Current Developments: US

March 2018

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The first quarter of 2018 has been nothing short of taxing on financial statement preparers. The enactment of a new tax law on December 22, 2017 required most companies to quickly respond and determine the potential effect of the reforms on their financial statements for the year ended December 31, 2017. The reforms will significantly affect companies' accounting for and reporting of income taxes and their related processes and controls.

In January 2018, calendar year-end public companies adopted the revenue recognition standard, the financial instruments standard about recognition and measurement, and other standards intended to clarify or simplify accounting guidance.

Meanwhile, the FASB finalized and proposed amendments to the leases standard, including optional transition relief. Even with this relief, the time and resources required to gather all information to implement the standard will remain significant, and the 2019 effective date for public companies is quickly approaching.

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

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Contents

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1 Current quarter financial reporting matters

US tax reform highlights

H.R. 1, originally known as the Tax Cuts and Jobs Act, was enacted on December 22, 2017, and is expected to significantly affect companies' accounting for and reporting of income taxes and their related processes and controls.

Also on December 22, the SEC staff issued Staff Accounting Bulletin No. 118, which allows registrants to record provisional amounts during a 'measurement period'. The measurement period is similar to the measurement period used when accounting for business combinations under ASC 805. It ends when a company has obtained, prepared and analyzed the information necessary to finalize its accounting, but cannot extend beyond one year.

Because most of the provisions of the new law were effective January 1, 2018, companies have begun to estimate the effect on their annual effective tax rates. This includes evaluating whether expenses that were historically deductible before January 1 remain deductible, applying the new rate provisions of the law, determining the effects of the new interest expense limitations and forecasting whether they will be subject to new taxes on foreign earnings and payments.

Companies' analyses and interpretations of the new law and of how ASC 740 should be applied continue to evolve. As companies obtain, prepare or analyze additional information about facts and circumstances that existed at the enactment date, they will need to adjust the balances recorded provisionally as of December 31, 2017 for the effect, if any.

Companies also must dedicate appropriate time and attention to disclosures related to the new law and the recorded provisional amounts. The disclosures should be sufficiently detailed for a user to understand the significant effects of the law, the nature of provisional amounts and the previously provisional amounts for which the accounting has been completed during the period.

FASB activities

Recognizing the entire effect of the change in tax law in income tax expense (benefit) from continuing operations results in residual tax effects within accumulated other comprehensive income (AOCI) for a company that initially recognized deferred tax balances through other comprehensive income. Those effects are released when the item giving rise to that tax effect is disposed of, liquidated or terminated, or when the entire portfolio of similar items is liquidated. Stakeholders expressed concerns about the magnitude of residual tax effects arising as a result of tax reform and asked the FASB to address the issue.

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In response, the FASB issued an ASU in February that provides companies with the option to reclassify residual tax effects within AOCI to retained earnings in each period in which the effect of the change in the corporate income tax rate in the new law is recognized. The standard also requires companies to disclose:

- their accounting policy for releasing income tax effects from AOCI;
- whether they elect to reclassify the residual income tax effects that arose under the new law; and
- information about other income tax effects that are reclassified.

The amendments are effective for all companies for annual and interim periods in fiscal years beginning after December 15, 2018. Early adoption is permitted.

The FASB staff also issued a series of Staff Q&As that discuss the accounting for the new tax law, including whether a company should (a) adjust the tax rate applied to temporary differences for the base erosion anti-abuse tax (BEAT), (b) recognize deferred taxes for basis differences expected to result in future global intangible low-taxed income (GILTI), (c) discount the liability for deemed repatriated foreign earnings and (d) discount the asset for alternative minimum tax (AMT) credits.

