Accounting & Auditing Update

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Moss Adams Presenters

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Rebecca has practiced public accounting since 2006. She provides audit and review services to a variety of financial institutions, including SEC registrants. Rebecca also provides internal audit and regulatory compliance consulting services to a variety of community banks, business banks, publicly-held banks, and credit unions. The institutions she has served range in size from $50 million to $2 billion in total assets.

Rebecca's business assurance experience includes: financial statement preparation, substantive testing of all balance sheet and income statement accounts, AU 722 reviews, Small Business Lending Fund (SBLF) compliance, SOX 404 testing, and internal control testing of all major cycles including, but not limited to, loan origination, loan servicing, and other real estate owned. Her internal audit/regulatory compliance services experience includes: deposit and lending compliance, operations compliance, loan servicing, BSA/AML reporting, branch audits, and US Department of Housing and Urban Development (HUD) compliance. Rebecca is also actively involved in training local staff in auditing areas such cash, investments, other real estate owned, loans receivable, and the allowance for loan loss.

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Chris has been with Moss Adams since 2009 with a focus on providing services to both public and private financial institutions and financial services organizations. He specializes in financial statement audits for various financial institutions, including community banks and financial services organizations, including mortgage banking companies. Chris has responsibility for all phases of the audit engagement execution, assisting clients with technical accounting issues and implementing accounting policies and procedures. Additionally, he has experience conducting audits of internal control over financial reporting and audits in accordance with Government Auditing Standards. As an active member of the firm's Financial Services Group, Chris plays an integral role in training and developing staff and seniors in the Greater Bay Area.

Agenda

- FASB Accounting Standards Updates
- SEC Update

FASB Accounting Standards Updates (ASU) – Standards Applicable in 2017

Accounting Changes and Error Corrections

ASU No. 2017-03, Accounting Changes and Error Corrections (Topic 250) and Investments – Equity Method and Joint Ventures (Topic 323)

Accounting Changes and Error Corrections

Disclosure of the impact of recently issued accounting standards

- Amends ASC 250 to incorporate SEC staff announcements regarding Staff Accounting Bulletin Topic 11.M.
- Disclosures should include:
  - A description of the effect of the accounting policies the registrant expects to apply
  - A comparison to the registrant's current accounting policies
  - The status of the registrant's process to implement the new standards

If a registrant doesn't know or can't reasonably estimate the impact of adoption, a statement to that effect should be made.

Effective upon issuance

Public Business Entity (PBE)

ASU No. 2013-12, *Definition of a Public Business Entity*

Public Business Entity (PBE)

A public business entity is a business entity meeting any one of the criteria below. Neither a not-for-profit entity nor an employee benefit plan is a business entity.

- 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
- 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.
- 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.
- 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.
- 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.

Public Business Entity (PBE)

Following are the main differences for those deemed “public” for financial reporting purposes:

- **Recognition and Measurement.** An entity deemed a PBE would be unable to elect any guidance issued by the PCC.
- **Effective Dates.** For many standards issued by the FASB, the effective dates are earlier for PBEs. An entity deemed to be a PBE will follow earlier effective dates.
- **Disclosures.** For some standards, more disclosures are required for public entities. An entity deemed a PBE would be subject to more disclosures for those standards that do have differences.

Differences in ASU Effective Dates PBE vs. Non-PBE

Accounting Standards	PBE – Effective Date	Non-PBE – Effective Date
CECL (ASU 2016-13)	If an SEC Filer – FY and interim periods beginning after 12/15/2019	FY beginning after 12/15/2020, and interim periods beginning after 12/15/2021
	If not an SEC Filer – FY and interim periods beginning after 12/15/2020	
Stock Compensation (ASU 2016-09)	FY beginning after 12/15/16, and for interim periods in those years	FY beginning after 12/15/17, and for interim periods in those years
Leasing (ASU 2016-02)	FY beginning after 12/15/2018, and for interim periods in those years	FY beginning after 12/15/2019, and for interim periods beginning after 12/15/2020
Financial Instruments (ASU 2016-01)	FY beginning after 12/15/2017, and for interim periods in those years	FY beginning after 12/15/2018, and for interim periods beginning after 12/15/2019
Going Concern (ASU 2014-15)	FY beginning after 12/15/2016	FY beginning after 12/15/2016
Revenue Recognition (ASU 2014-09)	FY beginning after 12/15/2017, and for interim periods in those years	FY beginning after 12/15/2018, and for interim periods beginning after 12/15/2019

