

Aon plc
Form 10-Q
August 04, 2017

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

FOR THE QUARTERLY PERIOD ENDED June 30, 2017

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Commission file number 1-7933

Aon plc
(Exact Name of Registrant as Specified in Its Charter)

ENGLAND AND WALES 98-1030901
(State or Other Jurisdiction of (I.R.S. Employer
Incorporation or Organization) Identification No.)

122 LEADENHALL STREET, LONDON, ENGLAND EC3V 4AN
(Address of Principal Executive Offices) (Zip Code)
+44 20 7623 5500
(Registrant's Telephone Number,
Including Area Code)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. YES NO

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). YES NO

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer
Non-accelerated filer Smaller reporting company
(Do not check if a smaller reporting company) Emerging growth company

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If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
YES NO

Number of Class A Ordinary Shares of Aon plc, \$0.01 nominal value, outstanding as of August 3, 2017: 254,337,319

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Part I Financial Information
Item 1. Financial Statements

Aon plc
Condensed Consolidated Statements of Income
(Unaudited)

(millions, except per share data)	Three Months		Six Months	
	Ended June 30, 2017	June 30, 2016	Ended June 30, 2017	June 30, 2016
Revenue				
Total revenue	\$2,368	\$2,282	\$4,749	\$4,558
Expenses				
Compensation and benefits	1,457	1,396	2,918	2,741
Information technology	98	99	186	182
Premises	86	89	170	171
Depreciation of fixed assets	54	41	108	79
Amortization and impairment of intangible assets	460	38	503	75
Other general expenses	331	232	639	503
Total operating expenses	2,486	1,895	4,524	3,751
Operating income	(118)	387	225	807
Interest income	8	3	10	5
Interest expense	(71)	(73)	(141)	(142)
Other income (expense)	(5)	(1)	(15)	17
Income (loss) from continuing operations before income taxes	(186)	316	79	687
Income tax expense (benefit)	(143)	43	(143)	102
Net income (loss) from continuing operations	(43)	273	222	585
Income from discontinued operations, net of tax	821	35	861	60
Net income	778	308	1,083	645
Less: Net income attributable to noncontrolling interests	9	8	23	20
Net income attributable to Aon shareholders	\$769	\$300	\$1,060	\$625
Basic net income (loss) per share attributable to Aon shareholders				
Continuing operations	\$(0.20)	\$0.99	\$0.75	\$2.10
Discontinued operations	3.13	0.13	3.27	0.22
Net income	\$2.93	\$1.12	\$4.02	\$2.32
Diluted net income (loss) per share attributable to Aon shareholders				
Continuing operations	\$(0.20)	\$0.98	\$0.75	\$2.08
Discontinued operations	3.13	0.13	3.24	0.22
Net income	\$2.93	\$1.11	\$3.99	\$2.30
Cash dividends per share paid on ordinary shares	\$0.36	\$0.33	\$0.69	\$0.63
Weighted average ordinary shares outstanding - basic	262.4	268.0	263.6	269.9
Weighted average ordinary shares outstanding - diluted	262.4	269.8	265.7	271.7

See accompanying Notes to Condensed Consolidated Financial Statements (Unaudited).

Aon plc
 Condensed Consolidated Statements of Comprehensive Income
 (Unaudited)

(millions)	Three Months Ended		Six Months Ended	
	June 30, 2017	June 30, 2016	June 30, 2017	June 30, 2016
Net income	\$778	\$ 308	\$1,083	\$ 645
Less: Net income attributable to noncontrolling interests	9	8	23	20
Net income attributable to Aon shareholders	\$769	\$ 300	\$1,060	\$ 625
Other comprehensive income (loss), net of tax:				
Change in fair value of financial instruments	4	(4)	2	(11)
Foreign currency translation adjustments	44	(59)	191	(138)
Postretirement benefit obligation	20	51	38	(150)
Total other comprehensive income (loss)	68	(12)	231	(299)
Less: Other comprehensive income attributable to noncontrolling interests	(5)	—	(4)	—
Total other comprehensive income (loss) attributable to Aon shareholders	73	(12)	235	(299)
Comprehensive income attributable to Aon shareholders	\$842	\$ 288	\$1,295	\$ 326

See accompanying Notes to Condensed Consolidated Financial Statements (Unaudited).

