Accounting and Auditing Supplement No. 4–2018

Studies on Single Audit and Yellow Book Deficiencies
Chapter 1

Accounting and Auditing Supplement
No. 4–2018

Introduction

This update includes the more significant accounting and auditing developments from October 1, 2018, through December 15, 2018. Included in this update are standard setting and project activities of the Auditing Standards Board (ASB), Accounting and Review Services Committee (ARSC), Professional Ethics Executive Committee (PEEC), FASB, PCAOB, and the SEC.

These developments, although believed to be complete at the date at which they were prepared for this course material, may not cover all areas within accounting and auditing relevant to all users of this material. Readers are encouraged to visit the AICPA's Financial Reporting Center for additional resources, including various “standards trackers” for the most recent standard-setting activity in the areas of accounting and financial reporting, audit and attest, and compilation, review, and preparation.

This update may refer you to other sources of information, in which case you are strongly encouraged to review that information if relevant to your needs.
Audit and accounting final and proposed standards

Final standards, interpretations and regulations

AICPA

Auditing Standards Board

Statements on Auditing Standards

Forming an Opinion and Reporting on Financial Statements of Employee Benefit Plans Subject to ERISA

Issue date

December 2018

Background

The ASB voted to issue this SAS as a final standard. However, the ASB is also deliberating proposed SASs on auditor reporting and related amendments. The Auditor Reporting SASs are expected to be issued in the first half of 2019. At that time, the ASB will consider whether conforming amendments to this SAS will be necessary (amendments likely will relate to the form and content of the auditor’s reports). As such, this SAS is also expected to be issued, pending completion of the Auditor Reporting SASs, in the first half of 2019. In the interim, the final balloted draft is available for auditors to read and consider.

The standard addresses the auditor’s responsibility to form an opinion and report on the audit of financial statements of employee benefit plans subject to the Employee Retirement Income Security Act of 1974 (ERISA), and the form and content of the auditor’s report issued as a result of an audit of ERISA plan financial statements.

Main provisions/significant changes

The SAS includes new requirements for

- engagement acceptance,
- audit risk assessment and response,
- communications with those charged with governance,
- procedures for an ERISA section 103(a)(3)(C) audit, and
- considerations relating to the Form 5500.

It provides a new report format for ERISA section 103(a)(3)(C) audits.
For audits of ERISA plan financial statements only, the SAS replaces AU-C section 700, *Forming an Opinion and Reporting on Financial Statements*, and paragraph .09 of AU-C section 725, *Supplementary Information in Relation to the Financial Statements as a Whole* (AICPA Professional Standards) and amends various other AU-C sections in AICPA *Professional Standards*.

**Effective date**
When issued, this SAS is expected to be effective no earlier than for audits of financial statements for periods ending on or after December 15, 2020.

**Accounting and Review Services Committee**
ARSC did not issue any new or revised standards or interpretations in the fourth quarter as of December 15, 2018.

**Professional ethics executive committee**

**Issue date**
December 2018

**Background**
The AICPA’s PEEC adopted new and revised interpretations in the Code of Professional Conduct:

- Revised interpretations under the “Independence Rule” (ET sec. 1.200.001)—“Leases” (ET sec. 1.260.040) and a related revision to “Client Affiliates” (ET sec. 1.224.010)
- New interpretation under the “Confidential Client Information Rule” (ET sec. 1.700.001)—“Disclosing Information in Connection with a Quality Review” (ET sec. 1.700.110)

**Main provisions/significant changes**

**Independence rule**
The “Leases” interpretation updates the independence guidance in the code that applies when a covered member in a firm or the firm has a lease arrangement with an attest client. PEEC revised that standard due to significant changes to FASB’s lease accounting standard. The existing guidance is based on whether a lease is a capital or operating lease—concepts that will no longer exist when the new lease accounting standard becomes effective. A related revision was made to the “Client Affiliates” interpretation to address certain leasing situations.

**Confidential Client Information Rule**
The PEEC also released a new interpretation under the “Confidential Client Information Rule” to permit members to disclose confidential information in connection with a tax practice quality review without obtaining client permission if certain conditions are met.
Effective dates
Revisions to the “Independence Rule” interpretations for leasing arrangements are effective for fiscal years beginning after December 15, 2019. Early implementation is allowed.