Reporting on Going Concern

ASU No. 2014-15, Presentation of Financial Statements – Going Concern (Subtopic 205-40): *Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern*

Reporting on Going Concern

Elements of the new rule include:

- Require an evaluation every reporting period including interim periods
- Provides principles for considering mitigating effect of management's plan
- Require specific disclosures when substantial doubt is alleviated as a result of management's plan, and requires an express statement and other disclosures when substantial doubt is not alleviated
- Assessment period is set to one year after the date that the financial statements are issued (or available to be issued)

Effective date:

- **Public and nonpublic entities**: Periods ending after December 15, 2016
- Early adoption permitted

Stock Compensation

ASU No. 2016-09, *Improvements to Employee Share-Based Payment Accounting* (Topic 718)

Improvements to Employee Share-Based Payment Accounting

Current GAAP	Summary of Simplifications
Accounting for Income Taxes: An entity must determine for each award whether the difference between the deduction for tax purposes and the compensation cost recognized for financial reporting purposes results in either an excess tax benefit or a tax deficiency. Excess tax benefits are recognized in additional paid-in capital; tax deficiencies are recognized as an offset to accumulated excess tax benefits, if any, or in the income statement. Excess tax benefits are not recognized until the deduction reduces taxes payable.	All excess tax benefits and tax deficiencies (including tax benefits of dividends on share-based payment awards) should be recognized as tax expense or benefit in the income statement. The tax effects of exercised or vested awards should be treated as discrete items in the reporting period in which they occur. An entity also should recognize excess tax benefits regardless of whether the benefit reduces taxes payable in the current period.

Improvements to Employee Share-Based Payment Accounting

Current GAAP	Summary of Simplifications
Forfeitures: Accruals of compensation cost are based on the number of awards that are expected to vest.	An entity can make an entity-wide accounting policy election to either use current GAAP or account for forfeitures as they occur.
Expected Term: Entities are required to estimate the period of time that an option will be outstanding.	A nonpublic entity can make an accounting policy election to apply a practical expedient to estimate the expected term for all awards with performance or service conditions.
Classification of Excess Tax Benefits on the Statement of Cash Flows: Excess tax benefits must be separated from other income tax cash flows and classified as a financing activity.	Excess tax benefits should be classified along with other income tax cash flows as an operating activity.

Improvements to Employee Share-Based Payment Accounting

	Effective Date
Public Business Entities	Annual periods beginning after December 15, 2016, and interim periods within those annual periods.
Nonpublic Business Entities	Annual periods beginning after December 15, 2017, and interim periods within those annual periods.
Early Application	Permitted for any entity in any interim or annual period. Must adopt all of the amendments in the same period. • Prospective: Recognition of excess tax benefits and tax deficiencies and the practical expedient for expected term • Prospective or Retrospective: Presentation of excess tax benefits or deficiencies on the statement of cash flows. • Modified retrospective: timing of when excess tax benefits are recognized and forfeitures.

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FASB Accounting Standards Updates (ASU) – Standards Applicable in 2018 and Beyond

Revenue Recognition

ASU No. 2015-14, *Revenue from Contracts with Customers (Topic 606): Deferral of the Effective*

ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*

Revenue Recognition

Revenue recognition standards have historically been piecemealed over time by industry and transaction

Need for standardization!