Aon plc
Condensed Consolidated Statements of Financial Position
(Unaudited)

(millions, except nominal value)	June 30, 2017	December 31, 2016
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$684	\$ 426
Short-term investments	2,746	290
Receivables, net	2,191	2,106
Fiduciary assets	9,582	8,959
Other current assets	399	247
Current assets of discontinued operations	—	1,118
Total Current Assets	15,602	13,146
Goodwill	7,745	7,410
Intangible assets, net	1,402	1,890
Fixed assets, net	556	550
Deferred tax assets	575	325
Prepaid pension	941	858
Other non-current assets	368	360
Non-current assets of discontinued operations	—	2,076
TOTAL ASSETS	\$27,189	\$ 26,615
LIABILITIES AND EQUITY		
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	\$1,423	\$ 1,604
Short-term debt and current portion of long-term debt	292	336
Fiduciary liabilities	9,582	8,959
Other current liabilities	2,078	656
Current liabilities of discontinued operations	—	940
Total Current Liabilities	13,375	12,495
Long-term debt	5,631	5,869
Deferred tax liabilities	84	101
Pension, other postretirement and postemployment liabilities	1,688	1,760
Other non-current liabilities	858	719
Non-current liabilities of discontinued operations	—	139
TOTAL LIABILITIES	21,636	21,083
EQUITY		
Ordinary shares - \$0.01 nominal value	3	3
Authorized: 750 shares (issued: 2017 - 255.7; 2016 - 262.0)		
Additional paid-in capital	5,587	5,577
Retained earnings	3,574	3,807
Accumulated other comprehensive loss	(3,677)	(3,912)
TOTAL AON SHAREHOLDERS' EQUITY	5,487	5,475
Noncontrolling interests	66	57
TOTAL EQUITY	5,553	5,532
TOTAL LIABILITIES AND EQUITY	\$27,189	\$ 26,615

See accompanying Notes to Condensed Consolidated Financial Statements (Unaudited).

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Aon plc
Condensed Consolidated Statement of Shareholders' Equity
(Unaudited)

(millions)	Shares	Ordinary Shares and Additional Paid-in Capital	Retained Earnings	Accumulated Comprehensive Loss, Net of Tax	Other Non- controlling Interests	Total
Balance at December 31, 2016	262.0	\$ 5,580	\$ 3,807	\$ (3,912)) \$ 57	\$ 5,532
Adoption of new accounting guidance	—	—	49	—	—	49
Balance at January 1, 2017	262.0	5,580	3,856	(3,912)) 57	5,581
Net income	—	—	1,060	—	23	1,083
Shares issued - employee stock compensation plans	2.9	(138)	—	—	—	(138)
Shares purchased	(9.2)	—	(1,160)	—	—	(1,160)
Share-based compensation expense	—	148	—	—	—	148
Dividends to shareholders	—	—	(182)	—	—	(182)
Net change in fair value of financial instruments	—	—	—	2	—	2
Net foreign currency translation adjustments	—	—	—	195	(4)	191
Net postretirement benefit obligation	—	—	—	38	—	38
Purchases of shares from noncontrolling interests	—	—	—	—	(1)	(1)
Dividends paid to noncontrolling interests on subsidiary common stock	—	—	—	—	(9)	(9)
Balance at June 30, 2017	255.7	\$ 5,590	\$ 3,574	\$ (3,677)) \$ 66	\$ 5,553

See accompanying Notes to Condensed Consolidated Financial Statements (Unaudited).

Aon plc
Condensed Consolidated Statements of Cash Flows
(Unaudited)

