

FINANCIAL ACCOUNTING SERIES



ACCOUNTING STANDARDS UPDATE

No. 2017-03
January 2017

Accounting Changes and Error Corrections (Topic 250) and Investments—Equity Method and Joint Ventures (Topic 323)

Amendments to SEC Paragraphs Pursuant to
Staff Announcements at the September 22, 2016
and November 17, 2016 EITF Meetings

An Amendment of the *FASB Accounting Standards Codification*®

Financial Accounting Standards Board

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FINANCIAL ACCOUNTING SERIES (ISSN 0885-9051) is published monthly with the exception of April, August, and October by the Financial Accounting Foundation, 401 Merritt 7, PO Box 5116, Norwalk, CT 06856-5116. Periodicals postage paid at Norwalk, CT and at additional mailing offices. The full subscription rate is \$255 per year. POSTMASTER: Send address changes to Financial Accounting Standards Board, 401 Merritt 7, PO Box 5116, Norwalk, CT 06856-5116. | **No. 447**

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Amendments to the *FASB Accounting Standards Codification*[®]

Securities and Exchange Commission (SEC) Content

Introduction

1. The Accounting Standards Codification is amended as described in paragraphs 2–13. In some cases, to put the change in context, not only are the amended paragraphs shown but also the preceding and following paragraphs. Added text is underlined, and deleted text is ~~struck out~~.

Amendments Pursuant to the September 22, 2016 SEC Staff Announcement

This Accounting Standards Update adds an SEC paragraph and amends other Topics pursuant to an SEC Staff Announcement made at the September 22, 2016 Emerging Issues Task Force (EITF) meeting.

2. The SEC Observer made the following SEC Staff Announcement, “Disclosure of the Impact That Recently Issued Accounting Standards Will Have on the Financial Statements of a Registrant When Such Standards Are Adopted in a Future Period (in accordance with Staff Accounting Bulletin [SAB] Topic 11.M),” at the September 22, 2016 EITF meeting.

Amendments to Topic 250

3. Add paragraph 250-10-S99-6 and its related headings, with no link to a transition paragraph, as follows:

Accounting Changes and Error Corrections—Overall

SEC Materials

> SEC Staff Guidance

>> SEC Staff Announcement at Emerging Issues Task Force (EITF) Meetings

> > > SEC Staff Announcement: Disclosure of the Impact That Recently Issued Accounting Standards Will Have on the Financial Statements of a Registrant When Such Standards Are Adopted in a Future Period (in accordance with Staff Accounting Bulletin [SAB] Topic 11.M)

250-10-S99-6 The following is the text of SEC Staff Announcement: Disclosure of the Impact That Recently Issued Accounting Standards Will Have on the Financial Statements of a Registrant When Such Standards Are Adopted in a Future Period (in accordance with Staff Accounting Bulletin [SAB] Topic 11.M)

This announcement applies to Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*; ASU No. 2016-02, *Leases (Topic 842)*; and ASU No. 2016-13, *Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*.^{FN1}

SAB Topic 11.M provides the SEC staff view that a registrant should evaluate ASUs that have not yet been adopted to determine the appropriate financial statement disclosures^{FN2} about the potential material effects of those ASUs on the financial statements when adopted. Consistent with Topic 11.M, if a registrant does not know or cannot reasonably estimate the impact that adoption of the ASUs referenced in this announcement is expected to have on the financial statements, then in addition to making a statement to that effect, that registrant should consider additional qualitative financial statement disclosures to assist the reader in assessing the significance of the impact that the standard will have on the financial statements of the registrant when adopted. In this regard, the SEC staff expects the additional qualitative disclosures to include a description of the effect of the accounting policies that the registrant expects to apply, if determined, and a comparison to the registrant's current accounting policies. Also, a registrant should describe the status of its process to implement the new standards and the significant implementation matters yet to be addressed.

FN 1 This announcement also applies to any subsequent amendments to guidance in the ASUs that are issued prior to a registrant's adoption of the aforementioned ASUs.

FN 2 Topic 11.M provides SEC staff views on disclosures that registrants should consider in both Management's Discussion & Analysis (MD&A) and the notes to the financial statements. MD&A may contain cross references to these disclosures that appear within the notes to the financial statements.

