disclosure, and presentation guidance.

**Transition and Effective Date Alternatives**

As a starting point for the discussion, below are some recent examples of the transition and effective date alternatives as well as some observations about the nature of certain transition and effective date alternatives.

Recent standards that apply to all entities offer various options and practical expedients for transition. For example, the guidance on:

1. **Leases** (Topic 842) allows an entity to apply the transition provisions in Topic 842 as of the beginning of the earliest period presented or at the date of adoption. Regardless of the transition approach elected (earliest period presented or date of adoption), the transition guidance on leases provides several practical expedients.
  - a. All of the following practical expedients must be elected as a package and allow an entity to not reassess:
    - i. Whether any expired or existing contracts are or contain leases
    - ii. Lease classification for any expired or existing leases
    - iii. Initial direct costs for any existing leases.
  - b. The following practical expedients need not be elected as a package with any other expedient:
    - i. The use of hindsight in determining lease term
    - ii. Not to assess whether a lease exists under Topic 842 for land easements that have expired or were not previously accounted for under the prior leases guidance (Topic 840).

Topic 842 also has special transition guidance for sale and leaseback transactions, build-to-suit leases, leveraged leases, and amounts previously recognized in accordance with the business combinations guidance for leases.

Consequently, on the basis of the approach taken, the practical expedients elected, and transactions specific to the entity (for example, leveraged leases), Topic 842 includes numerous permutations for transition.

2. **Financial Instruments—Credit Losses** (Topic 326) requires the same transition provisions for all entities, which requires an entity to apply a modified-retrospective approach. The mandatory effective dates are staggered depending on a company's U.S. Securities and Exchange Commission (SEC) filer status and whether the entity is a public business entity.
  - a. For public business entities that are SEC filers, the credit losses guidance is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019.
  - b. For public business entities that are not SEC filers, the credit losses guidance is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2020.
  - c. For all other organizations, the credit losses guidance is effective for fiscal years beginning after December 15, 2020, and for interim periods within fiscal years beginning after December 15, 2021.

3. **Revenue from Contracts with Customers** (Topic 606) allows two transition approaches:
- a. Retrospectively apply the guidance to each prior reporting period presented. An entity may elect any of the following practical expedients:
    - i. For completed contracts, an entity need not restate contracts that begin and end within the same annual reporting period.
    - ii. For completed contracts that have variable consideration, an entity may use the transaction price at the date the contract was completed rather than estimating variable consideration amounts in the comparative reporting periods.
    - iii. For all reporting periods presented before the date of initial application, an entity need not disclose (1) the amount of the transaction price allocated to remaining performance obligations and (2) an explanation of when the entity expects to recognize that amount as revenue.
  - b. Retrospectively apply the guidance with the cumulative effect of initially applying Topic 606 that is recognized at the date of initial application.

Recent standards, including those on revenue recognition, leases, hedging, and credit losses, allow for early adoption. At times, early adoption is permitted without any constraints. Other times, early adoption is permitted only if an entity meets certain criteria (such as concurrently adopting other new standards or after a set date).

For standards that allow early adoption, that early adoption often requires application of the entire standard upon adoption; at times, early adoption is only permitted for certain provisions within a standard. For example, entities were permitted to early adopt provisions related to certain presentation requirements (for the fair value of certain liabilities) in Accounting Standards Update No. 2016-01, *Financial Instruments—Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities*; however, public business entities were prohibited from early adoption of other requirements in Update 2016-01.

Some standards, such as hedging, allow entities to adopt new guidance in an interim period, whereas other standards require entities to adopt new guidance in an annual period.

### **Private Company Alternatives**

Various standards, such as leases, nonemployee share-based payment, and hedging, provide a one-year deferral for private companies, although early adoption is typically permitted. The time frames for deferred effective dates for private companies vary and are often provided for in annual fiscal year ends rather than for interim periods within the initial year of adoption.

On December 23, 2013, the FASB and the Private Company Council (PCC) issued the *Private Company Decision-Making Framework: A Guide for Evaluating Financial Accounting and Reporting for Private Companies* (private company guide). The primary purpose of the private company guide is to assist the FASB and the PCC in determining whether (and in what circumstances) to provide alternative recognition, measurement, disclosure, display, effective date, and transition guidance for private companies reporting under GAAP. The private company guide provides considerations for the PCC and the FASB in making user relevance evaluations and cost-benefit evaluations for private companies under the existing Conceptual Framework.

The private company guide includes different factors that the Board and the PCC should consider when determining whether and when an accounting alternative should be provided for private companies. Those factors include:

1. Number of primary users and their access to management
2. Investment strategies of primary users
3. Ownership and capital structure
4. Accounting resources
5. Learning about new financial reporting guidance.

Examples of recent accounting alternatives that have been permitted in GAAP for private companies include the accounting for (a) intangible assets acquired in a business combination, (b) goodwill, and (c) certain types of interest rate swaps. Private companies also are generally provided with a one-year deferral beyond the first annual period required by public companies to adopt a new standard.

## Discussion Questions

**Question 1:** How do transition and effective date alternatives affect the cost and complexity of accounting guidance, and how do those alternatives affect the information provided to financial statement users?

- a. **Preparers:** When transition and effective date alternatives are permitted within GAAP, how do companies assess which ones to apply?
- b. **Practitioners:** When transition and effective date alternatives are permitted within GAAP, do those alternatives have an effect on the cost of providing internal training or the cost of providing auditing and other accounting services to companies?
- c. **Investors/Users:** When transition and effective date alternatives are permitted within GAAP, what types of information do investors use (or what types of adjustments do investors make) in their models and analyses?

**Question 2:** Some stakeholders have observed that although an accounting alternative may reduce the costs and complexity of companies applying a particular accounting change, the cumulative effect of accounting and reporting alternatives may increase the cost, increase the complexity, and decrease the comparability of those companies.

- a. What are your views on this observation?
- b. How should the Board weigh the benefits of providing options, such as those provided in transition and effective dates, in various standards with the costs created system-wide?
- c. Should the Board develop a limited number of standard transition and effective date alternatives to consider in creating new accounting guidance?
- d. Should early adoption generally be permitted or precluded?

**Question 3:** What effect do accounting alternatives, such as those provided in transition and effective dates, have on accounting system developers' timely creation and delivery of software updates to companies?