KPMG

Real estate accounting and reporting

The impact of new standards and guidance

November 2016

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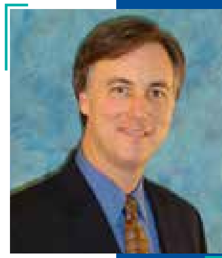
As a leader in real estate financial reporting, KPMG LLP (KPMG) creates this report annually to assist real estate companies and funds with their financial accounting, regulatory, and compliance reporting requirements.



In addition to the technical guidance on current requirements, we also look ahead to highlight accounting rules that will continue to change existing U.S. GAAP requirements—including the new leasing standard—as well as offer some brief insight on the current regulatory environment facing our industry.

We kick off this year's report with commentary from Constance Hunter, KPMG's chief economist, on what the economy's slow-but-sustained growth means for the real estate industry. This year, our Economic & Valuation Services group has supplemented these broad themes with data on several major markets and asset classes.

But even as the economic outlook provides contrasting signals, applying evolving accounting rules to your business remains a clear and serious challenge. This document is intended to provide our perspectives on how to address the key issues you will face, and we would be happy to discuss your specific situations or objectives in more detail.

We look forward to continuing to work with you to effectively navigate this increasingly dynamic accounting and regulatory environment, as well as consulting with you regarding your broader business objectives.

Thank you.

Greg Williams

National Sector Leader, Building, Construction & Real Estate/
Asset Management
KPMG LLP

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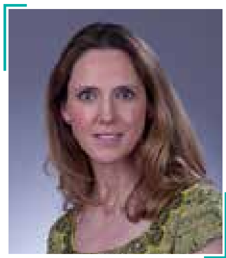
U.S. growth remains steady despite overseas challenges



by Constance Hunter
Chief Economist, KPMG LLP

The U.S. economy continues its expansion in 2016 despite headwinds from overseas. The proliferation of negative interest rates around the world, the unexpected vote in the United Kingdom to leave the European Union (the "Brexit" vote) and banking problems in China have combined to slow the global economy. The United States has felt the impacts through hobbled export growth and volatility in the financial markets.

KPMG thinks the U.S. expansion will continue albeit at a slow pace. We look for real GDP growth to accelerate to 2.6 percent in the second half of 2016, and the economy to grow 2.1 percent in 2017. The key to the upbeat outlook in the second half of the year is an expected upward adjustment to inventories and an end to the fall in investment. Both of these factors reduced growth in the first half of the year. This left the consumer sector holding the bag. Households are benefitting from jobs growth and a pick-up in wages. In the first nine months of 2016, nonfarm payrolls increased at an average of 178,000 per month. While the rate is down from the 211,000 pace in the similar period of 2015, hiring has been strong enough to keep the unemployment rate below 5 percent for most of this year.[1]

With the unemployment rate the lowest since 2008, companies are reporting a hard time in finding skilled labor. A September survey of small businesses found 24 percent of business owners reported difficulty in filling positions, a share that has been trending up since the recession ended in 2009.[2] Similarly, KPMG's CEO Survey released in June showed a majority of U.S. CEOs reported some level of skills shortage for a range of job functions.[3]

As a result, more firms are raising worker compensation.[4] Overall, average hourly wages increased 2.6 percent in the year ended in September 2016. We expect wage growth to edge up even further, thanks to the tight labor markets. The resulting increase in personal income should allow consumer spending to increase more than 3 percent in the second half of 2016 and a still-solid 2.3 percent in 2017.

Even so, the U.S. economy still confronts headwinds from the energy sector and overseas.

The problems in the mining sector began back in 2014 when oil prices started their freefall. Investment in mining exploration and oil drilling has fallen sharply for six consecutive quarters. In Q2 alone, the sector accounted for 1.6 percentage points of the 2.5 percent

[1] KPMG Economics, Bureau of Labor Statistics, Haver Analytics

[2] KPMG Economics, National Federation of Independent Business, Haver Analytics

[3] 2016 Global CEO Outlook, KPMG International

[4] KPMG Economics, National Federation of Independent Business, Haver Analytics

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drop in all private fixed investment.[5] The problems in the energy sector are also dimming the corporate profit picture. According to FactSet, earnings in the energy field are projected to plunge 72 percent in calendar 2016, contributing to the expected 0.3 percent decline in the earnings of all S&P 500 companies.[6]

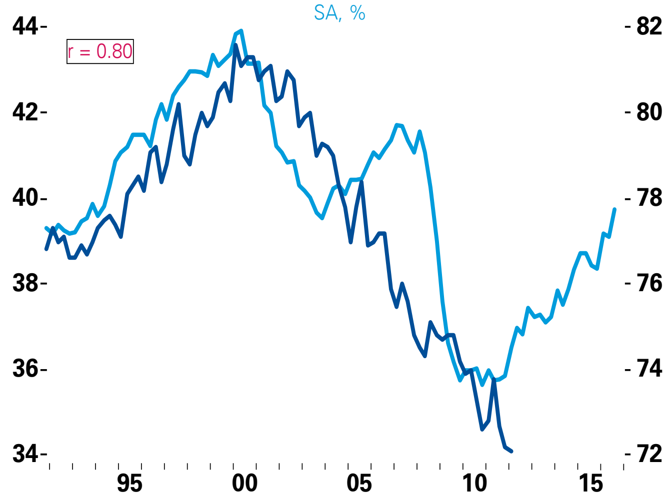
On the international front, the spread of negative interest rates, Brexit and weak demand and banking problems in China are having an impact. The International Monetary Fund revised down its forecast for 2016 global growth to 3.1 percent in October from the 3.6 percent growth projected in October 2015.[7] The U.S. has felt the impacts of lower global growth through reduced exports and volatility in the financial markets. In the first half of 2016, real exports of goods and services were 2.2 percent below their level of the first half of 2015.[8]

What do these developments mean for the Federal Reserve? Barring any disturbances from the European banking sector, or elsewhere in the economy, we think it is likely the Fed will raise the policy rate at its December 13–14 meeting, lifting the range for the federal funds rate to .50–.75 percent.

