ACCOUNTING

Changes to the disclosure requirements for fair value measurements

As part of its disclosure framework project, the Financial Accounting Standards Board (FASB) recently issued Accounting Standards Update (ASU) 2018-13, *Fair Value Measurement (Topic 820): Disclosure Framework – Changes to the Disclosure Requirements for Fair Value Measurement*. The ASU applies the provisions of recently released Chapter 8, “Notes to Financial Statements,” of the FASB’s *Conceptual Framework for Financial Reporting*, resulting in the removal, modification and addition of certain disclosure requirements. Our white paper, *Changes to the disclosure requirements for fair value measurements*, provides a summary of what ASU 2018-13 has and has not changed with respect to the fair value measurement disclosures in Topic 820 of the FASB’s Accounting Standards Codification. The tabular summary included in our white paper highlights whether nonpublic entities and (or) public business entities are affected by the changes.

The changes in ASU 2018-13 are effective for all entities for fiscal years, and interim periods therein, beginning after December 15, 2019. As such, for a private company with a calendar year end that does not prepare interim financial statements, the changes are effective in its financial statements for the year ending December 31, 2020. However, some or all of the changes may be adopted early. For example, an entity has the ability to early adopt any removed or modified disclosures, while delaying adoption of the additional disclosures until the required effective date. Entities should use our white paper to help identify those changes they may want to adopt early and those changes they may want to wait and adopt at the effective date.

Customer’s accounting for cloud computing implementation costs

The Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2018-15, *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 FASB Emerging Issues Task Force)*, in August 2018 to align the requirements for capitalizing implementation costs incurred by a customer in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software. Our white paper, *Customer’s accounting for cloud computing implementation costs*, discusses the following:

- The scope of ASU 2018-15, including the definition of a hosting arrangement and when it is considered a service contract.
• The capitalization of certain implementation costs incurred in a cloud computing arrangement that is a service contract
• The balance sheet classification of capitalized implementation costs and the income statement classification of expensed implementation costs
• The amortization of capitalized implementation costs
• The evaluation of capitalized implementation costs for impairment
• The disclosure requirements related to implementation costs
• The effective date and transition provisions of ASU 2018-15

An entity may want to consider early adopting the guidance in ASU 2018-15. Determining whether that makes sense may depend (at least in part) on how the entity has historically accounted for the costs within the scope of ASU 2018-15. Entities should use our white paper to gain an understanding of the guidance in ASU 2018-15, and use that understanding to determine the effects it will have on their financial statements and whether pursuing early adoption makes sense.

Targeted improvements to related party guidance for VIEs

The Financial Accounting Standards Board recently issued Accounting Standards Update (ASU) 2018-17, Consolidation (Topic 810): Targeted Improvements to Related Party Guidance for Variable Interest Entities, which, among other provisions, effectively expands the private company alternative for common control leasing arrangements to all private company common control arrangements as long as both the parent and the legal entity being evaluated for consolidation are not public business entities.

Under the ASU, a private company (reporting entity) may elect not to apply variable interest entity (VIE) guidance to legal entities under common control (including common control leasing arrangements) if both the parent and the legal entity being evaluated for consolidation are not public business entities. The accounting alternative provides an accounting policy election that will apply to all current and future legal entities under common control that meet the criteria for applying this alternative—it cannot be applied to select common control arrangements that meet the criteria. If the alternative is elected, a private company should continue to apply other consolidation guidance, particularly the voting interest entity guidance, unless another scope exception applies. Additionally, under the accounting alternative, a private company is required to provide detailed disclosures about its involvement with and exposure to the legal entity under common control.

ASU 2018-17 also amends certain VIE guidance for related party arrangements. Specifically, indirect interests held through related parties in common control arrangements should be considered on a proportional basis (as opposed to a direct interest in its entirety) for determining whether fees paid to decision makers and service providers are variable interests.

