Current Developments: US GAAP

September 2017

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Current Developments: US

September 2017

The 2018 effective date of the revenue standard for public companies is almost here. Although companies are rightfully focused on the accounting requirements, they also must focus on the broader aspects of adoption, which are critical to successful implementation. These include internal controls over financial reporting and disclosures.

Although the revenue standard is the primary focus for most companies, implementing the leases and credit impairment standards follows closely in its path. Companies that are further along in their implementation efforts for these standards are realizing that they need more time and resources than they originally expected to properly sort through and implement the new requirements.

Our publication summarizes these and other accounting and financial reporting developments potentially affecting you in the current period or near term.

Contents

1 New standards and guidance

Revenue recognition – Time is running out

The 2018 effective date of the revenue standard for public companies is almost here. In addition to focusing on the accounting requirements, companies also must focus on the broader aspects of adoption, which are critical to successful implementation. These include internal controls over financial reporting and disclosures.

The SEC staff provided relief to certain public business entities from having to adopt the revenue standard on January 1, 2018 (see SEC staff effective date relief for certain public business entities) and commented on a practice issue related to the accounting for pre-production costs and customer reimbursements. The SEC also issued two releases and a Staff Accounting Bulletin to update certain interpretive guidance about revenue recognition to conform to the new standard.

Internal controls and disclosure reminders

New or modified controls required

Companies need to update accounting policies and related manuals, accounting position papers, process flowcharts, the design of related internal controls and their assessments of those internal controls. For most companies, there are many new risk points, estimates and judgments related to the new accounting that will require an internal controls response *even if the financial statement change is not significant*.

SEC registrants will need to consider the potential effect of changes in internal controls on management's quarterly and annual disclosures and certifications about disclosure controls, procedures and internal controls.

One-time controls over transition

At transition, a company needs effective internal controls over the transition adjustment(s) and those controls will vary based on the chosen transition method. These controls will be different from ongoing controls over the application of the standard because they will be active only one time during adoption.

The internal controls needed at transition (and on an ongoing basis) likely involve numerous functions within the organization. Companies should begin their discussions now to identify those controls and plan for their implementation.

Significantly expanded disclosure requirements

Companies must ensure that the systems, processes and controls that they implement are sufficient to capture the information needed for the new

disclosures. Disclosures likely will be an area of focus by investors and regulators. Challenging new disclosure areas include:

- disaggregating revenue into categories that depict how the nature, amount, timing and uncertainty of cash flows are affected by economic factors; and
- how the transaction price is allocated to the remaining performance obligations.

Preparing a mock disclosure before the effective date is a best practice. This will help companies to determine whether they have the appropriate processes and systems in place to extract the information needed for the disclosures.

Continued SEC staff focus on SAB 74 disclosures

SEC guidance requires registrants to disclose the potential effects that recently issued accounting standards will have on their financial statements when adopted. The SEC staff expects the level and specificity of these disclosures to increase as registrants progress in their implementation efforts. The SEC staff also has stated that when a registrant does not know or cannot reasonably estimate the effect of adoption, it should describe its progress in implementing the standard and the significant implementation matters that it still needs to address.

Further, the SEC staff expects that even if a registrant anticipates little change to its balance sheet and income statement, the changes to the related disclosures may be material. In assessing whether adoption is expected to materially affect their business, registrants should consider possible changes to recognition, measurement, presentation *and* disclosure.

Resources: KPMG's Executive View, ASC 606 implementation – don't forget internal controls and disclosures

SEC updates interpretive guidance

The SEC recently issued two releases.

- **Bill-and-hold arrangements.** The release states that on adoption of the revenue standard, registrants should no longer refer to the criteria in Accounting and Auditing Enforcement Release (AAER) No. 108 for recognizing revenue for bill-and-hold arrangements.
- **Vaccine stockpiles.** The release updates SEC guidance from 2005 and states that on adoption of the revenue standard, manufacturers should recognize revenue for vaccines when they are placed into the Vaccines for Children Program and the Strategic National Stockpile. The release states that for certain vaccines (i.e. childhood disease vaccines, influenza vaccines and other vaccines and countermeasures sold to the federal government for placement in the Strategic National Stockpile) control will have been transferred to the customer and the bill-and-hold criteria under the revenue standard will have been met when they are placed into the US federal government stockpile. This guidance does not apply to vaccines other than those placed into the Strategic National Stockpile.

Separately, the SEC staff released SAB 116, which modifies other SAB Topics to conform existing SEC staff guidance to the revenue standard. Specifically, SAB 116 states that SAB Topic 13, which provides general revenue recognition guidance, and SAB Topic 8, which provides certain presentation and disclosure guidance for retail companies, no longer apply when a registrant adopts the revenue standard. SAB 116 also modifies SAB Topic 11.A to clarify that

operating-differential subsidies[1] would be disclosed separately from revenues recognized under the new standard.

The releases and SAB 116 are effective for a registrant on the same date the registrant adopts the revenue standard. Until that date, a registrant should continue referring to the earlier SEC guidance.

Resources: KPMG's web article

[1] An operating-differential subsidy is a payment made by the federal government to the owner-operator of a qualified American flag vessel to cover certain costs.

