

# NORTH AMERICA REGULATORY AND ACCOUNTING GUIDANCE DEVELOPMENTS NEWSLETTER

This newsletter is dedicated to helping you stay informed about regulatory and accounting guidance changes. It summarizes recent developments affecting Northern Trust's business and our clients in North America, as well as updates on how we anticipate adapting and supporting our clients through this period.

The regulatory and accounting guidance calendar provides an overview of the main milestones over the next few years. Where possible, firm dates are provided; those still open to change are clearly indicated.

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	REGULATION/GUIDANCE	STATUS	FUTURE OUTLOOK
SEC REGULATIONS	Regulation Best Interest	Proposed 4/18/18	The SEC will seek public comment on the proposed rules for 90 days
	SEC Rule 22e-4, Liquidity Risk Management Program	Adopted 10/13/16	Investment companies with net assets > \$1 billion effective 6/1/19. Investment companies with net assets < \$1 billion effective 12/1/19
	SEC Investment Company, Reporting Modernization	Adopted 10/13/16	N-PORT: Funds with net assets ≥ \$1 billion effective 6/1/18; 3/1/20 or funds with net assets < \$1 billion N-CEN: Effective 6/1/18 for all funds
FINCEN	FinCEN Customer Due Diligence Requirements for Financial Institutions (AML)	Effective 5/11/18	
EU REGULATIONS	General Data Protection Regulations (GDPR)	Effective 5/25/2018	
	Markets in Financial Instruments Directive (MIFID II)	Effective 1/3/2018	
FINRA	Rule 4210	Proposed 6/21/2016	Effective March 25, 2019
IASB	IFRS 9, Financial Instruments	Effective for periods beginning on or after 1/1/18	
	Amendments to IAS 19, Plan Amendment, Curtailment or Settlement	Published Q1 2018	Effective for fiscal periods beginning on or after 1/1/19
GASB	GASB 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions	Effective for fiscal periods beginning after 6/15/17	
	GASB 82, Pension Issues (an amendment of GASB 67, 68 and 73)	Certain provisions first effective for fiscal periods beginning after 6/15/16	
	GASB 84, Fiduciary Activities	Published Q1 2017	Effective for fiscal periods beginning after 12/15/18
	GASB 85, Omnibus 2017	Effective for reporting periods beginning after 6/15/17	
	GASB Statement No. 86, Certain Debt Extinguishment Issues	Effective for fiscal periods beginning after 6/15/17	
	GASB Statement No. 87, Leases	Published Q2 2017	Effective for fiscal periods beginning after 12/15/19
	GASB Invitation to Comment (Project No. 4-61), Revenue and Expense Recognition	Published Q1 2018	The GASB intends to use feedback collected during the comment period and from public forum meetings to develop a Preliminary Views document that will also be circulated for public comment.
	GASB Statement No. 88, Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements	Published Q2 2018	Effective for fiscal periods beginning after 6/15/18

	REGULATION/GUIDANCE	STATUS	FUTURE OUTLOOK
FASB	FASB Exposure Draft Ref No. 2015-350, Changes to the Disclosure Requirements for Fair Value Measurement	Comment period ended Q1 2016	Final standard expected Q3 2018
	FASB ASU 2016-01, Recognition and Measurement of Financial Assets and Financial Liabilities	First effective for fiscal periods beginning after 12/15/17 for certain entities	
	FASB ASU 2016-13, Measurement of Credit Losses on Financial Instruments	Published Q2 2016	First effective for fiscal periods beginning after 12/15/19 for certain entities
	FASB ASU 2016-14, Presentation of Financial Statements of NFP Entities	First effective for fiscal years beginning after 12/15/17	
	FASB ASU 2017-06, Employee Benefit Plan Master Trust Reporting	Published Q1 2017	Effective for fiscal years beginning after 12/15/18
	FASB ASU 2017-08, Premium Amortization on Purchased Callable Debt Securities	Published Q1 2017	First effective for fiscal periods beginning after 12/15/18 for certain entities
	FASB Exposure Draft Ref. No. 2017-270, Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made	Published Q3 2017	Final standard expected Q2 2018
	FASB ASU 2017-12, Targeted Improvements to Accounting for Hedging Activities	Finalization of FASB ED Ref. No. 2016-310	First effective for fiscal years beginning after 12/15/18 for certain entities
	FASB ASU 2018-02, Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income	Published Q1 2018	Effective for fiscal periods beginning after 12/15/18
	FASB ASU 2018-03, Technical Corrections and Improvements, Recognition and Measurement of Financial Assets and Financial Liabilities	Effective for fiscal periods beginning after 12/15/17	First effective for fiscal periods beginning after 12/15/17 for certain entities