Resources: KPMG's Q&A, Tax reform – Supplement to KPMG's Handbook, Income Taxes; FASB Staff Q&As; ASU 2018-02; SAB 118

Public companies adopt the revenue recognition standard

At long last, the mandatory adoption date for the revenue recognition standard is here. Calendar year-end public companies are required to adopt and apply the requirements of the standard in the first quarter of 2018. At this time, most public companies have likely finished assessing their significant accounting issues and calculated the effect of the standard on their business processes and financial statements. However, there is still work to be done. Companies must turn their attention to the disclosures required for their quarterly reporting. Adopting the standard requires new and expanded qualitative and quantitative disclosures on an ongoing basis and in transition to communicate the effects of adoption.

Other accounting guidance addresses items that are outside the scope of ASC 606, specifically, derecognition of nonfinancial assets and in-substance nonfinancial assets in transactions with noncustomers. Public companies are required to adopt that guidance effective concurrent with the revenue recognition standard.

Expanded disclosures

The objective of the disclosure requirements in the revenue recognition standard is to provide financial statement users with sufficient information to understand the nature, amount, timing and uncertainty of revenue, certain costs and cash flows arising from contracts with customers.

Although the standard specifies that certain disclosures are not required in interim financial statements, Rule 10-01 of Regulation S-X and Financial Reporting Manual Section 1500 require SEC registrants to provide annual and interim disclosures in each quarterly report in the year of adoption (i.e. the first, second and third quarter Form 10-Q filings).

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Therefore, when a registrant adopts a new accounting standard in an interim period, it is expected to provide in filings with the SEC the annual and the interim period financial statement disclosures required by the new accounting standard if those disclosures do not duplicate information previously provided in the annual financial statements.

All companies also must comply with required transition disclosures under ASC 606, which provide information about the manner of adoption and its effects on a company's financial statements. Companies that adopt using the modified retrospective method (i.e. the cumulative effect method) must:

- disclose the amount by which applying ASC 606 affects each financial statement line item in the current period; and
- disclose and explain the significant changes between the reported results under ASC 606 and those that would have been reported under legacy US GAAP.

As a consequence of these disclosure requirements, an entity that elects the cumulative effect method is essentially required to maintain dual-reporting for the year of initial application.

A company that adopts ASC 606 using the full retrospective method will restate its prior period financial statements and is, therefore, not required to disclose the differences between legacy US GAAP and the new standard in its current period financial statements.

Some public companies that adopt using the cumulative effect method have suggested that they would like to provide investors with more information in MD&A about the effect the standard would have had on their previously issued financial statements if they had adopted using the full retrospective method. The SEC staff has stated that while providing this information is permissible, a company should:

- disclose expense line items that also would have been affected by retrospective adoption;
- not present a full income statement – only the income statement line items that would have been affected; and
- disclose assumptions it makes and practical expedients it elects.

KPMG's Illustrative Disclosures – Revenue provides example qualitative and quantitative disclosures of a fictitious company adopting the revenue recognition standard, and illustrates the retrospective and cumulative effect adoption methods. The publication also includes an appendix that summarizes the disclosure requirements for interim financial information and annual financial statement periods. And, it highlights disclosures that entities other than public business entities, not-for-profit entities that are conduit bond obligors or employee benefit plans that furnish their financial statements with the SEC can elect not to provide.

Chapters 15 and 16 of KPMG's Revenue Handbook also provide guidance about the transition and ongoing disclosure requirements.

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ASC 610-20 clarifies derecognition of nonfinancial assets

In 2017, the FASB issued a standard that clarified the guidance in ASC 610-20 about the accounting for derecognition of nonfinancial assets and in-substance nonfinancial assets in transactions with noncustomers. Specifically, the guidance in ASC 610-20 applies only when the asset (or group of assets):

— does not meet the definition of a business; and
— is not a not-for-profit entity.

ASC 610-20 defines an 'in-substance nonfinancial asset' and provides guidance about partial sales of nonfinancial assets.

In general, ASC 610-20 applies the revenue recognition principles in ASC 606 to the derecognition of nonfinancial assets. However, the accounting for partial sales of nonfinancial assets may be significantly different from legacy GAAP because of the requirements to record a retained non-controlling interest at fair value.