(millions)	Six Months Ended	
	June 30, 2017	June 30, 2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$ 1,083	\$ 645
Less: Income from discontinued operations, net of income taxes	861	60
Adjustments to reconcile net income to cash provided by operating activities:		
Loss (gain) from sales of businesses and investments, net	3	(41)
Depreciation of fixed assets	108	79
Amortization and impairment of intangible assets	503	75
Share-based compensation expense	148	144
Deferred income taxes	(227)	15
Change in assets and liabilities:		
Fiduciary receivables	10	96
Short-term investments — funds held on behalf of clients	(286)	(409)
Fiduciary liabilities	275	313
Receivables, net	(25)	46
Accounts payable and accrued liabilities	(377)	(335)
Restructuring reserves	178	—
Current income taxes	(25)	(62)
Pension, other postretirement and other postemployment liabilities	(101)	(28)
Other assets and liabilities	30	79
Cash provided by operating activities - continuing operations	436	557
Cash provided by operating activities - discontinued operations	64	207
CASH PROVIDED BY OPERATING ACTIVITIES	500	764
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from investments	29	23
Payments for investments	(32)	(29)
Net sale (purchases) of short-term investments — non-fiduciary	(2,451)	106
Acquisition of businesses, net of cash acquired	(149)	(183)
Sale of businesses, net of cash sold	4,193	103
Capital expenditures	(82)	(68)
Cash provided by (used for) investing activities - continuing operations	1,508	(48)
Cash used for investing activities - discontinued operations	(19)	(36)
CASH PROVIDED BY (USED FOR) INVESTING ACTIVITIES	1,489	(84)
CASH FLOWS FROM FINANCING ACTIVITIES		
Share repurchase	(1,100)	(750)
Issuance of shares for employee benefit plans	(139)	(87)
Issuance of debt	1,651	2,056
Repayment of debt	(1,990)	(1,632)
Cash dividends to shareholders	(182)	(169)
Noncontrolling interests and other financing activities	(10)	(62)
Cash used for financing activities - continuing operations	(1,770)	(644)
Cash used for financing activities - discontinued operations	—	—
CASH USED FOR FINANCING ACTIVITIES	(1,770)	(644)

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EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	34	18
NET INCREASE IN CASH AND CASH EQUIVALENTS	253	54
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	431	384
CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$684	\$ 438
Supplemental disclosures:		
Interest paid	\$144	\$ 144
Income taxes paid, net of refunds	\$108	\$ 89
See accompanying Notes to Condensed Consolidated Financial Statements (Unaudited).		

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Notes to Condensed Consolidated Financial Statements (Unaudited)

1. Basis of Presentation

The accompanying unaudited Condensed Consolidated Financial Statements and Notes thereto have been prepared in accordance with U.S. generally accepted accounting principles (“U.S. GAAP”). The Condensed Consolidated Financial Statements include the accounts of Aon plc and all of its controlled subsidiaries (“Aon” or the “Company”). All intercompany accounts and transactions have been eliminated. The Condensed Consolidated Financial Statements include, in the opinion of management, all adjustments (consisting of normal recurring adjustments and reclassifications) necessary to present fairly the Company’s consolidated financial position, results of operations and cash flows for all periods presented.

Certain information and disclosures normally included in the financial statements prepared in accordance with U.S. GAAP have been condensed or omitted. These Condensed Consolidated Financial Statements should be read in conjunction with the Consolidated Financial Statements and Notes thereto included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2016. The results for the three and six months ended June 30, 2017 are not necessarily indicative of operating results that may be expected for the full year ending December 31, 2017.

Discontinued Operations

On February 9, 2017, the Company entered into a Purchase Agreement (the “Purchase Agreement”) with Tempo Acquisition, LLC (the “Buyer”), an entity formed and controlled by affiliates of The Blackstone Group L.P. Pursuant to the Purchase Agreement, the Company sold its benefits administration and business process outsourcing business (the “Divested Business”) to the Buyer and certain designated purchasers that are direct or indirect subsidiaries of the Buyer (the “Transaction”). As a result, the Divested Business’s financial results are reflected in the Condensed Consolidated Statements of Income, Condensed Consolidated Statements of Financial Position, and Condensed Consolidated Statements of Cash Flows, retrospectively, as discontinued operations beginning in the first quarter of 2017.

Additionally, all Notes to the Condensed Consolidated Financial Statements have been retrospectively restated to only include the impacts of continuing operations, unless noted otherwise. The Transaction closed on May 1, 2017. Refer to Note 3 “Discontinued Operations” for additional information.

Reportable Segments

Beginning in the first quarter of 2017, the Company began operating as one segment that includes all of Aon’s continuing operations, which as a global professional services firm provides advice and solutions to clients focused on risk, retirement, and health through five revenue lines that make up our principal products and services. Refer to Note 17 “Segment Information” for additional information.