## SEC REGULATIONS

### INVESTMENT COMPANY REPORTING MODERNIZATION

#### OVERVIEW:

The SEC adopted significant reforms in October 2016 that require registered funds to expand their reporting and disclosure obligations. The purposes of these reforms are to proactively address perceived risks in the asset management industry, increase the amount of data collected, modernize the format in which data is collected and enhance the SEC's analysis capabilities.

#### KEY PROVISIONS:

The SEC's reporting modernization reforms introduce two new forms and one amendment to Regulation S-X. Form N-PORT replaces Form N-Q for reporting a fund's portfolio to the SEC, and Form N-CEN replaces Form N-SAR for reporting census information to the SEC.

Both forms now require funds to disclose more extensive information to enable the SEC to better assess industrywide and fund-specific risk and monitor regulatory compliance. Form N-PORT reporting frequency is monthly, and Form N-CEN reporting frequency is annually.

#### RECENT DEVELOPMENTS ON N-PORT:

On March 14, 2018, the SEC proposed amendments that will (1) eliminate the requirement on Form N-PORT for public disclosure of the aggregate liquidity classification information, (2) allow for the classification of a single security into more than one bucket, and (3) require reporting of cash and cash equivalents on Form N-PORT.

#### Proposed liquidity and reporting disclosure changes include:

- Under certain circumstances (including multi-managed funds), allowing funds to classify a single security into more than one liquidity bucket for reporting for reporting on Form N-PORT
- Requiring funds to report cash or cash equivalents on Form N-PORT
- Rescinding the Form N-PORT requirement for funds to publicly report the aggregate percentage of its investments allocated to each liquidity portfolio classification on a quarterly basis
- New narrative disclosures included in Form N-1A requiring funds to "briefly discuss the operation and effectiveness of the Fund's implementation of its liquidity risk management program" during the most recently completed fiscal year

#### NORTHERN TRUST ACTIONS

Northern Trust actively supports clients in planning and preparing for compliance with the reporting rules. If you have questions about the SEC's investment company reporting modernization, contact your relationship manager or visit [northerntrust.com](http://northerntrust.com).

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#### IMPACTS

US Registered Mutual Funds

## LIQUIDITY RISK MANAGEMENT PROGRAM (RULE 22E-4)

### OVERVIEW:

The Securities and Exchange Commission (SEC) adopted Rule 22e-4 in October 2016 that requires open-end investment funds to establish written liquidity risk management programs. The rule is designed to enhance how open-end funds manage liquidity risk and improve how the SEC monitors and regulates the asset management industry.

### KEY PROVISIONS:

A fund's written liquidity risk management program is now required to include the following:

- Assessment and periodic review of liquidity risk
- Classification of holdings into four liquidity categories
- Management toward a highly liquid investment minimum
- Board oversight

### RECENT DEVELOPMENTS:

On February 22, 2018, SEC adopted an interim rule that revises the compliance date for certain provisions of Rule 22e-4. The delayed compliance requirements give funds until June 1, 2019 for larger entities and December 1, 2019 for smaller entities to classify their portfolio investments into liquidity category buckets ranging from highly liquid to illiquid.

#### Rule 22e-4 delayed requirements include:

- Classification of investments into one of four categories: highly liquid, moderately liquid, less liquid and illiquid
- Board approval of the liquidity risk management program
- Reporting to the board annually on the liquidity risk management program
- Minimums for highly liquid investments
- Related reporting requirements of Form N-Liquid and Form N-Port

Original compliance dates for certain provisions remain as December 1, 2018 for firms with \$1 billion or more in AUM, and June 1, 2019 for firms with under \$1 billion in AUM.