Single comprehensive model created

Effective date of ASU No. 2014-09:

- **Public entities**: Effective for annual reporting periods beginning after December 15, 2017, including interim reporting periods within that reporting period
- **Private entities**: Effective for annual reporting periods beginning after December 15, 2018, and interim reporting periods within annual reporting periods beginning after December 15, 2019

Revenue Recognition

Transition

Effective January 2018 for public entities (early adoption allowed; 2019 for private entities)

Option 1: Full Retrospective

- Follow current guidance in 2016 & 2017
- In 2018, recast 2016 & 2017 to new guidance (January 1, 2016, cumulative effect adjustment date)

Option 2: Modified Retrospective

- Follow current guidance in 2016 & 2017
- For 2018, present new guidance (January 1, 2018, cumulative effect adjustment date)
- Comparative disclosure of 2018 – new vs. old

Cumulative effect adjustment requires evaluation of open/unsatisfied contracts that carry over in 2016 or 2018, respectively, depending on transition approach

Revenue Recognition Standard

Core Principle

"Recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services"

When?

- Performance obligation is satisfied through transfer of goods or service to a customer

How much?

- The amount to which the entity expects to be entitled (price) allocated to the distinct goods or services

Revenue Recognition

AICPA Task Forces

- Also evaluating standard
- Formed 16 industry task forces for application examples of the standard
- Three banking industry focused:
  - Asset Management
  - Broker Dealers
  - Depository institutions
- https://www.aicpa.org/InterestAreas/FRC/AccountingFinancialReporting/RevenueRecognition/Pages/RRTF-DepositoryInst.aspx

Revenue Recognition

Revenue Item	In Scope?	Out of Scope?
Loans & Investment Income		X
Service Charges on Deposits	X	
Loan Servicing Fees		X
Gains/Losses on OREO sales	X	
Credit Card Fees (balance transfer, cash advance, annual fees)		X
Interchange	Not Yet Addressed	
Insurance related income	In scope, unless covered under ASC 944	
Broker Dealer related income	X	

In Scope Process

1. Identify the contract with customer
2. Identify separate performance obligations
3. Determine the transaction price
4. Allocate the transaction price to the separate performance obligations
5. Recognize revenue when obligations are satisfied

Example – Service Charges on Deposits

Step 1 – Identify the Contract

- Account holder agreement

Step 2 – Identify separate performance obligations

- Deposit contract terms (variable and fixed):
  - Access of funds (ATMs)
  - Dormancy and account maintenance items
  - Request of additional services (wires, check requests) are often embedded

Example – Service Charges on Deposits

Step 3 – Determine transaction price

- Consider only those amounts you have right to under the current contract (i.e., don't include variable costs that have not occurred). If the member hasn't gone dormant yet, you don't have any right to consideration

- Once service is request or the customer's action triggers consideration, you may then include in the transaction price

Most deposit account agreements are basically minute to minute agreements which should be relatively straightforward for revenue recognition, yet some are master agreements with fees need careful attention

Example – Service Charges on Deposits

Step 4 – Allocate the Transaction Price to the Separate Performance Obligations

- Consideration for optional (variable) purchases should be allocated to the performance obligations with those purchases

Step 5 – Recognize Revenue When (or as) Performance Obligations Are Satisfied

- Most deposit fee related items will be recognized as incurred due to the nature of the agreements (day to day, minute to minute)

- But, consider your history of refunds in the appropriate amount of revenue to recognize in the transaction

OREO Sales

- With the adoption of the revenue recognition standard, institutions will follow ASC Topic 610, which discusses the sale of non-financial assets.
- Topic 610 relies on certain principles out of Topic 606
- Central concept is that gains or losses on OREO sales should be recognized upon transfer of control of the asset to the buyer
- Seller should derecognize a nonfinancial asset and recognize the gain or loss when both a *contract exists* (Step 1 of rev rec), and *control of the asset has transferred to the buyer* (Step 5)

Example – OREO Sales

Step 1 – Identify the Contract

- Five items to address if a contract exists

- The biggest one for OREO sales is "the seller will collect substantially all of the consideration to which it is entitled in exchange for the property" , especially if seller financed

Factors to determine collectability

- FICO of buyer, LTV, recourse provisions, property specific facts (cash flow, age, etc.), seller involvement after the sale

