

# 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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**TABLE OF CONTENTS:**

Regulatory And Accounting  
Guidance Calendar ..... 2

**SEC REGULATIONS:**

Investment Company  
Reporting Modernization ..... 3  
Liquidity Risk Management  
Program (Rule 22e-4) ..... 5  
Regulation Best Interest ..... 6  
Rule 30e-3 ..... 8

**EU REGULATIONS IMPACTING US  
CLIENTS:**

General Data Protection  
Regulations (GDPR) ..... 10  
Markets in Financial Instruments  
Directive (MIFID II) ..... 12

**ACCOUNTING GUIDANCE  
DEVELOPMENTS:**

FASB Changes Employer  
Disclosure Requirements  
Related to Benefit Plans ..... 16  
FASB ASU 2018-13, Disclosure  
Framework-Changes to the  
Disclosure Requirements for  
Fair Value Measurement ..... 18  
FASB ASU 2018-08, Clarifying  
the Scope and the Accounting  
Guidance for Contributions  
Received and Contributions Made ..... 19  
Spotlight on GASB  
Guidance Webinar ..... 22  
AcSB Seeks Feedback on  
Reporting Performance  
Measures ..... 23

	REGULATION/GUIDANCE	STATUS	FUTURE OUTLOOK
SEC REGULATIONS	Regulation Best Interest	Proposed 4/18/18	Comment period ended in August 2018. Further action by the SEC is likely to occur in spring of 2019
	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 N-CEN: Effective 6/1/18 for all funds	N-PORT: Effective 3/1/20 for funds with net assets < \$1 billion
	Rule 30-e3	Proposed 6/4/2018	Implementation scheduled for January 1, 2022
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 Statement No. 86, Certain Debt Extinguishment Issues	Published Q2 2017 and 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. 4-6I), 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 and effective for fiscal periods beginning after 6/15/18	
	GASB Statement No. 89, Accounting for Interest Cost Incurred before the End of a Construction Period	Published Q2 2018	Effective for reporting periods beginning after 12/15/19
	GASB ED Project No. 26-6, Conduit Debt Obligations	Published Q3 2018	Comment period ends 11/2/18. If adopted, would be effective for reporting periods beginning after 12/15/20.
	GASB Statement No. 90, Majority Equity Interests	Published Q3 2018	Effective for reporting periods beginning after 12/15/18

	REGULATION/GUIDANCE	STATUS	FUTURE OUTLOOK
FASB	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 ASU 2017-12, Targeted Improvements to Accounting for Hedging Activities	Published Q3 2017	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	Published Q1 2018 and first effective for fiscal periods beginning after 12/15/17 for certain entities	
	FASB ASU 2018-08, Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made	Published Q2 2018	For public business entities or NFP conduit bond obligors, the amendments apply for annual periods beginning after 6/15/18 (and interim periods within those periods) for resource recipients, and for annual periods beginning after 12/15/18 (and interim periods within those periods) for resource providers. Effective later for other entities.
	FASB ED 2018-270, Codification Improvements to Topic 326, Financial Instruments - Credit Losses	Published Q3 2018	If adopted, the effective date would be the same as for ASU 2016-13.
	FASB ASU 2018-13, Changes to the Disclosure Requirements for Fair Value Measurement	Published Q3 2018	Effective for fiscal years (and interim periods within those years) beginning after 12/15/19
	FASB ASU 2018-14, Changes to the Disclosure Requirements for Defined Benefit Plans	Published Q3 2018	First effective for fiscal years ending after 12/15/20 for certain entities

## SEC REGULATIONS

### INVESTMENT COMPANY REPORTING MODERNIZATION

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#### IMPACTS

US Registered Mutual Funds

#### RECENT DEVELOPMENTS ON N-PORT AND FORM N-CEN:

As of June 1, 2018 registered funds with net assets of \$1 billion or more are required to prepare Form N-Port at the end of each month and must maintain the data in the fund's books and records. In addition, all funds are now required to file Form N-CEN 75 days after the fund's fiscal year end.

On June 28, 2018, the SEC adopted changes 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.

New narrative disclosures included in Form N-1A will require 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

##### Form N-Port:

Northern Trust's Fund Administration team works with our clients to prepare Form N-PORT. Our solution leverages Donnelly Financial Systems' ArcFiling tool, and includes data enriched by ICE. Our dedicated team provides focused support for this new regulatory requirement.