As a result of these initiatives, Aon made the following changes to its presentation of the Condensed Consolidated Statement of Income beginning in the first quarter of 2017:

• Commissions, fees and other and Fiduciary investment income are now reported as one Total revenue line item; and
• Other general expenses has been further broken out to provide greater clarity into charges related to Information technology, Premises, Depreciation of fixed assets, and Amortization and impairment of intangible assets.

Prior period comparable financial information has been reclassified to conform to this presentation.

The Company believes this presentation provides greater clarity into the risks and opportunities that management believes are important and allows users of the financial statements to assess the performance in the same way as the Chief Operating Decision Maker (the “CODM”).

Use of Estimates

The preparation of the accompanying Condensed Consolidated Financial Statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosures of contingent assets and liabilities at the date of the financial statements, and the reported amounts of reserves and expenses. These estimates and assumptions are based on management’s best estimates and judgments. Management evaluates its estimates and assumptions on an ongoing basis using historical experience and other factors, including the current economic environment. Management believes its estimates to be reasonable given the current facts available. Aon adjusts such estimates and assumptions when facts and circumstances dictate. Illiquid credit markets, volatile equity markets, and foreign currency exchange rate movements increase the uncertainty inherent in such estimates and assumptions. As future events and their effects cannot be determined with precision,

actual results could differ significantly from these estimates. Changes in estimates resulting from continuing changes in the economic environment would, if applicable, be reflected in the financial statements in future periods.

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2. Accounting Principles and Practices

Adoption of New Accounting Standards

Share-based Compensation

In March 2016, the Financial Accounting Standards Board (“FASB”) issued new accounting guidance on several aspects of the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. The new guidance requires all excess tax benefits and tax deficiencies to be recognized as income tax expense or benefit in the income statement and treated as discrete items in the reporting period. Further, excess tax benefits are required to be classified along with other income tax cash flows as an operating activity. Amendments related to the timing of when excess tax benefits are recognized, minimum statutory withholding requirements, forfeitures, and intrinsic value should be applied using a modified retrospective transition method by means of a cumulative-effect adjustment to equity as of the beginning of the period in which the guidance is adopted. Amendments related to the presentation of employee taxes paid on the statement of cash flows when an employer withholds shares to meet the minimum statutory withholding requirement should be applied retrospectively. Amendments requiring recognition of excess tax benefits and tax deficiencies in the income statement and the practical expedient for estimating expected term should be applied prospectively. An entity may elect to apply the amendments related to the presentation of excess tax benefits on the statement of cash flows using either a prospective transition method or a retrospective transition method.

The Company adopted this guidance on January 1, 2017, with the following impacts:

An increase to Deferred tax assets on the Condensed Consolidated Statement of Financial Position of approximately \$49 million through a cumulative-effect adjustment to Retained earnings for excess tax benefits not previously recognized, and

The recognition of \$19 million, or \$0.07 per share, income tax benefit from continuing operations related to excess tax benefits in the Condensed Consolidated Statement of Income for the three months ended June 30, 2017, and \$48 million, or \$0.18 per share, for the six months ended June 30, 2017.

Adoption of the guidance was applied prospectively on the Condensed Consolidated Statement of Cash Flows and prior period comparable information was not restated. Other elements of the guidance did not have a material impact on the Company’s Condensed Consolidated Financial Statements.

Accounting Standards Issued But Not Yet Adopted

Presentation of Net Periodic Pension and Postretirement Benefit Costs

In March 2017, the FASB issued new accounting guidance on the presentation of net periodic pension cost and net periodic postretirement benefit cost. The new guidance requires that an employer report the service cost component in the same line item or items as other compensation costs arising from services rendered by the pertinent employees during the period. It also requires the other components of net periodic pension cost and net periodic postretirement benefit cost to be presented in the income statement separately from the service cost component and outside a subtotal of income from operations, if one is presented. Additionally, only the service cost component is eligible for capitalization, when applicable. An entity will apply the new guidance retrospectively for the presentation of the service cost component and the other components of net periodic pension cost and net periodic postretirement benefit cost in the income statement and prospectively, on and after the effective date, for the capitalization of the service cost component of net periodic pension costs and net periodic postretirement benefit in assets. The new guidance allows a practical expedient that permits an employer to use the amounts disclosed in its pension and other postretirement benefit plan note for the prior comparative periods as the estimation basis for applying the retrospective presentation requirements. The new guidance is effective for Aon in the first quarter of 2018. The adoption of this guidance will have no impact on the total results of the Company. The presentation of results will reflect a change in Operating income offset by an equal change in Other income (expense) for the period.