Example – OREO Sales

Step 2 – Identify separate performance obligations

- Basically this will be delivering control of the property to the buyer

Step 3 – Determine transaction price

- Non-seller financed is easy, it's the price

- Seller financing has a major financing component:
  - If market financing, then can use what is in the purchase and sale agreement
  - If non-market terms, then the transaction price may be the discounted price at market terms (discounted cash flow at market terms)

Example – OREO Sales

Step 4 – Allocate the Transaction Price to the Separate Performance Obligations

- Typically will be allocated to the performance obligation in step 2 (delivering control of the property)

Example – OREO Sales

Step 5 – Recognize Revenue When (or as) Performance Obligations Are Satisfied

- Topic 610 indicates the gain or loss is recognized when control is transferred to the buyer
- Control transfer criteria:
  - Seller has a right to payment
  - Buyer has legal title to the assets
  - Seller has transferred physical possession
  - Buyer has the significant risks and rewards of ownership
  - Buyer has accepted the asset

The above will likely be satisfied on the closing date of the transaction, yet consideration should be given to any contractual or legal items that would preclude transfer…

Example – OREO Sales

Common Restrictions

- Certain jurisdictions allow for the original creditor to reclaim the property during a time period after foreclosure, even if title has been transferred under a OREO sale to another buyer
- Control is in question at this point as "the customer is limited in its ability to direct the use of, and obtain substantially all of the benefits of the asset even though it has physical possession"
- If control has not been transferred, then the seller does not de-recognize the asset and gain or loss is deferred until control resumes.

Financial Instruments

ASU No. 2016-01, Financial Instruments – Overall (Subtopic 825-120):
Recognition and Measurement of Financial Assets and Financial Liabilities

Financial Instruments

Key elements of the new rule include:

- Eliminates the available-for-sale classification for equity securities (security representing ownership in a company) and contains a new requirement to carry those equity securities with readily determinable fair values at fair value through net income (FV-NI)
- Stocks, mutual funds, limited partnerships, limited liability corporations
- Practicability exception from fair value accounting to equity securities that do not have readily determinable fair values
- Carry at cost, less impairment, plus or minus observable price change of an identical or similar investment of the same issuer
- Separate presentation of financial assets and liabilities by measurement category and form of instrument

Financial Instruments

Key elements of the new rule include:

- Eliminates disclosure requirements for Non-PBEs for financial instruments measured at amortized cost (AKA “the FAS 107 table”)

- Generally, an entity will record a cumulative effect adjustment to the beginning retained earnings as of the beginning of the first reporting period in which the guidance is adopted

Financial Instruments

Effective date:

- **Public entities**: annual periods beginning after December 15, 2017, and interim periods therein
- **All other entities**: annual periods beginning after December 15, 2018, and interim periods within annual periods beginning after December 15, 2019
- Non-PBEs can early adopt the standard as of the effective date for PBEs
- All entities can early adopt a provision that eliminates the fair value disclosures carried at amortized cost and a provision requiring them to recognize the fair value change from own credit provision that eliminates the fair value disclosures for financial instruments not recognized at fair value – as of annual or interim periods for financial statements that have not been issued, including 2015

Statement of Cash Flows

ASU No. 2016-15, Statement of Cash Flows (Topic 230): *Classification of Certain Cash Receipts and Cash Payments*

Statement of Cash Flows

Cash Flow Issues addressed:

- Debt prepayment or debt extinguishment costs
- Settlement of zero-coupon debt instruments or other debt instruments with coupon interest rates that are insignificant in relation to the effective interest rate of the borrowing
- Contingent consideration payments made after a business combination
- Proceeds from the settlement of issuance claims
- Proceeds from the settlement of Corporate Owned Life Insurance
- Distributions received from equity method investees
- Beneficial interests in securitization transactions
- Separately identifiable cash flows and application of the predominance principle

Statement of Cash Flows

Effective date

- **Public entities**: Periods beginning after December 15, 2017
- **Nonpublic entities**: Periods ending after December 15, 2018
- Early adoption permitted

Business Combinations

ASU No. 2017-01, Business Combinations (Topic 805): *Clarifying the Definition of a Business*

Business Combinations

Amendment adds a screen that will reduce the number of transactions that need to be further valuated

