KNAV
PARTNERS BEYOND BOUNDARIES

US ACCOUNTING UPDATE

FEBRUARY 2019

US GAAP (US Generally Accepted Accounting Principles)

Proposed targeted relief for transition to Financial Instruments - credit losses standard (ASC 326)

Impact: Entities with financial instruments measured at amortized cost

On February 6, FASB issued a proposed accounting standard update providing transitory relief for certain type of assets to be measured at fair value. The proposed amendments would provide entities that have instruments within the scope of ASC 326-20, Financial Instruments—Credit Losses—Measured at Amortized Cost, except for held-to-maturity debt securities, with an option to irrevocably elect the fair value option in ASC 825-10. Upon adoption of ASC 326, Entities electing the option would be required to apply it on an instrument-by-instrument basis for eligible instruments.

The amendments in this proposed Update would provide targeted transition relief that is intended to increase comparability of financial statement information for some entities that otherwise would have measured similar financial instruments using different measurement methodologies.

Liability for unsatisfied performance obligations to be recognized in business combinations

Impact: Entities entering into business combination within the scope of ASC 805-10 after adoption of ASC 606

On February 6, FASB issued a proposed accounting standard update on recognition and measurement of deferred revenue in business combinations.

The amendments in this proposed update would require that an entity (acquirer) recognize a liability assumed in a business combination from a contract with a customer if, that liability represents an unsatisfied performance obligation under ASC 606 for which the acquiree has received consideration (or the amount is due) from the customer. Comments on the proposed update are due by 30 April 2019.

SEC proposes expanding "test the waters" accommodation to all issuers

Impact: Entities planning to issue securities

SEC is proposing a new rule under the Securities Act of 1933, permitting issuers to engage in oral or written communications with potential investors that are, or are reasonably believed to be, qualified institutional buyers or institutional accredited investors, either prior to or following the filing of a registration statement, to determine whether such investors might have an interest in a contemplated registered securities offering. The proposed rule termed "testing the waters" would extend such accommodation currently available only to emerging growth companies to all issuers. Permitting issuers to "test the waters" is intended to provide increased flexibility to issuers with respect to their communications about contemplated registered securities offerings, as well as a cost-effective means for evaluating market interest before incurring the costs associated with such an offering.

IFRS (International Financial Reporting Standards)

IBOR Reform and the Effects on Financial Reporting (Agenda Paper 14)

Impact: Entities with financial instruments linked to reference rates

As part of phase 1 of its effort to amend financial reporting guidance that would address concerns that may arise leading up to IBOR reform, the Board met on 8 February 2019 and tentatively decided to make the following changes:

a. Provide relief regarding the 'highly probable' requirement from the effects of uncertainties around the general conditions (timing and specifics) of the potential replacement of IBOR. In particular, when assessing the likelihood that a forecast transaction will occur, an entity can assume the IBOR-based contractual terms will remain unchanged.

b. Provide relief regarding the existence of an economic relationship (as required by IFRS 9) and the expectation that a hedge will be highly effective in achieving offsetting (as required by IAS 39), requirements.

c. Provide relief by allowing an entity to continue hedge accounting when an IBOR risk component meets the separately identifiable requirement at the inception of the hedging relationship, although identification may be affected by IBOR reform in the future except for risk components that are not separately identifiable at the inception of a hedging relationship.

d. An entity should cease to apply the proposed relief when the nature and timing of designated future cash flows are certain. All 14 Board members agreed with this decision.

e. An entity should provide specific disclosures about the extent to which it applies the proposed relief. All 14 Board members agreed with this decision.

f. An entity should apply the proposed amendments retrospectively. The proposed effective date of the amendments is 1 January 2020 with earlier application permitted.

For help on technical accounting and other queries, please contact:

Name	Area	Email
Atul Deshmukh	International	atul.deshmukh@knavcpa.com
Amber Mehta	Canada	amber.mehta@knavcpa.com
Haresh Thakkar	India	haresh.thakkar@knavcpa.com
Navneet Sharma	USA	navneet.sharma@knavcpa.com
Bhavita Shah	UK	bhavita.shah@knavcpa.com
Boon Kiat Wong	Singapore	boon.kiat@knavcpa.com