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### IMPACTS

US Registered Mutual Funds

**The following requirements were not delayed:**

- Adopt written liquidity risk management programs
- Limit illiquid investments to 15% of their portfolio holdings
- Appoint a designated program administrator
- Implement written policies and procedures for in-kind redemptions for funds who engage in this practice

**What can funds do to prepare for compliance?**

- Set up or modify your internal liquidity risk management program and identify resources for providing liquidity and data analysis.
- Consider your program framework:
  - How will you modify and document your current liquidity risk management practices?
  - How will you align the program view for sub-advised or multi-managed funds?
  - What factors are specific to your funds and strategies? Consider lines of credit, interfund lending, distribution channels and daily flows.
- Understand that classifying assets requires manager input; it's not an "off-the-shelf" service from data providers.
- Consider whether to build or buy the technology and infrastructure you'll need for compliance.
- Ensure your board understands your approach and their role.
- Talk to your service provider about how you'll integrate liquidity risk program data for fund filing

## REGULATION BEST INTEREST

On April 18, 2018 the Securities and Exchange Commission (SEC) voted to propose three-part package of rules and interpretations focused on investors' relationships with investment professionals:

- Regulation Best Interest
- Interpretation of the Fiduciary Duty that Investment Advisers Owe their Clients
- Form CRS – Client Relationship Summary

The proposed rules and interpretations are designed to enhance the quality and transparency of investors' relationships with broker-dealers and investment advisers while preserving access to a variety of investment products and types of advice relationships.

### KEY PROVISIONS

The proposed Regulation Best Interest would require a broker-dealer to act in the best interest of a retail customer when making a recommendation for a transaction or strategy. The 408-page release proposes to establish an express best interest obligation of a broker-dealer to a retail customer and outlines three component requirements: (1) obligation to disclose terms and scope of services, including all material conflicts of interest ("Disclosure Obligation"); (2) exercise reasonable care, diligence, skill and prudence when making recommendations ("Care Obligation"); and (3) establish, maintain, and enforces written policies and procedures reasonably designed to identify, disclose, mitigate or eliminate all material conflicts of interest (i) associated with the recommendations, and (ii) arising from financial incentives associated with such recommendations ("Conflict of Interest Obligations"). The proposal requests comments generally, and on a number of specific questions.

The SEC proposed interpretative guidance seeking to reinforce and clarify "certain aspects of the fiduciary duty that an investment adviser owes to its clients" under the Investment Advisers Act of 1940. The 38-page proposal includes information on the SEC's proposed interpretation of the duties of care and loyalty, and requests comment on three points: (1) whether the proposed interpretation offers sufficient guidance with respect to the fiduciary duty; (2) whether there are any significant issues related to the adviser's fiduciary duty that are not addressed in the proposed interpretation; and (3) whether it would be beneficial to codify any portion of the proposed interpretation of fiduciary duty.

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### IMPACTS

Broker-Dealers and Registered  
Investment Advisers

The third proposal covers new disclosure requirements to explain the nature of customer relationship with investment professionals through a new short-form disclosure document titled Form CRS, Client Relationship Summary. This standardized short form would inform retail investors about the relationships and services offered, the legal standards of conduct, fees and costs that investors may incur, conflicts of interest and whether the firm and its financial professionals currently have reportable legal or disciplinary events. The 471-page release also proposes to restrict the use of the term “adviser” or “advisor” in specified circumstances, to help reduce investor confusion. Comments are also requested on this proposal.

**NEXT STEPS:**

The SEC will seek public comment on the proposed rules for 90 days. Northern Trust will continue to track developments as they occur.

## FINRA

### FINRA RULE 4210:

#### OVERVIEW:

In 2016, Securities and Exchange Commission (SEC) approved proposed amendments to FINRA Rule 4210 to establish margin requirements for certain covered agency transactions, including:

- to-be-announced (TBA) transactions,
- specified pool transactions, and
- certain forward transactions involving collateralized mortgage obligations.

Historically, organizations were not required to post margin on TBA transactions. The amended rule requires broker-dealers to collect maintenance and variation margin, and establish risk limits for covered agency transactions. Maintenance margin requirements are equal to two percent of the contract value of the counterparty's net long or net short position, plus any net mark-to-market loss.

#### RECENT DEVELOPMENTS:

On April 20, 2018 the SEC delayed the effective date of Rule 4210 until March 25, 2019. Final implementation of the rule was originally scheduled for June 25, 2018, but FINRA filed a 9-month extension to ensure market participants have sufficient time to enhance systems in order to comply with requirements.

#### NEXT STEPS:

For many organizations, the exchanging of the mark to market collateral in support of these covered agency transactions is common practice; however, we anticipate that more institutions will need to adapt their process to comply with this upcoming regulation. We recommend that clients reach out to their asset manager and/or contact brokers to begin any legal document negotiation or determine if exemptions apply.