The amendments are effective concurrent with the revenue recognition standard. At adoption, a company also must apply the FASB's new definition of a business (ASU 2017-01) to determine which transactions are in the scope of the new standard. However, a company need not revisit its existing allocation to goodwill if it changes its conclusions about whether a transferred group of assets is a business.

Resources: KPMG's webpage on Revenue; Defining Issues, FASB clarifies scope of derecognition of nonfinancial assets; ASU 2017-05

Financial instruments guidance about recognition and measurement becomes effective

The FASB's standard about recognition and measurement of financial instruments (financial assets and financial liabilities) became effective in the first quarter of 2018 for public companies.

The most significant operational changes likely will result from the new guidance for investments in equity securities measured at cost because the fair value is not readily determinable. The new standard allows companies to measure these equity securities at fair value, or use a new measurement alternative that requires the investor to adjust the cost basis for impairment and observable transaction prices 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 in place to estimate the fair value at each reporting date.

Companies that elect to apply the new measurement alternative should ensure that those processes and controls are sufficient 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.

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In addition, when the measurement alternative is applied and a transaction price is observed for an **identical or similar** security, the FASB staff believes that a company should measure the equity security at fair value under the guidance in ASC 820. This may require an entity to adjust the observed transaction price for differences other than different rights and obligations. For example, this could happen if the observed transaction took place outside the company's principal market.

The new 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 new standard includes guidance for the valuation allowance on deferred tax assets, fair value disclosures and financial liabilities measured using the fair value option.

Targeted clarifications

The FASB issued final amendments in March 2018 to the recognition and measurement guidance. The most significant changes:

— clarify the transition requirements for equity securities without a readily determinable fair value;

— permit companies that initially elected the measurement alternative for equity securities without readily determinable fair values to subsequently elect to measure them at fair value; and

— clarify that when the measurement alternative is applied to forward contracts and purchased options, the entire fair value is remeasured whenever transactions in the underlying equity securities are observed.

The amendments are effective for public business entities for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years beginning after June 15, 2018. Public business entities with fiscal years beginning in the period between December 15, 2017 and June 15, 2018 would not be required to adopt the amendments until the interim period beginning after June 15, 2018.

For all other entities, the final amendments are effective for annual periods in fiscal years beginning after December 15, 2018 and interim periods in fiscal years beginning one year later.

All entities may early adopt the new guidance on recognition and measurement concurrent with the adoption of ASU 2016-01.

Resources: KPMG's Q&A, Financial instruments – recognition and measurement; ASUs 2016-01 and 2018-03

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SEC headlines

SEC addresses disclosures about cybersecurity

The SEC issued interpretive guidance that addresses public companies' disclosure obligations under existing law for cybersecurity risk and incidents. It stresses the importance of maintaining comprehensive policies, including disclosure controls and procedures, related to cybersecurity risks and incidents. The guidance also reminds registrants about broader prohibitions against insider trading and making selective disclosures about cybersecurity risks or incidents. The guidance became effective February 26, 2018.

Resources: KPMG's Defining Issues, SEC issues guidance on cybersecurity disclosures; SEC interpretation

SEC amends Investment Advisers Act

An SEC final rule amends certain investment adviser registration exemptions under the Investment Advisers Act of 1940 to reflect changes made by the Fixing America's Surface Transportation Act of 2015. Specifically, the final rule amends the definition of:

— a 'venture capital fund' to include small business investment companies; and
— 'assets under management' to exclude the assets of small business investment companies.

The rule became effective March 12, 2018.

Resources: SEC final rule

SEC delays filing of Form N-Port

An SEC temporary final rule delays the filing of Form N-PORT until no later than April 30, 2019 for larger fund groups and April 30, 2020 for smaller fund groups. Larger fund groups are required to retain the information required by Form N-PORT beginning no later than July 30, 2018. Funds will continue to file public reports on Form N-Q until they begin to file reports on Form N-PORT.

