On the Horizon

December 3, 2015

Contents

FASB

ASU simplifies presentation of deferred income taxes on balance sheet

The FASB recently issued ASU 2015-17, *Balance Sheet Classification of Deferred Taxes*, which is intended to simplify and improve how deferred taxes are classified on the balance sheet. The guidance in the ASU eliminates the current requirement to present deferred tax assets and liabilities as current and noncurrent in a classified balance sheet and now requires entities to classify all deferred tax assets and liabilities as noncurrent.

Public companies are required to apply the guidance for annual periods beginning after December 15, 2016 and for interim periods within those annual periods. Private companies, not-for-profit organizations, and employee benefit plans are required to apply the guidance for annual periods beginning after December 15, 2017 and for interim periods within annual periods beginning after December 15, 2018.

Early adoption is permitted for all organizations as of the beginning of an interim or annual reporting period.

Proposed ASU to clarify the definition of a business

The FASB recently issued a proposed ASU, *Clarifying the Definition of a Business,* which would add guidance to evaluate whether transactions should be accounted for as acquisitions (or disposals) of assets or of businesses.

Current U.S. GAAP includes guidance on how to evaluate whether an acquired set of activities and assets (collectively, the “set”) is considered a business, but does not specify the minimum inputs and processes for the set to be a business, which has resulted in diversity in practice. Under the proposed guidance, a set would include, at a minimum, an input and a substantive process that together contribute to the ability to create outputs. The proposed guidance would remove the current evaluation of whether a market participant could replace any missing elements. A framework would also be provided to evaluate whether both an input and a substantive process are present.

The proposed guidance would also reduce the number of transactions that would need to be evaluated as assets or businesses in that a set would not be considered a business if substantially all of the fair value of the gross assets acquired is concentrated in a single asset or group of similar assets. The definition of “outputs” would also be narrowed so that it is consistent with the definition in the new revenue recognition standard.

The comment period on the proposal ends January 22, 2016.

For more information, read *FASB in Focus,* “Business Combinations (Topic 805): Clarifying the Definition of a Business.”

Highlights of November 19 meeting posted

All decisions reached at Board meetings are tentative and may be changed at future meetings. Decisions are included in an Exposure Draft only after a formal written ballot. Decisions reflected in Exposure Drafts are often changed in redeliberations by the Board based on information received in comment letters, at public roundtable discussions, and from other sources. Board decisions become final after a formal written ballot to issue a final Accounting Standards Update.

At its meeting on November 19, the FASB discussed simplifying the equity method of accounting and targeted improvements to the accounting for long-duration insurance contracts. Highlights of these discussions are featured below.

Simplifying the equity method of accounting

The Board redeliberated the proposed ASU, *Simplifying the Equity Method of Accounting,* and asked the staff to research additional alternatives for improving the equity method of accounting regarding the basis difference.

The Board tentatively affirmed its proposal to eliminate the requirement to retroactively adopt the equity method of accounting if an investment previously accounted for using another method subsequently qualifies for use of the equity method as a result of an increased level of ownership interest or degree of influence. The Board also tentatively decided to require unrealized holding gains or losses in accumulated other comprehensive income related to available-for-sale equity securities that become eligible for the equity method of accounting to be recognized as earnings at the date the investment qualifies for use of the equity method.

The Board tentatively affirmed its proposal to apply the simplification changes prospectively to increases in ownership level or degree of influence occurring after the effective date of the change and not to require entities to provide disclosures in the period of adopting this change. This tentative guidance would be applied in fiscal years beginning after December 15, 2016 and in interim periods within those fiscal years, with early adoption permitted.

The Board asked the staff to draft a final ASU that would eliminate the requirement to retroactively adopt the equity method of accounting.

Insurance – targeted improvements to the accounting for long-duration contracts

The Board tentatively decided to require insurance entities to recognize in other comprehensive income the portion of a fair value change attributable to a change in an entity's own credit risk. This tentative guidance would apply to contracts and benefits that meet both of the following criteria:

- The contract holder has the ability to direct funds to one or more separate investment account alternatives, and investment performance, net of contract fees and assessments, is passed through to the contract holder.
- The insurance entity provides a benefit protecting the contract holder from adverse capital market performance, exposing the insurance entity to other than nominal capital market risk.

In addition, the proposed guidance would require insurance entities to update cash flow assumptions on an annual basis, at the same time every year, or more frequently if actual experience or other evidence indicates that earlier assumptions should be revised. Insurance entities would also be required to update on a quarterly basis discount rate assumptions and market risk benefits measured at fair value.

Highlights of November 23 meeting posted

At its meeting on November 23, the FASB discussed employee share-based payment accounting improvements, which is summarized below.

The Board also continued discussions, but made no decisions, related to the following topics: the December 2012 proposed ASU, *Financial Instruments – Credit Losses (Subtopic 825-15);* ASC 610-20, *Other Income – Gains and Losses from the Derecognition of Nonfinancial Assets;* in-substance nonfinancial assets; and the accounting for partial sales.

Employee share-based payment accounting

The Board completed redeliberations of the proposed ASU, *Improvements to Employee Share-Based Payment Accounting*, and asked the staff to draft a final ASU.

