A guide to hedge accounting upon the adoption of ASU 2017-12

We have published A guide to hedge accounting upon the adoption of ASU 2017-12, which is intended to provide a high-level overview of hedge accounting based on the hedging subtopics within the Financial Accounting Standards Board’s Accounting Standards Codification, as amended by Accounting Standards Update (ASU) 2017-12, Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities. More specifically, the guide includes the following:

- **Chapter 1: Overview of hedge accounting and the requirements to apply it**, which: (a) provides a high-level overview of hedge accounting, including the three major types of hedges and (b) summarizes the requirements that need to be met to apply hedge accounting, including: (i) formal designation and documentation, (ii) eligible hedged items and transactions, (iii) eligible hedging instruments and (iv) the requirement to assess the effectiveness of hedges.

- **Chapter 2: Commodities hedging**, which: (a) provides an overview of commodities hedging by discussing the types of hedges that are commonly employed in practice, (b) provides suggestions for structuring hedges in a manner that will promote high effectiveness, (c) discusses the benefits of, and requirements to, hedge a contractually specified component and (d) provides several examples of commodities hedges.

- **Chapter 3: Hedges related to interest rate risk**, which provides: (a) an overview of hedges related to interest rate risk, including a discussion of the types of cash flow and fair value hedges that are commonly employed, (b) a discussion of the accounting implications of hedging interest rate risk rather than hedging total changes in cash flows or fair value and (c) several examples of hedges of interest rate risk.

- **Chapter 4: Foreign currency hedges**, which provides: (a) an overview of foreign currency hedges and the incremental requirements associated therewith to qualify for hedge accounting, (b) an overview of the accounting for net investment hedges and (c) several examples of foreign currency hedging.

- **Chapter 5: Fair value hedge accounting**, which is focused on the mechanics of fair value hedge accounting, including the adjustments to the hedged item, and discontinuing hedge accounting.

- **Chapter 6: Cash flow hedge accounting**, which is focused on the mechanics of cash flow hedge accounting, including the reclassification of amounts in other comprehensive income to earnings, and discontinuing hedge accounting.
The guide also includes a high-level overview of the changes brought about by ASU 2017-12 and its transition provisions.

**Business combinations: Recognition and measurement of deferred revenue**

There currently is diversity in practice regarding the circumstances in which an entity should recognize a contract liability from a contract with a customer within the scope of Topic 606, “Revenue from Contracts with Customers,” of the Financial Accounting Standards Board’s (FASB) Accounting Standards Codification that is acquired in a business combination. In response to this diversity in practice, the FASB recently issued a proposed Accounting Standards Update (ASU), *Business Combinations (Topic 805): Revenue from Contracts with Customers – Recognizing an Assumed Liability (a consensus of the FASB Emerging Issues Task Force)*. If finalized, the proposed ASU would require that an acquirer recognize a liability assumed in a business combination from a contract with a customer if that liability represents an unsatisfied performance obligation under Topic 606 for which the acquiree has received consideration (or the amount is due) from the customer.

The FASB also concurrently issued an Invitation to Comment, *Measurement and Other Topics Related to Revenue Contracts with Customers under Topic 805*, to seek stakeholder feedback prior to issuing a proposed ASU to provide additional guidance on the measurement of contract liabilities from revenue contracts with customers acquired in a business combination. The Invitation to Comment asks stakeholders to provide feedback on two major issues related to acquiring contracts with customers in business combinations:

- Payment terms and their effect on the subsequent revenue recognized
- Costs to fulfill a performance obligation in measuring the fair value of a contract liability for a revenue contract under Topic 805

The proposed ASU and Invitation to Comment are available for comment until April 30, 2019.

**SEC**

**Proposal: Solicitations of interest prior to a public offering**

The SEC recently issued Proposed Rule 33-10607, *Solicitations of Interest Prior to a Registered Public Offering*, which, if finalized, would enable all issuers to engage in “test-the-waters” communications with certain institutional investors regarding a contemplated registered securities offering prior to, or following, the filing of a registration statement related to such offering. The proposed rule and related amendments would expand the “test-the-waters” accommodation, which currently only is available to emerging growth companies, to all issuers. The “test-the-waters” communications would be exempt from restrictions imposed by Section 5 of the Securities Act of 1933 on written and oral offers prior to or after filing a registration statement and would be limited to qualified institutional buyers (QIBs) and institutional accredited investors (IAIs). Proposed Securities Act Rule 163B would permit any issuer, or any person authorized to act on its behalf, to engage in oral or written communications with potential investors that are, or are reasonably believed to be, QIBs or IAIs, either prior to or following the filing of a registration statement, to determine whether such investors might have an interest in a contemplated registered securities offering.

The proposal will have a 60-day public comment period following its publication in the Federal Register.
FINANCIAL SERVICES

SEC modifies timing for filing non-public Form N-PORT data

Form N-PORT is a new form that will be used by registered investment companies to report both public and non-public fund portfolio holdings to the SEC in a structured data format. The filing of Form N-PORT through the EDGAR system will begin in April 2019 for larger fund groups and in April 2020 for smaller fund groups.

On February 27, 2019, the SEC modified the submission deadlines for registered investment companies filing non-public monthly reports on Form N-PORT. As a result of this modification, rather than filing non-public monthly reports with the SEC within 30 days after each month-end, funds will be required to maintain the relevant information in their records and file all three monthly reports with the SEC no later than 60 days after the end of each fiscal quarter. The non-public monthly reports on Form N-PORT for the first and second months of the fiscal quarter will remain non-public and the monthly report for the third month will become publicly available upon filing (with the exception of certain specific data items), rather than being filed non-publicly no later than 30 days after the end of the fiscal quarter and being made public 60 days after the end of the fiscal quarter.