Resources: SEC temporary final rule

SEC and CFTC no-action letters on net capital effect of ASC 606

The SEC and the US Commodity Futures Trading Commission (CFTC) have issued separate no-action letters that provide broker dealers, CFTC-registered futures commission merchants and introducing brokers with specific relief from the effect of the revenue recognition standard when calculating regulatory capital.

The letters address the treatment of certain capitalized costs under the revenue recognition standard and of the corresponding deferred tax liability for purposes of calculating regulatory net capital.

Resources: SEC and CFTC no-action letters

SEC updates FRM for new accounting standards

In December 2017, the SEC Division of Corporation Finance updated its Financial Reporting Manual (FRM) to:

— revise guidance on the pro forma effect of adopting new accounting standards;

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- address adopting new standards after an entity loses emerging growth company status; and
- clarify the effective dates of the revenue recognition and leases standards for certain public business entities.

Resources: Financial Reporting Manual

CAQ SEC Regulations Committee meeting

The Center for Audit Quality (CAQ) SEC Regulations Committee met in September 2017 and discussed reporting matters.

SEC staff provides relief from financial statement requirements. Rule 3-13 of Regulation S-X gives the SEC staff authority to permit a registrant to omit or substitute certain financial statements that would otherwise be required by Regulation S-X. The staff recently amended the Financial Reporting Manual to update Section 2065 to clarify that registrants with questions about applying the guidance on abbreviated financial statements to a predecessor entity should contact the Division of Corporation Finance Office of Chief Accountant.

SEC staff expands nonpublic reviews of registration statements. The SEC staff recently announced changes to the securities registration process to reduce the regulatory burden on companies conducting IPOs and other securities offerings. The changes include expanding the nonpublic reviews of registration statements and allowing companies to omit certain financial information from draft registration statements. The committee and staff answered questions about eligibility for this relief and about the specific information that a company may omit from draft confidential submissions.

Resources: KPMG's SEC Issues & Trends, The SEC has made the capital raising process easier for companies

SEC staff scopes Rule 3-10(g) into relief for private company financial information for certain public business entities. The staff confirmed that financial statements prepared under Rule 3-10(g), Recently Acquired Subsidiary Issuers or Subsidiary Guarantors[1], are within the scope of the staff's recent announcement providing relief for private company financial information for certain public business entities. The staff said it would not object if certain public business entities (PBE) use private company adoption dates for the revenue recognition and leases standards if the entity meets the definition of a PBE only because it is required to include its financial statements or financial information in another entity's filing with the SEC. This includes financial statements provided to comply with Rule 3-10(g).

Resources: KPMG's Defining Issues, SEC grants relief for private company financial information included in a public company's filing

[1] Rule 3-10(g) requires a registrant to file financial statements for a recently acquired subsidiary issuer or subsidiary guarantor when the:

- subsidiary has not been included in the audited consolidated results of the parent company for at least nine months of the most recent fiscal year; and
- purchase price or net book value (as of the most recent fiscal year-end before the acquisition), whichever is greater, of the subsidiary (or group of subsidiaries that were related before the acquisition) is twenty percent or more of the principal of the securities being registered.

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SEC staff clarifies requirements for certain pro forma financial information for a business combination under common control or discontinued operation. Rule 11-02(c)(2)(ii) of Regulation S-X requires a registrant to present pro forma financial information for all financial statement periods presented for a business combination accounted for as a reorganization of entities under common control or for discontinued operations to the extent those transactions are not yet reflected in the historical financial statements.

Other transactions that are directly attributable to the transaction but do not have the same retrospective GAAP effect on the financial statements should be treated like any other transaction requiring pro forma adjustment under Article 11 and should be limited to the most recent fiscal year and interim period specified in Rule 11-02(c)(2)(i).

The effects of adopting accounting changes by a successor entity on the predecessor period financial statements. There is no US GAAP or other regulatory requirement to retrospectively adjust predecessor period financial statements for accounting changes by a successor entity. Therefore, companies that adopt a new accounting standard in the successor period are not required to revise the predecessor period. For example, a registrant that has been subjected to push down accounting would not be required to retroactively adjust the predecessor period for the successor's adoption of ASC 606.