If the screen is not met, the amendment in this update:

- Require that to be considered a business, a set of assets and activities must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output

- Remove the evaluation of whether a market participant could replace missing elements

Provides a framework to assist entities in evaluating whether both an input and a substantive process are present

Business Combinations

Effective date

- **Public entities**: Periods beginning after December 15, 2017
- **Nonpublic entities**: Periods ending after December 15, 2018
- Early adoption permitted

Intangibles – Goodwill and Other

ASU No. 2017-04, Intangibles – Goodwill and Other (Topic 350): *Simplifying the Test of Goodwill Impairment*

Intangibles – Goodwill and Other

Eliminates step two from the goodwill impairment test

Impairment test is to be performed by comparing he fair value of the reporting unit to its carrying amount (Step 1 only)

May result in recording impairment charges sooner than under current GAAP

Effective date

- **Public entities that are SEC filers**: Periods beginning after December 15, 2019
- **Public entities that are not SEC filers:** Periods beginning after December 15, 2020
- **Nonpublic entities**: Periods ending after December 15, 2021
- Early adoption permitted for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017

Receivables-Non Refundable Fees and Other Costs

ASU No. 2017-08, Receivables-Nonrefundable Fees and Other Costs (Subtopic 310-20): *Premium Amortization on Purchased Callable Debt Securities*

Receivables – Non Refundable Fees and Other Costs

Shortens the amortization period for certain callable debt securities held at a premium

Premiums will now be amortized to the earliest call date

Does not change accounting for securities held at a discount

Effective date

- **Public entities:** Periods beginning after December 15, 2018
- **Nonpublic entities**: Periods ending after December 15, 2019
- Early adoption permitted

Leases

ASU No. 2016-02, *Leases* (Topic 842)

Why Change?

FASB has said:

Lessees

- MOST LEASES ARE OFF-BALANCE-SHEET
- DISCLOSURES PROVIDE ONLY LIMITED INFORMATION ABOUT OPERATING LEASES

Lessors

- LACK OF TRANSPARENCY ABOUT RESIDUAL VALUES
- CONSISTENCY WITH LESSEE PROPOSAL AND REVENUE RECOGNITION PROPOSAL

$1.25 trillion

Of off-balance-sheet operating lease commitments for SEC registrants*

* Estimate according to the 2005 SEC report on off-balance-sheet activities

Right-Of-Use Model

Lease:

A contract, or part of contract, that conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

Identified asset	The contract explicitly or implicitly specifies the use of identified property, plant, or equipment.
Customer control	The customer controls the use of the identified asset for a period of time.

Does the Contract Contain a Lease?