The new “Confidential Client Information Rule” interpretation is effective on the last day of the month in which it’s published in the Journal of Accountancy.

FASB

Accounting Standards Updates

Accounting Standards Update No. 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

Issue date
December 2018

Background
FASB ASC 815, Derivatives and Hedging, provides guidance on the risks associated with financial assets or liabilities that are permitted to be hedged. Currently, eligible benchmark interest rates are the interest rates on direct Treasury obligations of the U.S. government (UST), the London Interbank Offered Rate (LIBOR) swap rate, and the Overnight Index Swap (OIS) Rate based on the Fed Funds Effective Rate.

Accounting Standards Update (ASU) No. 2017-12, Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities, introduced the Securities Industry and Financial Markets Association (SIFMA) Municipal Swap Rate as the fourth permissible U.S. benchmark rate. Because of concerns about the sustainability of LIBOR, the Federal Reserve Board and the Federal Reserve Bank of New York (Fed) initiated an effort to introduce an alternative reference rate in the United States.

Timeline of developments
2014: The Federal Reserve convened the Alternative Reference Rates Committee (ARRC) to identify a suitable alternative to the U.S. dollar (USD) LIBOR that is more firmly based on actual transactions in a robust market.

2017-2018: The ARRC identified a broad Treasury repurchase agreement (repo) financing rate referred to as the Secured Overnight Financing Rate (SOFR) as its preferred alternative reference rate, and the Federal Reserve began publishing that daily rate on April 3, 2018.
During the hedge accounting project that led to the issuance of FASB ASU No. 2017-12, the Federal Reserve requested that the OIS rate based on SOFR be considered eligible as a U.S. benchmark interest rate for purposes of applying hedge accounting under FASB ASC 815. The OIS rate based on SOFR will be a swap rate based on the underlying overnight SOFR rate. The Fed and ARRC expressed the importance of including the OIS rate based on SOFR as a benchmark rate for hedge accounting purposes in facilitating broader use of the underlying SOFR rate in the marketplace.

Amendments in this ASU apply to all entities that elect to apply hedge accounting to benchmark interest rate hedges under FASB ASC 815.

Main provisions/significant changes
The amendments in this ASU permit use of the OIS rate based on SOFR as a U.S. benchmark interest rate for hedge accounting purposes under FASB ASC 815 in addition to the following:

- UST
- LIBOR swap rate
- OIS rate based on the Fed Funds Effective Rate
- SIFMA Municipal Swap Rate

Including the OIS rate based on SOFR as an eligible benchmark interest rate during the early stages of the marketplace transition will facilitate the LIBOR to SOFR transition and provide sufficient lead time for entities to prepare for changes to interest rate risk hedging strategies for both risk management and hedge accounting purposes.

Effective date
For entities that have not already adopted FASB ASU No. 2017-12, the amendments in this update are required to be adopted concurrently with the amendments in FASB ASU No. 2017-12.

For public business entities that already have adopted the amendments in FASB ASU No. 2017-12, the amendments are effective for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years.

For all other entities that already have adopted the amendments in FASB ASU No. 2017-12, the amendments are effective for fiscal years beginning after December 15, 2019, and interim periods within those fiscal years.

Early adoption is permitted in any interim period upon issuance of this update if an entity already has adopted FASB ASU No. 2017-12. The amendments should be adopted on a prospective basis for qualifying new or re-designated hedging relationships entered into on or after the date of adoption.
Accounting Standards Update No. 2018-17

Consolidation (Topic 810): Targeted Improvements to Related Party Guidance for Variable Interest Entities

Issue date
October 2018

Background
FASB issued this ASU in response to stakeholders’ observations that FASB ASC 810, Consolidation, could be improved in the following areas:

1. Applying the variable interest entity (VIE) guidance to private companies under common control
2. Considering indirect interests held through related parties under common control for determining whether fees paid to decision makers and service providers are variable interests

The amendments affect reporting entities that are required to determine whether they should consolidate a legal entity under the guidance within the variable interest entities subsections of FASB ASC 810-10. This includes private companies that have elected the accounting alternative for leasing arrangements under common control.