SEC staff comments on pre-production costs and customer reimbursements

There is diversity in practice, sometimes within the same industry, in how registrants account for pre-production costs[2] and customer reimbursements. The SEC staff recently stated that a registrant may, in some cases, continue applying historical accounting policies to pre-production costs and related customer reimbursements when they adopt the revenue standard. The SEC staff will continue to accept well-reasoned, practical judgments grounded in the principles of the accounting standards. As a result, diversity in practice may continue in the accounting for these costs and reimbursements after the standard is effective.

Many registrants have disclosed that they may change how they account for these costs and reimbursements when they adopt the revenue standard. Following the SEC staff comments, registrants should reevaluate their disclosures about pre-production activities.

Resources: KPMG's Defining Issues, SEC comments on pre-production costs and customer reimbursements under ASC 606

[2] Pre-production costs occur when a supplier enters into a long-term arrangement with its customers to manufacture parts, and incurs costs to (1) perform certain services related to engineering, design and development of the products and (2) design and develop the tools it will use to produce the products. Pre-production activities are common in the automotive supplier industry.

Leases – Hot topics and FASB update

The leases standard will be effective for public companies in 2019. By now, companies should be identifying their population of leases, and deciding how to transition (e.g. whether to elect the transition practical expedients) and what policy elections to make for their ongoing lease accounting (e.g. as a lessee, whether to separate lease from non-lease components for different classes of underlying assets and whether to elect the short-term lease recognition and measurement exemption). Companies also need to carefully revisit and revise their internal controls and processes to address the transition and ongoing reporting requirements of the new guidance.

Separately, the FASB will propose amendments to the leases standard to address certain implementation issues raised by stakeholders. The amendments include technical corrections to the leases guidance and a new transition practical expedient related to the accounting for land easements.

Accounting for land easements and technical corrections

The FASB recently decided that land easements[3] would be accounted for under other guidance (e.g. ASC 350-30 on intangible assets) only if they do *not* meet the new definition of a lease. Many constituents had told the FASB that it was unclear whether land easements were in the scope of the current leases guidance. In response, the FASB decided to include a practical expedient in the new leases standard allowing an entity to *not* assess on transition whether expired or existing land easements are, or contain, leases that were not previously accounted for under the current leases guidance.

Separately, the FASB decided to make approximately 20 technical corrections to the new leases guidance based on feedback received from stakeholders. The amendments would be narrowly focused and are not intended to change the principles of the new standard.

Separate proposed ASUs are forthcoming for the amendments about land easements and the technical corrections.

[3] An easement is, in general, a right to use and/or enter (or cross) land owned by another party for a specific purpose, for which the rights vary depending on the easement. Easements are used in many industries, but are especially common in the energy, utilities, transportation and telecom industries. Easements may be perpetual or for a defined term, and may be prepaid or paid over time.

Policy election to not separate lease from non-lease components

Lessees will have the option to *not* separate lease from non-lease components (e.g. common area maintenance, equipment maintenance and operations services) for new leases that commence on or after the effective date of the leases standard. The accounting policy election is made by class of underlying asset (e.g. retail space, automobiles or office equipment). It may not be elected lease-by-lease or based on the payment terms of the lease (i.e. gross versus net leases).

The election simplifies the accounting for leases because lessees will not need to allocate the consideration in the contract between the lease and non-lease components of the contract, which would include determining the stand-alone prices of those components. However, because the election results in characterizing all of the contract consideration as lease payments, it will increase the amount of the lessee's lease liability and right-of-use asset.

Independent of electing the practical expedient to not separate lease from non-lease components for new leases that commence on or after the effective date of the leases standard, lessees also may elect to continue using their current method for identifying, and allocating consideration to, lease and non-lease components for existing leases that commence before the effective date of the new standard.

Lease accounting – no longer a 'set it and forget it' exercise

The leases standard introduces a requirement for lessees to reassess and potentially revise their accounting for leases in certain circumstances. For example, a lessee must revisit its estimate of amounts potentially due under residual value guarantees and its judgments about options it has to extend or terminate a lease or to purchase the underlying asset. Lessees may need to revise their accounting when those estimates or judgments change.

Lessees also must remeasure the lease-related amounts they have recognized on the balance sheet when a lease modification is not accounted for as a separate contract. The financial statement effect of modifications under the new standard will frequently be more significant than under the current leases guidance.

Lessees likely will need to revise their processes and controls to comply with the new reassessment and modification requirements – both in the ongoing reporting of lease transactions and during transition to the standard. Lessees generally will need processes and controls to:

- monitor for significant events or changes in circumstances within their control ('triggering events') that will require reassessments of the lease term and lessee purchase options;
- monitor for changes in the estimated residual value of underlying assets subject to residual value guarantees;
- ensure timely identification of lease modifications; and
- ensure the proper accounting for the effects of remeasurements and modifications.

Companies should not delay addressing these items until after the effective date. Conversations about these process and control changes should be cross-functional and include individuals from numerous business activities (e.g. finance, real estate, contract management, legal, treasury, tax and internal audit) who are involved in lease transactions and other activities that could trigger a lease reassessment.