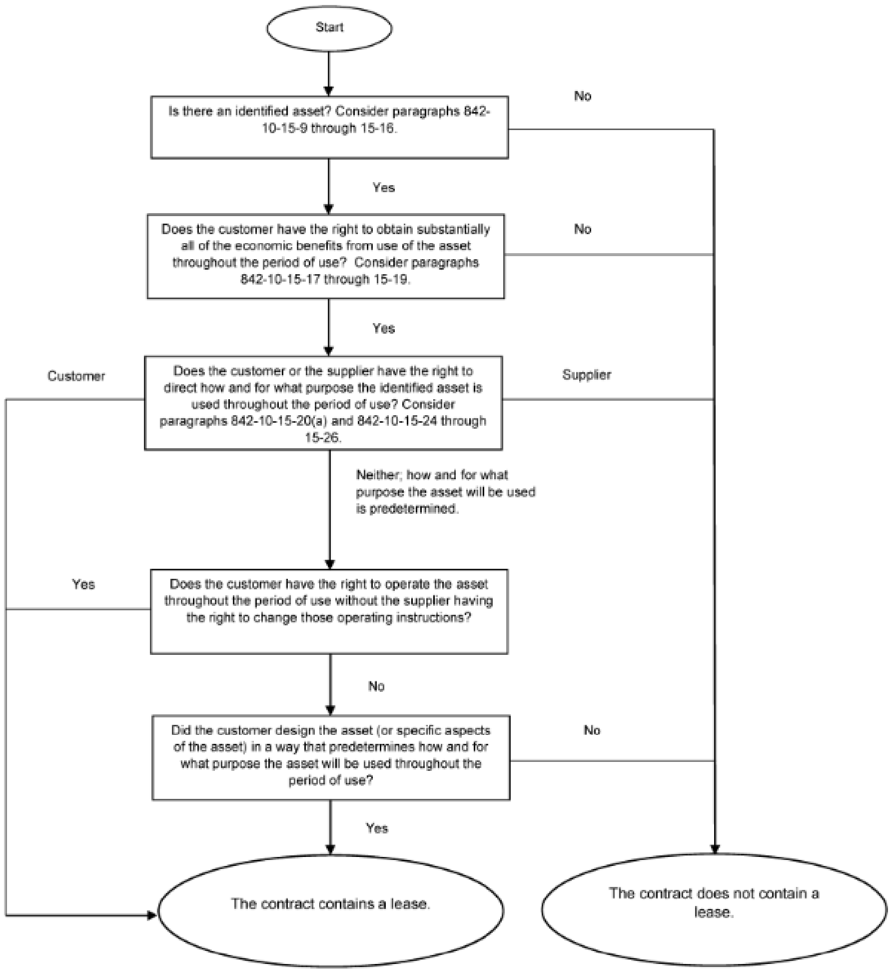
IDENTIFIED ASSETS

- Explicitly or implicitly identify leased asset
- Supplier has no practicable ability to substitute and would not economically benefit from substitution

RIGHT TO CONTROL

- Decision-making authority to direct the use of the identified asset
- Ability to obtain substantially all of the economic benefit from the use of the asset

Implementation Guidance



ASC 842-10-55-1

Flowchart depicting how to determine whether a contract is or contains a lease.

FASB’s Dual Model

	Balance Sheet	Income Statement	Cash Flows
Finance	Right-of-use asset Lease liability	Amortization expense Interest expense	Financing cash flow for principal Operating cash flow for all other
Operating	Right-of-use asset Lease liability (not debt)	Single lease expense on a straight-line basis	Operating cash flow for all lease payments

***Recognition and measurement option for short-term leases*.**

Lease Term

Classification & Measurement

- Assess at lease commencement and reassess only upon changes that are in lessee's control
- Factors to consider:
  - ***Contract*** has penalty for failure to renew
  - ***Asset*** is critical to operations
  - ***Entity*** performed significant integration
  - *Below **market** option*

Lessee's options to purchase, extend, or terminate the lease when *reasonably certain*

Lessor's options to extend (or not terminate the lease)

Assessment of *reasonably certain* to consider all factors

Financial Statement Presentation

Operating Lease	Finance Lease
Gross presentation of ROU assets and lease liabilities for operating and finance leases (comingling prohibited)	
Single SL lease expense	Front-loaded interest and SL amortization expense
Operating cash flow classification for all payments	Financing and operating cash flow classification
Operating lease liability isn't debt	

Footnote Disclosures

Quantitative	Qualitative
Periodic lease expense, ROU asset amortization, interest costs	Terms and conditions, purchase options and termination penalties
Short-term, variable leases, sublease income, cash and non-cash flows	Accounting policy elections, areas of significant judgment, assumptions
Weighted average discount rate for both finance & operating	Residual value guarantees
Weighted average remaining lease term for both finance & operating	Significant judgments & assumptions

Effective Dates

Public

Non-Public

How Will the Change Impact an Organization?

- Policy elections to be made
- Current capabilities and system resources may not be sufficient to identify and capture all leases to apply new standard
- Internal and external financial reporting metrics may need to be revised to account for changes in balance sheet and income statement classification
- Accounting for book-tax differences going forward
- Impact on borrowers and related debt covenants

How Will the Change Impact an Organization?