The amendments for the private company accounting alternative apply to all entities except for public business entities and not-for-profit entities as defined in the Master Glossary of the FASB Accounting Standards Codification® and employee benefit plans within the scope of FASB ASC 960, FASB ASC 962, and FASB ASC 965 on plan accounting.

Main provisions/significant changes

Private company accounting alternative
The amendments in this update expand the private company alternative provided by FASB ASU No. 2014-07, Consolidation (Topic 810): Applying Variable Interest Entities Guidance to Common Control Leasing Arrangements (a consensus of the Private Company Council), not to apply the VIE guidance to qualifying common control leasing arrangements.

Under the amendments in this ASU, a private company (reporting entity) may elect not to apply 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 a private company will apply to all current and future legal entities under common control that meet the criteria for applying this alternative.

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. The private company should also provide detailed disclosures about its involvement with and exposure to the legal entity under common control.
Decision-making fees

Indirect interests held through related parties in common control arrangements should be considered on a proportional basis for determining whether fees paid to decision makers and service providers are variable interests. This is consistent with how indirect interests held through related parties under common control are considered for determining whether a reporting entity must consolidate a VIE.

Effective date
For entities other than private companies, the amendments in this ASU are effective for fiscal years beginning after December 15, 2019, and interim periods within those fiscal years.

For private companies, the amendments in this ASU are effective 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 amendments in this ASU retrospectively with a cumulative-effect adjustment to retained earnings at the beginning of the earliest period presented.

Early adoption is permitted.

Accounting standards update No. 2018-18

Collaborative Arrangements (Topic 808): Clarifying the Interaction between Topic 808 and Topic 606

Issue date
November 2018

Background
FASB issued this ASU to clarify the interaction between FASB ASC 808, Collaborative Arrangements, and FASB ASC 606, Revenue from Contracts with Customers. A “collaborative arrangement,” as defined by the guidance in FASB ASC 808, is a contractual arrangement under which two or more parties actively participate in a joint operating activity and are exposed to significant risks and rewards that depend on the activity’s commercial success.

FASB ASC 808 does not provide comprehensive recognition or measurement guidance for collaborative arrangements, thus the accounting for those arrangements is often based on an analogy to other accounting literature or an accounting policy election. Those accounting differences result in diversity in practice on how entities account for transactions based on their view of the economics of the collaborative arrangement.

The issuance of FASB ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606), raised new questions about the interaction between FASB ASC 808 and FASB ASC 606. Certain aspects of the amendments in FASB ASU No. 2014-09 have resulted in uncertainty in practice about the effect of the revenue standard on the accounting for collaborative arrangements. Specifically, stakeholders indicated
that it is unclear whether FASB ASC 606 could be applied to certain transactions in collaborative arrangements.

Main provisions/significant changes
The amendments in this update make targeted improvements to generally accepted accounting principles (GAAP) for collaborative arrangements as follows:

1. Clarify that certain transactions between collaborative arrangement participants should be accounted for as revenue under FASB ASC 606 when the collaborative arrangement participant is a customer in the context of a unit of account. In those situations, all the guidance in FASB ASC 606 should be applied, including recognition, measurement, presentation, and disclosure requirements.
2. Add unit-of-account guidance in FASB ASC 808 to align with the guidance in FASB ASC 606 (that is, a distinct good or service) when an entity is assessing whether the collaborative arrangement or a part of the arrangement is within the scope of FASB ASC 606.
3. Require that in a transaction with a collaborative arrangement participant that is not directly related to sales to third parties, presenting the transaction together with revenue recognized under FASB ASC 606 is precluded if the collaborative arrangement participant is not a customer.

Effective date
For public business entities, the amendments in this update are effective for fiscal years beginning after December 15, 2019, and interim periods within those fiscal years.

For all other entities, the amendments are effective for fiscal years beginning after December 15, 2020, and interim periods within fiscal years beginning after December 15, 2021.