The notes to the financial statements would include relevant information for the predecessor and successor periods to explain the difference in basis and the difference between those periods that arises from adopting the revenue recognition standard in the current period.

Resources: September 2017 meeting highlights

Other changes for 2018

In the first quarter of 2018, calendar year-end public companies adopted not only the revenue recognition and financial instruments recognition and measurement standards, but also several other standards intended to simplify or clarify accounting requirements.

— **Recognizing breakage for certain prepaid stored-value products (ASU 2016-04)** permits entities to recognize breakage (i.e. the portion of the dollar value on prepaid stored-value products that ultimately is unredeemed) on certain financial liabilities.

— **Classification of cash receipts and cash payments (ASU 2016-15)** provides guidance on eight issues related to cash flow classification.

— **Accounting for income taxes on intercompany transfers (ASU 2016-16)** requires the seller and buyer to recognize at the transaction date the current and deferred income tax consequences of intercompany asset transfers (except transfers of inventory).

— **Restricted cash (ASU 2016-18)** requires companies to include in total cash (and cash equivalents) on the statement of cash flows cash (and cash equivalents) that have restrictions on withdrawal or use. The standard does not define 'restricted cash' or 'restricted cash equivalents', but companies will need to disclose the nature of the restrictions.

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— **Clarifying the definition of a business (ASU 2017-01)** provides a new framework for determining whether transactions should be accounted for as acquisitions (or disposals) of a group of assets or a business. An integrated set of activities and assets (a set) is a business if it has, at a minimum, an input and a substantive process that together significantly contribute to the ability to create outputs. The new framework includes an initial screening test (Step 1) that reduces the population of transactions an entity needs to analyze in determining whether a set includes an input and a substantive process (Step 2).

— **Presentation of net periodic pension cost and net periodic postretirement benefit cost (ASU 2017-07)** requires companies to present the service cost component separately from other components of net benefit cost. Specifically, a company will present service cost in the income statement line item in which it reports compensation cost. All other components of net benefit cost will be reported in the income statement separate from the service cost component and outside operating income, if that subtotal is presented. Additionally, the service cost component will be the only component that a company can capitalize.

— **Scope of modification accounting (ASU 2017-09)** clarifies when changes to the terms or conditions of a share-based payment award must be accounted for as a modification. Specifically, companies will apply modification accounting unless the fair value, vesting conditions and classification of a modified award are the same before and after the modification.

— **Identifying the customer in a service concession arrangement (ASU 2017-10)** clarifies that the customer in a service concession arrangement is always the grantor (i.e. the government or a public sector entity).

The Appendix – Accounting standards effective dates provides a complete list of accounting standards that companies need to adopt in 2018 and the future.

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2 New standards and guidance

FASB finalizes and proposes amendments to the leases standard

In the first quarter of 2018, the FASB:

— issued amendments to the leases standard and related guidance about the accounting for land easements;

— proposed an optional (1) transition method that would permit companies not to present comparative financial information (including disclosures) in transition to the new standard and (2) practical expedient that would permit lessors not to separate lease and related non-lease components when specified criteria are met; and

— tentatively decided to finalize 16 technical corrections to the leases guidance.

Accounting for land easements[2]

The FASB issued final amendments to the leases standard and related guidance that:

— clarifies that land easements are in the scope of the new leases standard, and should be accounted for as leases if they meet the definition of a lease; companies will account for land easements under other US GAAP only if they do not meet the definition of a lease; and

— codifies a practical expedient to permit companies to not assess on transition whether land easements that commenced before the effective date of the new leases standard are leases if they are not accounted for as leases under current US GAAP.

[2] In general, an easement is 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.