Gross up of the balance sheet

- Impact to regulatory capital ratios
- Balance sheet geography

Increased assets

- Lower return on assets

Earnings

- Financial release – reduced earnings up front
- Operating lease – no impact

Leases – Items to Consider…

✓Identify project leader and availability of resources within your organization to manage the transition process

✓Evaluate whether controls and processes are properly designed and implemented across all functional areas (IT, legal, procurement, treasury, accounting) including new reassessment processes

✓Consider benefits of lease accounting software solutions to manage lease accounting and reporting vs. traditional spreadsheets

✓Review contracts to ensure all leases and relevant terms have been identified and properly accounted for

✓Communicate expectations both internally and to key external stakeholders

✓Consider regulatory and tax implications

✓Consider change in strategy for lease vs. buy

Financial Instruments

ASU No. 2016-13, *Financial Instruments - Credit Losses* (Topic 326)

Derivatives and Hedging

ASU No. 2017-12, *Targeted Improvements to Accounting for Hedging Activities* (Topic 815)

Risk Component Hedging

Hedging Relationship	New Guidance	Current Guidance
Cash flow hedge of a forecasted purchase/sale of a nonfinancial asset	Allows an entity to designate as the hedged risk the variable in cash flows attributable to changes in a contractually specified component stated in the contract	Only the overall variability in cash flows or variability related to foreign currency risk could be designated as the hedged risk
Cash flow hedge of interest rate risk of a variable-rate financial instrument	Eliminates the concept of benchmark interest rates for hedges of variable-rate instruments and allows an entity to designate as the hedged risk the variability in cash flows attributable to the contractually specific interest rate	Requirement to designate only the overall variability in cash flows as the hedged risk in a cash flow hedge of a variable-rate instrument indexed to a nonbenchmark interest rate
Fair value hedge of interest rate risk	Adds the SIFMA Municipal Swap Rate as an eligible benchmark interest rate in the United States, in addition to those already permitted under current GAAP, allowing an entity that issues or invests in fixed-rate, tax-exempt financial instruments to designate as the hedged risk changes in fair value attributable to interest rate risk related to the SIFMA Municipal Swap Rate, rather than overall changes in fair value.	Interest rates already permitted under current U.S. GAAP continue to be acceptable. -Treasury Rate -LIBOR Swap Rate -Fed Funds Effective Swap Rate

Fair Value Hedges of Interest Rate Risk

	New Guidance	Current Guidance
Measurement of the change in fair value of the hedged item	Permits measurement on the basis of the benchmark rate component of the contractual coupon cash flow determined at hedge inception	Measurement based on the full contractual coupon cash flows
Measurement of the hedged item in a partial-term fair value hedge of interest rate risk	Permits measurement by assuming the hedged item has a term that reflects only the designated cash flows being hedged	Measurement of selected cash flows through a derivative instrument deemed effective as a fair value hedge.
Prepayable financial instruments	Permits an entity to consider only how changes in the benchmark interest rate affects a decision to settle a debt instrument before its scheduled maturity in calculating the change in the fair value of the hedged item	N/A – New under this ASU
Closed Portfolio of prepayable financial assets or beneficial interests secured by a portfolio of prepayable financial instruments	Permits an entity to designate an amount that is not expected to be affected by prepayments, defaults, and other events affecting the timing and amount of cash flows (the “last-of-layer” method). Under this designation, prepayment risk is not incorporated into the measurement.	N/A – New under this ASU

Derivatives and Hedging

Recognition and Presentation of the Effects of Hedging Instruments

- Fair value hedges – Change in the fair value of the hedging instrument is presented in the same income statement line that is used to present the earnings effect of the hedged item.
- Cash flow & net investment hedges – Change in the fair value of the hedging instrument is recorded in other comprehensive income (for cash flow hedges) or in the currency translation adjustment section of other comprehensive income (for net investment hedges)

Amounts Excluded from the Assessment of Hedge Effectiveness

- Continues to allow an entity to exclude option premiums and forward points.
- Permits an entity to exclude the portion of the change in fair value of a currency swap that is attributable to a cross-currency basis spread.
- Permits an entity to recognize in earnings the initial value of the excluded component using a systematic and rational method over the life of the hedged instrument. If elected, differences between changes in fair value of excluded components and amount recognized in the systematic and rational method is recognized in OCI.

