ACCOUNTING

ASUs defer various effective dates (including CECL & leases)

On November 15, 2019, the Financial Accounting Standards Board (FASB) issued the following two Accounting Standards Updates (ASUs) to defer the effective dates for certain guidance in its Accounting Standards Codification (ASC) for certain entities:

- ASU 2019-09, Financial Services—Insurance (Topic 944): Effective Date
- ASU 2019-10, Financial Instruments—Credit Losses (Topic 326), Derivatives and Hedging (Topic 815), and Leases (Topic 842): Effective Dates

Read our article, ASUs defer various effective dates (including CECL & leases), for a summary of the effective dates that have and have not been revised by the FASB.

Actuarial valuation: New mortality improvement scale released

Professional associations of actuaries and actuarial companies occasionally develop and publish updated mortality tables to reflect changes in mortality conditions based on recent historical trends and other information. On October 23, 2019, the Society of Actuaries (SOA) released an updated mortality improvement scale, Scale MP-2019, which plan sponsors will need to consider when measuring benefit costs and obligations of plans that provide benefits based on the life expectancy of participants. For financial statements that have not been issued, this new scale should be considered regardless of whether the benefit information is presented as of the beginning or end of the year, and regardless of the date of the valuation report.

According to the American Institute of Certified Public Accountants Technical Questions and Answers Section 3700.01, Effect of New Mortality Tables on Nongovernmental Employee Benefit Plans (EBPs) and Nongovernmental Entities that Sponsor EBPs, U.S. generally accepted accounting principles (GAAP) require each individual assumption used in valuing a plan's obligation to represent the best estimate of the plan's future experience solely with respect to that individual assumption. In making this estimate, GAAP requires that all available information through the date the financial statements are available to be issued should be evaluated to determine whether the information provides additional evidence about conditions that existed at the balance sheet date.

Scale MP-2019 is based on more recent mortality data than any of the previous mortality improvement scales, and therefore it generally should be used unless the plan can demonstrate that its mortality experience differs. If the related financial statements were not issued prior to October 23, 2019, GAAP
requires the change in the mortality scale to be considered in the latest actuarial valuation, even if it is presented as of the beginning of the year or if the valuation was prepared prior to the release of Scale MP-2019.

Share-based consideration payable to a customer

Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) 2018-07, Compensation – Stock Compensation (Topic 718): Improvements to Nonemployee Share-Based Payment Accounting, requires that share-based payments (for example, options or warrants) awarded to a customer in conjunction with selling goods or services be accounted for under Topic 606 of the FASB’s Accounting Standards Codification (ASC), “Revenue from Contracts with Customers.” While ASC 606 provides guidance on presentation (as a reduction of revenue, similar to other sales incentives), it does not provide guidance on measuring share-based payments to a customer or how to classify such awards on the balance sheet.

To provide guidance regarding the measurement and balance sheet classification of share-based payments to a customer, the FASB recently issued ASU 2019-08, Compensation – Stock Compensation (Topic 718) and Revenue from Contracts with Customers (Topic 606): Codification Improvements – Share-Based Consideration Payable to a Customer. This ASU requires the application of ASC 718 to measure and classify share-based payments to a customer. The amount to be recorded as a reduction in revenue is based on the grant-date fair value of the share-based payment. The classification and subsequent measurement of the award are subject to the guidance in ASC 718 unless the share-based payment award is subsequently modified and the grantee is no longer a customer.

For entities that have not yet adopted ASU 2018-07, ASU 2019-08 is effective for (a) public business entities in fiscal years beginning after December 15, 2019, and interim periods within those fiscal years, and (b) other than public business entities in fiscal years beginning after December 15, 2019, and interim periods within fiscal years beginning after December 15, 2020. For entities that have adopted ASU 2018-07, ASU 2019-08 is effective in fiscal years beginning after December 15, 2019, and interim periods within those fiscal years.

Proposed clarifications to the derivatives and hedging standard

To clarify certain sections of Accounting Standards Update (ASU) 2017-12, Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities, the Financial Accounting Standards Board recently issued a proposed ASU, Derivatives and Hedging (Topic 815): Codification Improvements to Hedge Accounting.

The proposed ASU primarily addresses the change in hedged risk in a cash flow hedge. ASU 2017-12 allowed the risk causing variability in cash flows of the forecasted transaction to change (for example, from one variable interest rate to another variable interest rate or from one commodity index to a different index for the same commodity) if certain criteria are met. If finalized, the proposed ASU would clarify whether that change can happen both prospectively (i.e., before the forecasted transaction occurs) and retrospectively (i.e., after the forecasted transaction occurs) and, if so, how hedge accounting guidance should be applied in those instances.

Other issues addressed in the proposed ASU include:

- Contractually specified components in cash flow hedges of nonfinancial forecasted transactions
- A foreign-currency-denominated debt instrument as a hedging instrument and hedged item (dual hedge)
- Use of the term “prepayable” under the shortcut method
The proposed ASU would be effective for all entities for fiscal years beginning after December 15, 2020. For public business entities, the proposed ASU would be effective for interim periods within fiscal years beginning after December 15, 2020. For all other entities, the proposed amendments would be effective for interim periods within fiscal years beginning after December 15, 2021. Early adoption would be permitted for all entities on any date on or after issuance of a final ASU if an entity already has adopted the amendments in ASU 2017-12.

The proposed ASU is available for comment until January 13, 2020.

SEC

2019 Audit Committee Transparency Barometer

The Center for Audit Quality and Audit Analytics recently released their 2019 Audit Committee Transparency Barometer. This annual publication gauges how public company audit committees approach the public communication of their external auditor oversight activities. The Barometer measures the existence of certain proxy disclosures related to audit firm selection, audit firm compensation, audit firm evaluation/supervision, audit partner selection and cybersecurity by companies in the S&P 500 index of large-cap companies, the S&P MidCap 400 and the S&P SmallCap 600. The publication also provides examples of effective disclosure.

FINANCIAL SERVICES

Most often cited deficiencies in recent OCIE examinations

The Office of Compliance Inspections and Examinations (OCIE) has issued a Risk Alert, Top Compliance Topics Observed in Examinations of Investment Companies and Observations from Money Market Fund and Target Date Fund Initiatives. This Risk Alert provides information about the most often cited deficiencies and weaknesses that the OCIE staff observed in its recent examinations of registered investment companies, including those related to the following topics:

- The fund compliance rule
- Disclosures to investors
- The Section 15(c) process
- The fund code of ethics rule

In addition, the Risk Alert includes observations by the staff from a national examination initiative focused on whether money market funds (MMFs) complied with the amendments to the rules governing MMFs that became effective in October 2016. OCIE staff also examined selected target date funds (TDFs) to determine whether the TDFs’ assets were invested according to the asset allocations stated in the funds’ prospectuses and whether the associated investment risks were consistent with fund disclosures.
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