Targeted amendments

In January 2018, the Board proposed targeted amendments to the leases standard that would address transition and lessor accounting. The public comment letter period for the proposals ended February 5, 2018. Nearly all respondents favored the proposed transition relief. Most respondents supported the proposed lessor separation practical expedient, but many respondents had suggestions for the Board about specific provisions.

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Transition relief

The Board proposed an amendment that would permit all companies to use the effective date of the leases standard as their date of initial application in transition. If a company elects this transition option, it would not need to adjust its comparative period financial statements (e.g. its 2017 and 2018 financial statements for a public company with a calendar year-end) for effects of the new standard or make the new required lease disclosures for periods before the effective date.

In addition, the company would recognize its cumulative effect transition adjustment (e.g. for the effect of unamortized initial direct costs that are required to be written off at transition) as of the effective date rather than the beginning of the earliest comparative period presented in the company's first set of annual financial statements issued under the standard.

The proposals should not cause companies to significantly alter their implementation timeline. Companies will still need to evaluate systems, processes and controls to capture complete and accurate lease data necessary to prepare the cumulative effect adjustment. Therefore, the time and resources required to obtain this information will remain significant.

Lessor practical expedient on separation of lease and non-lease components

The Board proposed a practical expedient that would permit a lessor not to separate lease and related non-lease components but, rather, account for them as a single lease component if (1) the components to be combined have the same timing and pattern of revenue recognition and (2) the combined component would be classified as an operating lease.

This practical expedient would be an accounting policy election made by class of underlying asset. A lessor electing this expedient would disclose its election and specify to which classes of underlying assets it is applying the expedient, and the nature of non-lease components combined with lease components.

Resources: KPMG's Handbook: Leases; webpage on Leases

Finding embedded leases under current US GAAP

While the FASB finalizes and proposes amendments to the leases standard, companies should remain diligent in their implementation efforts. The standard is effective for public companies in 2019, which leaves little time to address unexpected implementation issues and challenges that may arise.

Companies are spending more time than expected on identifying their lease population and extracting the data required to comply with the standard. They also are finding that many contracts may contain embedded leases that were not identified as leases under current US GAAP. This is because the contracts that contain these embedded leases may not use terms such as 'lease' or 'rent' to clearly identify the lease. Companies likely did not spend much time searching for embedded leases under current US GAAP because these leases would have affected financial statement disclosure only. However, identifying leases and lease disclosures becomes more important under, and leading up to the adoption of, the new standard.

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Some areas in which embedded leases are commonly identified are:

— IT service contracts;
— 'as-a-service' contracts;
— sales contracts;
— supply contracts; and
— dedicated manufacturing capacity.

Embedded leases also may exist in some advertising, transportation or construction arrangements, and in related party transactions. More broadly, there is the risk of an unidentified embedded lease in any contract in which the customer has exclusive rights to the output or other utility from an asset that its personnel are not operating or responsible for housing. Although current US GAAP considers these arrangements to include leases, companies may have been less likely to identify them as leases because the counterparty to the arrangement was responsible for operating or controlling physical access to the assets.

Companies should first identify arrangements in which previously unidentified embedded leases may exist, including the areas outlined above. This initial step of identifying 'at risk' classes of transactions should involve personnel throughout the organization.

The search for embedded leases might begin by selecting a relevant sample of contracts in at risk arrangements and expanding that sample as needed based on initial results. For example, if initial reviews identify previously unidentified leases, it will likely be prudent to expand the contract review to additional contracts within that class or to add additional classes of transactions with a similar embedded lease risk profile to the company's procedures.

This process will frequently include significant efforts to review contracts and critically evaluate whether the terms create a right to control the use of an asset. This effort may require, especially initially, significant involvement of more experienced and technically proficient company personnel. Ultimately, this process should continue until the company is confident that no material population of unidentified leases remains.

Resources: KPMG's webpage on Leases

Implementing the credit impairment standard

The FASB's credit impairment standard will be effective in 2020 for public companies 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 (CECL) model 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 effect those conditions will have on expected credit losses.