Millennials hold the key to housing outlook

We expect housing to continue to contribute to growth, despite a fall in residential investment in Q2. Homebuilders remain optimistic. The housing market index, a proxy for builder sentiment, stood at a high level in August, including builders' expectations for home sales over the next six months.[9] Mortgage rates remain quite low: The fixed rate on a 30-year mortgage was 3.51 percent at the end of August.[10] Banks have reported stronger demand for housing-related loans, whether on the commercial end for apartment construction or on the consumer level for mortgages to buy a home.[11]

Home Ownership Rate: Under 35 Years
NSA, %
Employment-Population Ratio: 25–34 Years
SA, %



Sources: KPMG Economics/CENSUS, BLS/Haver

For the real estate investor, a distinction must be made between the construction of single-family homes and apartment projects. If one believes the future will bring more buyers into the housing market, then investing in publicly traded homebuilders might be a good choice. But, if one believes renting will become more widespread, then apartment REITs could make more sense.

The main determinant for housing's direction may well be the Millennial generation, which we define as adults younger than 35 years old. Head of household and home ownership among the Millennials is lower compared to the same cohort of young adults of previous generations. Indeed, in 2014, 32.1 percent of millennials still lived at home with a parent, the highest share since the 1940s.[12] The low rate of home ownership—just 34.1 percent in Q2 2016—reflects at least two important obstacles: the lack of employment during and coming out of the Great Recession and the burden of student loans for many of this population who went to college.

[5] KPMG Economics, Bureau of Economic Analysis, Haver Analytics
[6] "Earnings Insight," FactSet, August 26, 2016
[7] International Monetary Fund
[8] KPMG Economics, Bureau of Economic Analysis, Haver Analytics
[9] KPMG Economics, National Association of Home Builders, Haver Analytics
[10] KPMG Economics, The Wall Street Journal, Haver Analytics
[11] The July 2016 Senior Loan Officer Opinion Survey on Bank Lending Practices," Federal Reserve
[12] "For the First Time in Modern Era, Living with Parents Edges Out Other Living Arrangements," Pew Research Center, May 2016

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The first constraint has begun to dissipate. The share of adults aged 25–34 years who were employed in September rose to 77.8 percent, up from 76.5 percent a year ago and 73.9 percent for all of 2011.[13] Our econometric work suggests that the news on student loans is more mixed. A study by Fannie Mae found student debt exerted the largest financial obstacle to home ownership on young adults who went to college but did not earn a bachelor's degree.[14] The study found that these indebted-but-degree-less young adults make up approximately 11 percent of this cohort, and they are 32 percent less likely to be home owners than young adults who had only a high school degree (and thus did not borrow for college). Millennials who had student loans and at least a bachelor's degree were 27 percent more likely to be homeowners.[15]

The study, however, found home ownership was still a goal among renters whether the renter had student loans or not. The shift may take a while to develop amid solid job growth and better finances, but it still pushes the housing pendulum away from apartment construction, which has grown solidly.

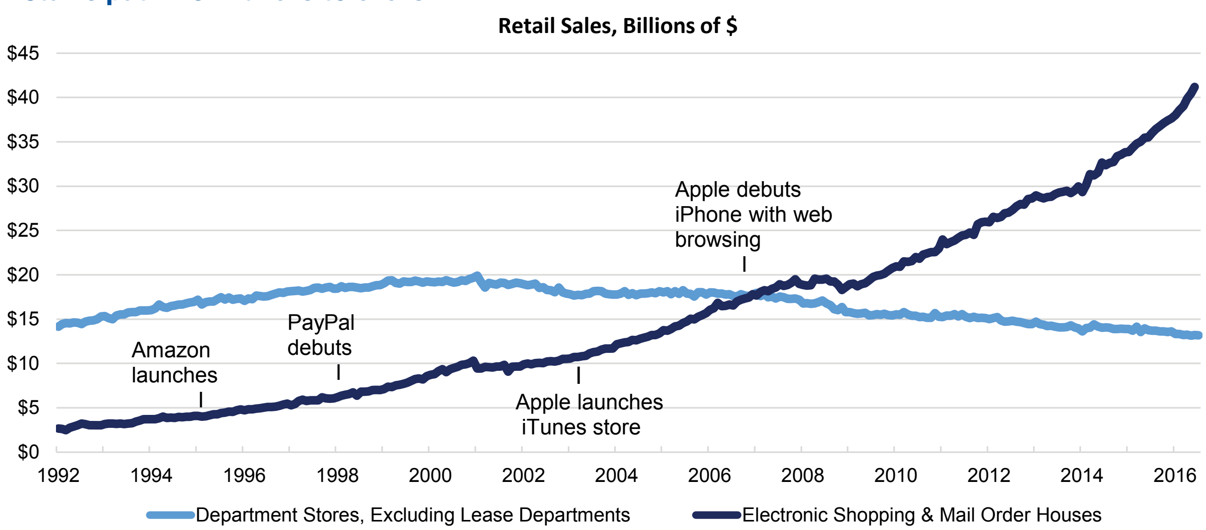
We may already be seeing signs of overbuilding, especially in the high-end/luxury sector. The vacancy rates for Class A apartment properties has been edging up since early 2013 and increases in rents in the first half of 2016 have slowed compared to rent increases in the same period of 2014 and 2015.[16]

The shift in shopping means a shift in retail real estate

The better financial situation for consumers is translating into strong retail activity. But technology and innovation have changed the retail landscape. What might have been a good retail play 15 years ago may no longer be a smart move.

That is because many shoppers have moved from the mall to the mouse. Internet sales make up the fastest growing segment of retail purchases. Internet and mail ordering sales surpassed department store sales in 2007—the same year Apple debuted the iPhone with the ability to browse the Web.[17]

Retail's path from bricks to clicks



Source: KPMG Economics/Census Bureau/InternetRetailer.com/Haver Analytics

Nonstore retailers need strong distribution systems to get purchases to customers quickly and reliably. That has led to a greater demand for warehouse space. Whereas spending to build new shopping centers has flattened out for two long years, investment in warehouses is on an upswing.[18]

Investors have focused mainly on warehouse space close to large metro areas. Aggressive pricing has pushed down cap rates for warehouses in the six major markets of the United States to 5.1 percent in July 2016 from 5.8 percent in July 2015, while cap rates for nonmajor market warehouses have trended around 6.5 percent for a year.[19]

[13] KPMG Economics, Bureau of Labor Statistics, Haver Analytics

[14] "Whose Homeownership Rate Does Student Debt Hurt Most?" Fannie Mae, July 2016

[15] Ibid.