##### Form N-CEN:

Northern Trust's Fund Governance Solutions team works with our Fund Administration clients to prepare and file Form N-CEN using Donnelly Financial Systems' ArcFiling tool. Our team facilitates the collection of data required to fulfill reporting requirements, and coordinates the filing process.

#### 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.

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.

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

### RECENT DEVELOPMENTS:

Compliance dates for certain provisions of Rule 22e-4 are approaching. Firms with \$1 billion or more in AUM (large funds) will need to comply by December 1, 2018, while firms with under \$1 billion in AUM (small funds) will need to comply by June 1, 2019. Funds will be required to::

- 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

Other provisions were delayed, with compliance dates of June 1, 2019 for large funds, and December 1, 2019 for small fund. 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

### NORTHERN TRUST ACTIONS:

Northern Trust supports clients using ICE's Liquidity Risk Management tools with daily, direct file transmissions of data. We also provide our clients with optional integration of ICE liquidity bucket values into Form N-PORT for reporting. For more information, please contact your relationship manager.

### 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.

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

On February 22, 2018, SEC adopted an interim rule that revises the compliance date for certain provisions of Rule 22e-4 as outlined above.

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### IMPACTS

US Registered Mutual Funds

## REGULATION BEST INTEREST

### RECENT DEVELOPMENTS:

The SEC collected public comments on the proposed rules through August 2018. Further action on Regulation Best Interest is likely to occur in the spring of 2019. Northern Trust will continue to track developments as they occur.

### OVERVIEW:

On April 18, 2018 the Securities and Exchange Commission (SEC) voted to propose a 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.

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").

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### IMPACTS

Broker-Dealers and Registered  
Investment Advisors

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.

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.

## RULE 30E-3

### OVERVIEW:

Rule 30e-3 creates an optional “notice and access” method for electronic delivery of fund shareholder reports to registered fund shareholders. Under the rule, funds may rely on the delivery of a paper notice, via mail, to advise shareholders that annual and semi-annual reports are available online.

Rule 30e-3 is intended to modernize the manner in which shareholder reports and other information is made available to investors and reduce expenses associated with printing and mailing.

Reliance on Rule 30e-3 is optional, but funds should consider the benefits of complying with the rule. Funds may be viewed as environmentally friendly and modern with the additional electronic delivery option for required reports. There is the potential for significant cost savings to the fund and ultimately the fund investors.

### KEY PROVISIONS:

Funds are required to meet certain conditions in order to rely on the rule.

Requirements include, but are not limited to:

- **Report Accessibility** - The shareholder reports must be made available on a specified public website, free of charge. Funds must meet conditions that ensure accessibility of reports for shareholders, including location and format
- **Notice** - Paper notices must be delivered to shareholders, providing a website address where the reports are available
- **Print Upon Request** - Upon request, funds must provide a paper copy of the materials to the shareholder, free of charge
- **Elections to Receive Reports in Paper** - Funds must provide shareholders with the ability to elect for paper delivery not only one time, but as a standing election for delivery of future reports.

The rule does not impact the existing “opt in” electronic delivery provisions, whereby shareholders can affirmatively elect e-delivery of shareholder reports.

### COMPLIANCE DATES:

**Effective Date** – January 1, 2019 - If a fund intends to rely on the rule starting January 1, 2021, they must begin tracking investor preferences to receive paper copies of reports from the first time they deliver or transmit a document that includes the required disclosures.

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### IMPACTS

US mutual fund clients

**Transitional Period** – January 1, 2019- December 31, 2021 - Existing funds that intend to rely on the rule by January 1, 2021, must provide disclosures informing investors of delivery format options on the cover page or beginning of summary prospectuses; on front cover page of statutory prospectuses; and on front cover page or beginning of annual and semi-annual reports. New funds that begin offering shares publicly between the transitional period dates must include required disclosures beginning from the time the fund first offered its shares publicly and ending December 31, 2021.

**Early Adoption** - January 1, 2021 - Subject to the two-year notice period requirements of Rule 30e-3, the earliest date that Notices may be sent to investors in lieu of paper shareholder reports.

**Implementation** – January 1, 2022 - Notice period disclosures are no longer required for funds following the transitional period. Funds that did not rely on the rule during the transitional period may begin relying on the rule to provide Notices in lieu of paper shareholder reports.

**NEXT STEPS:**

SEC requested public comment on enhancing fund disclosure to improve the investor experience and on processing fees that intermediary firms may assess for forwarding fund materials through October 31, 2018.

Funds interested in early adoption should plan now for required disclosures in shareholder materials produced and delivered beginning in 2019. For more information, please contact your Relationship Manager to arrange for discussions with our Fund Governance Solutions Team.