Simplifying the Test for Goodwill Impairment

In January 2017, the FASB issued new accounting guidance on simplifying the test for goodwill impairment.

Currently the standard requires an entity to perform a two-step test to determine the amount, if any, of goodwill impairment. In Step 1, an entity compares the fair value of a reporting unit with its carrying amount, including goodwill. If the carrying amount of the reporting unit exceeds its fair value, the entity performs Step 2 and compares

the implied fair value of goodwill with the carrying amount of that goodwill for that reporting unit. An impairment charge equal to the amount by which the carrying amount of goodwill for the reporting unit exceeds the implied fair value of that goodwill is recorded, limited to the amount of goodwill allocated to that reporting unit. The new guidance removes the second step of the test. An entity will apply a one-step quantitative test and record the amount of

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goodwill impairment as the excess of a reporting unit's carrying amount over its fair value, not to exceed the total amount of goodwill allocated to the reporting unit. The new guidance does not amend the optional qualitative assessment of goodwill impairment. An entity will apply the new guidance on a prospective basis. The new guidance is effective for Aon in the first quarter of 2020 and early adoption is permitted for annual goodwill impairment tests performed on testing dates after January 1, 2017. The Company is currently evaluating the impact and period of adoption that the standard will have on the Condensed Consolidated Financial Statements.

Income Tax Consequences of Intercompany Transactions

In October 2016, the FASB issued new accounting guidance on the income tax consequences of intra-entity asset transfers other than inventory. The guidance will require that the seller and buyer recognize the consolidated current and deferred income tax consequences of a transaction in the period the transaction occurs rather than deferring to a future period and recognizing those consequences when the asset has been sold to an outside party or otherwise recovered through use (i.e., depreciated, amortized, impaired). An entity will apply the new guidance on a modified retrospective basis with a cumulative effect adjustment to retained earnings as of the beginning of the period of adoption. The new guidance is effective for Aon in the first quarter of 2018, and the Company is currently evaluating the impact that the standard will have on the Condensed Consolidated Financial Statements.

Statement of Cash Flows

In August 2016, the FASB issued new accounting guidance on the classification of certain cash receipts and cash payments. Under the new guidance, an entity will no longer have discretion to choose the classification for a number of transactions, including contingent consideration payments made after a business combination, proceeds from the settlement of insurance claims, proceeds from the settlement of corporate-owned life insurance policies, and distributions received from equity method investees. The new standard will be effective for the Company in the first quarter of 2018, with early adoption permitted. An entity will apply the new guidance through retrospective adjustment to all periods presented. The retrospective approach includes a practical expedient that entities may apply should retrospective adoption be impracticable; in this case, the amendments for these issues may be applied prospectively as of the earliest date practicable. The guidance will not have a material impact on the Company's Condensed Consolidated Statements of Cash Flows.

Credit Losses

In June 2016, the FASB issued new accounting guidance on the measurement of credit losses on financial instruments. The new guidance replaces the current incurred loss impairment methodology with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. An entity will apply the new guidance through a cumulative-effect adjustment to retained earnings as of the beginning of the first reporting period in which the guidance is effective. The guidance is effective for Aon in the first quarter of 2020 and early adoption is permitted beginning in the first quarter of 2019. Aon is currently evaluating the impact that the standard will have on the Condensed Consolidated Financial Statements, as well as the method of transition and period of adoption.

