

SEC Reporting & Compliance Alert

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SEC Issues Staff Guidance on Tax Act's Accounting Impact

The SEC staff released the following statement earlier today. We will monitor this guidance and provide any relevant updates.

The Securities and Exchange Commission today announced publication of staff guidance for publicly traded companies, auditors, and others to help ensure timely public disclosures of the accounting impacts of the Tax Cuts and Jobs Act (the Act). Specifically, the staff of the Office of the Chief Accountant and the Division of Corporation Finance issued the following interpretations:

- Staff Accounting Bulletin (SAB) No. 118 expresses views of the staff regarding application of U.S. GAAP when preparing an initial accounting of the income tax effects of the Act.
- Compliance and Disclosure Interpretation 110.02 expresses views of the staff regarding the applicability of Item 2.06 of Form 8-K with respect to reporting the impact of a change in tax rate or tax laws pursuant to the Act.
- Director of the Division of Corporation Finance Bill Hinman stated, "This guidance recognizes that investors demand and deserve high-quality information, while also recognizing that entities may face challenges in accounting for one of the most comprehensive changes to the U.S. federal tax code since 1986."

Chief Accountant Wes Bricker added, "Allowing entities to take a reasonable period to measure and recognize the effects of the Act, while requiring robust disclosures to investors during that period, is a responsible step that promotes the provision of relevant, timely, and decision-useful information to investors."

The statements in Staff Accounting Bulletins and Compliance and Disclosure Interpretations are not rules, regulations, or statements of the Commission. They represent interpretations and practices followed by the SEC's Office of the Chief Accountant and the Division of Corporation Finance in administering the disclosure requirements of the federal securities laws. As such, the Commission has neither approved nor disapproved these interpretations.

The SEC staff encourages publicly traded companies, auditors, and others to consult with the staff for interpretative assistance with respect to SEC rules, forms, or generally accepted accounting principles. Guidance for consulting is available for the Division

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of Corporation Finance at https://www.sec.gov/forms/corp_fin_interpretive and for the Office of the Chief Accountant at <https://www.sec.gov/info/accountants/ocasubguidance.htm>.

Fact Sheet

- The Tax Cuts and Jobs Act represents one of the most significant overhauls to the United States federal taxcode since 1986 and could have a significant impact on an entity's domestic and international tax consequences.
- ASC Topic 740 provides guidance addressing changes in tax laws or tax rates to be recognized in the financial reporting period that includes the enactment date, which is the date the Act is signed into law — *i.e.*, Dec. 22, 2017.
- The magnitude of the changes in the Act may give rise to certain operational challenges and constraints for entities when complying with the requirements under ASC Topic 740 upon issuance of an entity's financial statements for the reporting period in which the Act is enacted.

New Guidance Contained in SAB 118

- The staff is issuing guidance in SAB 118 to address certain fact patterns where the accounting for changes in tax laws or tax rates under ASC Topic 740 is incomplete upon issuance of an entity's financial statements for the reporting period in which the Act is enacted.

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- Under the staff guidance in SAB 118, in the financial reporting period the Act is enacted, the income tax effects of the Act (*i.e.*, only for those tax effects in which the accounting under ASC 740 is incomplete) would be reported as a provisional amount based on a reasonable estimate (to the extent a reasonable estimate can be determined), which would be subject to adjustment during a “measurement period” until the accounting under ASC 740 is complete. The measurement period would be limited under the staff's guidance.
- The staff's guidance would also describe supplemental disclosures that should accompany the provisional amounts, including the reasons for the incomplete accounting, the additional information or analysis that is needed, and other information relevant to why the registrant was not able to complete the accounting required under ASC 740 in a timely manner.

New Guidance Contained in C&DI 110.02

- The staff is issuing guidance in C&DI 110.02 to clarify how registrants making use of the measurement period approach in SAB 118 will be expected to comply with their obligations under 2.06 of Form 8-K with respect to disclosure of material impairments of assets.