## EU REGULATIONS IMPACTING US CLIENTS:

### GENERAL DATA PROTECTION REGULATION (GDPR)

#### OVERVIEW

GDPR went into force on May 25, 2018 and shifts the balance of power towards EU citizens and away from organizations that collect and utilize personal data.

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

U.S clients at Northern Trust will fall under the scope of GDPR if:

- The U.S entities provide products and services from an entity (or branch) located within Europe (i.e. the entity or branch is the contracting entity).
- The U.S 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. This works in the individuals' favor, because they now have more control over their personal data and how it is 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 withdrawing 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 may 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, whichever 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. Northern Trust is committed to providing clients with information to assist them in understanding regulatory change. We have provided a client toolkit, hosted regulatory events globally, and distributed 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 as to how MIFID II will affect the industry. At present, firms continue to enhance quarterly or annual reports and product offerings as requirements come into effect.

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

- Bundled or full-service trading that 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 most concerning areas 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 from 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 a product is appropriate for them.

## **INDUCEMENT CHANGES**

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, including multilateral trading facilities (MTFs), organized trading facilities (OTFs), or equivalent non-EEA markets. Organized trading facilities are a new type of trading venue regulated under MiFID II.

## **THIRD-COUNTRY IMPACTS**

Within MiFID II, the term "third country" refers to jurisdictions outside the EU. "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 that case, the rules set out by MiFID II will apply.

The outcome of Brexit negotiations may affect EU Third Country rules, but the direct implications are yet to be determined. The UK is still scheduled to leave the EU on March 29, 2019, but on what terms, whether there will be a transitional period until the end of 2020 & what impact any of these changes may have on Third Country rules is yet to be determined. The next couple of months are critical; after that, more clarity should be known.

### **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 stipulates the factors that must be considered and the 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 adhered 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 limited in application and only permits the TCF to provide the particular investment service or activity specifically requested by the client and 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 who need to directly comply with MiFID II and are therefore likely to require certain information from non-EU managers. 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 fulfill this requirement.

**NORTHERN TRUST ACTIONS:**

Northern Trust's existing Passport platform has reports that disclose 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 have created new products to assist 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 to discuss these or the broader non-EU implications of MiFID II.

## ACCOUNTING GUIDANCE DEVELOPMENTS

### FASB CHANGES EMPLOYER DISCLOSURE REQUIREMENTS RELATED TO BENEFIT PLANS

#### OVERVIEW:

In August 2018, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2018-14, Changes to the Disclosure Requirements for Defined Benefit Plans, which modifies the disclosure requirements for financial statements of employers that sponsor defined benefit pension or other postretirement plans.

The following plan-related disclosure requirements for the employer have been removed:

- Amounts in accumulated OCI expected to be recognized as components of net periodic benefit cost over the next fiscal year.
- Amount and timing of plan assets expected to be returned to the employer.
- Disclosures related to the June 2001 amendments to the Japanese Welfare Pension Insurance Law.
- Related party disclosures about the amount of future annual benefits covered by insurance and annuity contracts and significant transactions between the employer or related parties and the plan.
- For nonpublic entities, the reconciliation of the opening to closing balances of Level 3 plan assets (i.e. Level 3 Roll Forward). However, nonpublic entities will be required to disclose separately the amounts of transfers into and out of Level 3 and purchases of Level 3 assets.
- For public entities, the effects of a 1% change in assumed health care cost trend rates on (a) the aggregate service and interest cost components of net periodic benefit costs, and (b) benefit obligation for postretirement health care benefits.

The following plan-related disclosure requirements for the employer have been added:

- The weighted-average interest crediting rates for cash balance plans and other plans with promised interest crediting rates.
- An explanation of the reasons for significant gains and losses related to changes in the benefit obligation for the period.

Requirements have also been clarified related to disclosures of the following information by the employer for defined benefit pension plans:

- The projected benefit obligation (PBO) and fair value of plan assets for plans with PBOs in excess of plan assets.
- The accumulated benefit obligation (ABO) and fair value of plan assets for plans with ABOs in excess of plan assets.

**EFFECTIVE DATE:**

For public business entities, this ASU is effective for fiscal years ending after December 15, 2020. For all other entities, the ASU is effective for fiscal years ending after December 15, 2021. Early adoption is permitted.

The amendments should be applied retrospectively to all periods presented.