[16] Metro Trend Futures: Apartment Q2 2016 Reis

[17] KPMG Economics, Census Bureau, Haver Analytics

[18] Ibid.

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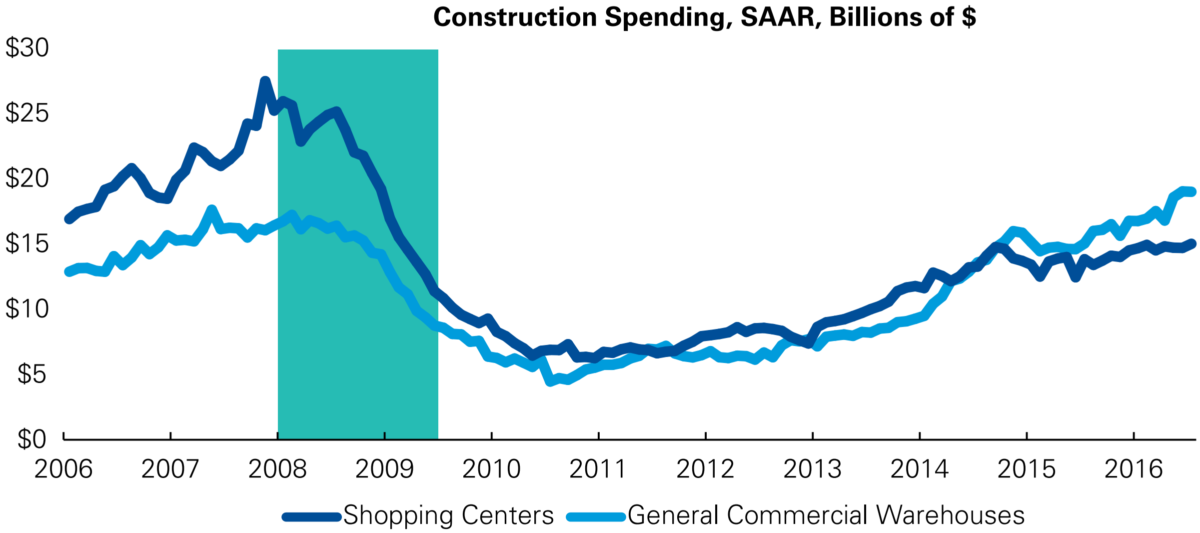
The Rise of Warehouses



Source: KPMG Economics/Census Bureau/Haver Analytics

[19] US Capital Trends: Industrial, Real Capital Analytics, July 2016

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Update on select assets and markets

Office

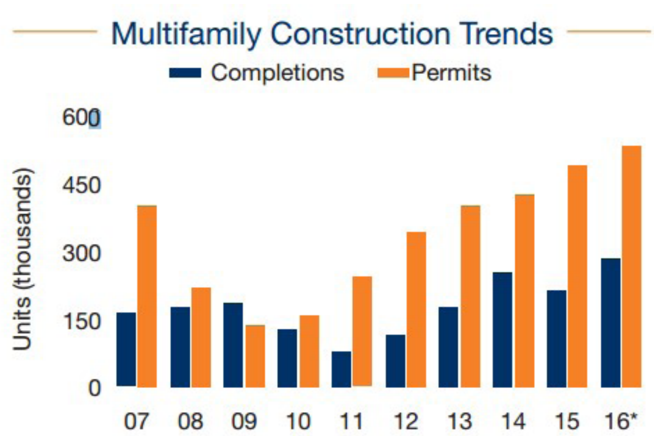
The U.S. office market ended the second quarter of 2016 with a vacancy rate of 10.1 percent. Capitalization rates have realized a slight increase to an average 7.37 percent, up from 7.33 percent in second quarter 2015. CoStar reports a positive net absorption of 36,476,761 square feet in the second quarter of 2016, an increase over the first quarter.[20] REIS Inc. forecasts a decline in vacancy, resulting in a rise in average effective rent from $25.37 per square foot in second quarter 2016 to $29.82 per square foot by 2020.[21]

Nonetheless, rising supply is expected to outpace demand for U.S. office space by 2019.[22] As of 2Q16, the largest office projects underway were 30 Hudson Yards, a 2,600,000 square foot building with 100 percent of its space preleased in the New York City market, and Capital One Campus – Building 3, a 975,000 square foot building in the Washington market that is 100 percent preleased.[23]

Multifamily

The US multifamily market is expected to continue experiencing upward trends as employment rates continue to rise, particularly among the millennial generation. Already a hot investor class, new projects underway and in the pipeline will lead to a slight softening in the market with vacancy expected to rise 80 basis points from 4.5 percent in 2Q16 to 5.3 percent in 2020.[24] Even so, REIS forecasts average effective rents to rise from $1,201 as of second quarter 2016 to $1,362 by 2020. Transit-oriented urbanization will sustain as a longer-term trend as millennials flock to work-play environments.[25]

The following tables represent the historic trends in the multifamily market as reported by Marcus & Millichap[26] as of summer 2016.



Source: Marcus & Millichap, "The Mutifamily Outlook, Summer 2016"

[20] The CoStar Office Report, *National Office Market*, Mid-Year 2016
[21] Reis, Inc., Office Report, *Metro*: *United States 2Q16*
[22] Urban Land Institute, "Emerging Trends in Real Estate United States and Canada", 2016
[23] The CoStar Office Report, *National Office Market*, Mid-Year 2016
[24] Reis, Inc., Apartment Report, *Metro*: *United States 2Q16*
[25] Ibid.
[26] Marcus & Millichap, *The Multifamily Outlook,* Summer 2016

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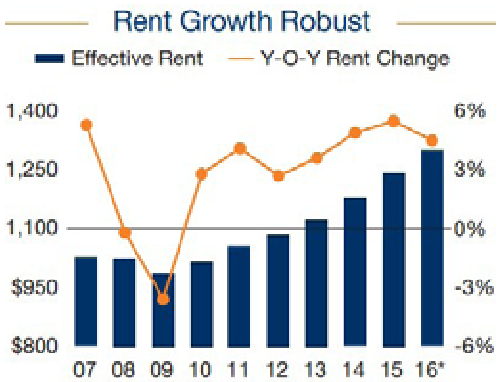

Source: Marcus & Millichap, "The Mutifamily Outlook, Summer 2016"

REIS, Inc. presented the following table in its 2nd Quarter 2016 United States Apartment Report. The table shows an upward trend in vacancy and positive asking rent growth trending forward.