Amendments to Topic 326

4. Amend paragraph 326-10-65-1, with no link to a transition paragraph, as follows:

Financial Instruments—Credit Losses—Overall

Transition and Open Effective Date Information

> Transition Related to Accounting Standards Update No. 2016-13, *Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*

326-10-65-1 The following represents the transition and effective date information related to Accounting Standards Update No. 2016-13, *Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*:

- a. The pending content that links to this paragraph shall be effective as follows:
 1. For **public business entities** that meet the definition of a **Securities and Exchange Commission (SEC) filer**, for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years
 2. For public business entities that do not meet the definition of an SEC filer, for fiscal years beginning after December 15, 2020, including interim periods within those fiscal years
 3. For all other entities, including not-for-profit entities within the scope of Topic 958 and employee benefit plans within the scope of Topics 960 through 965 on plan accounting, for fiscal years beginning after December 15, 2020, and interim periods within fiscal years beginning after December 15, 2021.
- b. Early application of the pending content that links to this paragraph is permitted for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years.

Note: See paragraph 250-10-S99-6 on disclosure of the impact that recently issued accounting standards will have on the financial statements of a registrant.

- c. An entity shall apply the pending content that links to this paragraph by means of a cumulative-effect adjustment to the opening retained earnings as of the beginning of the first reporting period in which the pending content that links to this paragraph is effective.
- d. An entity shall apply prospectively the pending content that links to this paragraph for **purchased financial assets with credit deterioration to financial assets** for which Subtopic 310-30 was previously applied. The prospective application will result in an adjustment to the **amortized cost**

basis of the financial asset to reflect the addition of the allowance for credit losses at the date of adoption. An entity shall not reassess whether recognized financial assets meet the criteria of a purchased financial asset with credit deterioration as of the date of adoption. An entity may elect to maintain pools of **loans** accounted for under Subtopic 310-30 at adoption. An entity shall not reassess whether modifications to individual acquired financial assets accounted for in pools are **troubled debt restructurings** as of the date of adoption. The noncredit discount or premium, after the adjustment for the allowance for credit losses, shall be accreted to interest income using the interest method based on the **effective interest rate** determined after the adjustment for credit losses at the adoption date. The same transition requirements should be applied to beneficial interests for which Subtopic 310-30 was applied previously or for which there is a significant difference between the contractual cash flows and expected cash flows at the date of recognition.

- e. An entity shall apply prospectively the pending content that links to this paragraph to **debt securities** for which an other-than-temporary impairment had been recognized before the date of adoption, such that the amortized cost basis (including previous write-downs) of the debt security is unchanged. In addition, the effective interest rate on a security will remain unchanged as a result of the adoption of the pending content that links to this paragraph. Amounts previously recognized in accumulated other comprehensive income as of the adoption date that relate to improvements in cash flows will continue to be accreted to interest income over the remaining life of the debt security on a level-yield basis. Recoveries of amounts previously written off relating to improvements in cash flows after the date of adoption shall be recorded to income in the period received.
- f. An entity shall disclose the following in the period that the entity adopts the pending content that links to this paragraph:
 1. The nature of the change in accounting principle, including an explanation of the newly adopted accounting principle.
 2. The method of applying the change.
 3. The effect of the adoption on any line item in the statement of financial position, if material, as of the beginning of the first period for which the pending content that links to this paragraph is effective. Presentation of the effect on financial statement subtotals is not required.
 4. The cumulative effect of the change on retained earnings or other components of equity in the statement of financial position as of the beginning of the first period for which the pending content that links to this paragraph is effective.
- g. An entity that issues interim financial statements shall provide the disclosures in (f) in each interim financial statement of the year of change and the annual financial statement of the period of the change.

- h. In the year of initial application of the pending content that links to this paragraph, a public business entity that does not meet the definition of a SEC filer may phase-in the disclosure of credit quality indicators by year of origination by only presenting the three most recent origination years (including the first year of adoption). In each subsequent fiscal year, the then-current origination year will be added in the periods after adoption until a total of five origination years are presented. Origination years before those that are presented separately shall be disclosed in the aggregate. For example, the phase-in approach would work as follows assuming a calendar year-end entity:
1. For the first annual reporting period ended December 31, 2X21, after the effective date of January 1, 2X21, an entity would disclose the end of period amortized cost basis of the current period originations within 2X21, as well as the two origination years of 2X20 and 2X19. The December 31, 2X21 end of period amortized cost balances for all prior originations would be presented separately in the aggregate.
 2. For the second annual reporting period ended December 31, 2X22, after the effective date of January 1, 2X21, an entity would disclose the end of period amortized cost basis of the current period originations within 2X22, as well as the three origination years of 2X21, 2X20, and 2X19. The December 31, 2X22 ending amortized cost basis would be presented in the aggregate for all origination periods before the four years that are presented separately.
 3. For the third annual reporting period ended December 31, 2X23, after the effective date of January 1, 2X21, an entity would disclose the end-of-period amortized cost basis of the current-period originations within 2X23, as well as the four origination years of 2X22, 2X21, 2X20, and 2X19. The December 31, 2X23 ending amortized cost basis would be presented in aggregate for all origination periods before the five years that are presented separately.
 4. For interim-period disclosures within the years discussed above, the current year-to-date originations should be disclosed as the originations in the interim reporting period.