Resources: KPMG's Handbook: Leases, webpage on Leases and web article on land easements

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Financial instruments – New hedge accounting standard; implementation reminders

Changes to hedge accounting

The FASB issued a new standard that allows companies to better align their hedge accounting and risk management activities, and potentially reduce the cost and complexity of applying hedge accounting. The standard requires companies to change the recognition and presentation of the effects of hedge accounting by:

- eliminating the requirement to separately measure and report hedge ineffectiveness; and
- requiring companies to present all of the elements of hedge accounting that affect earnings in the same income statement line as the hedged item.

The standard also permits hedge accounting for strategies for which hedge accounting is not permitted today, and includes new alternatives for measuring the hedged item for fair value hedges of interest rate risk. Furthermore, the standard eases the requirements for effectiveness testing, hedge documentation and applying the critical terms match method and introduces new alternatives that will permit companies to reduce the risk of material error corrections if they misapply the shortcut method.

Effective dates and early adoption provisions		
	Public business entities	**All other entities**
Annual periods – In fiscal years beginning after	December 15, 2018	December 15, 2019
Interim periods – In fiscal years beginning after		December 15, 2020
Early adoption allowed?	Yes, including adoption in an interim period. If adopted at other than the beginning of a fiscal year, adjustments are reflected as of the beginning of the fiscal year.	

Resources: KPMG's Defining Issues, Changes to hedge accounting; ASU 2017-12

Effective date nears for recognition and measurement standard

The FASB's standard about recognition and measurement of financial assets and financial liabilities will be effective in 2018 for public business entities.

The most significant operational changes likely will relate to the new guidance for investments in equity securities that currently apply the cost method because the fair value is not readily determinable. Under the standard, companies can elect to measure these equity securities at fair value, or use a new measurement alternative that adjusts the cost basis for impairment and transaction prices observed for identical or similar securities of the same issuer.

If a company elects to measure these investments at fair value, it should ensure that it has appropriate processes and controls to estimate the fair value at each reporting date.

Companies that elect to apply the new measurement alternative should ensure that appropriate processes and controls will be in place to:

- determine which securities of the same issuer are considered to be similar;
- search for observable transactions of identical or similar securities; and
- determine how the transaction price of a similar, but not identical, security should be adjusted to reflect differences in rights and obligations.

The standard also requires that equity securities that have a readily determinable fair value be measured at fair value with changes recognized in net income. Additionally, the standard includes guidance for related deferred tax assets, fair value disclosures and financial liabilities that apply the fair value option.

Resources: KPMG's Q&A, Financial instruments – recognition and measurement; ASU 2016-01

Measuring credit impairment

The FASB's new credit impairment standard will be effective in 2020 for public business entities with calendar year-ends. Companies should be analyzing the

implications of adopting this standard and considering the adequacy of their disclosures about the expected effects of adoption.

The FASB's overhaul of credit impairment accounting will significantly affect financial institutions and other companies that originate or invest in financial assets such as loans, receivables and debt securities measured at amortized cost. The new current expected credit loss model (CECL) will require companies to recognize an estimate of credit losses expected to occur over the remaining life of the financial assets, including estimating future economic conditions and the affect those conditions will have on expected credit losses.

Although the standard is not effective until 2020, those companies that will be most affected by its requirements should be making significant progress toward adoption. The nature and extent of preparations will vary, but companies will need to thoroughly evaluate the effect of the standard and determine what changes will be necessary. Companies may need to collect more data, and significantly change their systems, processes and internal controls to comply with the standard.

In June 2017, the Transition Resource Group (TRG) met to discuss implementation issues raised by stakeholders. The TRG generally agreed with the FASB staff's view on issues related to the effective interest rate used to discount expected cash flows, beneficial interests, transition guidance for existing pools of purchased credit impaired assets and estimating the life of credit card receivables. The TRG discussed but did not reach a conclusion about the effect of troubled debt restructurings on the allowance for credit losses. Further discussions are expected about the outstanding issues and other issues that may arise.

Resources: KPMG's Issues In-Depth, Financial instruments: credit impairment; June TRG meeting minutes; ASU 2016-13

Changes to accounting for certain instruments with down round features

The FASB issued a new standard under which equity-linked instruments or embedded equity-linked features will not be accounted for as a liability solely because of a 'down round feature'.[4] This means that fewer free-standing equity-linked instruments with down round features will be accounted for as liabilities. Likewise, fewer embedded equity-linked features with down round features will be bifurcated from the host contract. However, a company will still need to evaluate other features in the equity-linked instrument to determine whether the instrument or embedded feature should be accounted for as a liability.

[4] A 'down round feature' is a provision in an equity-linked financial instrument that reduces the strike price of the financial instrument if the company (1) sells additional shares of its common stock for an amount less than the current strike price of the equity-linked instrument or (2) issues an equity-linked instrument with a strike price below the current strike price of the financial instrument. A down round feature protects certain investors from a decline in a company's share price. Although a down round feature is not normally a significant driver of the fair value of the instrument, the fair value of that instrument is somewhat greater than a similar equity-linked instrument without a down round feature.