Year	Qtr	Inventory SF/Units	Completions	Inventory growth%	Vacant stock	Vacancy rate	Vacancy change (BPS)	Occupied stock	Net absorption	Asking rent	Ask rent % chg
2011	y	9,858,416	42,466	0.4%	519,209	5.3%	-130	9,339,210	172,486	$1,065	2.1%
2012	y	9,936,601	81,352	0.8%	459,884	4.6%	-70	9,476,719	137,509	$1,099	3.1%
2013	y	10,070,894	136,131	1.4%	433,866	4.3%	-30	9,637,032	160,313	$1,134	3.2%
2014	Q3	10,199,613	54,424	0.5%	438,489	4.3%	10	9,761,128	41,610	$1,167	1.2%
2014	Q4	10,249,000	49,724	0.5%	442,470	4.3%	0	9,806,532	45,404	$1,176	0.7%
2014	y	10,249,000	179,641	1.8%	442,470	4.3%	0	9,806,532	169,500	$1,176	3.7%
2015	Q1	10,285,407	36,319	0.4%	434,377	4.2%	-10	9,851,032	44,500	$1,186	0.9%
2015	Q2	10,339,046	54,253	0.5%	435,162	4.2%	0	9,903,886	52,854	$1,203	1.5%
2015	Q3	10,388,305	50,948	0.5%	443,366	4.3%	10	9,944,939	41,053	$1,223	1.6%
2015	Q4	10,444,019	56,218	0.5%	456,700	4.4%	10	9,987,321	42,382	$1,235	1.0%
2015	y	10,444,019	197,738	1.9%	456,700	4.4%	10	9,987,321	180,789	$1,235	5.0%
2016	Q1	10,48,884	44,387	0.4%	467,408	4.5%	10	10,020,478	33,157	$1,240	0.5%
2016	Q2	10,535,787	49,132	0.5%	479,309	4.5%	0	10,056,481	36,003	$1,252	0.9%
2016	y	10,678,665	236,397	2.2%	510,752	4.8%	40	10,167,913	180,592	$1,278	3.5%
2017	y	10,846,243	167,578	1.6%	548,254	5.1%	30	10,297,989	130,076	$1,321	3.3%
2018	y	10,960,704	114,461	1.1%	564,486	5.2%	10	10,396,218	98,229	$1,359	2.9%
2019	y	11,036,865	76,161	0.7%	575,359	5.2%	0	10,461,506	65,288	$1,393	2.5%
2020	y	11,099,067	62,202	0.6%	586,917	5.3%	10	10,512,150	50,644	$1,425	2.3%

Source: Reis, Inc., Apartment Report, Metro: United States 2Q16

Chicago

The Chicago office market ended the second quarter 2016 with a vacancy rate of 13.1 percent. Net absorption totaled positive 46,608 square feet in the second quarter of 2016,[27] and asking rents averaged $29.68 per square foot for the metropolitan area.[28] REIS forecasts 10.7 million square feet of deliveries to the market from 2016 to 2020.[29] Looking forward, Chicago's vacancy rate is expected to trend downward, and demand will continue to outstrip supply, resulting in continued asking rent growth.[30]

[27] The CoStar Office Report, *Chicago Office Market,* Mid-Year 2016
[28] Reis, Inc., Office Report, *Metro: Chicago 2Q16*
[29] Ibid.
[30] Ibid.

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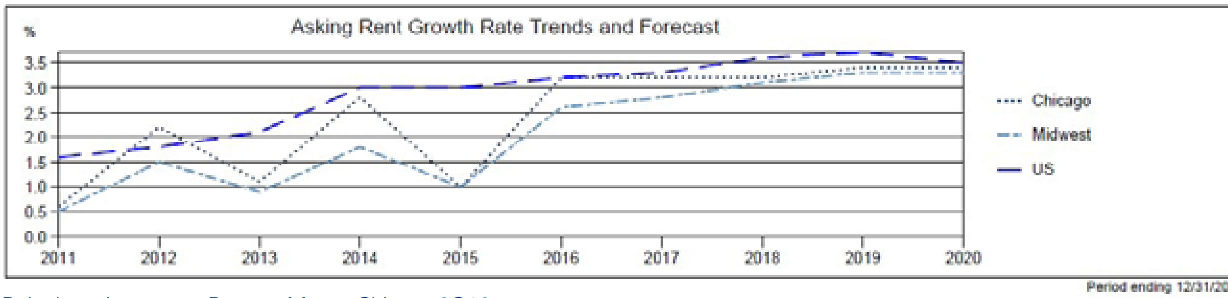


[31]

Reis, Inc., Apartment Report, *Metro: Chicago 2Q16*

The Chicago multifamily market ended the second quarter of 2016 with a vacancy rate of 3.9 percent. Net absorption totaled positive 1,876 units in the second quarter of 2016, and asking rents averaged $1,255 for the metropolitan area. According to REIS, vacancy will rise to 4.8 percent by 2020, though effective rents will rise from $1,187 as of second quarter 2016 to $1,340 by 2020.[32]

Los Angeles

The Los Angeles office market ended the second quarter of 2016 with a vacancy rate of 10.6 percent. Net absorption totaled positive 1,280,416 square feet in the second quarter of 2016,[33] and asking rents averaged $36.16 per square foot for the metropolitan area.[34] REIS forecasts 9.2 million square of deliveries to the market from 2016 to 2020, which will outpace the projected net absorption of 7.9 million square feet in that period.[35] Looking forward, Los Angeles's vacancy rate is expected to trend upward as a result of the excess new supply, resulting in declining asking rents.[36]