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#### IMPACTS

Clients who trade to-be-announced (TBA) transactions

**NORTHERN TRUST ACTIONS:**

Northern Trust offers a collateral management outsourcing service to assist in the operational burden. Within this service, we will:

- Manage collateral in accordance with your legal agreements
- Calculate exposures and initiate collateral calls
- Verify collateral demands from counterparties
- Move your collateral accordingly
- Record and reconcile all collateral positions
- Corporate actions monitoring and substitutions
- Access to Northern Trust's Global Investments cash funds for collateral reinvestment
- Bi- and tri-party safekeeping for parties involved in the contract

For more information, please contact your relationship manager.

## EU REGULATIONS IMPACTING US CLIENTS

### GENERAL DATA PROTECTION REGULATION (GDPR)

#### OVERVIEW:

In May 2016, the GDPR was published in the Official Journal of the European Union. The new requirements, which shift the balance of power away from organizations that collect and utilize personal data towards EU citizens, will apply from May 25, 2018. Whereas existing legislation requires EU-based companies to adhere to stricter data protection standards than those established outside but doing business in the EU, the reform will in some cases oblige those based outside the EU to apply the same rules whenever processing personal data about EU individuals.

#### SCOPE:

GDPR applies to all companies operating in the EU, as well as organizations outside of the EU if they:

- Have an establishment in the EU
- Provide goods and services to EU residents
- Monitor behavior of EU residents.

US clients at Northern Trust will fall under the scope of GDPR if:

- The US entities provides products and services from an entity (or branch) located within Europe (i.e. the entity or branch is the contracting entity).
- US entities contract with an individual residing in the EU and offering products or services to the individual located in Europe. In terms of offering goods and services, a US organization would need to actively target an EU data subject in order to be brought into the scope of GDPR.

#### KEY PROVISIONS:

GDPR is designed to ensure data privacy and enhance control of personal data which works in the individuals favor because they now have more control over their personal data and how it's shared. Key provisions include:

- Organizations using automated or semi-automated systems to profile or monitor individuals will likely be required to appoint a data protection officer (DPO).
- Data controllers will only be able to rely on consent as the basis on which personal data is processed if consent is freely given, specific and informed, and if the data subject has provided an unambiguous indication of agreement to the processing. Firms will no longer be able to rely on implied consent; a data controller relying on consent must be able to demonstrate that it has obtained valid consent.

- Enhanced rights for data subjects, including a right to be forgotten (formally termed “erasure”) that allows individuals to require data be deleted in certain circumstances including where they withdraw their consent to processing.
- A requirement to consider and apply the principals of privacy in products/ services not only at the point of delivery, but from inception.
- As under existing legislation, data must only be collected if it is necessary in order to fulfil a specific purpose or purposes – and it must be deleted as soon as it is no longer required for that purpose or those purposes.

Data breaches must be notified to affected individuals and authorities within 72 hours. Failure to comply with the requirements under GDPR can result in fines to the organization up to 4% of global turnover or 20 million euro, depending on which one is higher. It remains unclear how the EU will enforce fines on the U.S. and any other entities.

#### **NORTHERN TRUST ACTIONS**

Clients will need to determine what their obligations are as a result of GDPR, but Northern Trust is committed to providing clients with information to assist them in understanding regulatory change. The support we are providing includes a client toolkit, regulatory events held globally, regulatory newsletters and monthly GDPR communications. Please contact your relationship manager for more information.

## MARKETS IN FINANCIAL INSTRUMENTS DIRECTIVE (MIFID II)

### OVERVIEW:

The MiFID revision comprises two initiatives – a recast Directive (MiFID II) and a new Markets in Financial Instruments Regulation (MiFIR), which together are usually referred to simply as MiFID II. Whereas the original directive brought greater transparency and harmonization of the equities markets, MiFID II expands the same themes to more asset classes, bringing fixed income and over-the-counter (OTC) derivatives into scope as well as regulating trading venues with the aim of increasing trading on exchange.

### RECENT DEVELOPMENTS:

MIFID II went live on January 3, 2018 but the work for asset managers will continue throughout the remainder of the year. There has been much speculation on how MIFID II will affect the industry, but for now, firms continue to enhance quarterly or annual reports and product offerings as requirements that aren't applicable come into effect.