Derivatives and Hedging

Effective date

- **Public entities**: Periods beginning after December 15, 2018
- **Nonpublic entities**: Periods ending after December 15, 2019
- Early adoption permitted

Securities and Exchange (SEC) Update

SEC Update

Division of Corporation Finance to permit review of non-public draft registration statements

VOLUNTARY DRAFT REGISTRATION STATEMENT SUBMISSIONS FROM ISSUERS WILL BE ACCEPTED FOR NON-PUBLIC REVIEW:

Securities Act initial public offerings and initial registrations

Initial registration of a class of securities under Exchange Act Section 12(b)

Securities Act offerings within one year of an IPO or Exchange Act Section 12(b) registration

BEGAN ACCEPTING NONPUBLIC SUBMISSIONS JULY 10, 2017

EXPANDED REVIEW DOES NOT LIMIT THE PROCESS OF CONFIDENTIAL REVIEW OF DRAFT REGISTRATIONS STATEMENTS FOR EMERGING GROWTH COMPANIES

SEC Update

SEC Proposed Rule

INLINE XBRL

Relocates XBRL tags from an exhibit to HTML submission that would be visible in financial statements

Viewable in HTML file, increasing search functionality

Not required to be audited, which is consistent with current rule and could result in creating an expectation gap

No changes to the information be that is required to be tagged

Requirement to post XBRL data on websites would be eliminated

Phased in over three years based on filing status

Comment period ended May 16

SAB 74 (Topic 11.M Disclosures)

CAQ Alert No. 2017-03 – A Focus on Disclosures for New Accounting Standards

DISCUSSES SEC STAFF GUIDANCE AND COMMENTS REGARDING DISCLOSURES OF NEW ACCOUNTING STANDARDS, INCLUDING:

A comparison of accounting policies

Status of implementation

Consideration of the effect of new footnote disclosure requirements in addition to the effect on the balance sheet and income statement

Disclosure of the quantitative impact, if it can be reasonably estimated

Disclosure that the expected impact cannot be reasonably estimated

Qualitative disclosures

http://www.thecaq.org/caq-alert-2017-03-sab-topic-11m-focus-disclosures-new-accounting-standards

PCAOB Form AP

CAQ Tool for Audit Committees – Auditor Reporting of Certain Audit Participants

TO ASSIST AUDIT COMMITTEE MEMBERS IN BETTER UNDERSTANDING THE NEW PCAOB AUDITOR DISCLOSURE REQUIREMENTS REGARDING AUDIT PARTICIPANTS

assist audit committees in discussing the role of audit participants with their engagement partner and company management; and

help prepare audit committee members to anticipate potential questions that may arise as a result of these new disclosures

http://thecaq.org/form-ap-auditor-reporting-certain-audit-participants-tool-audit-committees

PCAOB Update

Auditor's Reporting Model - PCAOB Release No. 2017-001

REQUIRES AUDITOR'S REPORT TO INCLUDE

Discussion of the critical audit matters ("CAMs"), defined as those matters that:

- Have been communicated to the audit committee
- Are related to accounts or disclosures that are material to the financial statements
- Involve especially challenging, subjective, or complex auditor judgment

Disclosure of the year in which the auditor began serving as the company's auditor

Statement that that auditor is required to be independent

Other changes to standardized language and format

PCAOB Update

Auditor's Reporting Model - PCAOB Release No. 2017-001 (Continued)

EFFECTIVE DATE

Discussion of CAMs is effective for fiscal years ending on or after June 30, 2019 for large accelerated filers and December 15, 2020 for all other companies

All other requirement is effective for fiscal years ending on or after December 15, 2017

SUBJECT TO APPROVAL BY SEC

PCAOB Update

Proposals issued for public comment

AUDITING ACCOUNTING ESTIMATES, INCLUDING FAIR VALUE MEASUREMENTS

AUDITOR'S USE OF THE WORK OF SPECIALISTS

Drafting future proposal for public comment

SUPERVISION OF AUDITS INVOLVING OTHER AUDITORS

THANK YOU

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