Amendments to Topic 606

5. Amend paragraph 606-10-65-1, with no link to a transition paragraph, as follows:

Revenue from Contracts with Customers—Overall Transition and Open Effective Date Information

> Transition Related to Accounting Standards Updates No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, and No. 2016-08, *Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations (Reporting Revenue Gross versus Net)*, and No. 2016-10, *Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing*, and No. 2016-12, *Revenue from Contracts with Customers (Topic 606): Narrow-Scope Improvements and Practical Expedients*, and No. 2016-20, *Technical Corrections and Improvements to Topic 606, Revenue from Contracts with Customers*:

606-10-65-1 The following represents the transition and effective date information related to Accounting Standards Updates No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, and No. 2016-08, *Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations (Reporting Revenue Gross versus Net)*, and No. 2016-10, *Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing*, and No. 2016-12, *Revenue from Contracts with Customers (Topic 606): Narrow-Scope Improvements and Practical Expedients*, and No. 2016-20, *Technical Corrections and Improvements to Topic 606, Revenue from Contracts with Customers*:

- a. A **public business entity**, a **not-for-profit entity** that has issued, or is a conduit bond obligor for, securities that are traded, listed, or quoted on an exchange or an over-the-counter market, and an employee benefit plan that files or furnishes financial statements with or to the Securities and Exchange Commission shall apply the pending content that links to this paragraph for annual reporting periods beginning after December 15, 2017, including interim reporting periods within that reporting period. Earlier application is permitted only as of annual reporting periods beginning after December 15, 2016, including interim reporting periods within that reporting period.
- b. All other entities shall apply the pending content that links to this paragraph for annual reporting periods beginning after December 15, 2018, and interim reporting periods within annual reporting periods beginning after December 15, 2019. However, all other entities may elect to apply the pending content that links to this paragraph earlier only as of either:
 1. An annual reporting period beginning after December 15, 2016, including interim reporting periods within that reporting period.
 2. An annual reporting period beginning after December 15, 2016, and interim reporting periods within annual reporting periods beginning one year after the annual reporting period in which an entity first applies the pending content that links to this paragraph.
 3. Subparagraph superseded by Accounting Standards Update No. 2015-14.

Note: See paragraph 250-10-S99-6 on disclosure of the impact that recently issued accounting standards will have on the financial statements of a registrant.

- c. For the purposes of the transition guidance in (d) through (i):
 - 1. The date of initial application is the start of the reporting period in which an entity first applies the pending content that links to this paragraph.
 - 2. A completed contract is a **contract** for which all (or substantially all) of the **revenue** was recognized in accordance with revenue guidance that is in effect before the date of initial application.
- d. An entity shall apply the pending content that links to this paragraph using one of the following two methods:
 - 1. Retrospectively to each prior reporting period presented in accordance with the guidance on accounting changes in paragraphs 250-10-45-5 through 45-10 subject to the expedients in (f).
 - 2. Retrospectively with the cumulative effect of initially applying the pending content that links to this paragraph recognized at the date of initial application in accordance with (h) through (i).
- e. If an entity elects to apply the pending content that links to this paragraph retrospectively in accordance with (d)(1), the entity shall provide the disclosures required in paragraphs 250-10-50-1 through 50-2 in the period of adoption, except as follows. An entity need not disclose the effect of the changes on the current period, which otherwise is required by paragraph 250-10-50-1(b)(2). However, an entity shall disclose the effect of the changes on any prior periods that have been retrospectively adjusted.
- f. An entity may use one or more of the following practical expedients when applying the pending content that links to this paragraph retrospectively in accordance with (d)(1):
 - 1. An entity need not restate contracts that begin and are completed within the same annual reporting period.
 - 2. For completed contracts that have variable consideration, an entity may use the **transaction price** at the date the contract was completed rather than estimating variable consideration amounts in the comparative reporting periods.
 - 3. For all reporting periods presented before the date of initial application, an entity need not disclose the amount of the transaction price allocated to the remaining **performance obligations** and an explanation of when the entity expects to recognize that amount as revenue (see paragraph 606-10-50-13).
 - 4. For contracts that were modified before the beginning of the earliest reporting period presented in accordance with the pending content that links to this paragraph, an entity need not retrospectively restate the contract for those contract modifications in accordance with paragraphs 606-10-25-12 through 25-13. Instead, an entity shall

reflect the aggregate effect of all modifications that occur before the beginning of the earliest period presented in accordance with the pending content that links to this paragraph when:

- i. Identifying the satisfied and unsatisfied performance obligations
 - ii. Determining the transaction price
 - iii. Allocating the transaction price to the satisfied and unsatisfied performance obligations.
- g. For any of the practical expedients in (f) that an entity uses, the entity shall apply that expedient consistently to all contracts within all reporting periods presented. In addition, the entity shall disclose all of the following information:
1. The expedients that have been used
 2. To the extent reasonably possible, a qualitative assessment of the estimated effect of applying each of those expedients.
- h. If an entity elects to apply the pending content that links to this paragraph retrospectively in accordance with (d)(2), the entity shall recognize the cumulative effect of initially applying the pending content that links to this paragraph as an adjustment to the opening balance of retained earnings (or other appropriate components of equity or net assets in the statement of financial position) of the annual reporting period that includes the date of initial application. Under this transition method, an entity may elect to apply this guidance retrospectively either to all contracts at the date of initial application or only to contracts that are not completed contracts at the date of initial application (for example, January 1, 2018, for an entity with a December 31 year-end). An entity shall disclose whether it has applied this guidance to all contracts at the date of initial application or only to contracts that are not completed at the date of initial application. Under this transition method, an entity may apply the practical expedient for contract modifications in (f)(4). If an entity applies the practical expedient for contract modifications in (f)(4), it shall comply with the guidance in (g).
- i. For reporting periods that include the date of initial application, an entity shall disclose the nature of and reason for the change in accounting principle and provide both of the following disclosures if the pending content that links to this paragraph is applied retrospectively in accordance with (d)(2):
1. The amount by which each financial statement line item is affected in the current reporting period by the application of the pending content that links to this paragraph as compared with the guidance that was in effect before the change
 2. An explanation of the reasons for significant changes identified in (i)(1).

Amendments to Topic 842

6. Amend paragraph 842-10-65-1, with no link to a transition paragraph, as follows:

Leases—Overall

Transition and Open Effective Date Information

> Transition Related to Accounting Standards Update No. 2016-02, *Leases (Topic 842)*

842-10-65-1 The following represents the transition and effective date information related to Accounting Standards Update No. 2016-02, *Leases (Topic 842)*:

- a. A **public business entity**, a **not-for-profit entity** that has issued or is a conduit bond obligor for securities that are traded, listed, or quoted on an exchange or an over-the-counter market, and an employee benefit plan that files or furnishes financial statements with or to the U.S. Securities and Exchange Commission shall apply the pending content that links to this paragraph for financial statements issued for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years. Earlier application is permitted.
- b. All other entities shall apply the pending content that links to this paragraph for financial statements issued for fiscal years beginning after December 15, 2019, and interim periods within fiscal years beginning after December 15, 2020. Earlier application is permitted.
- c. In the financial statements in which an entity first applies the pending content that links to this paragraph, the entity shall recognize and measure **leases** within the scope of the pending content that links to this paragraph that exist at the beginning of the earliest comparative period presented, using the approach described in (i) through (ee).
- d. An entity shall adjust equity at the beginning of the earliest comparative period presented, and the other comparative amounts disclosed for each prior period presented in the financial statements, as if the pending content that links to this paragraph had always been applied, subject to the requirements in (h) through (ee).
- e. If a **lessee** elects not to apply the recognition and measurement requirements in the pending content that links to this paragraph to **short-term leases**, the lessee shall not apply the approach described in (k) through (t) to short-term leases.

See Examples 28 through 29 (paragraphs 842-10-55-243 through 55-254) for illustrations of the transition requirements.

Practical expedients

- f. An entity may elect the following practical expedients, which must be elected as a package and applied consistently by an entity to all of its leases (including those for which the entity is a lessee or a **lessor**), when applying the pending content that links to this paragraph to leases that commenced before the effective date:
1. An entity need not reassess whether any expired or existing **contracts** are or contain leases.
 2. An entity need not reassess the lease classification for any expired or existing leases (that is, all existing leases that were classified as **operating leases** in accordance with Topic 840 will be classified as operating leases, and all existing leases that were classified as capital leases in accordance with Topic 840 will be classified as **finance leases**).
 3. An entity need not reassess **initial direct costs** for any existing leases.
- g. An entity also may elect a practical expedient, which must be applied consistently by an entity to all of its leases (including those for which the entity is a lessee or a lessor) to use hindsight in determining the **lease term** (that is, when considering lessee options to extend or terminate the lease and to purchase the **underlying asset**) and in assessing impairment of the entity's **right-of-use assets**. This practical expedient may be elected separately or in conjunction with the practical expedients in (f).