Leases

In February 2016, the FASB issued new accounting guidance on leases, which requires lessees to recognize assets and liabilities for most leases. Under the new guidance, a lessee should recognize in the statement of financial position a liability to make lease payments and a right-of-use asset representing its right to use the underlying asset for the lease term. The recognition, measurement, and presentation of expenses and cash flows arising from a lease by a lessee have not significantly changed from currently effective U.S. GAAP. The new standard will be effective for the Company in the first quarter of 2019, with early adoption permitted. In transition, lessees and lessors are required to recognize and measure leases at the beginning of the earliest period presented using a modified retrospective approach. The modified retrospective approach includes a number of optional practical expedients that entities may elect to apply. These practical expedients relate to the identification and classification of leases that commenced before the effective date, initial direct costs for leases that commenced before the effective date, and the ability to use hindsight in evaluating lessee options to extend or terminate a lease or to purchase the underlying asset. Aon is currently evaluating the impact the standard will have on the Condensed Consolidated Financial Statements and period of adoption.

Financial Assets and Liabilities

In January 2016, the FASB issued new accounting guidance on recognition and measurement of financial assets and financial liabilities. The amendments in the new guidance make targeted improvements, which include the requirement to measure equity investments with readily determinable fair values at fair value through net income, simplification of the impairment assessment for equity investments without readily determinable fair values, adjustments to existing and additional disclosure requirements, and additional tax considerations. An entity should apply the amendments by means of a cumulative-effect adjustment to the balance sheet as of the beginning of the fiscal year of adoption. The amendments related to equity securities without readily determinable fair values, including disclosure requirements, should be applied prospectively to equity investments that exist as of the date of adoption of the guidance. The guidance is effective for the Company in the first quarter of 2018 and early adoption is permitted. Aon is currently evaluating the impact that the standard will have on the Condensed Consolidated Financial Statements and period of adoption.

Revenue Recognition

In May 2014, the FASB issued a new accounting standard on revenue from contracts with customers, which, when effective, will supersede nearly all existing revenue recognition guidance under U.S. GAAP. The core principal of the standard is that an entity should recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The standard also requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments and assets recognized from costs incurred to obtain or fulfill a contract. The standard is effective for Aon in the first quarter of 2018 and early adoption is permitted beginning in the first quarter of 2017. Two methods of transition are permitted upon adoption: full retrospective and modified retrospective. Under the full retrospective method, prior periods would be restated under the new revenue standard, providing a comparable view across all periods presented. Under the modified retrospective method, prior periods would not be restated. Rather, revenue and other disclosures for pre-2018 periods would be provided in the notes to the financial statements as previously reported under the current revenue standard. The Company will adopt this standard in the first quarter of 2018 and is evaluating both methods of transition; however, it is currently anticipated that a modified retrospective adoption approach will be used.

A preliminary assessment to determine the impacts of the new accounting standard has been performed. The Company is currently implementing accounting and operational processes and controls that will be impacted by the new standard, but is still evaluating the quantitative impacts the standard will have on its financial statements.

However, the more significant impacts of the new standard to the Company are anticipated to be as follows:

The Company currently recognizes revenue for certain brokerage activities over a period of time either due to the transfer of value to customers or as the remuneration becomes determinable. Under the new standard, this revenue will be recognized on the effective date of the associated policies when control of the policy transfers to the customer. As a result, revenue from these arrangements will be recognized in earlier periods under the new standard in comparison to the current guidance and will change the timing and amount of revenue recognized for annual and interim periods.

This change is anticipated to result in a significant shift in interim revenue for Reinsurance Solutions. The Company is currently assessing the timing and measurement of revenue recognition under the new standard for certain other services.

Additionally, the new standard provides guidance on accounting for certain revenue-related costs including when to capitalize costs associated with obtaining and fulfilling a contract. These costs are currently expensed as incurred under existing U.S. GAAP. Assets recognized for the costs to obtain a contract will be amortized on a systematic basis that is consistent with the transfer of the services to which the asset relates, considering anticipated renewals when applicable. For situations where the renewal period is one year or less and renewal costs are commensurate with the initial contract, the Company plans to apply a practical expedient and recognize the costs of obtaining a contract as an expense when incurred. Assets recognized as costs to fulfill a contract will be amortized on a systematic basis that is consistent with the transfer of the services to which the asset relates, which is expected to commonly be a period of less than one year. The Company is quantifying the nature and amount of costs that would qualify for capitalization and the amount of amortization that will be recognized in each period.

3. Discontinued Operations

On February 9, 2017, the Company entered into the Purchase Agreement with Tempo Acquisition, LLC to sell its benefits administration and business process outsourcing business to the Buyer, an entity formed and controlled by affiliates of The Blackstone Group L.P., and certain designated purchasers that are direct or indirect subsidiaries of the Buyer.