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Although the standard is not effective until 2020, those companies that are 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 to their loss estimation process will be necessary. Companies may need to collect more data, and significantly change their systems, processes and internal controls to comply with the standard.

Resources: KPMG's Handbook, Credit impairment; ASU 2016-13

Changes to hedge accounting

In August 2017, the FASB issued a 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 how they recognize and present 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 effects of 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. 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.

Companies may early adopt the standard, including during an interim period. If adopted at other than the beginning of a fiscal year, the cumulative effect adjustments are reflected as of the beginning of the fiscal year.

Proposed ASU on interest rates

A proposed ASU would expand the list of US benchmark interest rates permitted when applying hedge accounting. Eligible benchmark interest rates under ASC 815 are:

- interest rates on direct Treasury obligations of the US government;
- the London Interbank Offered Rate (LIBOR) swap rate;
- the Overnight Index Swap (OIS) Rate based on the Fed Funds Effective Rate; and
- the Securities Industry and Financial Markets Association Municipal Swap Rate.

Based on concerns about the sustainability of LIBOR, a committee convened by the Federal Reserve Board and the Federal Reserve Bank of New York recently identified a broad Treasury repurchase agreement (repo) financing rate referred to as the Secured Overnight Financing Rate (SOFR) as its preferred alternative reference rate.

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The proposed ASU would permit companies to use the OIS rate based on SOFR as a US benchmark interest rate thereby helping companies and other organizations avoid the potential cost and complexity associated with using different cash flows and discount rates to measure the hedged item and the hedging instrument.

The comment period ended March 30.

Resources: KPMG's Defining Issues, Changes to hedge accounting; Issues In-Depth, Hedging – Targeted Improvements; ASU 2017-12; Proposed ASU

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3 Projects and agenda priorities

FASB proposes ASU about implementation costs for cloud computing arrangements

The FASB proposed an ASU, a consensus of the FASB Emerging Issues Task Force (EITF), about customers' accounting for implementation costs incurred in a cloud computing arrangement (CCA) (i.e. a hosting arrangement that does not grant the customer a license to the hosted software).

Under the proposals:

- costs incurred to implement a CCA (e.g. costs to configure the software to the customer's needs) would be (1) deferred or (2) expensed as incurred in accordance with the guidance in ASC 350-40 about internal-use software;
- the amortization period of the deferred implementation costs would include the contractual term of the CCA plus periods that are reasonably certain to be exercised by the customer;
- a company would present the expense related to amortizing the deferred implementation costs in the same income statement line item as the fees associated with the CCA; and
- customers of CCAs and software licensing arrangements (including hosting arrangements that include a software license) would be subject to new qualitative and quantitative disclosure requirements about their implementation costs.

At its January 2018 meeting, the EITF decided not to propose guidance related to (1) scope of the proposed amendments or (2) whether a company may apply the proposed guidance by analogy to other transactions or activities. The EITF also decided against defining, or otherwise providing additional guidance about what constitutes, 'implementation costs'.

The comment period ends April 30.

Resources: KPMG's Defining Issues, FASB issues proposed ASU on accounting for cloud computing implementation costs; Proposed ASU

FASB project on accounting for insurance contracts

In late 2017, the FASB made significant progress on its proposed accounting standard that would change how insurance entities recognize, measure, present and disclose long-duration insurance contracts. Key areas discussed by the Board include the reserving model for participating insurance contracts, deferred acquisition costs, the measurement and presentation of market risk benefits, and presentation and disclosure.

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

The Board will discuss the effective date at a future meeting.

Resources: KPMG's Defining Issues summarizing the October and November meetings; Proposed ASU

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4

Recommended reading and CPE opportunities

Education, preparation and training of young professionals

In a byline article for *The CPA Journal*, KPMG's National Managing Partner, Audit Quality and Professional Practice, Jackie Daylor, and Susan St. Amant, partner-in-charge, KPMG Business School – Audit, expand on the ever-changing roles of today's auditors vis-à-vis new technologies such as data and analytics. The article discusses the KPMG Master of Accounting with Data and Analytics Program and the firm's new learning and innovation center in Florida, along with other lifelong learning initiatives. Read the article.