Computing EPS. A company that presents EPS information will reflect the effect of a down round feature of freestanding equity-linked financial instruments in EPS only in the period(s) in which the feature is triggered. When triggered, the effect of the down round feature will be accounted for as a deemed dividend and will reduce the income available to common shareholders for computing basic EPS.

Scope exception for mandatorily redeemable financial instruments. Current US GAAP allows certain nonpublic entities to indefinitely defer applying liability classification requirements for mandatorily redeemable financial instruments and certain mandatorily redeemable non-controlling interests. The new standard replaces the indefinite deferral with a scope exception. Because it does not change the accounting guidance, there is no effective date or transition guidance for that part of the standard.

Effective dates and early adoption provisions		
	Public business entities	**All other entities**
Annual periods – In fiscal years beginning after	December 15, 2018	December 15, 2019
Interim periods – In fiscal years beginning after		December 15, 2020
Early adoption allowed?	Yes, including adoption in an interim period. If adopted at other than the beginning of a fiscal year, adjustments are reflected as of the beginning of the fiscal year.	

Resources: KPMG's Defining Issues, FASB changes accounting and EPS for certain instruments with down round features; ASU 2017-11

PCAOB adopts new standard to enhance the auditors' report

In June, the PCAOB adopted a standard that, subject to SEC approval, will require the auditor to include in the auditors' report a discussion of critical audit matters (CAMs). The standard defines CAMs as matters that are required to be or have been communicated to the audit committee; are related to accounts or disclosures that are material to the financial statements; and involve especially challenging, subjective or complex auditor judgment. Other changes to the auditors' report will include:

- disclosing auditor tenure (i.e. the year in which the auditor began consecutive service as the company's auditor);
- adding the phrase 'whether due to error or fraud' in describing the responsibility of the auditor under PCAOB standards to plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement;
- adding a statement that the auditor is required to be independent; and

— reorganizing the paragraphs so that the opinion paragraph will be the first paragraph of the auditors' report.

The requirement to communicate CAMs will be effective for:

— **large accelerated filers**, for audits of fiscal years ending on or after June 30, 2019; and
— **all other companies**, for audits of fiscal years ending on or after December 15, 2020.

All other requirements are effective for audits of fiscal years ending on or after December 15, 2017.

The new requirements apply to audits conducted under PCAOB standards. However, the communication of CAMs is not required for audits of emerging growth companies; brokers and dealers; investment companies other than business development companies; and employee stock purchase, savings and similar plans.

Management and audit committees should take advantage of the time before the reporting requirements about CAMs become effective to discuss the new requirements with their auditors. Early dialogue will be key for effective and timely implementation of this aspect of the new standard.

Resources: KPMG's Defining Issues, PCAOB issues auditing standard to enhance auditors' report; Final PCAOB standard

2 Projects and agenda priorities

Consolidation projects underway

Reorganization

The FASB will propose a new accounting standard that would reorganize and replace the guidance in ASC 810 about consolidation with a new Topic – ASC 812. ASC 812 would have separate Subtopics for variable interest entities (VIEs) and voting interest entities. The proposal also would move the rarely used guidance about the 'consolidation of entities controlled by contract' from ASC 810 to the accounting guidance for not-for-profit entities (ASC 958).

The Board expects the proposed reorganization will make it easier for stakeholders to navigate the consolidation guidance and clarify certain terms and concepts.

A proposed ASU is forthcoming.

Targeted improvements to related party guidance for VIEs

Private companies

The FASB proposed a new accounting alternative that would exempt private companies from the requirement to apply the VIE consolidation guidance to interests in other private companies that are under common control. To qualify for the exemption, the reporting entity, the common control parent and the legal entity being evaluated for consolidation cannot be public business entities.

The accounting alternative would be an accounting policy election and would require enhanced disclosures.

All reporting entities

The proposal would:

- align the evaluation of whether a decision maker's fee is a variable interest with the guidance in the primary beneficiary test, as amended by ASU 2016-17;
- remove the related party tie-breaker test and amend the consolidation guidance for when a related party group of commonly controlled entities holds a controlling financial interest and no single entity within the related party group has a controlling financial interest; and
- clarify that if the parent of a common control group has a controlling financial interest in a VIE, that parent is required to consolidate the VIE, regardless of whether any of its controlled subsidiaries consolidate the VIE.

The comment period ended September 5.

Resources: KPMG's web article; Proposed ASU

FASB proposes to clarify accounting for grants and similar transactions

The FASB proposed a new standard that would clarify the scope and accounting guidance for contributions received and made. The Board intends for the proposal to reduce diversity in practice and enhance comparability among entities. Specifically, the proposal would:

— clarify how an entity determines whether a resource provider is receiving 'commensurate value' in return for the resources transferred; and
— clarify and expand the criteria for determining whether a contribution is conditional.

As a result of the proposed clarifications, some grants that are considered exchange transactions today would be accounted for as conditional contributions under the proposed standard. Additionally, some grants that are considered unconditional contributions today would be considered conditional under the proposed standard, thus delaying recognition of the related contribution revenue and expenses.