For entities other than private companies, ASU 2018-17 is effective for fiscal years beginning after December 15, 2019, and interim periods within those fiscal years. The ASU is effective for a private company for fiscal years beginning after December 15, 2020, and interim periods within fiscal years beginning after December 15, 2021. All entities are required to apply the ASU retrospectively with a cumulative-effect adjustment to retained earnings at the beginning of the earliest period presented. Early adoption is permitted.
FASB webcast for private companies on ASC 606
On December 18, the Financial Accounting Standards Board (FASB) will host a webcast geared toward private companies about implementing the requirements of Topic 606, “Revenue from Contracts with Customers,” of the FASB’s Accounting Standards Codification (ASC). Areas covered will include the following, among others:

- An overview of the revenue model
- An update on recent implementation activities and issues that relate to private companies
- Disclosure and transition requirements

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, 2018, the Society of Actuaries (SOA) released an updated mortality improvement scale, Scale MP-2018, 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.

The SOA has determined that Scale MP-2018 provides the best mortality estimate to be used in determining pension plan obligations, 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, 2018, 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-2018.

Additional hedge accounting benchmark interest rate permitted
Topic 815 of the Financial Accounting Standards Board’s (FASB) Accounting Standards Codification, “Derivatives and Hedging,” provides guidance on the risks associated with financial assets or liabilities that are permitted to be hedged. Among those risks is the risk of changes in fair values or cash flows of existing or forecasted issuances or purchases of fixed-rate financial assets or liabilities attributable to the designated benchmark interest rate. In the United States, eligible benchmark interest rates under Topic 815 (as amended by Accounting Standards Update [ASU] 2017-12) are the:

- Interest rates on direct U.S. Treasury obligations
- Securities Industry and Financial Markets Association Municipal Swap Rate
- Overnight Index Swap (OIS) Rate based on the Fed Funds Effective Rate
- London Interbank Offered Rate swap rate (LIBOR)
Because of concerns about the sustainability of LIBOR, a committee convened by the Federal Reserve Board and the Federal Reserve Bank of New York identified a broad Treasury repurchase agreement (repo) financing rate referred to as the Secured Overnight Financing Rate (SOFR) as its preferred alternative reference rate. SOFR is a volume-weighted median spot interest rate that is calculated daily based on overnight transactions from the prior day’s trading activity in specified segments of the U.S. Treasury repo market.

On October 26, 2018, the FASB issued ASU 2018-16, Derivatives and Hedging (Topic 815): Inclusion of the Secured Overnight Financing Rate (SOFR) Overnight Index Swap (OIS) Rate as a Benchmark Interest Rate for Hedge Accounting Purposes, which added the OIS rate based on SOFR as a fifth U.S. benchmark interest rate permitted in the application of hedge accounting under Topic 815.

For entities that have not already adopted ASU 2017-12, ASU 2018-16 is required to be adopted concurrently with ASU 2017-12. For public business entities that already have adopted ASU 2017-12, ASU 2018-16 is effective for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years. For all other entities that already have adopted ASU 2017-12, ASU 2018-16 is effective for fiscal years beginning after December 15, 2019, and interim periods within those fiscal years. Early adoption is permitted in any interim period if an entity already has adopted ASU 2017-12. The amendments should be adopted on a prospective basis for qualifying new or redesignated hedging relationships entered into on or after the date of adoption.

AUDITING

Health Care Entities – Audit and Accounting Guide

The American Institute of Certified Public Accountants Audit and Accounting Guide, Health Care Entities, was updated as of September 1, 2018. The guide is directed primarily to those aspects of the preparation and audit of financial statements that are unique to health care entities or are considered particularly significant to them.

Oil and Gas – Audit and Accounting Guide

The American Institute of Certified Public Accountants Audit and Accounting Guide, Entities with Oil and Gas Producing Activities, was updated as of August 1, 2018. The guide is directed primarily to those aspects of the preparation and audit of financial statements that are unique to entities with oil and gas producing activities or are considered particularly significant to them.