Early adoption is permitted, including adoption in any interim period, (1) for public business entities for periods for which financial statements have not yet been issued, and (2) for all other entities for periods for which financial statements have not yet been made available for issuance. An entity may not adopt the amendments earlier than its adoption date of FASB ASC 606.

The amendments in this update should be applied retrospectively to the date of initial application of FASB ASC 606.

An entity should recognize the cumulative effect of initially applying the amendments as an adjustment to the opening balance of retained earnings of the later of the earliest annual period presented and the annual period that includes the date of the entity’s initial application of FASB ASC 606.

An entity may elect to apply the amendments in this update retrospectively either to all contracts or only to contracts that are not completed at the date of initial application of FASB ASC 606.

An entity should disclose its election. An entity may elect to apply the practical expedient for contract modifications that is permitted for entities using the modified retrospective transition method in FASB ASC 606.
Accounting Standards Update No. 2018-19

Codification Improvements to Topic 326, Financial Instruments—Credit Losses

Issue date
November 2018

Background
On June 16, 2016, FASB issued ASU No. 2016-13, Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments, which introduced an expected credit loss methodology for the impairment of financial assets measured at amortized cost basis. That methodology replaces the probable, incurred loss model for those assets. Through that update, the board added FASB ASC 326 and made several consequential amendments to the FASB Accounting Standards Codification®.

The board has an ongoing project on its agenda for improving the codification or correcting its unintended application. The items addressed in that project generally are not expected to have a significant effect on current accounting practice or to create a significant administrative cost for most entities. Though similar to those items, the board decided to issue a separate update for improvements related to FASB ASU No. 2016-13 to increase stakeholders’ awareness of the amendments to scope and transition and effective date requirements and to expedite the improvements.

The amendments in this update align the implementation date for nonpublic entities’ annual financial statements with the implementation date for their interim financial statements and clarify the scope of the guidance in the amendments in FASB ASU No. 2016-13.

The amendments in FASB ASU No. 2016-13 are effective for nonpublic business entities for fiscal years beginning after December 15, 2020, and interim periods within fiscal years beginning after December 15, 2021. The transition guidance in FASB ASC 326-10-65-1(c) requires an entity to make a cumulative-effect adjustment to opening retained earnings as of the beginning of the first reporting period in which the amendments are effective.

Stakeholders raised questions about whether it was the board’s intent to require nonpublic business entities to effectively adopt the amendments as of January 1, 2021, because of the cumulative-effect adjustment as of that date. They also asked whether the board intended to require the same effective date for nonpublic business entities and public business entities that do not meet the definition of an SEC filer.
Main provisions/significant changes

Transition and effective date for nonpublic business entities
The amendments in this update reduce transition complexity by requiring that for nonpublic business entities the amendments in FASB ASU No. 2016-13 are effective for fiscal years beginning after December 15, 2021, including interim periods within those fiscal years.

Operating lease receivables
The scope of FASB ASC 326-20 includes financial assets measured at amortized cost basis, including net investments in leases arising from sales-type and direct financing leases but does not specifically address receivables arising from operating leases.

The amendment clarifies that receivables arising from operating leases are not within the scope of FASB ASC 326-20. Instead, impairment of receivables arising from operating leases should be accounted for in accordance with FASB ASC 842, Leases.

Effective date
The effective date and transition requirements for the amendments in this update are the same as the effective dates and transition requirements in FASB ASU No. 2016-13, as amended by this update.

Accounting Standards Update No. 2018-20

Leases (Topic 842): Narrow-scope improvements for lessors

Issue date
December 2018

Background
On February 25, 2016, FASB issued ASU No. 2016-02, Leases (Topic 842), to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing transactions. FASB has been assisting stakeholders with implementation questions and issues as organizations prepare to adopt the new lease requirements. Since the issuance of FASB ASU No. 2016-02, lessor stakeholders have informed the board about certain issues that they are experiencing on the following when applying FASB ASC 842:

1. Sales taxes and other similar taxes collected from lessees
2. Certain lessor costs
3. Recognition of variable payments for contracts with lease and nonlease components.
Sales taxes and other similar taxes collected from lessees

The guidance in FASB ASC 842 requires lessors to analyze sales taxes and other similar taxes on a jurisdiction-by-jurisdiction basis to determine whether those taxes are the primary obligation of the lessor as owner of the underlying asset being leased or whether those taxes are collected by the lessor on behalf of third parties. When a sales (or other similar) tax is collected from a lessee on behalf of third parties (that is, the lessor is acting as an agent), a lessor excludes that amount from (lease) revenue. When the lessor is primarily obligated for payment of the tax, the lessor accounts for the payment as a lessor cost and includes that amount in (lease) revenue and costs.