Amounts previously recognized in respect of business combinations

- h. If an entity has previously recognized an asset or a liability in accordance with Topic 805 on **business combinations** relating to favorable or unfavorable terms of an operating lease acquired as part of a business combination, the entity shall do all of the following:
1. Derecognize that asset and liability (except for those arising from operating leases for which the entity is a lessor).
 2. Adjust the carrying amount of the right-of-use asset by a corresponding amount if the entity is a lessee.
 3. Make a corresponding adjustment to equity at the beginning of the earliest comparative period presented if assets or liabilities arise from leases classified as **sales-type leases** or **direct financing leases** in accordance with Topic 840 for which the entity is a lessor.

Disclosure

- i. An entity shall provide the transition disclosures required by Topic 250 on accounting changes and error corrections, except for the requirements in paragraph 250-10-50-1(b)(2).

Note: See paragraph 250-10-S99-6 on disclosure of the impact that recently issued accounting standards will have on the financial statements of a registrant.

- j. If an entity uses one or both of the practical expedients in (f) and (g), it shall disclose that fact.

Lessees

Leases previously classified as operating leases under Topic 840

- k. A lessee should initially recognize a right-of-use asset and a **lease liability** at the later of the beginning of the earliest period presented in the financial statements and the **commencement date of the lease**.
- l. Unless, on or after the effective date, the lease is modified (and that modification is not accounted for as a separate contract in accordance with paragraph 842-10-25-8) or the lease liability is required to be remeasured in accordance with paragraph 842-20-35-4, a lessee shall measure the lease liability at the present value of the sum of the following, using a **discount rate for the lease** (which, for entities that are not public business entities, can be a risk-free rate determined in accordance with paragraph 842-20-30-3) established at the later of the beginning of the earliest period presented in the financial statements and the commencement date of the lease:
 - 1. The remaining minimum rental payments (as defined under Topic 840).
 - 2. Any amounts **probable** of being owed by the lessee under a **residual value guarantee**.
- m. For each lease classified as an operating lease in accordance with paragraphs 842-10-25-2 through 25-3, a lessee shall initially measure the right-of-use asset at the initial measurement of the lease liability adjusted for both of the following:
 - 1. The items in paragraph 842-20-35-3(b), as applicable.
 - 2. The carrying amount of any liability recognized in accordance with Topic 420 on exit or disposal cost obligations for the lease.
- n. For each lease classified as an operating lease in accordance with paragraphs 842-10-25-2 through 25-3, a lessee shall subsequently measure the right-of-use asset throughout the remaining lease term in accordance with paragraph 842-20-35-3(b). If the initial measurement of the right-of-use asset in (m) is adjusted for the carrying amount of a liability recognized in accordance with Topic 420 on exit or disposal cost obligations for the lease, the lessee shall apply the recognition and subsequent measurement guidance in Sections 842-20-25 and 842-20-35, respectively, when the right-of-use asset has been impaired.
- o. For each lease classified as a finance lease in accordance with paragraph 842-10-25-2, a lessee shall measure the right-of-use asset as the

applicable proportion of the lease liability at the commencement date, which can be imputed from the lease liability determined in accordance with (l). The applicable proportion is the remaining lease term at the beginning of the earliest comparative period presented relative to the total lease term. A lessee shall adjust the right-of-use asset recognized by the carrying amount of any prepaid or accrued **lease payments** and the carrying amount of any liability recognized in accordance with Topic 420 for the lease.

- p. Any unamortized initial direct costs at the later of the beginning of the earliest period presented in the financial statements or the commencement date of the lease that do not meet the definition of initial direct costs in this Topic shall be written off as an adjustment to equity at the later of the beginning of the earliest period presented in the financial statements and the commencement date of the lease.
- q. If a modification to the contractual terms and conditions occurs on or after the effective date, and the modification does not result in a separate contract in accordance with paragraph 842-10-25-8, or the lessee is required to remeasure the lease liability for any reason (see paragraphs 842-20-35-4 through 35-5), the lessee shall follow the requirements in this Topic from the **effective date of the modification** or the remeasurement date.