The proposed guidance would primarily affect not-for-profit entities, including healthcare entities. However, the guidance would apply to all entities that receive or contribute cash or other assets.

The comment period ends November 1.

Resources: KPMG's Defining Issues, FASB proposes to clarify how not-for-profits and others account for grants and similar transactions; Proposed ASU

FASB proposes technical corrections and improvements

The FASB proposed technical corrections to eliminate outdated special income tax accounting guidance for steamship entities and certain depository and lending institutions. Specifically, the FASB proposed to eliminate:

— ASC 995 that addresses US steamship entities, which includes an exemption from recognizing deferred taxes on certain statutory reserve deposits that were, but are no longer, tax deferred;
— duplicate guidance requiring savings and loan entities (and other thrift lenders) to provide deferred taxes on bad debt reserves that arose after December 31, 1987; and
— outdated guidance related to the Comptroller of the Currency's Banking Circular 202, Accounting for Net Deferred Taxes.

The proposals are part of an ongoing FASB project to make non-substantive technical corrections, clarifications and improvements that are not expected to significantly affect accounting practice or create a significant administrative cost for most entities. The comment period ended on August 28.

Resources: KPMG's web article; Proposed ASUs about ASC 995 and ASC 942

FASB makes decisions on the accounting for insurance contracts

The FASB continues to redeliberate comments received on its proposed accounting standard that would change how insurance entities recognize, measure, present and disclose long-duration insurance contracts. At an August meeting, the FASB discussed the reserving model for nonparticipating traditional and limited-payment insurance contracts and made these decisions.

- Affirmed that insurance entities would be required to update cash flow assumptions at least annually, and remeasure the liability for future policy benefits using a catch-up method (previously called the retrospective method).
- Decided that an upper-medium grade, fixed-income instrument yield would be used to discount future cash flows instead of a high-quality grade, fixed-income instrument yield as proposed.
- Decided that insurance entities would apply a prospective transition approach (instead of the retrospective transition approach initially proposed), but would have an option to use a retrospective transition approach.

The proposed guidance would apply to only those insurance entities within the scope of US GAAP guidance related to insurance contracts (ASC 944). It would exclude holders of insurance contracts and contracts issued by non-insurance entities.

The Board will discuss at future meetings the other targeted improvement areas in the proposed standard:

- assumptions used to measure the liability for participating insurance contracts;
- measurement of market risk benefits;
- amortization of deferred acquisition costs; and
- presentation and disclosures.

Resources: KPMG's Defining Issues, FASB makes decisions on targeted improvements for long-duration insurance contracts; Proposed ASU

EITF addresses costs incurred in certain cloud computing arrangements

At its July meeting, the Emerging Issues Task Force (EITF) discussed a customer's accounting for implementation costs incurred in a cloud computing arrangement that is a service contract. The EITF directed the FASB staff to perform additional research on two alternative models for the accounting for these costs.

Alternative A.[5] The costs would be recognized as an asset or an expense when incurred on the basis of other existing US GAAP, if any. If the costs are not covered by other US GAAP, the customer would:

[5] Referred to as Alternative B on Issue 3 in the EITF paper.

— account for costs related to implementation activities that are not distinct from access to the cloud-based software as prepayments for the cloud-based solution; and
— expense as incurred costs related to implementation activities that are distinct from access to the cloud-based software.

Alternative B.[6] Account for the costs as if they were incurred as part of a software licensing arrangement within the scope of ASC 350-40 on internal-use software.

The Private Company Council (PCC) also discussed the issue at its July meeting and confirmed that the accounting for these costs is a prevalent issue among private companies. A PCC member also recommended that the FASB provide application guidance to discern types of implementation costs that may be appropriate for capitalization.

Deliberations are expected to continue at the next EITF meeting on October 12.

Resources: KPMG's web article

[6] Referred to as Alternative C on Issue 3 in the EITF paper.

PCC activities

The Private Company Council (PCC) met with the FASB staff in July. The PCC generally expressed support for the FASB's projects about targeted improvements to related party guidance for variable interest entities, accounting for implementation costs for certain cloud computing arrangements, accounting changes for certain financial instruments with down round features, and non-employee share-based payment accounting improvements.

A majority of PCC members recommended that the FASB finalize the proposed guidance about balance sheet classification of debt, with minor improvements to balance sheet presentation. PCC members also expressed interest in helping the Board determine appropriate transition provisions and educational efforts.

The next PCC meeting was held on September 19.

3 Recommended reading and CPE opportunities

We have ignition

In an interview with *Consulting Magazine*, Mike Nolan, KPMG's Vice Chair of Innovation & Enterprise Solutions, talks about disruption and the firm's global Ignition Centers, the high-level strategizing that takes place at these centers and how companies are embracing disruption through innovation. Nolan explains the C-Suite's view on tackling disruption and how KPMG Ignition can help companies to address disruption head on. Read the article.

What does your organization need – Big(ger) data or big(ger) insights?

