A BIWEEKLY RESOURCE FOR RECENT FINANCIAL REPORTING DEVELOPMENTS

ACCOUNTING

Tax reform: Effects on deferred tax assets and liabilities

We expect tax reform will be a reality before the end of 2017 (or it may already be a reality depending on when this article is read). The timing of tax reform puts some additional stress on the year-end financial reporting process for certain entities with calendar year ends.

A key element of the tax reform that we expect to be a reality in 2017 is a reduced tax rate for corporate entities that takes effect in 2018. This reduced tax rate should be used to measure a calendar year-end corporation's: (a) deferred tax assets on deductible temporary differences and operating loss carryforwards as of December 31, 2017, and (b) deferred tax liabilities on taxable temporary differences as of December 31, 2017. Any changes in the deferred tax assets and liabilities resulting from the reduced corporate tax rate should be reflected in the corporation's income from continuing operations for 2017, regardless of when the timing difference is scheduled to reverse.

An entity should ensure it has appropriate internal controls over incorporating the effects of tax reform in its year-end financial reporting process.

Quarterly accounting update webcast – Winter 2018

Chief financial officers, controllers and others involved in the financial reporting process are invited to join us for our *Quarterly accounting update* webcast on January 18 at 1 p.m. ET. During this one-hour webcast, featured speakers from RSM's National Accounting Standards Group will cover recently issued and effective guidance, and reporting developments related to the new revenue, leases and financial instruments standards. We will offer one complimentary continuing professional education credit for attendance at this webcast.

Definition of a public business entity: Additional guidance

In late October 2017, the American Institute of Certified Public Accountants staff issued a technical question and answer (TQA) document that addresses questions about certain terms used in the definition of a public business entity (PBE). The answers to these questions may change an entity's conclusion about whether it is a PBE and when and how it is required to implement certain new accounting standards. Although the TQA is non-authoritative, the guidance within it should be considered when determining whether an entity is a PBE.

Background

FASB Accounting Standards Update (ASU) 2013-12 amended the Accounting Standards Codification (ASC) Master Glossary to define a PBE as a business entity (except for a not-for-profit entity or employee benefit plan) meeting any one of the following criteria:

a. It is required by the U.S. Securities and Exchange Commission (SEC) to file or furnish financial statements, or does file or furnish financial statements (including voluntary filers), with the SEC (including other entities whose financial statements or financial information are required to be or are included in a filing).

b. It is required by the Securities Exchange Act of 1934 (the Act), as amended, or rules or regulations promulgated under the Act, to file or furnish financial statements with a regulatory agency other than the SEC.

c. It is required to file or furnish financial statements with a foreign or domestic regulatory agency in preparation for the sale of or for purposes of issuing securities that are not subject to contractual restrictions on transfer.

d. It 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.

e. It has one or more securities that are not subject to contractual restrictions on transfer, and it is required by law, contract, or regulation to prepare U.S. GAAP financial statements (including footnotes) and make them publicly available on a periodic basis (for example, interim or annual periods). An entity must meet both of these conditions to meet this criterion.

The above definition of a PBE is used to determine which entities are subject to deferred effective dates for new ASUs. The definition also is used to determine which entities are eligible for simplified accounting alternatives developed by the FASB Private Company Council, as well as simplified transition and disclosure requirements for new ASUs.

Public business entity vs. public entity

By definition, a not-for-profit organization cannot be a PBE. However, it is important to note that the effective date for certain ASUs, including ASU 2014-09 (revenue recognition) and ASU 2016-02 (lease accounting), depend on whether an entity is a *public entity*. ASC 606-10-65-1a and ASC 842-10-65-1a provide that 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 is subject to the same effective dates as public business entities.

Thus, a not-for-profit health system that has issued bonds through a conduit entity such as a state financing authority, although not considered a public business entity, would be considered a public entity under ASU 2014-09 and ASU 2016-02, and be subject to the earlier effective dates.

Key implications of the TQA

Use of the term “security” and types of securities included in the definition of a PBE

The TQA provides that entities should use the definition of a security in ASC 320, *Investments — Debt and Equity Securities*. The TQA also provides that all forms of securities – including debt and equity securities (referred to in the TQA as f*inancing instruments*), should be evaluated to determine whether they meet the definition of a security. Refer to TQA 7100.01 and 7100.2 for additional information.