Leases previously classified as capital leases under Topic 840

- r. For each lease classified as a finance lease in accordance with this Topic, a lessee shall do all of the following:
 - 1. Recognize a right-of-use asset and a lease liability at the carrying amount of the lease asset and the capital lease obligation in accordance with Topic 840 at the later of the beginning of the earliest comparative period presented or the commencement date of the lease.
 - 2. Include any unamortized initial direct costs that meet the definition of initial direct costs in this Topic in the measurement of the right-of-use asset established in (r)(1).
 - 3. Write off, as an adjustment to equity, any unamortized initial direct costs at the later of the beginning of the earliest period presented in the financial statements or the commencement date of the lease that do not meet the definition of initial direct costs in this Topic and that are not included in the measurement of the capital lease asset under Topic 840 (unless the lessee elects the practical expedients described in (f)).
 - 4. Subsequently measure the right-of-use asset and the lease liability in accordance with Section 840-20-35 before the effective date.
 - 5. Apply the subsequent measurement guidance in paragraphs 842-20-35-4 through 35-5 and 842-20-35-8 after the effective date. However, when applying the pending content in paragraph 842-20-35-4, a

- lessee shall not remeasure the lease payments for amounts probable of being owed under residual value guarantees in accordance with paragraph 842-10-35-4(c)(3).
6. Classify the assets and liabilities held under capital leases as right-of-use assets and lease liabilities arising from finance leases for the purposes of presentation and disclosure.
- s. For each lease classified as an operating lease in accordance with this Topic, a lessee shall do the following:
1. Derecognize the carrying amount of any capital lease asset and capital lease obligation in accordance with Topic 840 at the later of the beginning of the earliest comparative period presented or the commencement date of the lease. Any difference between the carrying amount of the capital lease asset and the capital lease obligation shall be accounted for in the same manner as prepaid or accrued rent.
 2. Recognize a right-of-use asset and a lease liability in accordance with paragraph 842-20-35-3 if the lease commenced before the beginning of the earliest period presented in the financial statements.
 3. Recognize a right-of-use asset and a lease liability in accordance with paragraph 842-20-30-1 at the commencement date of the lease if the lease commenced after the beginning of the earliest period presented in the financial statements.
 4. Account for the operating lease in accordance with the guidance in Subtopic 842-20 after initial recognition in accordance with (s)(2) or (s)(3).
 5. Write off, as an adjustment to equity, any unamortized initial direct costs at the later of the beginning of the earliest period presented in the financial statements or the commencement date of the lease that do not meet the definition of initial direct costs in this Topic.
- t. If a modification to the contractual terms and conditions occurs on or after the effective date, and the modification does not result in a separate contract in accordance with paragraph 842-10-25-8, or the lessee is required to remeasure the lease liability in accordance with paragraph 842-20-35-4, the lessee shall subsequently account for the lease in accordance with the requirements in this Topic beginning on the effective date of the modification or the remeasurement date.

Build-to-suit lease arrangements

- u. A lessee shall apply a modified retrospective transition approach for leases accounted for as build-to-suit arrangements under Topic 840 that are existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements as follows:
1. If an entity has recognized assets and liabilities solely as a result of a transaction's build-to-suit designation in accordance with Topic 840, the entity should derecognize those assets and liabilities at the

later of the beginning of the earliest comparative period presented in the financial statements and the date that the lessee is determined to be the accounting owner of the asset in accordance with Topic 840. Any difference should be recorded as an adjustment to equity at that date. The lessee shall apply the lessee transition requirements in (k) through (t) to the lease.

2. If the construction period of the build-to-suit lease concluded before the beginning of the earliest comparative period presented in the financial statements and the transaction qualified as a sale and leaseback transaction in accordance with Subtopic 840-40 before the date of initial application, the entity shall follow the general lessee transition requirements for the lease.

Lessors

Leases previously classified as operating leases under Topic 840

- v. For each lease classified as an operating lease in accordance with this Topic, a lessor shall do all of the following:
 1. Continue to recognize the carrying amount of the underlying asset and any lease assets or liabilities at the later of the date of initial application and the commencement date as the same amounts recognized by the lessor immediately before that date in accordance with Topic 840.
 2. Account for previously recognized securitized receivables as secured borrowings in accordance with other Topics.
 3. Write off, as an adjustment to equity, any unamortized initial direct costs at the later of the beginning of the earliest period presented in the financial statements or the commencement date of the lease that do not meet the definition of initial direct costs in this Topic (unless the lessor elects the practical expedients described in (f)).
- w. For each lease classified as a direct financing or a sales-type lease in accordance with this Topic, the objective is to account for the lease, beginning on the later of the beginning of the earliest comparative period presented in the financial statements and the commencement date of the lease, as if it had always been accounted for as a direct financing lease or a sales-type lease in accordance with this Topic. Consequently, a lessor shall do all of the following:
 1. Derecognize the carrying amount of the underlying asset at the later of the beginning of the earliest comparative period presented in the financial statements and the commencement date of the lease.
 2. Recognize a **net investment in the lease** at the later of the beginning of the earliest comparative period presented in the financial statements and the commencement date of the lease as if the lease had been accounted for as a direct financing lease or a sales-type lease in accordance with Subtopic 842-30 since lease commencement.