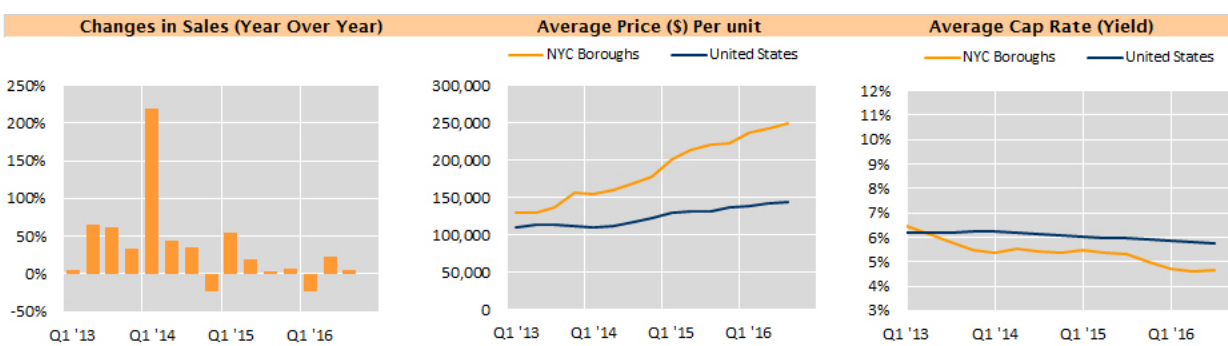
The Los Angeles multifamily market ended the second quarter 2016 with a vacancy rate of 3.5 percent. Net absorption totaled positive 1,183 units in the second quarter of 2016, and asking rents averaged $1,647 for the metropolitan area. According to REIS, vacancy will rise to 4.2 percent by 2020, though effective rents will rise from $1,604 as of second quarter 2016 to $1,788 by 2020.[37]

New York

The New York City office market ended the second quarter of 2016 with a vacancy rate of 7.8 percent. Net absorption totaled positive 2,221,425 square feet in the second quarter of 2016,[38] and asking rents averaged $69.31 per square foot for the metropolitan area.[39] REIS forecasts 8.3 million square feet of deliveries to the market by 2018, which will outpace new demand.[40] Looking forward, New York's vacancy rate is expected to trend upward as a result of the excess new supply, resulting in declining asking rents.[41]

The New York City multifamily market ended the second quarter 2016 with a vacancy rate of 3.7 percent. Net absorption totaled positive 1,329 units in the second quarter of 2016, and asking rents averaged $3,520 for the metropolitan area. According to REIS, vacancy will rise to 5.2 percent by 2020, though effective rents will rise from $3,447 as of second quarter 2016 to $3,904 by 2020.[42]

Real Capital Analytics reported the following trends in the New York City Apartment market from 1Q2013 to 2Q2016.



Source: Real Capital Analytics, NYC Metro Apartment Trends & Trades, 2016

[31] Ibid.
[32] Reis, Inc., Apartment Report, *Metro: Chicago 2Q16*
[33] The CoStar Office Report, *Los Angeles Office Market,* Mid-Year 2016
[34] Reis, Inc., Office Report, *Metro: Los Angeles 2Q16*
[35] Ibid.
[36] Ibid.
[37] Reis, Inc., Apartment Report, Metro: *Los Angeles 2Q16*
[38] The CoStar Office Report, *New York City Office Market,* Mid-Year 2016
[39] Reis, Inc., Office Report, Metro: *New York Metro 2Q16*
[40] Ibid.
[41] Ibid.
[42] Reis, Inc., Apartment Report, *Metro: New York Metro 2Q16*

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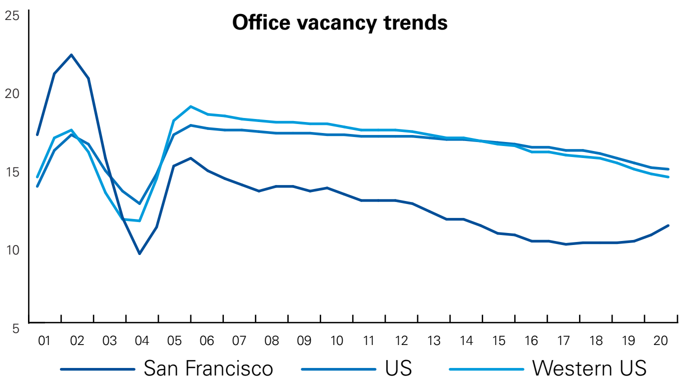
San Francisco

The San Francisco office market ended the second quarter of 2016 with a vacancy rate of 6.8 percent. Net absorption totaled positive 766,208 square feet in the second quarter of 2016,[43] and asking rents averaged $50.43 per square foot for the metropolitan area.[44] There is currently 4.3 million square feet under construction, and REIS forecasts a total of 6.1 million square feet will be added by 2018; completed projects and absorption will be minimal in 2019 and 2020.[45] Looking forward, San Francisco's vacancy rate is expected to trend upward as demand will not keep pace with supply, resulting in declining asking rents.[46]

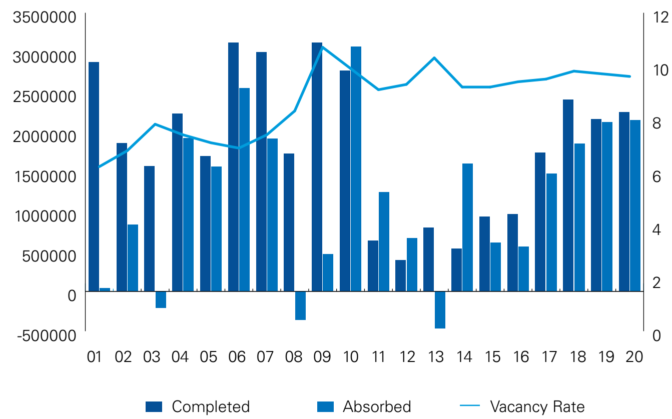


Source: Reis, Inc. 47

The San Francisco multifamily market ended the second quarter 2016 with a vacancy rate of 4.6 percent. Net absorption totaled positive 323 units in the second quarter of 2016, and asking rents averaged $2,578 for the metropolitan area. According to REIS, vacancy will rise to 4.9 percent by 2020, though effective rents will rise from $2,502 as of second quarter 2016 to $2,927 by 2020.[48]