**IMPACT TO NORTHERN TRUST:**

Because many disclosures are removed, and others are related to information that Northern Trust does not generally provide, we do not expect the amendments in this ASU to affect the trust/custody reporting we offer.

For nonpublic entities, a Level 3 Roll Forward for plan assets will no longer be required. However, transfers into and out of Level 3, and purchases of Level 3 assets (information contained within Northern Trust's existing Level 3 Roll Forward report) will still need to be disclosed.

**NEXT STEPS:**

Reporting entities that sponsor defined benefit pension or other postretirement plans should analyze the new guidance for possible impacts to their financial reporting. For more information, the full text of this ASU is available [here](#).

Please contact your relationship manager if you have any questions.

## FASB ASU 2018-13, DISCLOSURE FRAMEWORK-CHANGES TO THE DISCLOSURE REQUIREMENTS FOR FAIR VALUE MEASUREMENT

### OVERVIEW:

In August 2018, the Financial Accounting Standards Board (FASB) issued ASU 2018-13, Disclosure Framework-Changes to the Disclosure Requirements for Fair Value Measurement, intended to improve the effectiveness of certain financial statement disclosures.

The ASU removes and modifies certain existing disclosure requirements and introduces new disclosure requirements in Topic 820, Fair Value Measurement.

### REMOVALS

The following disclosure requirements are removed and no longer applicable for any entities:

- The amounts and reasons for transfers of assets between Level 1 and Level 2
- The policy for timing of transfers between levels
- The valuation processes for Level 3 fair value measurements

For nonpublic entities, this ASU removes the required disclosure of the changes in URGL for the period included in earnings for Level 3 assets held at the end of the period.

### MODIFICATIONS

The following disclosure requirements are modified:

- For investments in certain entities that calculate net asset value, an entity must disclose the timing of liquidation of an investee's assets and the date when restrictions from redemption might lapse, but only if the investee has communicated the timing to the entity or announced the timing publicly. This modification applies to all entities.
- For nonpublic entities, transfers into and out of Level 3, and purchases and issues of Level 3 assets must be disclosed, but not a reconciliation of opening to closing balances of Level 3 assets.
- Information about the uncertainty of Level 3 measurement must be disclosed, but not sensitivity to possible futures changes. Nonpublic entities are exempted from the measurement uncertainty disclosure requirement.

## **ADDITIONS**

The following new disclosures are introduced, but only for public business entities:

- The changes in unrealized gain/loss for the period included in other comprehensive income for Level 3 assets held at the end of the reporting period.
- The range and weighted average of significant unobservable inputs used to develop Level 3 measurements.

## **EFFECTIVE DATE AND TRANSITION**

This ASU is effective for all entities for fiscal years beginning after December 15, 2019 and interim periods within those fiscal years.

Early adoption is permitted. If an entity elects to early adopt, remove and/or modify disclosures, they are still permitted to delay adoption of the new disclosures until the effective date.

## **IMPACT TO NORTHERN TRUST**

Northern Trust is currently analyzing the guidance for possible client reporting impact.

## **NEXT STEPS**

Reporting entities that prepare fair value disclosures should analyze the new guidance for possible impact to their financial reporting. For more information, the full text of this ASU is available [here](#).

## **CONTACT US**

Please contact your relationship manager if you have any questions.

## FASB ASU 2018-08, CLARIFYING THE SCOPE AND THE ACCOUNTING GUIDANCE FOR CONTRIBUTIONS RECEIVED AND CONTRIBUTIONS MADE

### OVERVIEW:

In June 2018, the Financial Accounting Standards Board (FASB) issued ASU 2018-08, Not-for-Profit Entities (Topic 958), Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made. This Accounting Standards Update (ASU) clarifies the accounting treatment for contributions, grants and other contracts. Existing guidance was deemed difficult to apply, leading to diversity in practice.

The new guidance primarily affects not-for-profit (NFP) entities, but applies to all entities subject to FASB guidance, including business entities that make or receive contributions. The guidance does not apply to transfers of assets from governments to businesses.

Improvements in the guidance are intended to assist in three key areas:

#### 1) Distinguishing between contributions (nonreciprocal transactions) and exchanges (reciprocal transactions)

For exchanges of commensurate value, ASC Topic 606, Revenue from Contracts with Customers or other relevant guidance applies. For contributions, ASC Topic 958 or other applicable guidance applies.

#### 2) Distinguishing between conditional and unconditional contributions

A contribution is conditional if the agreement includes both (1) a barrier that must be overcome and (2) either a right of return of assets or a right of release of an obligation. If a contribution is conditional, revenue or expense is recognized when the condition is met. If the contribution is unconditional, revenue or expense is recognized immediately.