In a byline article for *CIO Review*, KPMG's Sreekar Krishna outlines five important concepts that are sweeping the data world: serverless computing, real-time analytics, machine learning, fail-fast experimentation and testing-in-production. Krishna explains that with all of this available data, expectations for reduced costs and greater returns are high. However, many companies are realizing that the grass on the other 'big data side' is not as green as they expected. Although Big Data has provided boosts to the bottom line, the next generation of Big Data will require substantial investment into big insights. Read the article.

Time is running out to comply with the new FASB revenue recognition standard

In a byline article for *New Jersey CPA Magazine*, KPMG's Kevin Bogle says research indicates that some companies may have trouble meeting the reporting deadlines on at least one of two major accounting standards that financial statement preparers must implement over the coming two years. Read the article.

Understanding the operation, impact and practical implications of the multilateral instrument

Bloomberg BNA Tax Management International Journal featured an article authored by KPMG's International Tax practice National Leader Manal Corwin and Washington National Tax Principal Jesse Eggert (international tax group), examining the Organization for Economic Co-operation and Development's (OECD) Multilateral Instrument (MLI).

The article, which focuses on the operation, impact and practical implications of the MLI, stressed the need for companies to consider:

- reviewing the OECD's reports about the initiative to address base erosion and profit shifting (BEPS) in connection with their operations;
- reinforcing the alignment of their treaty positions with their business activities; and
- maintaining contemporaneous documentation supporting these positions.

Read the article.

Upcoming CPE opportunities

KPMG is hosting its 27th Annual Accounting and Financial Reporting Symposium on November 30 and December 1 in Las Vegas, Nevada. The event will feature KPMG subject matter experts and external speakers discussing major accounting and financial reporting developments from the FASB and SEC as well as business issues affecting the accounting functions. Participants will earn up to 16 continuing professional education (CPE) credits. Visit KPMG Executive Education or call 201-505-6062 for available discounts and additional information about the Symposium and other available CPE opportunities.

KPMG's Financial Reporting View (FRV) offers additional CPE opportunities, including registration information for upcoming **CFO Financial Forum webcasts**. The webcasts feature KPMG professionals discussing current and forthcoming accounting and financial reporting matters, and implementation guidance for new accounting standards.

4 Appendix – Accounting standards effective dates

Accounting standards affecting public companies in 2017

Calendar year-end public companies are required to begin applying these accounting standards in 2017.

Topic	Effective date for public companies	For more information
Amendments to SEC paragraphs pursuant to staff announcements at the September 22, 2016 and November 17, 2016 EITF meetings	On issuance (January 2017)	ASU 2017-03
Simplifying the measurement of inventory	Annual and interim periods in fiscal years beginning after 12/15/2016	ASU 2015-11 Defining Issues Podcast
Simplifying the presentation of deferred taxes	Annual and interim periods in fiscal years beginning after 12/15/2016	ASU 2015-17 Defining Issues Podcast
Effect of derivative contract novations on existing hedge accounting relationships	Annual and interim periods in fiscal years beginning after 12/15/2016	ASU 2016-05 Defining Issues Podcast
Contingent put and call options in debt instruments	Annual and interim periods in fiscal years beginning after 12/15/2016	ASU 2016-06 Defining Issues Podcast
Simplifying the transition to the equity method of accounting	Annual and interim periods in fiscal years beginning after 12/15/2016	ASU 2016-07 Defining Issues Podcast
Improvements to employee share-based payment accounting	Annual and interim periods in fiscal years beginning after 12/15/2016	ASU 2016-09 Defining Issues Podcast

Topic	Effective date for public companies	For more information
Consideration of interests held through related parties under common control	Annual and interim periods in fiscal years beginning after 12/15/2016	ASU 2016-17 Defining Issues Podcast
Technical corrections (December 2016)	Most amendments were effective on issuance (December 2016). Certain amendments that require transition guidance are effective for annual and interim periods in fiscal years beginning after 12/15/2016.	ASU 2016-19

Accounting standards affecting public companies in 2018 and beyond

Calendar year-end public companies are required to begin applying these accounting standards in 2018 or later and may need to disclose their potential effects in 2017.

Topic	Effective date for public companies	For more information
Revenue recognition	Annual and interim periods in fiscal years beginning after 12/15/2017	ASU 2014-09 ASU 2015-14 ASU 2016-08 ASU 2016-10 ASU 2016-11 ASU 2016-12 ASU 2016-20 KPMG's webpage on Revenue
Recognition and measurement of financial assets and financial liabilities	Annual and interim periods in fiscal years beginning after 12/15/2017	ASU 2016-01 KPMG's webpage on Financial instruments
Recognition of breakage for certain prepaid stored-value products	Annual and interim periods in fiscal years beginning after 12/15/2017	ASU 2016-04 Defining Issues Podcast