Lessor stakeholders observed that evaluating whether sales taxes and other similar taxes are collected on behalf of third parties would be costly and complex because of the number of jurisdictions and the variation of, and changes in, tax laws among those jurisdictions. Those lessor stakeholders also observed that users of financial statements would be provided with limited financial reporting benefits because the net effect of recording those taxes would be zero in the income statement. They also noted that the Board provided stakeholders with relief for a similar requirement in the new revenue guidance in the amendments in FASB ASU No. 2016-12, Revenue from Contracts with Customers (Topic 606): Narrow-Scope Improvements and Practical Expedients, whereby an entity can make an accounting policy election to exclude amounts collected from customers for all sales (and other similar) taxes from the transaction price.

Certain lessor costs

A lessor may incur various costs in its role as a lessor or as owner of the underlying asset (lessor costs). A lessee may be required to pay those costs but that does not transfer a good or service to the lessee separately from the right to use the underlying asset. The new leases guidance requires a lessor to report those amounts as revenue and expenses. Lessor stakeholders observed that reporting certain lessor costs paid by lessees directly to third parties on behalf of the lessor would be costly and complex, and, perhaps, not possible, in many situations. Lessor stakeholders also contended that recording these amounts would provide users of financial statements with limited financial reporting benefits.

Recognition of variable payments for contracts with lease and nonlease components

The guidance requires lessors to recognize certain variable payment amounts in profit or loss in the period when the changes in facts and circumstances on which the variable payment is based occur, regardless of whether the payment partially relates to nonlease components. Some stakeholders observed that this guidance might result in a lessor recognizing revenue for a nonlease component in a period in advance of the period in which the nonlease component is satisfied under another ASC, such as FASB ASC 606, Revenue from Contracts with Customers, and requested clarification about that paragraph’s intent.
Main provisions/significant changes

Sales taxes and other similar taxes collected from lessees
The amendments in this update provide an accounting policy election for lessors similar to the accounting policy election provided in the amendments in FASB ASU No. 2016-12.

The amendments in this update permit lessors to not evaluate whether certain sales taxes and other similar taxes are lessor costs (as described in FASB ASC 842-10-15-30[b]) or lessee costs. Instead, they will account for those costs as if they are lessee costs. Consequently, a lessor making this election will exclude from the consideration in the contract and from variable payments not included in the consideration in the contract all collections from lessees of taxes within the scope of the election and will provide certain disclosures.

Certain lessor costs
The amendments in this update
- address stakeholders’ concerns about the operability challenges encountered in determining certain lessor costs paid by lessees directly to third parties by requiring lessors to exclude from variable payments, and thus from lease revenue, lessor costs paid by a lessee directly to a third party.
- clarify that costs excluded from the consideration in a contract that are paid directly to a third party by a lessor and reimbursed by the lessee are lessor costs to be accounted for as variable payments.
- require lessors to exclude from variable payments, and therefore revenue, lessor costs paid by lessees directly to third parties.
- require lessors to account for costs excluded from the consideration of a contract that are paid by the lessor and reimbursed by the lessee as variable payments. A lessor will record those reimbursed costs as revenue.

Recognition of variable payments for contracts with lease and nonlease components
The amendments in this update related to recognizing variable payments for contracts with lease and nonlease components require lessors to allocate (rather than recognize as currently required) certain variable payments to the lease and nonlease components when the changes in facts and circumstances on which the variable payment is based occur. After the allocation, the amount of variable payments allocated to the lease components will be recognized as income in profit or loss in accordance with FASB ASC 842, whereas the amount of variable payments allocated to nonlease components will be recognized in accordance with other FASB ASC topics, such as FASB ASC 606.