Washington, DC

The Washington office market ended the second quarter of 2016 with a vacancy rate of 14.9 percent. Net absorption totaled positive 406,764 square feet in the second quarter of 2016,[49] and asking rents averaged $53.29 per square foot for the metropolitan area.[50] REIS forecasts 8.2 million square feet of deliveries to the market from 2016 to 2020, similar to anticipated demand.[51] Looking forward, Washington's vacancy is forecasted to trend moderately downward as the deliveries remain in general equilibrium with demand, resulting in slight asking rent growth.[52]



Source: Reis, Inc. 53

The Washington, DC, multifamily market ended the second quarter of 2016 with a vacancy rate of 6.4 percent. Net absorption totaled positive 802 units in the second quarter of 2016, and asking rents averaged $1,696 for the metropolitan area. According to REIS, vacancy will rise to 7.7 percent by 2020, though effective rents will rise from $1,669 as of second quarter 2016 to $1,842 by 2020.[54]

[43] The CoStar Office Report, San Francisco Office Market, Mid-Year 2016
[44] Reis, Inc., Office Report, *Metro: San Francisco 2Q16*
[45] Reis, Inc., Office Report, *Metro: San Francisco 2Q16*
[46] Ibid.
[47] Ibid.
[48] Reis, Inc., Apartment Report, *Metro: San Francisco 2Q16*

[49] The CoStar Office Report, *Washington, D.C. Office Market,* Mid-Year 2016
[50] Reis, Inc., Office Report, *Metro: District of Columbia 2Q16*
[51] Ibid.
[52] Ibid.
[53] Reis, Inc., Apartment Report, *Metro: District of Columbia 2Q16*
[54] Ibid.

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1 Accounting reminders – effective in 2016

Reminders for certain new guidance effective January 1, 2016, for calendar year-end entities

Consolidation

The Financial Accounting Standards Board's (FASB) latest consolidation standard aims to improve targeted areas of the consolidation guidance and reduce the number of consolidation models. The new consolidation standard changes the way reporting enterprises evaluate whether (a) they should consolidate limited partnerships and similar entities, (b) fees paid to a decision-maker or service provider are variable interests in a variable interest entity (VIE), and (c) variable interests in a VIE held by related parties of the reporting enterprise require the reporting enterprise to consolidate the VIE. It also eliminates the VIE consolidation model that was based on majority exposure to variability that applied to certain investment companies and similar entities and changed the way the VIE scope determination is evaluated for corporations (which may significantly affect entities for which decision-making rights are conveyed though a contractual arrangement).

The primary objective of the new guidance was to address concerns expressed by financial statement users about the possibility that the existing guidance could require investment managers and similar entities to consolidate certain investment funds that they manage. Another objective of the proposals was to eliminate the inconsistency between how participating rights and kick-out rights are evaluated for VIEs versus voting entities.

Changes to VIE consolidation requirements

To limit the circumstances in which investment managers and similar entities are required to consolidate the entities that they manage, the Financial Accounting Standards Board (FASB) decided to (a) eliminate some of the criteria under which their fees are considered a variable interest and (b) limit the circumstances in which variable interests in a VIE held by related parties of the reporting enterprise require the reporting enterprise to consolidate the VIE. The Board also decided that limited partnerships and similar entities should be subject to the VIE requirements when the limited partners do not hold substantive kick-out rights or participating rights. This change results in some partnerships being considered VIEs under the new guidance that are voting interest entities under current U.S. generally accepted accounting principles (GAAP).

In addition, the FASB revised the requirements used to determine whether the equity-at-risk investors in corporations (and other entities that are not similar to limited partnerships) have the power through voting rights, or similar rights, to make decisions about the activities that most significantly impact the entities' economic performance. Under the previous guidance, a single party had to hold a unilateral substantive kick-out right or participating right over a decision-maker whose fee represents a variable interest for an entity not to be a VIE. Under the new guidance, when evaluating *power* in this context, those equity at-risk holders must have only simple majority voting rights over the decisions about the activities that most significantly impact economic performance. While the Board made this change in response to constituent concerns about the results of applying the previous VIE criteria to certain mutual fund structures, the changes are not restricted to mutual fund entities and may significantly affect previous consolidation conclusions in some cases.

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Fees paid to a decision-maker or service provider

Variable interest determination

> Under the provisions of the new guidance, fees paid to a decision-maker or service provider do not represent a variable interest in a VIE if all of the following conditions are met:
>
> 1) The decision-maker's compensation is commensurate with the services provided;
>
> 2) The arrangement includes only terms, conditions, or amounts that are customarily present in arrangements for similar services negotiated on an arm's-length basis; and
>
> 3) The decision-maker does not hold other interests in the VIE (including interests held through related parties) that individually or in the aggregate, absorb more than an insignificant amount of the VIE's expected losses or receive more than an insignificant amount of the VIE's expected residual returns.

A reporting enterprise may need to analyze similar arrangements among parties outside the fee arrangement being evaluated to determine whether the fee meets the first two conditions above. A fee would not presumptively be considered a variable interest when similar fee arrangements do not exist if the fee arrangement relates to a unique or new service or if it reflects a change in what is considered customary for the services. In addition, the magnitude of a fee would not be determinative in evaluating the criteria.

The criteria do not apply to fees or payments in connection with agreements that expose the decision-maker or service provider to risk of loss in the VIE, such as fees related to guarantees of the value of the assets or liabilities of a VIE, fees in relation to obligations to fund operating losses, etc. Those fees are automatically considered variable interests under the new guidance.

Primary beneficiary determination

If a decision-maker's fees represent a variable interest in a VIE, the decision-maker must determine whether it is the VIE's primary beneficiary. Consistent with current U.S. GAAP, a variable interest holder is considered the primary beneficiary and consolidates a VIE when it has: (a) the power to direct the activities that most significantly impact the VIE's economic performance (power) and (b) the obligation to absorb losses of the VIE that could potentially be significant to the VIE and/or the right to receive benefits from the VIE that could potentially be significant to the VIE (potentially significant variable interest).