Topic	Effective date for public companies	For more information
Statement of cash flows - classification of certain cash receipts and payments	Annual and interim periods in fiscal years beginning after 12/15/2017	ASU 2016-15 Defining Issues Podcast
Intra-entity transfers of assets other than inventory	Annual and interim periods in fiscal years beginning after 12/15/2017	ASU 2016-16 Defining Issues Podcast
Statement of cash flows - presentation of restricted cash	Annual and interim periods in fiscal years beginning after 12/15/2017	ASU 2016-18 Defining Issues Podcast
Clarifying the definition of a business	Annual and interim periods in fiscal years beginning after 12/15/2017	ASU 2017-01 Defining Issues Webcast
Clarifying the scope of asset derecognition guidance and accounting for partial sales of nonfinancial assets	Annual and interim periods in fiscal years beginning after 12/15/2017	ASU 2017-05 Defining Issues Podcast
Improving the presentation of net periodic pension cost and net periodic postretirement benefit cost	Annual and interim periods in fiscal years beginning after 12/15/2017	ASU 2017-07 Defining Issues Podcast
Scope of modification accounting for share-based payment awards	Annual and interim periods in fiscal years beginning after 12/15/2017	ASU 2017-09 Web article
Identifying the customer in a service concession arrangement	Annual and interim periods in fiscal years beginning after 12/15/2017	ASU 2017-10 Web article Podcast
Leases	Annual and interim periods in fiscal years beginning after 12/15/2018	ASU 2016-02 KPMG's webpage on Leases

Topic	Effective date for public companies	For more information
(Part I) Accounting for certain financial instruments with down round features, (Part II) Replacement of the indefinite deferral for mandatorily redeemable financial instruments of certain nonpublic entities and certain mandatorily redeemable noncontrolling interests with a scope exception	Annual and interim periods in fiscal years beginning after 12/15/2018	ASU 2017-11 Defining Issues
Targeted improvements to accounting for hedging activities	Annual and interim periods in fiscal years beginning after 12/15/2018	ASU 2017-12 Defining Issues
Measurement of credit losses on financial instruments	**SEC filers:** Annual and interim periods in fiscal years beginning after 12/15/2019 **Non-SEC filers:** Annual and interim periods in fiscal years beginning after 12/15/2020	ASU 2016-13 Defining Issues KPMG's webpage on Financial instruments
Premium amortization for purchased callable debt securities	Annual and interim periods in fiscal years beginning after 12/15/2018	ASU 2017-08 Defining Issues Podcast
Simplifying the test for goodwill impairment	**SEC filers:** Annual and interim periods in fiscal years beginning after 12/15/2019 **Non-SEC filers:** Annual and interim periods in fiscal years beginning after 12/15/2020	ASU 2017-04 Defining Issues Podcast

Accounting standards affecting private companies in 2017

Calendar year-end private companies are required to begin applying these accounting standards in 2017.

Topic	Effective date for private companies	For more information
Eliminating certain investments from the fair value hierarchy table	Annual and interim periods in fiscal years beginning after 12/15/2016	ASU 2015-07 Defining Issues Podcast
Simplifications for employee benefit plans	Annual and interim periods in fiscal years beginning after 12/15/2016	ASU 2015-12 Defining Issues Podcast
Simplifying the transition to the equity method of accounting	Annual and interim periods in fiscal years beginning after 12/15/2016	ASU 2016-07 Defining Issues Podcast
Consolidation	Annual periods in fiscal years beginning after 12/15/2016, and interim periods in fiscal years beginning after 12/15/2017	ASU 2015-02 Defining Issues Webcast
Practical expedient for the measurement date of an employer's defined benefit obligation and plan assets	Annual periods in fiscal years beginning after 12/15/2016, and interim periods in fiscal years beginning after 12/15/2017	ASU 2015-04 Defining Issues
Disclosures about short-duration insurance contracts	Annual periods in fiscal years beginning after 12/15/2016, and interim periods in fiscal years beginning after 12/15/2017	ASU 2015-09 Issues & Trends In Insurance
Simplifying the measurement of inventory	Annual periods in fiscal years beginning after 12/15/2016, and interim periods in fiscal years beginning after 12/15/2017	ASU 2015-11 Defining Issues Podcast

Topic	Effective date for private companies	For more information
Simplifying measurement-period adjustments	Annual periods in fiscal years beginning after 12/15/2016, and interim periods in fiscal years beginning after 12/15/2017	ASU 2015-16 Defining Issues Podcast
Consideration of interests held through related parties under common control	Annual periods in fiscal years beginning after 12/15/2016, and interim periods in fiscal years beginning after 12/15/2017	ASU 2016-17 Defining Issues Podcast
Clarifying when a not-for-profit entity that is a general partner or a limited partner should consolidate a for-profit limited partnership or similar entity	Annual periods in fiscal years beginning after 12/15/2016, and interim periods in fiscal years beginning after 12/15/2017	ASU 2017-02 Defining Issues Podcast
Technical corrections (December 2016)	Most amendments were effective on issuance (December 2016). Certain amendments that require transition guidance are effective for: — annual and interim periods in fiscal years beginning after 12/15/2016 (for fair value measurements); — annual periods in fiscal years beginning after 12/15/2017, and interim periods in fiscal years beginning after 12/15/2018 (for cloud computing arrangements).	ASU 2016-19

Accounting standards affecting private companies in 2018 and beyond

Calendar year-end private companies are required to begin applying these accounting standards in 2018 or later.