Effective date
The amendments in this update affect the amendments in FASB ASU No. 2016-02, which are not yet effective but can be early adopted.

The effective date and transition requirements for the amendments in this update for entities that have not adopted FASB ASC 842 before the issuance of this update are the same as the effective date and
transition requirements in FASB ASU No. 2016-02 (for example, January 1, 2019, for calendar-year-end public business entities).

For entities that have adopted FASB ASC 842 before the issuance of this update, the transition and effective date of the amendments in this update are as follows:

1. An entity should apply the amendments at the original effective date of FASB ASC 842 for the entity. Alternatively, the entity has the option to apply the amendments in either the first reporting period ending after the issuance of this update (for example, December 31, 2018) or in the first reporting period beginning after the issuance of this update (for example, January 1, 2019).

2. An entity may apply the amendments either retrospectively or prospectively.

All entities, including early adopters, must apply the amendments in this update to all new and existing leases.

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SEC

The SEC did not issue any new or revised regulations or guidance in the fourth quarter as of December 15, 2018.

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PCAOB

The PCAOB did not issue any new or revised standards or guidance in the fourth quarter as of December 15, 2018.

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Proposed standards, interpretations and regulations

AICPA

Auditing Standards Board

The ASB did not propose any new or revised standards or interpretations during the fourth quarter as of December 15, 2018.

Accounting and Review Services Committee

The ARSC did not propose any new or revised standards or interpretations during the fourth quarter as of December 15, 2018.
Professional Ethics Executive Committee

Issue date
December 7, 2018

Comment deadline
March 7, 2018

Background
The PEEC issued a proposed interpretation under the "Independence Rule" that would address a nonaudit service called staff augmentation.

As proposed, staff augmentation is a nonaudit service in which the audit firm lends staff to the client to perform certain activities. The proposed interpretation acknowledges that staff augmentation may create self-review or management participation threats to independence. However, it suggests there are certain "safeguards" that would mitigate the threats and allow the service. The following are the safeguards:

- The engagement lasts for a short period of time.
- Client management designates someone with suitable skill, knowledge and experience who is responsible for setting the scope of activities the firm’s staff will perform, will supervise those activities as they are being performed and evaluate the adequacy and results of the services.
- The firm's staff do not perform any management responsibilities (such as make decisions or judgments for management, approve transactions, and so on) and do not perform services prohibited under the independence rule.

The appearance of the firm’s independence is a primary consideration. Factors the PEEC provided for a member to consider are

- whether the engagement is discrete or recurring in nature; if recurring, the frequency of the engagements;
- duration of the augmentation engagement;
- whether staff provide services exclusively for this client, or also performs services for other clients; and
- frequency of the staff's activities at the client (for example daily, monthly).

Certain situations would impair independence, according to the proposal, such as the following:

- Staff listed in employee directory or other client publications
- Staff referred to by title or otherwise as being "in charge"
- Staff identified as employee in email or other internal communications
- Staff participates in client’s employee benefit plans

The interpretation would require members to evaluate the significance of any threats and suggests that firms may apply the following safeguards when threats are significant to mitigate threats to independence:
Do not use the same staff who provide augmented services on the attest engagement (may mitigate the self-review threat).
Discuss the threats/safeguards analysis with the client’s governance committee (to ensure agreement with the firm’s approach to maintain independence).
Rotate staff performing augmentation services (may mitigate the self-review threat).
Monitor scope of the staff’s activities (may mitigate the management participation threat).

PEEC members had several discussions about the proposed interpretation and thoughtfully considered various concerns. Thus, to obtain stakeholder feedback on the concerns, the proposal includes several questions for respondents’ consideration, including:

- Clarity of the safeguard that augmentation be of a short duration
- Placement of the interpretation with other nonattest services (as opposed to employment)
- Approach for addressing threats to the appearance of independence

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**FASB**

**Proposed ASU**

Entertainment—Films—Other Assets—Film Costs (Subtopic 926-20) and Entertainment—Broadcasters—Intangibles—Goodwill and Other (Subtopic 920-350) Improvements to Accounting for Costs of Films and License Agreements for Program Materials (a consensus of the FASB Emerging Issues Task Force)

**Issue date**
November 7, 2018

**Comment deadline**
December 19, 2018

**Background**

FASB ASC 926-20 provides different capitalization requirements for film production in the entertainment industry based on the type of content being produced.