Specifically in the US, some buy and sell-side firms have adopted different approaches to accept research payments from MIFID-affected clients, including:

- **Bundled or full-service trading** which is executed at a rate that includes compensation for the specific trade and the research services provided to the asset manager by the broker. Because the broker is compensated for the trade and the research, they avoid breaching Securities Exchange Commission (SEC) guidelines.
- **Commission Sharing Agreement (CSA)** ensures buy and sell-side firms to unbundle every trade allowing assets managers to control how much they pay for research services.
- **Registered Investment Advisor (RIA)** – some sell-side firms have registered as an RIA to avoid issues when accepting payments for research. This means the broker must separate its research and execution businesses into two entities.

Ongoing uncertainties still remain surrounding MIFID II, but challenges will become clearer as broad implications become fully realized throughout 2018.

## KEY PROVISIONS

Northern Trust clients have diverse business models, face varying challenges and will be affected differently by MiFID II. The areas that raise the most concern relate to the following provisions:

### Product Governance

MiFID II introduces product governance, appropriateness and suitability requirements for manufacturers and distributors of products. Each investment product (financial instruments and structured deposits) must be reviewed, approved and attributed to a particular target market to which the instrument is to be distributed.

### Appropriateness

A distinction between complex and non-complex products must be made with the aim of preventing complex products being sold on an execution-only basis. In order to introduce a complex product, an appropriateness test must be performed to assess a client's knowledge and risk appetite before informing the client whether or not a product is appropriate for them.

### Inducement Changes

One significant aspect is that research has been brought into scope unless it can be considered as constituting a "minor non-monetary benefit." Currently, AIFs/UCITS do not fall under the scope of MiFID II, although national competent authorities will have the discretion to choose to address the gap in the treatment of research payment accounts when determining how to incorporate MiFID II into national legislation.

### Best Execution

MiFID II does not significantly alter the requirement to execute orders on the terms that are most favorable to the client. Furthermore, from market-wide discussion, it can be inferred that the change from taking "reasonable steps" to "all sufficient steps" to achieve the best possible result for clients signifies that greater emphasis will be placed on this requirement.

### Trading Venues

MiFID II requires the trading of standardized derivatives (subject to be centrally cleared under EMIR) to be traded on regulated markets: multilateral trading facilities MTFs or organized trading facilities OTFs, or equivalent non-EEA markets, where there is sufficient liquidity. Organized trading facilities are a new type of trading venue regulated under MiFID II.

### **Third Country Impacts**

The term third country within MiFID II refers to jurisdictions outside the EU and third country firms (TCFs) are entities incorporated outside the EU that seek to do business by way of a branch established in the EU, or on a cross-border basis.

Under MiFID II, the ability for a TCF to provide investment services and activities to professional clients or eligible counterparties has changed. For retail and opted-up professional clients the national rules will continue to apply unless a member state specifically chooses not to maintain their existing regime; in which case, the rules set out by MiFID II will apply.

### **WHEN ARE THIRD COUNTRY FIRMS IN SCOPE?**

Where a member state has implemented the MiFID II provisions on the establishment of third country branches, the TCF will only be able to provide services to retail or opted-up professional clients by establishing a branch in that member state. MiFID II then stipulates the factors that must be considered/criteria that must be met before a member state can authorize a branch. This includes: that the branch has sufficient capital, belongs to an EU investor compensation scheme and has regard to the Financial Action Task Force's recommendations on anti-money laundering.

If the member state does not utilize the option within MiFID II to require a TCF to establish a branch to provide such services to retail or opted-up clients, the MiFID II requirements will not kick in, and instead, the existing local national regime governing market access in that member state must be complied with.

### **Direct implications**

The only way in which a TCF can provide investment services and activities without undertaking the steps set out above, is if the service provision is on the exclusive initiative of an eligible counterparty or professional client. This reverse solicitation carve-out is very limited in application and only permits the TCF to provide the particular investment service or activity specifically requested by the client, not any new categories of the same to existing clients.

### **Indirect implications**

MiFID II will be indirectly applicable to non-EU asset managers that distribute on European trading venues, trade with European counterparties or market their funds through European distributors. These implications essentially result from others needing to directly comply with MiFID II and therefore likely to require certain information from non-EU managers in order to do so. For example, there will be no obligation on non-EU managers to transaction report but EU counterparties will need to do so. As a result EU counterparties will require data including the legal entity identifier (LEI) of the non-EU manager to fulfil this requirement.