On May 1, 2017, the Buyer purchased all of the outstanding equity interests of the Divested Business, plus certain related assets, for a purchase price of (i) \$4.3 billion in cash paid at closing, subject to customary adjustments set forth in the Purchase Agreement, and (ii) deferred consideration of up to \$500 million, plus the assumption of certain liabilities. Cash proceeds after customary adjustments and before taxes due were \$4.2 billion.

Aon and the Buyer entered into certain transaction related agreements at the closing, including two commercial agreements, a transition services agreement, certain intellectual property license agreements, sub-leases and other customary agreements. Aon expects to continue to be a significant client of the Divested Business and the Divested Business has agreed to use Aon for its broking and other services for a specified period of time.

In the second quarter of 2017, the Company recorded an estimated gain on sale, net of taxes, of \$798 million and a non-cash impairment charge to its tradename associated with the Divested Business of \$380 million as this asset was not sold to the Buyer. The impairment charge is included in Amortization and impairment of intangible assets on the Condensed Consolidated Statement of Income for the three and six months ended June 30, 2017.

The Company has classified the results of the Divested Business as discontinued operations in the Company's Condensed Consolidated Statements of Income for all periods presented. Additionally, the assets and liabilities of the Divested Business were retrospectively classified as discontinued operations in the Company's Condensed Consolidated Statements of Financial Position upon triggering held for sale criteria in February 2017. These assets and liabilities were sold on May 1, 2017.

The financial results of the Divested Business for the three and six months ended June 30, 2017 and 2016 are presented as Income from discontinued operations on the Company's Condensed Consolidated Statements of Income. The following table presents financial results of the Divested Business (in millions):

	Three months ended June 30		Six months ended June 30	
	2017	2016	2017	2016
Revenue				
Total revenue	\$171	\$518	\$698	\$1,047
Expenses				
Total operating expenses ⁽¹⁾	156	466	626	952
Operating Income from discontinued operations	15	52	72	95
Other income	11	1	11	1
Income from discontinued operations before income taxes	26	53	83	96
Income taxes	3	18	20	36
Income from discontinued operations excluding gain, net of tax	23	35	63	60
Gain on sale of discontinued operations, net of tax	798	—	798	—
Income from discontinued operations, net of tax	\$821	\$35	\$861	\$60

Upon triggering held for sale criteria in February 2017, Aon ceased depreciating and amortizing all long-lived assets included in discontinued operations. No depreciation or amortization expense was recognized during the three months ended June 30, 2017. Included within total operating expenses for the three months ended June 30, 2016 was \$17 million of depreciation of fixed assets and \$30 million of intangible asset amortization. Total operating expenses for the six months ended June 30, 2017 and 2016 include, respectively, \$8 million and \$35 million of depreciation of fixed assets and \$11 million and \$60 million of intangible asset amortization.

The following table presents the aggregate carrying amounts of the classes of assets and liabilities presented as discontinued operations within the Company's Condensed Consolidated Statements of Financial Position (in millions):

	June	
	30,	December 31,
	2017	2016
	(1)	
ASSETS		
Cash and cash equivalents	\$	—\$ 5
Receivables, net	—	483
Fiduciary assets	—	526
Goodwill	—	1,337
Intangible assets, net	—	333
Fixed assets, net	—	215
Other assets	—	295
TOTAL ASSETS	\$	—\$ 3,194
LIABILITIES		
Accounts payable and accrued liabilities	\$	—\$ 197
Fiduciary liabilities	—	526
Other liabilities	—	356
TOTAL LIABILITIES	\$	—\$ 1,079

(1) All assets and liabilities associated with the Divested Business were sold on May 1, 2017.

The Company's Condensed Consolidated Statements of Cash Flows present the operating, investing, and financing cash flows of the Divested Business as discontinued operations. Aon uses a centralized approach to cash management and financing of its operations. Prior to the closing of the Transaction, portions of the Divested Business's cash were transferred to Aon daily, and Aon would fund the Divested Business as needed. Cash and cash equivalents of discontinued operations at June 30, 2016 was \$4 million.

4. Cash and Cash Equivalents and Short-term Investments