Considering recent significant changes in production and distribution models in the entertainment industry, some stakeholders have questioned whether the current capitalization guidance for episodic television series provides relevant information for investors and other users. Stakeholders also suggested aligning FASB ASC 920-350, which provides guidance for license agreements for program materials, to any changes made to FASB ASC 926-20.

The amendments in this proposed update would apply to broadcasters and entities that produce and distribute films and episodic television series.
Main provisions/significant changes
The amendments in this proposed update would align the accounting for production costs of an episodic television series with the accounting for production costs of films by removing the content distinction for capitalization. They also would require that an entity reassess estimates of the use of a film for a film in a film group and account for any changes prospectively.

The amendments in this proposed update would require that an entity test films and license agreements for program material within the scope of FASB ASC 920-350 for impairment at a film group level when the film or license agreement is predominantly monetized with other films and license agreements.

Effective date
The effective date and ability to early adopt will be determined after the task force considers stakeholder feedback on this proposed update.

The amendments in this proposed update would be applied prospectively.

Proposed ASU
Codification Improvements—Financial Instruments

Issue date
November 17, 2018

Comment deadline
December 17, 2018

Background
Over the last several years, the board has issued the following ASUs related to financial instruments:

3. FASB ASU No. 2017-12,

Since the issuance of each update, the board has assisted stakeholders in the implementation of the amendments within those updates.

The board has identified certain areas that require clarification and correction and has an ongoing project on its agenda for improving the codification or correcting its unintended application. Though these proposed changes fall into this category, the board decided to issue a separate update for improvements to FASB ASU Nos. 2016-01, 2016-13, and 2017-12 to increase stakeholders’ awareness of the amendments and to expedite the improvements.
The amendments in this proposed update would affect a variety of topics in the codification and would apply to all reporting entities within the scope of the affected accounting guidance.

Main provisions
The amendments in this proposed update clarify, correct errors in, or improve the codification. The proposed amendments would make the codification easier to understand and easier to apply by eliminating inconsistencies and providing clarifications.

June 11, 2018, Credit Losses Transition Resource Group (TRG) Meeting
The amendments to FASB ASC 326 and other topics in this proposed update include items related to the amendments in FASB ASU No. 2016-13 discussed at the June 2018 Credit Losses TRG meeting. The proposed amendments clarify or address stakeholders’ specific issues about certain aspects of the amendments in FASB ASU No. 2016-13.

The proposed amendments to FASB ASC 326 would allow an entity to do the following:

a. Measure the allowance for credit losses on accrued interest receivable balances separately from other components of the amortized cost basis of associated financial assets and net investments in leases.
b. Present accrued interest receivable balances and the related allowance for credit losses for those accrued interest receivable balances separately from the associated financial assets and net investments in leases on the balance sheet.
c. Separately disclose the total amount of accrued interest included in the amortized cost basis as a single balance to meet certain disclosure requirements in FASB ASC 326-20.
d. Write off accrued interest amounts by either reversing interest income or adjusting the allowance for credit losses.
e. Elect to not measure an allowance for credit losses on accrued interest receivable amounts if an entity writes off the uncollectible accrued interest receivable balance in a timely manner.

Transfers between classifications or categories for loans and debt securities
FASB ASC 310-10 and FASB ASC 948-310 provide guidance on how an entity should account for loans with various classifications. A significant portion of that guidance was superseded by FASB ASU No. 2016-13, but stakeholders questioned how to account for the allowance for credit losses or valuation allowance when transferring loans between classifications.

FASB ASC 320-10 provides guidance on how an entity should account for transfers of debt securities between categories. Stakeholders also questioned how to account for the allowance for credit losses or valuation allowance when transferring debt securities between the available-for-sale category and the held-to-maturity category.