The Board affirmed the following proposed changes related to share-based payment awards issued to employees:

- *Accounting for income taxes upon vesting or settlement of awards:* Entities would be required to recognize all excess tax benefits and all tax deficiencies as income tax expense or benefit in the income statement. The Board clarified that the tax effects of exercised or vested awards are discrete items in the reporting period they occur and would not be considered when estimating the annual effective tax rate. The requirement to delay recognition of an excess tax benefit until the tax benefit is realized would be removed.
- *Presentation of excess tax benefits on the statement of cash flows:* Cash flows related to excess tax benefits would be classified as an operating activity.
- *Accounting for forfeitures:* An entity would be allowed to make an entity-wide accounting policy election to either estimate the number of awards that are expected to vest or account for forfeitures when they occur.

- *Minimum statutory withholding requirements*: The threshold to qualify for equity classification would be raised to permit withholding up to the employee's maximum individual statutory rate in the applicable jurisdictions.
- *Presentation of employee taxes paid on the statement of cash flows when an employer withholds shares to meet minimum statutory withholding requirements:* An employer would be required to classify the cash paid when directly withholding shares to meet minimum statutory withholding requirements as a financing activity on the statement of cash flows.
- *Private company practical expedients:* Private companies would have a one-time election to switch from measuring liability-classified awards at fair value to measuring them at intrinsic value. Private companies could also use a practical expedient to estimate the expected term for all awards with performance or service conditions. Although the Board generally affirmed the proposed changes, it tentatively decided to modify one as indicated below:
  - For vesting dependent upon only a service condition, an entity would estimate the expected term as the midpoint between the requisite service period and the contractual term of the award.
  - For vesting dependent upon satisfying a performance condition, an entity would first determine whether the performance condition is probable of being achieved, and then
    - If probable, estimate the expected term as the midpoint between the requisite service period and the contractual term.
    - If not probable, estimate the expected term as (i) the contractual term if the service period is implied, or (ii) the midpoint between the requisite service period and the contractual term if the service period is explicitly stated. This is a change from the expedient in the proposed ASU.
- *Eliminating the indefinite deferral:* The guidance that was indefinitely deferred would be removed from ASC 718, *Stock Compensation*.

The Board tentatively decided not to require an entity to assess whether a contingent event that triggers a repurchase feature is probable of occurring, regardless of whether the contingent event is within or outside an employee's control.

Transition methods

The Board tentatively decided that a modified retrospective transition method, with a cumulative-effect adjustment recognized in equity, would be used for the following amendments: the removal of the requirement to delay recognition of an excess tax benefit until the tax benefit is realized, the minimum statutory withholding requirements applied to outstanding liability awards at the date of adoption, the accounting for forfeitures, and the intrinsic value election for all liability-classified awards for nonpublic entities only.

The Board tentatively decided to require a retrospective transition method for the amendment to present employee taxes paid on the statement of cash flows when an employer withholds shares to meet minimum statutory withholding requirements as a financing activity in the statement of cash flows.

The amendment to change the presentation of excess tax benefits on the statement of cash flows, which removes the requirement that employers present excess tax benefits as a cash inflow from financing activities and a cash outflow from operating activities, could be applied using either a prospective transition method or a retrospective transition method.

The Board tentatively decided to require a prospective transition method for the amendments to recognize all excess tax benefits and tax deficiencies in the income statement and, for nonpublic entities only, the practical expedient for estimating the expected term of an award.

Disclosures

Disclosures for a change in accounting principle would be required; however, in the period of adoption, entities would not be required to quantify the income-statement effect of a change. Disclosure requirements for forfeitures would include information about unvested awards rather than awards expected to vest for entities that elect to account for forfeitures as they occur.

Effective date

The tentative effective date for public entities would be for annual and interim reporting periods beginning after December 15, 2016. The effective date for nonpublic entities would be for annual reporting periods beginning after December 15, 2017 and for interim periods within annual periods beginning after December 15, 2018. Early adoption would be permitted in any interim or annual period.

The Board asked the staff to draft a final ASU.

FASB Outlook e-newsletter issued for Q4-2015

The FASB issued the Q4-2015 edition of its *FASB Outlook* e-newsletter, which includes summaries of the Board's projects and key activities.

PCC procedures updated to increase effectiveness and improve communication

The Trustees of the Financial Accounting Foundation (FAF) issued a final report related to its review of the PCC (Private Company Council) and its operations, which includes revisions to the Responsibilities and Operating Procedures of the PCC. The revisions, which are intended to improve the PCC's effectiveness, focus on how the PCC provides the FASB with private company perspectives on the Board's active agenda projects and how it communicates those perspectives to its stakeholders. The PCC will maintain the ability to propose private company accounting and reporting alternatives and to advise the FASB regarding private company standard setting.

GASB

PIR report issued on guidance for nonexchange transactions

The Financial Accounting Foundation (FAF) recently issued a Post-Implementation Review (PIR) Report, *GASB Statement No. 33,* Accounting and Financial Reporting for Nonexchange Transactions*, and GASB Statement No. 36,* Recipient Reporting for Certain Shared Nonexchange Revenues, which addresses technical, operational, and cost-effectiveness aspects of the two statements.

Nonexchange transactions are common government transactions in which there is no equal exchange of resources. Based on its research, the PIR team concluded that the implementation of these statements overall met their original objectives, such as to provide clear technical guidance for nonexchange transactions as well as useful information to users.

The PIR team's review did not result in any standard-setting process recommendations for the GASB.

The GASB's response to the PIR report is available here.

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FAC reopens and is now accepting single audit submissions

The Federal Audit Clearinghouse (FAC) has reopened after being closed since July 2015 due to a security incident and is now accepting single audit submissions. Single audit submissions with due dates between July 22, 2015 and January 30, 2016 have been extended to January 31, 2016. Users will be prompted to update their passwords when first accessing the FAC website.

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