> The FASB decided to exclude fees paid to a decision-maker or service provider from the potentially significant variable interest determination if: 1) The compensation is commensurate with the services provided; and 2) The arrangement includes only terms, conditions, or amounts that are customarily present in arrangements for similar services negotiated on an arm's-length basis.

When fees meet the conditions above, the fees are excluded from the potentially significant variable interest determination in the primary beneficiary evaluation, irrespective of whether they are subject to lock-up provisions, settled in variable interests (i.e., not cash) of the VIE, or other variable interests are held by the decision-maker or service provider.

Under current U.S. GAAP, fees paid to a decision-maker or service provider are included in the potentially significant variable interest determination. The new consolidation guidance places more emphasis on variable interests other than fee arrangements because the FASB believes that these fee arrangements do not subject the decision-maker to a risk of loss. Fees or payments in connection with agreements that expose the decision-maker or service provider to risk of loss in the VIE (e.g., fees related to guarantees of the value of the assets or liabilities of a VIE, fees in relation to obligations to fund operating losses, etc.) are not eligible for the above exclusion and therefore are included in evaluating whether a decision-maker has a potentially significant variable interest.

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Related parties

The new consolidation guidance does not change the related-party guidance for situations where power to direct the activities that most significantly impact a VIE's economic performance is shared between two or more parties. However, it does change the way in which related parties are considered in determining whether a fee paid to a decision-maker or service provider is a variable interest and the way in which related-party interests are considered in determining whether a single party with the power to direct the activities that most significantly impact a VIE's economic performance (i.e., a single decision-maker) has a potentially significant variable interest that results in the decision-maker meeting both criteria to be the VIE's primary beneficiary. The FASB also decided to change the current VIE guidance requiring an evaluation of which party in a related-party group that collectively meets the characteristics to be a VIE's primary beneficiary should consolidate the VIE when none of the parties individually meets the characteristics to be the primary beneficiary.

VIE criteria

Voting rights

With the new consolidation guidance eliminating the indefinite deferral of ASU 2009-17[55] provided for certain entities in ASU 2010-10,[56] some constituents expressed concerns that certain funds would be considered VIEs because the equity-at-risk investors would not have the power through voting rights to direct the activities that most significantly impact the funds' economic performance. Specifically, a single equity-at-risk investor would not have a substantive unilateral kick-out right or participating right over the asset manager when the asset manager's fee is considered a variable interest. This outcome would have potentially required consolidation of these entities by asset managers that hold a portion of the entities' investment interests until their interests fell below the potentially significant variable interest threshold rather than the majority exposure to variability threshold in current U.S. GAAP by these entities. To address these concerns, the FASB decided to stipulate that two steps are required when evaluating the voting rights characteristic for entities that are not similar to limited partnerships:

Step 1 – Determine whether the holders of the equity investment at risk have power through voting rights or similar rights to direct the activities that most significantly impact the entity's economic performance. If so, the entity would not be a VIE if no other VIE characteristics are met. If the equity-at-risk holders do not have power to direct the activities that most significantly impact the entity's economic performance, Step 2 is performed.

Step 2 – If a decision-maker whose fee is a variable interest has power to direct the activities that most significantly impact the entity's economic performance through a contractual arrangement, the entity would be a VIE unless a single equity-at-risk holder has substantive kick-out rights or substantive participating rights over the decision-maker and no other VIE characteristics are met.

Limited partnerships and similar legal entities

The FASB decided to change the VIE criteria so that, regardless of the sufficiency (or other characteristics) of its equity, a limited partnership or similar entity is a VIE unless substantive kick-out rights or participating rights are exercisable by either a single limited partner or a simple majority of all limited partner voting interests. Limited partner voting interests held by the general partner, entities under common control with the general partner, and other parties acting on behalf of the general partner are excluded from that analysis. The analysis is not affected by whether the general partner interest qualifies as an equity-at-risk interest. Entities for which investors are eligible to apply the pro rata method of consolidation based on industry practice in the construction industry or extractive industries are not within the scope of this provision. This allows investors in these entities to continue to apply the pro rata method of consolidation when applicable.

Changes to consolidation requirements for entities that are not VIEs

The FASB decided to eliminate the consolidation guidance for limited partnerships and similar entities that are not VIEs. Under the new requirements, those entities will be evaluated for consolidation in generally the same way as corporations that are not VIEs. Limited partner substantive kick-out rights held through voting interests of partnerships

[55] FASB Accounting Standards Update No. 2009-17, *Improvements to Financial Reporting by Enterprises Involved with Variable Interest Entities*

[56] FASB Accounting Standards Update No. 2010-10, *Amendments for Certain Investment Funds*

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and similar entities that are not VIEs will be considered fully the equivalent of the equity interests of corporations that are not VIEs. Limited partner substantive participating rights held through voting interests of partnerships and similar entities will be considered the equivalent to equity interests of corporations that are not VIEs for purposes of determining whether those entities are VIEs. However, substantive participating rights will not require consolidation of the entity by a partner with the ability to unilaterally exercise those rights.

Investment entities other than money market funds

ASU 2010-10[57] indefinitely deferred the effective date of the VIE consolidation requirements in ASU 2009-17[58] for reporting enterprises with interest in entities that either have all of the characteristics of investment companies or that apply measurement principles for financial reporting purposes that are consistent with those that apply to investment companies based on acceptable industry practice if the reporting enterprise meets other conditions. The new guidance eliminates this deferral so that the same VIE consolidation requirements apply to all VIEs. Reporting enterprises will no longer evaluate consolidation for these entities when they are VIEs based on majority exposure to variability.

Effective date

The new consolidation guidance became is effective for public business entities for annual and interim periods in fiscal years beginning after December 15, 2015. For all other entities, the guidance is effective for annual periods beginning after December 15, 2016, and interim periods beginning after December 15, 2017.

Accounting for share-based payments with certain performance targets

In 2015, the FASB and its Emerging Issues Task Force (EITF) clarified that performance targets that could be achieved after the requisite service period should be treated as performance conditions. For example, a real estate company may grant an executive an option to purchase common shares that requires the executive to work for three years to retain the award, but the award only becomes exercisable based on Funds From Operations (FFO) performance exceeding specified thresholds over a five-year period. Under the new guidance, the performance condition of achieving the FFO target would not be reflected in estimating the grant date

[57] FASB Accounting Standards Update No. 2010-10, *Amendments for Certain Investment Funds*

[58] FASB Accounting Standards Update No. 2009-17, *Improvements to Financial Reporting by Enterprises Involved with Variable Interest Entities*

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fair value of the award, but instead would be accounted for when the achievement of the performance condition becomes probable.