The proposed amendments would require an entity to

- reverse any allowance for credit losses or valuation allowance previously measured on a loan or debt security,
- transfer the loan or debt security to the new classification or category, and
- apply the applicable measurement guidance in accordance with the new classification or category.
Recoveries

The guidance in FASB ASC 326-20-35-8 states that recoveries of financial assets and trade receivables previously written off should be recorded when received. Stakeholders noted that this guidance could be interpreted to prohibit the inclusion of recoveries in the estimation of expected credit losses on financial assets measured at amortized cost basis. They also questioned how an entity should account for an amount expected to be collected greater than the amortized cost basis.

The proposed amendments would clarify that an entity should include recoveries when estimating the allowance for credit losses and that recoverable amounts included in the valuation account should not exceed the aggregate of amounts previously written off and expected to be written off by the entity. In addition, for collateral-dependent financial assets, the proposed amendments clarify that an allowance for credit losses, that is added to the amortized cost basis of the financial asset(s), should not exceed amounts previously written-off.

Other codification improvements

The proposed amendments clarify certain aspects of the amendments in FASB ASU No. 2016-13 as listed below:

- Partial-term fair value hedges of interest rate risk
- Amortization of fair value hedge basis adjustments
- Disclosure of fair value hedge basis adjustments
- Consideration of the hedged contractually specified interest rate under the Hypothetical Derivative Method
- Scope for not-for-profit entities
- Hedge accounting provisions applicable to certain private companies and not-for-profit entities
- Application of a first payments-received cash flow hedging technique to overall cash flows on a group of variable interest payments
- ASU No. 2017-12 transition guidance

FASB ASU No. 2016-01

The amendments clarify certain aspects of the amendments in FASB ASU No. 2016-01 as listed subsequently:

- Scope clarifications for FASB ASC 320-10 and FASB ASC 321-10
- Held-to-maturity debt securities fair value disclosures
- Applicability of FASB ASC 820 to the measurement alternative
- Remeasurement of equity securities at historical exchange rates

November 1, 2018, Credit Losses TRG Meeting

The proposed amendments to FASB ASC 326 and other topics in this proposed update include items related to the amendments in FASB ASU No. 2016-13 discussed at the November 1, 2018, Credit Losses TRG meeting. The proposed amendments clarify or address stakeholders' specific issues about certain aspects of the amendments in FASB ASU No. 2016-13 as listed subsequently:
- Vintage disclosures—Line-of-credit arrangements converted to term loans
- Contractual extensions and renewals

Transition and effective dates
These are varied based on the specific provisions affected.

**SEC**

Securities and Exchange Commission


Updated disclosure requirements and summary prospectus for variable annuity and variable life insurance contracts

Background
The SEC proposed rule and form amendments to help investors make informed investment decisions regarding variable annuity and variable life insurance contracts. The proposal would modernize disclosures providing investors with key information relating to the contract's terms, benefits, and risks in a concise and more reader-friendly presentation, with access to more detailed information available online and electronically (or in paper format on request).

The proposed rule would permit a person to satisfy its prospectus delivery obligations under the Securities Act of 1933 for a variable annuity or variable life insurance contract by sending or giving a summary prospectus to investors and making the statutory prospectus available online. The proposed rule also would consider a person to have met its obligations for any portfolio companies associated with a variable annuity or variable life insurance contract if the portfolio company prospectuses are posted online.

In addition, the SEC proposed amendments to the registration forms for variable annuity and variable life insurance contracts to update and enhance the disclosures to investors in these contracts, and to implement the proposed summary prospectus framework.

The SEC is also proposed a requirement that variable contracts use the Inline eXtensible Business Reporting Language ("Inline XBRL") format for the submission of certain required disclosures in the variable contract statutory prospectus.

The SEC is seeking comments regarding parallel amendments to rules governing mutual fund summary prospectuses and registration forms applicable to other types of registered investment companies.
Issue date
October 30, 2018

Comment deadline
February 15, 2019

PCAOB

Public company Accounting Oversight Board
The PCAOB did not propose any new or revised standards or guidance during the fourth quarter (as of December 15, 2018).