3. Record any difference between the amounts in (w)(1) and (w)(2) as an adjustment to equity.
4. Account for the lease in accordance with this Topic after the later of the beginning of the earliest comparative period presented in the financial statements and the commencement date of the lease.

Leases previously classified as direct financing or sales-type leases under Topic 840

- x. For each lease classified as a direct financing lease or a sales-type lease in accordance with this Topic, do all of the following:
 1. Continue to recognize a net investment in the lease at the later of the beginning of the earliest comparative period presented in the financial statements and the commencement date of the lease, at the carrying amount of the net investment at that date. This would include any unamortized initial direct costs capitalized as part of the lessor's net investment in the lease in accordance with Topic 840.
 2. Before the effective date, a lessor shall account for the lease in accordance with Topic 840.
 3. Beginning on the effective date, a lessor shall account for the lease in accordance with the recognition, subsequent measurement, presentation, and disclosure guidance in Subtopic 842-30.
 4. Beginning on the effective date, if a lessor modifies the lease (and the modification is not accounted for as a separate contract in accordance with paragraph 842-10-25-8), it shall account for the modified lease in accordance with paragraph 842-10-25-16 if the modified lease is classified as a direct financing lease after the modification or paragraph 842-10-25-17 if the modified lease is classified as a sales-type lease after the modification. A lessor shall not remeasure the net investment in the lease on or after the effective date unless the lease is modified (and the modification is not accounted for as a separate contract in accordance with paragraph 842-10-25-8).
- y. For each lease classified as an operating lease in accordance with this Topic, the objective is to account for the lease, beginning on the later of the beginning of the earliest comparative period presented in the financial statements and the commencement date of the lease, as if it had always been accounted for as an operating lease in accordance with this Topic. Consequently, a lessor shall do all of the following:
 1. Recognize the underlying asset at what the carrying amount would have been had the lease been classified as an operating lease under Topic 840.
 2. Derecognize the carrying amount of the net investment in the lease.
 3. Record any difference between the amounts in (y)(1) and (y)(2) as an adjustment to equity.

4. Subsequently account for the operating lease in accordance with this Topic and the underlying asset in accordance with other Topics.

Leases previously classified as leveraged leases under Topic 840

- z. For leases that were classified as **leveraged leases** in accordance with Topic 840, and for which the commencement date is before the effective date, a lessor shall apply the requirements in Subtopic 842-50. If a leveraged lease is modified on or after the effective date, it shall be accounted for as a new lease as of the effective date of the modification in accordance with the guidance in Subtopics 842-10 and 842-30.
 1. A lessor shall apply the pending content that links to this paragraph to a leveraged lease that meets the criteria in (z) that is acquired in a business combination or an **acquisition by a not-for-profit entity** on or after the effective date.

Sale and leaseback transactions before the beginning of the earliest comparative period presented

- aa. If a previous sale and leaseback transaction was accounted for as a sale and a leaseback in accordance with Topic 840, an entity shall not reassess the transaction to determine whether the transfer of the asset would have been a sale in accordance with paragraphs 842-40-25-1 through 25-3.
- bb. If a previous sale and leaseback transaction was accounted for as a failed sale and leaseback transaction in accordance with Topic 840 and remains a failed sale at the effective date, the entity shall reassess whether a sale would have occurred at any point on or after the beginning of the earliest period presented in the financial statements in accordance with paragraphs 842-40-25-1 through 25-3. The sale and leaseback transaction shall be accounted for on a modified retrospective basis from the date a sale is determined to have occurred, in accordance with the requirements in (cc) through (dd).
- cc. An entity shall account for the leaseback in accordance with the lessee and lessor transition requirements in (k) through (y).
- dd. If a previous sale and leaseback transaction was accounted for as a sale and capital leaseback in accordance with Topic 840, the transferor shall continue to recognize any deferred gain or loss that exists at the later of the beginning of the earliest comparative period presented in the financial statements or the date of the sale of the underlying asset as follows:
 1. If the underlying asset is land only, straight line over the remaining lease term.
 2. If the underlying asset is not land only and the leaseback is a finance lease, in proportion to the amortization of the right-of-use asset.
 3. If the underlying asset is not land only and the leaseback is an operating lease, in proportion to the recognition in profit or loss of the total lease cost.