FINANCIAL SERVICES

SEC reporting changes for RICs and BDCs

In August the SEC issued Release No. 33-10532, Disclosure Update and Simplification, which generally is effective for reports filed with the SEC on or after November 5, 2018. Among its many requirements, this Release includes the following reporting changes for registered investment companies (RICs) and business development companies (BDCs):

- Regulation S-X Rule 6-09.3 has been amended to require RICs to present the total, rather than the components, of distributions to shareholders, except for tax return of capital distributions, which should be disclosed separately. The SEC staff has stated that distribution amounts disclosed in the prior-year statement of changes in net assets (SOC) may be retrospectively presented to conform with the current-year presentation resulting from the amended requirements, as long as a footnote is included in the SOC disclosing (a) the reason for changing the prior-year presentation and (b) the disaggregated prior-year distribution amounts. It also is permissible to include in the footnote the prior-year undistributed net investment income.
It should be noted that the amendments to Rule 6-09.3 do not negate the requirement in paragraph 946-205-45-4a of the Financial Accounting Standards Board Accounting Standards Codification to present in the SOC (or disclose in the notes to the financial statements) for multiple class funds dividends and distributions paid to shareholders for each class.

- With respect to distributable earnings of RICs:
  - The requirement in Rule 6-09.7 for parenthetical disclosure of undistributed net investment income in the SOC on a book basis has been deleted.
  - Rule 6-04.17 has been amended to require presentation of the total, rather than the components, of distributable earnings on the balance sheet.

- Rule 6-03(c)(1)(i), which permitted the consolidation of financial statements of RICs and BDCs only with the financial statements of subsidiaries that are investment companies, has been deleted because the requirement in U.S. generally accepted accounting principles is broader and additionally requires consolidated financial statements when a reporting entity has a controlling financial interest in another entity.

- BDCs are subject to a new interim reporting requirement for changes in stockholders’ equity in accordance with Rule 3-04 for the current and comparative year-to-date periods, with subtotals for each interim period. In a September 25, 2018 Compliance and Disclosure Interpretation (C&DI), the SEC staff addressed the effective date for the interim reporting of changes in stockholders’ equity. The effective date guidance in the C&DI only applies to the requirement for interim financial statements and does not apply to any Article 6 amendments.

Brokers and Dealers in Securities – Accounting Guide
The American Institute of Certified Public Accountants (AICPA) Accounting Guide, *Brokers and Dealers in Securities*, was updated as of September 1, 2018. The guide was prepared to assist broker-dealers in preparing financial statements in conformity with U.S. generally accepted accounting principles. Paul Nockels, RSM partner and a member of the AICPA Stockbrokerage and Investment Banking Expert Panel, is acknowledged for his contributions to the development of this edition of the guide.

PUBLIC SECTOR
Gaming – Audit and Accounting Guide
The American Institute of Certified Public Accountants Audit and Accounting Guide, *Gaming*, was updated as of September 1, 2018. The guide is directed primarily to those aspects of the preparation and audit of financial statements that are unique to gaming entities or are considered particularly significant to them.

INTERNATIONAL
IASB amends definition of a business
Currently International Financial Reporting Standard (IFRS) 3, *Business Combinations*, defines a business as an integrated set of activities and assets that is capable of being conducted and managed for the purpose of providing a return in the form of dividends, lower costs or other economic benefits directly to investors or other owners, members or participants. Recently the International Accounting Standards Board (IASB) amended this definition to emphasize that the output of a business is to provide goods and services to customers. The narrow-scope amendments to IFRS 3 now define a business as an integrated set of activities and assets that is capable of being conducted and managed for the purpose of providing...
goods or services to customers, generating investment income (such as dividends or interest) or generating other income from ordinary activities.

Companies are required to apply the amended definition of a business to acquisitions that occur on or after January 1, 2020. Earlier application is permitted. The amendments also provide supplementary guidance.