**NORTHERN TRUST ACTIONS:**

Northern Trust has reports within our existing Passport platform that provide the disclosure of opening and closing values, assets held, transactions, corporate actions, costs and charges. These reports are available globally at no additional cost to the client.

In addition, we've created new products to assist those of our clients in scope, including a transaction reporting service, client reporting and transaction cost disclosure as well as a research payment account solution. Please contact your relationship manager if you would like to discuss these, or the broader non-EU implications of MiFID II further.

## ACCOUNTING GUIDANCE DEVELOPMENTS

### GASB PROJECT NO. 4-6I, REVENUE AND EXPENSE RECOGNITION

#### OVERVIEW:

In January of 2018, the GASB (Governmental Accounting Standards Board) issued an Invitation to Comment (Project No. 4-6I), Revenue and Expense Recognition, to obtain stakeholder feedback at an early stage in the potential development of a comprehensive revenue and expense model for U.S. state and local governments.

This project was initiated by the GASB because existing guidance for revenue and expense recognition is limited, and could be clarified and improved. A new model would be expected to provide more useful information, improve comparability and address a wider range of transactions. Excluded from the scope of a new model would be topics with specialized guidance including financial instruments, capital assets, some liabilities, and other topics such as pensions and other postemployment benefits.

The GASB presents two possible models for consideration for use in identifying when to report revenue and expense in financial statements:

- 1) **Exchange/Nonexchange** classifies revenue or expense based on whether a transaction is an exchange or a nonexchange.
  - For exchanges, value is provided to/from another party with equal value received or given in return. An earnings recognition approach would be used, with recognition occurring when the exchange is complete (at a point in time or over time).
  - For nonexchange transactions, value is provided to/from another party but equal value is not received or given in return. Recognition would be based on existing guidance in GASB Statement 33.
- 2) **Performance Obligation**, defined as a promise in a binding agreement between a government and another party to provide distinct goods or services to a specific beneficiary, classifies revenue and expense based on whether a binding agreement contains one or more performance obligations.
  - If a performance obligation exists, recognition of revenue or expense would occur when the obligation is satisfied (at a point in time or over time).
  - If a performance obligation does not exist, recognition would be based on existing provisions in GASB Statement 33.

The GASB will consider improvements to the two models presented, as well as stakeholder suggestions for alternative suitable models.

**IMPACT TO NORTHERN TRUST**

At this time, the project is not expected to impact client reporting provided by Northern Trust, but we will continue to monitor developments on this topic.

**NEXT STEPS**

As part of its due process, the GASB encourages broad, public participation in its standards-setting. For this Invitation to Comment, the GASB sought written feedback from interested parties on the recognition models to be submitted by late April 2018, and held three public forum meetings in May 2018. The GASB intends to use this input to develop a Preliminary Views document that will also be circulated for public comment.

Please contact your relationship manager if you have any questions.

## **GASB STATEMENT NO. 88, CERTAIN DISCLOSURES RELATED TO DEBT, INCLUDING DIRECT BORROWINGS AND DIRECT PLACEMENTS**

In March of 2018, the GASB issued Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*, intended to improve consistency in financial reporting and to provide users with additional essential information to better understand the risks and effects of debt on the issuer. The requirements apply to all U.S. state and local governments.

GASB 88 improves note disclosures about debt issued by a government, including direct borrowings (e.g. entering into a direct loan agreement with a lender) and direct placements (e.g. issuing a debt security directly to an investor). Clarification is provided about which liabilities to include in debt disclosures.

For disclosure purposes, debt is defined as a liability arising from a contractual obligation to pay cash or other assets to settle an amount fixed at the date the obligation is established. For purposes of the disclosure, excluded from the definition are accounts payable and leases (except for financed purchase contracts).

In addition to other debt disclosures, information about debt now also required to be disclosed includes the amount of unused lines of credit; assets pledged as collateral for the debt; and debt agreement terms related to significant (1) events of default with finance-related consequences, (2) termination events with finance-related consequences, and (3) subjective acceleration clauses.

Information about direct borrowings and direct placements should be disclosed separately from other debt.

### **IMPACT TO NORTHERN TRUST**

At this time, this Statement is not expected to impact client reporting provided by Northern Trust.

### **NEXT STEPS**

Entities should analyze for possible impact of GASB 88 on their financial reporting. GASB 88 is effective for reporting periods beginning after June 15, 2018, with earlier application encouraged.

### **CONTACT US**

Please contact your relationship manager if you have any questions or reporting needs.

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