Use of the terms "over-the-counter market" and "conduit bond obligor" in the definition of a PBE

The TQA clarifies that the examples of over-the-counter (OTC) markets described in ASU 2013-12 are accessible by the public to execute trades. Markets generally accessible only by certain investors (e.g., qualified institutional investors or accredited investors) are not OTC markets for purposes of the PBE definition. Similarly, securities that can only be purchased by certain investors, such as 144A securities, are not securities that can be traded by the public and are not subject to criterion (d) in the ASC glossary definition of a PBE, but are considered in the analysis of the other criteria. Refer to TQA 7100.3 and 7100.4 for additional information.

As a result, in determining whether criterion (d) is met, entities will need to consider whether securities they have issued are accessible to trading by the public. If so, the entity would be considered a PBE. These considerations also would be relevant in evaluating whether an entity would be considered a *public entity* when determining the effective date of ASU 2014-09 and ASU 2016-02.

Use of MSRB EMMA data in assessing status as a PBE

The TQA indicates that Municipal Securities Rulemaking Board (MSRB) Electronic Municipal Market Access (EMMA) is not an OTC market. However, because EMMA, as the official SEC-designated repository for disclosure documents related to public offerings of municipal securities, provides historical trade prices, credit ratings and other information related to those securities, such EMMA information may be relevant in assessing whether a conduit bond obligor meets either criteria (d) or (e) in the ASC glossary definition of a PBE. Refer to TQA 7100.5 for additional information.

Use of the terms "prepare," "publicly available," "financial statements" and "periodic basis" in the definition of a PBE

The TQA clarifies that, in order to meet criterion (e) in the ASC glossary definition of a PBE, preparing and making financial statements publicly available must be required by law, contract or regulation. Voluntarily preparing and making financial statements publicly available would not cause an entity to meet criterion (e). Similarly, a requirement to prepare financial statements on a periodic basis that does not also require the financial statements to be made publicly available would not cause an entity to meet criterion (e). The TQA also clarifies that it is inappropriate to combine separate contractual, legal and regulatory requirements to conclude that an entity is required to both (a) periodically prepare financial statements, and (b) make financial statements publicly available on a periodic basis.

The TQA offers reminders that the definition of financial statements includes full U.S. GAAP financial statements, including footnotes, and that interim or annual financial statements are examples of *periodic basis* (prepared on a recurring basis, in contrast to financial statements that are prepared on a one-time basis.) Refer to TQA 7100.7 for additional information.

Conclusion

The application of the guidance in the TQA requires careful consideration and the application of professional judgment to the facts and circumstances specific to each entity. This summary is intended solely to create awareness of the TQA and certain of its more commonly used provisions. The TQA should be read in its entirety in order to understand all of its implications and how they would apply to each situation.

FASB discusses proposed amendments to ASC 842

The Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-02, *Leases (ASC 842),* in February 2016. Recently, stakeholders (both lessors and lessees) have provided the FASB with information related to difficulties encountered in implementation of the standard. The FASB discussed these issues at its November 29, 2017 meeting, and voted to propose amendments to ASC 842. The effects of these proposed changes would be:

- Entities would be provided with an election to adopt the provisions using another transition method. Under ASC 842 as written, entities are required to measure leases as of the beginning of the earliest period presented in their financial statements, using the modified retrospective method prescribed by ASC 842. The proposal discussed at the November 29, 2017 meeting would allow entities to apply ASC 842 as of the effective date, rather than as of the beginning of the earliest period presented. Entities that elected this approach would report comparative periods in accordance with ASC 840, "Leases," (including disclosure requirements).
- Lessors would be able to apply a practical expedient under which they could elect, by class of asset, to not separate nonlease components from lease components and account for the components as a single lease component if both of the following conditions are met: (a) the timing and pattern of revenue recognition for the lease and nonlease component(s) are the same, and (b) the combined lease component is classified as an operating lease. If a lessor elects this approach, it would be required to disclose the election of the policy, the class or classes of assets to which it has applied the election and the nature of the nonlease components that it has included in the single lease component.

The FASB will draft an Exposure Draft of a proposed ASU, with the related comment period expected to be 30 days. Although the FASB has not set a targeted date by which the Exposure Draft would be released, it is expected to be released in the near future because of the number of entities preparing for transition to the new guidance.