CFOs can help CEOs balance investment for growth

Frank Casal, KPMG's Vice Chair – Audit, authored an article for *Accounting Today* based on KPMG's CEO Outlook survey, 'Disrupt and Grow'. In an effort to move beyond the short-term views, nearly three-quarters of CEOs say they are actively disrupting their own sectors in a strategic decision to emerge as industry leaders, said Casal. He advises that the CFOs' and accountants' intimate knowledge of a company's financial picture puts them in a unique position to balance long- and short-term investments, help drive growth, heighten collaboration and invest in technologies that will shape their future. Read the article.

For audit, with better tech comes greater expectations

In a byline article for *Compliance Week*, John Ebner, KPMG National Managing Partner – Audit, says technology may empower auditors today, but the people and their skill sets make the difference. "Today's audit practitioners know which of the advanced technologies available to them are appropriate for deriving audit evidence that supports financial reports. It can be complex work, and practitioners must know how to choose the appropriate tool and how to use it -- whether it be robotics, natural language processing, predictive analysis, cognitive capabilities or workflow automation." Read the article.

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The blockchain revolution

In a byline article for *The Financial Manager*, KPMG Audit Partner Padraic Kelly provides an overview of blockchain and discusses what it means and its effect on how companies transact business. As traditional accounting systems strain to keep pace with the exploding amount of transactional data, blockchain seeks to become a new tool to enable businesses to process and record transactions more efficiently. Read the article.

Upcoming CPE opportunities

KPMG Executive Education provides a wide range of accounting and finance continuing professional education (CPE) programs in several formats: public seminars, customized on-site instructor-led classes, web-based self-study programs and live webcasts.

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 impending accounting and financial reporting matters, and guidance for implementing new accounting standards.

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5 Appendix - Accounting standards effective dates

Accounting standards affecting public companies in 2018

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

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 ASU 2017-13 ASU 2017-14 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
Technical corrections and improvements to financial instruments – overall, Recognition and measurement of financial assets and financial liabilities	Fiscal years beginning after 12/15/2017, and interim periods in fiscal years beginning after 6/15/2018. Public business entities with fiscal years beginning in the period between 12/15/17 and 6/15/18 are not required to adopt the amendments until the interim period beginning after 6/15/18.	ASU 2018-03
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

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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

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Accounting standards affecting public companies in 2019 and beyond

Calendar year-end public companies are required to begin applying these accounting standards in 2019 or later and may need to disclose their potential effects in 2018.

Topic	Effective date for public companies	For more information
Leases	Annual and interim periods in fiscal years beginning after 12/15/2018	ASU 2016-02 ASU 2017-13 ASU 2018-01 KPMG's webpage on Leases
(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
Codification improvements ASC 955, US Steamship Entities	Annual and interim periods in fiscal years beginning after 12/15/2018	ASU 2017-15
Reclassification of certain tax effects from accumulated other comprehensive income	Annual and interim periods in fiscal years beginning after 12/15/2018	ASU 2018-02 Tax reform supplement
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

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Topic	Effective date for public companies	For more information
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

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Topic	Effective date for private companies	For more information
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
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); and — 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

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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
Codification improvements to ASC 955, US Steamship Entities	Annual and interim periods in fiscal years beginning after 12/15/2018	ASU 2017-15
Reclassification of certain tax effects from accumulated other comprehensive income	Annual and interim periods in fiscal years beginning after 12/15/2018	ASU 2018-02 Tax reform supplement

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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 ASU 2018-03 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
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

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Topic	Effective date for private companies	For more information
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 ASU 2018-01 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
(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

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Topic	Effective date for private companies	For more information
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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Angie Storm
Partner

Robin Van Voorhies
Director

Shoshana Feldman
Associate Director

kpmg.com/socialmedia

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