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## Constituents Respond to Proposed Revenue Deferral

The FASB recently received 64 comment letters from preparers, auditors, regulators, and industry groups related to its proposed Accounting Standards Update (ASU) that would defer for one year the revenue recognition standard's effective date.<sup>1</sup>

This edition of *Defining Issues* summarizes the responses to the questions asked by the Board in the proposed ASU. The Board will consider this input when deciding whether to defer the effective date of the revenue standard and, if so, for how long.

The IASB also voted to propose a one-year deferral of its revenue recognition standard, and issued its exposure draft on May 19, 2015, which is open for comments until July 3, 2015.

### Key Facts

- All respondents agreed that the revenue standard should be deferred. In addition, a majority of preparers and industry group respondents said that the standard's effective date might need to be deferred for longer than one year.
- Several respondents urged the Board to finalize other proposed amendments as soon as possible, because pressure may increase for an additional one-year deferral if the amendments are not finalized in the near future.<sup>2</sup>
- Respondents encouraged the FASB and IASB to retain convergence of the effective dates of their revenue standards, and to continue working toward converged solutions related to implementation issues.

<sup>1</sup> FASB Proposed Accounting Standards Update, Deferral of the Effective Date, April 29, 2015, and FASB Accounting Standards Update No. 2014-09, Revenue from Contracts with Customers, May 28, 2014, both available at [www.fasb.org](http://www.fasb.org). Also see KPMG's Defining Issues No. 15-19, FASB Proposes One-Year Deferral of Revenue Standard, available at [www.kpmg-institutes.com](http://www.kpmg-institutes.com). Each comment letter is referred to as one respondent in this document, including instances where the comment letter was submitted by an industry group representing multiple companies. The comment letter deadline was May 29, 2015.

<sup>2</sup> See KPMG's Defining Issues Nos. 15-11, FASB and IASB to Propose Additional Revenue Clarifications, and 15-21, FASB Proposes Clarifications to License and Performance Obligation Guidance for Revenue, both available at [www.kpmg-institutes.com](http://www.kpmg-institutes.com).



Many respondents stated that their implementation efforts have shown that the standard can be complex, subject to differing interpretations and judgments, and may require significant time and effort to implement.

## FASB's Request for Comments

The proposed ASU specifically asked constituents whether:

- They agree with the proposed one-year deferral;
- In addition to a one-year deferral, the Board also should provide an optional two-year deferral for entities that apply the guidance retrospectively; and
- Early adoption as of the original effective date should be permitted.

## Respondents and Their Comments

Approximately two-thirds of the comment letter respondents were preparers, including industry organizations representing groups of preparers. No comment letters were received from financial statement users. Accounting firms and other professional accounting and reporting bodies represented approximately 20 percent of the responses. Respondents came from various industries including oil and gas; power and utilities; healthcare; technology; software; telecommunications; aerospace and defense; financial services; life sciences; airlines; and building, construction, and real estate.

Many respondents commented that the FASB-IASB joint Transition Resource Group for Revenue Recognition (TRG) and the AICPA industry task forces have been an important part of the implementation process and should be allowed to continue their work.

While all respondents agreed that the revenue standard should be deferred, 50 percent stated that deferral might need to be longer than one year no matter what transition method is applied. That percentage rose to 61 percent of the comment letters from preparers and industry group respondents. Based on the comment letters, the industries listed below expressed support for a deferral period longer than one year.

- **Health Care.** The Board received one combined response from five large managed care companies that believe that a one-year deferral is insufficient and at least a two-year deferral is warranted.
- **Life Sciences.** The Board received two responses supporting a deferral of more than one year, including a recommendation to defer the effective date until three years after any final guidance is issued.
- **Oil and Gas.** Four of the five respondents supported a deferral of more than one year.
- **Software.** The Board received one combined response from 10 major software companies supporting a two-year deferral.
- **Telecommunications.** All four respondents supported a deferral of more than one year.
- **Contract Manufacturing.** Four representatives of the electronics manufacturing services industry supported a deferral of more than one year.



Companies should utilize any additional time provided by the FASB to efficiently implement the standard, including making any necessary changes to systems, processes, and internal controls.

## Comments on a Two-Year Deferral

More than three-quarters of the respondents favored an optional two-year deferral for entities that adopt the standard retrospectively. Respondents who were not in favor of this option were concerned that this could create confusion and complexity for both preparers and users; would result in an additional year of non-comparability; and would risk slower implementation efforts by some companies.

To support their opinions that a two-year deferral of the standard is necessary, respondents provided a variety of arguments, including:

- Early implementation efforts have shown that portions of the standard are complex, subject to differing interpretations and judgments, and require significant implementation efforts, including changes in processes and controls.
- The standard was issued approximately nine months later than the Board had anticipated when it selected the original effective date.
- Additional standard-setting activity on significant issues (e.g., licenses of intellectual property and identifying performance obligations) is not expected to be finalized until late in 2015 at the earliest. This would make retrospective application difficult without further deferral.
- Implementation issues that may be discussed by the TRG, AICPA, and other industry task forces could lead to further standard-setting activity.
- The standard is interrelated with the Leases Project and, therefore, the two standards should have the same effective date.
- Enterprise Resource Planning (ERP) vendors are still working on their solutions, which are not yet available.

## Early Adoption as of the Original Effective Date

Only six preparers were against allowing early adoption as of the original effective date. They cited concerns about a lack of comparability during an extended transition period. However, while most other respondents acknowledged that permitting earlier adoption might reduce comparability during the transition period, they believe that the benefits of early application outweigh the costs.

Additionally, some respondents believe that companies that will be ready to adopt the standard as of its original effective date would incur additional implementation costs if they were forced to postpone adoption.

## Next Steps

The Board is expected to consider whether to finalize the proposed ASU in the near future. If finalized as proposed, SEC registrants with calendar year-ends that adopt in 2018 using the retrospective transition method would present 2016–2018 under the new revenue standard.

Many entities will need to make modifications to their accounting systems, processes, internal controls, and business processes. They should use any additional time provided by a deferral to continue their implementation plans.

Entities should monitor future developments as the Boards continue to explore amendments to clarify the standard or other interpretive guidance for certain aspects of the standard.

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