- ee. If a previous sale and leaseback transaction was accounted for as a sale and operating leaseback in accordance with Topic 840, the transferor shall do the following:
1. Recognize any deferred gain or loss not resulting from off-market terms (that is, where the consideration for the sale of the asset is not at **fair value** or the lease payments are not at market rates) as a cumulative-effect adjustment at the later of the date of initial application (to equity) or the date of sale (to earnings of the comparative period presented).
 2. Recognize any deferred loss resulting from the consideration for the sale of the asset not being at fair value or the lease payments not being at market rates as an adjustment to the leaseback right-of-use asset at the date of initial application.
 3. Recognize any deferred gain resulting from the consideration for the sale of the asset not being at fair value or the lease payments not being at market rates as a financial liability at the date of initial application.

Amendments Pursuant to the November 17, 2016 SEC Staff Announcement

This Accounting Standards Update amends an SEC paragraph pursuant to an SEC Staff Announcement made at the November 17, 2016 Emerging Issues Task Force (EITF) meeting.

7. The SEC Observer made the following SEC Staff Announcement, “Amendment of SEC Staff Observer Comment: Accounting for Tax Benefits Resulting from Investments in Qualified Affordable Housing Projects Due to Issuance of ASU No. 2014-01, *Investments—Equity Method and Joint Ventures (Topic 323): Accounting for Investments in Qualified Affordable Housing Projects*,” at the November 17, 2016 EITF meeting.

Amendments to Topic 323

8. Amend paragraph 323-740-S99-2 and its related heading, with no link to a transition paragraph, as follows:

Investments—Equity Method and Joint Ventures—Income Taxes

SEC Materials

> **SEC Staff Guidance**

> > **Comments Made by SEC Observer at Emerging Issues Task Force (EITF) Meetings**

> > > **SEC Observer Comment: Accounting for Tax Benefits Resulting from Investments in Qualified Affordable Housing Projects**

323-740-S99-2 The following is the text of SEC Observer Comment: Accounting for Tax Benefits Resulting from Investments in Qualified Affordable Housing Projects. **[The SEC Staff conformed this Comment to the guidance issued in Accounting Standards Update No. 2014-01, Investments—Equity Method and Joint Ventures (Topic 323): Accounting for Investments in Qualified Affordable Housing Projects.]**

It has been observed that the decision to apply the proportional amortization~~effective yield~~ method of accounting ~~isto a qualified affordable housing project through a limited partnership investment would be an~~ accounting policy decision ~~rather than a decision to be applied~~ consistently to all individual investments in qualified affordable housing projects that meet the conditions in~~qualify for use of the effective yield method~~ paragraph 323-740-25-1 ~~rather than a decision to be applied to individual investments that qualify for use of the proportional amortization method~~. The SEC staff believes that it would be inappropriate to extend the proportional amortization~~effective yield~~ method of accounting to situations analogous to those described in paragraph 323-740-05-3.

Amendments to Status Sections

9. Amend paragraph 250-10-S00-1, by adding the following item to the table, as follows:

250-10-S00-1 The following table identifies the changes made to this Subtopic.

Paragraph	Action	Accounting Standards Update	Date
250-10-S99-6	Added	2017-03	01/23/2017

10. Amend paragraph 323-740-S00-1, by adding the following item to the table, as follows:

323-740-S00-1 The following table identifies the changes made to this Subtopic.

Paragraph	Action	Accounting Standards Update	Date
323-740-S99-2	Amended	2017-03	01/23/2017

11. Amend paragraph 326-10-00-1, by adding the following item to the table, as follows:

326-10-00-1 The following table identifies the changes made to this Subtopic.

Paragraph	Action	Accounting Standards Update	Date
326-10-65-1	Amended	2017-03	01/23/2017

12. Amend paragraph 606-10-00-1, by adding the following item to the table, as follows:

606-10-00-1 The following table identifies the changes made to this Subtopic.

Paragraph	Action	Accounting Standards Update	Date
606-10-65-1	Amended	2017-03	01/23/2017

13. Amend paragraph 842-10-00-1, by adding the following item to the table, as follows:

842-10-00-1 The following table identifies the changes made to this Subtopic.

Paragraph	Action	Accounting Standards Update	Date
842-10-65-1	Amended	2017-03	01/23/2017

Amendments to the XBRL Taxonomy

The amendments to the *FASB Accounting Standards Codification*[®] in this Accounting Standards Update require changes to the U.S. GAAP Financial Reporting Taxonomy (Taxonomy). Those changes, which will be incorporated into the proposed 2018 Taxonomy, are available for public comment through ASU Taxonomy Changes provided at www.fasb.org, and finalized as part of the annual release process.