Topic	Effective date for private companies	For more information
Scope of modification accounting for share-based payment awards	Annual and interim periods in fiscal years beginning after 12/15/2017	ASU 2017-09 Web article
Simplifying the presentation of deferred taxes	Annual periods in fiscal years beginning after 12/15/2017, and interim periods in fiscal years beginning after 12/15/2018	ASU 2015-17 Defining Issues Podcast
Effect of derivative contract novations on existing hedge accounting relationships	Annual periods in fiscal years beginning after 12/15/2017, and interim periods in fiscal years beginning after 12/15/2018	ASU 2016-05 Defining Issues Podcast
Contingent put and call options in debt instruments	Annual periods in fiscal years beginning after 12/15/2017, and interim periods in fiscal years beginning after 12/15/2018	ASU 2016-06 Defining Issues Podcast
Improvements to employee share-based payment accounting	Annual periods in fiscal years beginning after 12/15/2017, and interim periods in fiscal years beginning after 12/15/2018	ASU 2016-09 Defining Issues Podcast
Presentation of financial statements of not-for-profit entities	Annual periods in fiscal years beginning after 12/15/2017, and interim periods in fiscal years beginning after 12/15/2018	ASU 2016-14

Topic	Effective date for private companies	For more information
Revenue recognition	Annual periods in fiscal years beginning after 12/15/2018, and interim periods in fiscal years beginning after 12/15/2019	ASU 2014-09 ASU 2015-14 ASU 2016-08 ASU 2016-10 ASU 2016-12 ASU 2016-20 KPMG's webpage on Revenue
Recognition and measurement of financial assets and financial liabilities	Annual periods in fiscal years beginning after 12/15/2018, and interim periods in fiscal years beginning after 12/15/2019	ASU 2016-01 KPMG's webpage on Financial instruments
Recognition of breakage for certain prepaid stored-value products	Annual periods in fiscal years beginning after 12/15/2018, and interim periods in fiscal years beginning after 12/15/2019	ASU 2016-04 Defining Issues Podcast
Statement of cash flows - classification of certain cash receipts and payments	Annual periods in fiscal years beginning after 12/15/2018, and interim periods in fiscal years beginning after 12/15/2019	ASU 2016-15 Defining Issues Podcast
Intra-entity transfers of assets other than inventory	Annual periods in fiscal years beginning after 12/15/2018, and interim periods in fiscal years beginning after 12/15/2019	ASU 2016-16 Defining Issues Podcast
Statement of cash flows - presentation of restricted cash	Annual periods in fiscal years beginning after 12/15/2018, and interim periods in fiscal years beginning after 12/15/2019	ASU 2016-18 Defining Issues Podcast

Topic	Effective date for private companies	For more information
Clarifying the definition of a business	Annual periods in fiscal years beginning after 12/15/2018, and interim periods in fiscal years beginning after 12/15/2019	ASU 2017-01 Defining Issues Webcast
Clarifying the scope of asset derecognition guidance and accounting for partial sales of nonfinancial assets	Annual periods in fiscal years beginning after 12/15/2018, and interim periods in fiscal years beginning after 12/15/2019	ASU 2017-05 Defining Issues Podcast
Employee benefit plan master trust reporting	Annual periods in fiscal years beginning after 12/15/2018	ASU 2017-06
Improving the presentation of net periodic pension cost and net periodic postretirement benefit cost	Annual periods in fiscal years beginning after 12/15/2018, and interim periods in fiscal years beginning after 12/15/2019	ASU 2017-07 Defining Issues Podcast
Identifying the customer in a service concession arrangement	Annual periods in fiscal years beginning after 12/15/2018, and interim periods in fiscal years beginning after 12/15/2019	ASU 2017-10 Web article Podcast
Leases	Annual periods in fiscal years beginning after 12/15/2019, and interim periods in fiscal years beginning after 12/15/2020	ASU 2016-02 KPMG's webpage on Leases
Premium amortization for purchased callable debt securities	Annual periods in fiscal years beginning after 12/15/2019, and interim periods in fiscal years beginning after 12/15/2020	ASU 2017-08 Defining Issues Podcast

Topic	Effective date for private companies	For more information
(Part I) Accounting for certain financial instruments with down round features, (Part II) Replacement of the indefinite deferral for mandatorily redeemable financial instruments of certain nonpublic entities and certain mandatorily redeemable noncontrolling interests with a scope exception	Annual periods in fiscal years beginning after 12/15/2019, and interim periods in fiscal years beginning after 12/15/2020	ASU 2017-11 Defining Issues
Targeted improvements to accounting for hedging activities	Annual periods in fiscal years beginning after 12/15/2019, and interim periods in fiscal years beginning after 12/15/2020	ASU 2017-12 Defining Issues
Measurement of credit losses on financial instruments	Annual periods in fiscal years beginning after 12/15/2020, and interim periods in fiscal years beginning after 12/15/2021	ASU 2016-13 Defining Issues KPMG's webpage on Financial instruments
Simplifying the test for goodwill impairment	Annual and interim periods in fiscal years beginning after 12/15/2021	ASU 2017-04 Defining Issues Podcast

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