

To the Point

FASB – proposed guidance

FASB proposes incorporating certain SEC disclosure requirements into US GAAP

The proposal would affect both public and private companies.

What you need to know

- ▶ The FASB proposed incorporating several SEC disclosure requirements into US GAAP in response to a request from the SEC.
- ▶ The proposal would add interim and annual disclosure requirements to a variety of topics in the Accounting Standards Codification, including those focusing on accounting changes, earnings per share, business combinations, foreign currency matters, and derivatives and hedging.
- ▶ The proposal would require public entities to move certain disclosures that aren't audited today into the audited financial statements.
- ▶ The proposal would require nonpublic entities to make certain additional disclosures that they did not have to previously make.
- ▶ Comments are due by 28 June 2019.

Overview

The Financial Accounting Standards Board (FASB or Board) **proposed** adding interim and annual disclosure requirements to US GAAP at the request of the Securities and Exchange Commission (SEC).

The SEC made the request in conjunction with a final rule it issued in 2018 that eliminated or amended certain redundant or outdated SEC disclosure requirements. The SEC referred certain of its disclosure requirements that overlap with, but require incremental information to, US GAAP to the FASB for potential incorporation into the Accounting Standards Codification (ASC or Codification).

The FASB's proposal would add interim and annual disclosure requirements to a variety of Codification topics. Most of the amendments would apply to all entities, including those that are not public business entities (PBEs), with certain exceptions.

The FASB considered its Private Company Decision-Making Framework and feedback from the Private Company Council in deciding which disclosure requirements to extend to private companies. The FASB proposed requiring only PBEs to disclose information on transactions with entities in the consolidated or combined financial statements and only publicly traded companies to make certain oil and gas disclosures.

The FASB decided not to propose incorporating all of the requirements the SEC referred to the Board. For example, the FASB chose not to propose incorporating into US GAAP the current SEC requirement to disclose the names of major customers and said it would consider SEC disclosures related to income taxes as part of its disclosure framework project on income taxes.

Key considerations

The list below summarizes the proposed amendments and includes references to the SEC requirements:

ASC 250, Accounting Changes and Error Corrections

- ▶ Amend the guidance to clarify that an entity should disclose any material retroactive prior-period adjustment and the effect of the adjustment on retained earnings in interim financial statements [Rule 8-03(b)(5) and Rule 10-01(b)(7) of Regulation S-X]
- ▶ Amend the guidance to conform to the amendments made to ASC 830, *Foreign Currency Matters*

ASC 260, Earnings Per Share (EPS)

- ▶ Add a requirement to disclose the methods used in the diluted EPS computation for each dilutive security and clarify that certain disclosures should be made during interim periods
- ▶ Amend the illustrative guidance to show the disclosure of the methods used in the diluted EPS computation [Rule 10-01(b)(2) of Regulation S-X]

ASC 270, Interim Reporting

- ▶ Amend the guidance to conform to interim reporting amendments made to other Codification topics

ASC 280, Segment Reporting

- ▶ Eliminate the impracticability exception to the requirement to disclose revenues for each product and service or each group of similar products and services to align with Item 101(c)(1)(i) of Regulation S-K

ASC 440, Commitments

- ▶ Add a requirement to disclose assets mortgaged, pledged or otherwise subject to a lien, and the obligations collateralized [Rule 4-08(b) of Regulation S-X]

ASC 470, Debt

- ▶ Add a requirement to disclose the amounts and terms of unused lines of credit and unfunded commitments and the weighted-average interest rate on outstanding short-term borrowings [Rule 5-02.19 and Rule 5-02.22 of Regulation S-X]

ASC 505, Equity

- ▶ Amend the requirement to present preference on involuntary liquidation parenthetically in the equity section of the balance sheet if the liquidation preference is other than at par or stated value [Rule 4-08(d) of Regulation S-X]

ASC 805, Business Combinations

- ▶ Add a requirement to disclose the separate results of each combined entity for periods before a combination of entities under common control in interim financial statements [Rule 10-01(b)(3) of Regulation S-X]

ASC 810, Consolidation

- ▶ Add a requirement to disclose the name of any legal entity newly included in or excluded from consolidated financial statements if the entity has a material effect on the financial statements [Rule 3A-03(b) of Regulation S-X]

ASC 815, Derivatives and Hedging

- ▶ Add a requirement to disclose where derivative instruments and their related gains and losses are reported in the statement of cash flows [Rule 4-08(n) of Regulation S-X]

ASC 830, Foreign Currency Matters

- ▶ Amend the translation guidance to clarify the applicability to a reporting entity that reports its financial statements in a currency other than its functional currency [Rule 3-20(d) of Regulation S-X]

ASC 850, Related Party Disclosures

- ▶ For PBEs only, add a requirement to disclose profits or losses resulting from transactions with other entities in the consolidated or combined financial statements and the effect of those transactions in separate financial statements [Rule 4-08(k)(2) of Regulation S-X]

ASC 860, Transfers and Servicing

- ▶ Amend the guidance to clarify that accrued interest should be included in the disclosure of liabilities incurred in securities borrowing or repurchase or resale transactions
- ▶ Add the requirement to separately present the carrying amount of reverse repurchase agreements on the face of the balance sheet if that amount exceeds 10% of total assets
- ▶ Add a requirement to disclose the effective interest rates of repurchase liabilities
- ▶ Add a requirement to disclose the amounts at risk with an individual counterparty if that amount exceeds more than 10% of stockholder's equity
- ▶ Add a requirement to disclose whether there are any provisions in a reverse repurchase agreement to make sure that the market value of the underlying assets remains sufficient to protect against counterparty default and, if so, the nature of those provisions
- ▶ Amend the illustrative guidance to show the disclosure of effective interest rates of repurchase liabilities [Rule 4-08(m) of Regulation S-X]

The proposal would add interim and annual disclosure requirements to a variety of Codification topics.

ASC 932-235, Extractive Activities – Oil and Gas – Notes to Financial Statements

- ▶ For publicly traded companies only, amend the guidance to clarify that it applies for all periods presented in the financial statements [Item 302(b) of Regulation S-K]

ASC 946-20, Financial Services – Investment Companies – Investment Company Activities

- ▶ Clarify the requirement that investment companies disclose the components of capital on the balance sheet [Rule 6-04.17 of Regulation S-X]

ASC 974, Real Estate – Real Estate Investment Trusts (REITs)

- ▶ Add a requirement to disclose the tax status of distributions per unit (e.g., ordinary income, capital gain, return of capital) for REITs [Rule 3-15(c) of Regulation S-X]

How we see it

While incorporating these disclosure requirements into US GAAP would simplify compliance for most registrants, the proposal would create more work for smaller reporting companies that currently receive relief from these requirements and nonpublic companies that don't have to comply with SEC requirements.

By moving the disclosures into the financial statements, the proposal also would expand the number of disclosures subject to an audit for all entities. That is, Regulation S-K disclosures that are generally not audited today because they appear outside the financial statements (e.g., in management's discussion and analysis) would have to be audited.

Transition and effective date

The Board proposed a prospective transition method for all entities, primarily to prevent entities that are not PBEs from incurring additional costs to provide the new information for comparable periods. The FASB will determine the effective date after it considers stakeholders' feedback.