RSM resources to assist entities in understanding ASC 842 include:

- Leases: Bring on the balance sheet
- Leases: New accounting requirements for lessees
- Leases: Overview of the new guidance

Elimination of Topic 995, "U.S. Steamship Entities"

Topic 995 of the Financial Accounting Standards Board (FASB) Accounting Standards Codification, "U.S. Steamship Entities," addresses the accounting and reporting for a specific taxable temporary difference related to deposits in statutory reserve funds by U.S. steamship entities that arose in fiscal years beginning on or before December 15, 1992. The Department of Transportation program from which these statutory reserve deposits originated and the IRS provide a 25-year time frame in which to use the reserves or forfeit the tax deferral. Because the statutory funds have reached their 25-year limit, the guidance in Topic 995 no longer is relevant. Therefore the FASB recently issued Accounting Standards Update (ASU) 2017-15, *Codification Improvements to Topic 995, U.S. Steamship Entities – Elimination of Topic 995*, which eliminated Topic 995. The ASU is effective for fiscal years and first interim periods beginning after December 15, 2018.

SEC

The auditor's report: Considerations for audit committees

The Center for Audit Quality recently issued a tool for audit committees, *The Auditor's Report: Considerations for Audit Committees*, to explain changes to the auditor's report resulting from Public Company Accounting Oversight Board Release 2017-001, *The Auditor's Report on an Audit of Financial Statements When the Auditor Expresses an Unqualified Opinion, and Related Amendments to PCAOB Standards*. The tool provides suggested questions and considerations that will assist audit committees in understanding the impact the new auditor's report will have on the audit process and on interactions with the auditor, management and investors.

SAB Topic 5.M not applicable upon adoption of FASB ASC 321

The SEC staff recently issued Staff Accounting Bulletin (SAB) No. 117 to bring its existing guidance into conformity with Topic 321 of the FASB's Accounting Standards Codification, "Investments —Equity Securities." SAB 117 states that SAB Topic 5.M, "Other Than Temporary Impairment of Certain Investments in Equity Securities," no longer is applicable upon a registrant's adoption of ASC 321. Topic 5.M provided the SEC staff's views on evaluating whether an impairment loss should be recognized in net income for investments in equity securities that were measured at fair value with changes in fair value presented in other comprehensive income.

For public business entities, Topic 321 is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2017. After a registrant adopts ASC 321, investments in equity securities that previously qualified for presenting changes in fair value within other comprehensive income will be measured at fair value with changes in fair value presented immediately in net income.

PUBLIC SECTOR

Proposed accounting for interest cost during construction

Currently, in financial statements prepared using the economic resources measurement focus, interest cost incurred during a period of construction is included in the historical cost of a capital asset reported in a business-type activity or enterprise fund. The Governmental Accounting Standards Board recently issued an Exposure Draft, *Accounting for Interest Cost During the Period of Construction*. If finalized, this Exposure Draft would require interest cost incurred during the period of construction to be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. The Exposure Draft also would reiterate that in financial statements prepared using the current financial resources measurement focus, interest cost incurred during the period of construction should be recognized as an expenditure on a basis consistent with governmental fund accounting principles.

If finalized, the Exposure Draft would be effective for reporting periods beginning after December 15, 2018, and the requirements would be applied prospectively. The Exposure Draft is available for comment until March 8, 2018.

GASB proposes implementation guidance

The Governmental Accounting Standards Board (GASB) recently issued an Exposure Draft, *Implementation Guide No. 201Y-X, Implementation Guidance Update – 201Y*, to provide guidance that clarifies, explains or elaborates on recent GASB Statements. The proposed implementation guide addresses a wide array of practice issues, including questions related to standards on pensions and other postemployment benefits, the statistical section, tax abatement disclosures, certain investments and cash flows reporting.

If finalized, the requirements of the proposed implementation guide will be effective for reporting periods beginning after June 15, 2018. The Exposure Draft is available for comment until February 16, 2018.

INTERNATIONAL

IASB issues minor changes to IFRS

The International Accounting Standards Board (IASB) recently issued *Annual Improvements to IFRS Standards 2014 – 2016 Cycle,* which made narrow-scope amendments to four International Financial Reporting Standards (IFRS) as follows:

- IFRS 3, *Business Combinations* – to clarify that a company should remeasure its previously held interest in a joint operation when it obtains control of the business
- IFRS 11, *Joint Arrangements* – to clarify that a company should not remeasure its previously held interest in a joint operation when it obtains joint control of the business
- International Accounting Standard (IAS) 12, *Income Taxes* – to clarify that a company should account for all income tax consequences of dividend payments in the same way
- IAS 23, *Borrowing Costs* – to clarify that a company should treat as part of general borrowings any borrowing originally made to develop an asset when the asset is ready for its intended use or sale

The amendments are effective January 1, 2019 with early application permitted.

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