#### 3) Classifying unconditional contributions as with or without donor restrictions

The guidance also intends to better distinguish between a restriction, which limits the availability or use of assets contributed (but does not affect entitlement), and a condition, which is a triggering event that must occur for a recipient to be entitled to recognize revenue.

The ASU also modifies the existing simultaneous release accounting policy option, which permits NFPs to report donor-restricted contributions as revenue in net assets without donor restrictions when the restrictions are met in the same reporting period as the revenue is recognized. The amendment allows NFPs to make the simultaneous release election for donor-restricted contributions initially classified as conditional without having to apply the election to other donor-restricted contributions.

### **EFFECTIVE DATE AND TRANSITION**

For public business entities or NFP conduit bond obligors, the amendments apply for annual periods beginning after June 15, 2018 (and interim periods within those periods) for resource recipients, and for annual periods beginning after December 15, 2018 (and interim periods within those periods) for resource providers. The effective dates are later for other entities. Early adoption is permitted.

The guidance is to be applied on a modified prospective basis to agreements that are open at the point of adoption or that are entered into after that date. Retrospective application is permitted.

### **IMPACT TO NORTHERN TRUST**

At this time, the guidance in ASU 2018-08 is not expected to impact client reporting provided by Northern Trust.

### **NEXT STEPS**

Reporting entities that make or receive contributions should analyze for possible impact of ASU 2018-08 on their financial reporting. For a copy of the full text of ASU 2018-08, [click here](#), and for a copy of the related FASB In Focus, [click here](#).

Please contact your relationship manager with any questions.

## SPOTLIGHT ON GASB GUIDANCE WEBINAR

In September of 2018, Northern Trust released a client webinar, Spotlight on GASB Guidance, a brief session about recent publications, projects and implementation guidance from the GASB, as well as insight into how Northern Trust analyzes accounting guidance to support our trust/custody client reporting.

Access the recorded webinar presentation and associated slides to learn more about:

- Accounting requirements related to interest cost incurred before the end of a construction period (GASB 89), disclosures related to debt, including direct borrowings and direct placements (GASB 88), and leases (GASB 87);
- Selected topics from recent GASB implementation guidance, including international mutual funds denominated in U.S. dollars and cash equivalents
- Current GASB projects and activities, including revenue and expense recognition and the financial reporting model; and
- The activities of Northern Trust to stay current with changes in accounting guidance and to support our client accounting and reporting needs.

Access the [webinar replay and presentation slides](#), or contact your relationship manager with any questions. We also encourage you to let us know of topics that would interest you for future Northern Trust webinars.

In addition, visit the GASB website for more information about their publications and projects.

## CANADA ACSB SEEKS FEEDBACK ON REPORTING PERFORMANCE MEASURES

### OVERVIEW

In June 2018, the Accounting Standards Board (AcSB) of Canada issued its Draft Framework for Reporting Performance Measures – Enhancing the Relevance of Financial Reporting for public comment to address concerns from investors, contributors, lenders and others about performance measures reported outside of financial statements.

The Framework is intended to improve the quality of performance measures reported by entities separately from financial statements and note disclosures prepared in accordance with accounting standards (e.g. Canadian GAAP, IFRS, US GAAP). The Framework applies to public companies, not-for-profit organizations, private companies and pension plans that choose to report financial (e.g. non-GAAP), non-financial or operational performance measures as supplemental information.

Performance measures are useful in decision-making and provide insight into management of an entity. Examples of performance measures an entity may choose to report include adjusted earnings, number of employees and performance ratings on client service.

Principles and best practices are provided in the Framework to assist:

- Management in selecting and reporting high-quality performance measures and applying controls,
- Directors and audit committees in developing strong governance practices for oversight of management’s performance measure reporting, and
- Investors, lenders, contributors and others in evaluating the measures and making decisions.

The Framework provides building blocks to developing performance measures, qualitative characteristics, materiality and cost-benefit considerations. Use of the Framework is intended to achieve more consistent, comparable and transparent performance measure reporting.

### IMPACT TO NORTHERN TRUST

Northern Trust will continue to monitor developments of this project as it progresses.

### NEXT STEPS

The AcSB is using feedback gathered during the comment period to assist in determining next steps. For the full text of the proposal, including instructions for submitting feedback, [click here](#). For more information from the AcSB about the initiative, [click here](#). Please contact your relationship manager with any questions.

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