The new guidance became effective for all companies for annual and interim periods beginning after December 15, 2015.

The guidance may be adopted either prospectively for share-based payment awards granted or modified on or after the effective date, or retrospectively, using a modified retrospective approach. The modified retrospective approach would apply to share-based payment awards outstanding as of the beginning of the earliest annual period presented in the financial statements on adoption, and to all new or modified awards thereafter.

Eliminating the concept of extraordinary items

The FASB's recent standard simplifies income statement presentation by eliminating the concept of extraordinary items from U.S. GAAP. However, the new guidance does not affect current presentation and disclosure requirements for material events or transactions that are unusual in nature or infrequent in occurrence. Companies also will continue to evaluate whether items are unusual in nature or infrequent in occurrence when estimating the annual effective tax rate for interim reporting purposes.

The new standard became effective for all companies for annual and interim periods beginning after December 15, 2015. Companies have the option to adopt the new guidance prospectively or retrospectively.

Hybrid financial instruments

The FASB issued a standard that requires a company that issues or invests in hybrid financial instruments (e.g., a preferred share with a redemption feature, a conversion feature, or both) to determine the nature of the host contract by considering the economic characteristics of the entire instrument, including embedded derivative feature that is being evaluated for separate accounting. Concluding the host contract is debt-like (versus equity-like) may result in substantially different answers about whether certain features must be accounted for separately.

The new standard became effective for public companies for annual and interim periods beginning after December 15, 2015. For other entities, the effective date is for annual periods beginning after December 15, 2015, and interim periods in fiscal years thereafter. The guidance provides a modified retrospective transition for all existing hybrid financial instruments in the form of a share, with the option for full retrospective application.

Presentation of debt issuance costs

Under the new guidance, debt issuance costs related to a recognized liability will be presented on the balance sheet as a direct deduction from the liability, similar to the presentation of debt discounts. The costs will continue to be amortized to interest expense using the effective interest method. The cost of issuing debt will no longer be recorded as a separate asset, except when incurred before receipt of the funding from the associated debt liability.

The new guidance became effective for public business entities for annual periods beginning after December 15, 2015 and interim periods within those fiscal years. For all other entities, it became effective for annual periods beginning after December 15, 2015, and interim periods within fiscal years beginning after December 15, 2016.

The guidance requires retrospective application to all prior periods presented in the financial statements. Upon transition, an entity is required to comply with the applicable disclosures for a change in accounting principle, including the nature of and reason for the change in accounting principle, transition method, description of the prior-period information that has been retrospectively adjusted, and effect of the change on the financial statement line items (the debt issuance cost asset and the debt liability).

Disclosures for investments in certain entities that calculate net asset value (NAV) per share

The new guidance eliminates the requirement to categorize investments in the fair value hierarchy disclosure if their fair value is measured at net asset value (NAV) per share (or its equivalent) using the practical expedient in the FASB's fair value measurement guidance.

Previously, categorization within the fair value hierarchy of an investment to which the practical expedient was applied depended on its redemption attributes. This was because redemption dates were often dependent on the nature of the underlying investments in the investment companies. For example, investment companies that hold very liquid investments (e.g., money market funds and publicly traded equity funds) often can be redeemed frequently.

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Investments in investment companies holding less liquid or illiquid investments (e.g., real estate funds) are generally redeemable less frequently, such as quarterly, annually, or only upon liquidation of the entity.

Investments measured using the practical expedient that are redeemable at NAV on the measurement date were previously categorized as Level 2. Investments that will be redeemable only upon liquidation of the entity, or with unknown future redemption dates, were categorized as Level 3.

For investments measured using the practical expedient that are redeemable at a future date, reporting entities needed to determine if the investment was redeemable in the near term, in which case it was categorized as Level 2. However, "near-term" is not defined in the FASB's guidance about the fair value hierarchy, and preparers had interpreted it differently (e.g., as the ability to redeem quarterly or semiannually). This resulted in diversity in practice.

The new guidance removes the requirement to categorize within the fair value hierarchy only those investments whose fair values are measured at NAV (or its equivalent) under the practical expedient in the FASB's fair value measurement guidance. Investments eligible for the practical expedient, but for which it has not been applied, will continue to be included in the fair value hierarchy.

The new guidance became effective for public business entities for annual and interim periods beginning after December 15, 2015. For all other entities, the guidance will be effective for annual and interim periods beginning after December 15, 2016. Early adoption is permitted. Reporting entities are required to adopt the new guidance retrospectively.

Measurement-period adjustments in business combinations

The new guidance eliminates the requirement to retrospectively adjust the financial statements for measurement-period adjustments that occur in periods after a business combination is consummated.

The measurement period is a reasonable time period after the acquisition date when the acquirer may adjust the provisional amounts recognized for a business combination if the necessary information is not available by the end of the reporting period in which the acquisition occurs. This may occur, for example, when the purchase price allocation is not complete for the purchase of an operating property that is purchased near the end of the acquirer's reporting period.

The measurement period ends as soon as the acquirer receives the information it was seeking or learns that more information is not obtainable. But, in any event, the measurement period cannot continue for more than one year from the acquisition date.

Under previous GAAP, measurement-period adjustments were calculated as if they were known at the acquisition date and were recognized by revising information for prior periods. The new guidance will continue to require measurement-period adjustments to be calculated as if they were known at the acquisition date, but will be recognized in the reporting period in which they are determined. Prior-period information is not revised.

The new guidance became effective for public business entities for interim and annual periods beginning after December 15, 2015. All other entities will be required to apply the new standard for annual periods beginning after December 15, 2016, and interim periods December 15, 2017. Early adoption is permitted if financial statements were not made available for issuance. An entity will apply the changes prospectively to adjustments of provisional amounts that occur after the effective date.

FASB and PCC eliminate effective dates for private company alternatives

In early 2016, the FASB issued new guidance eliminating the effective dates for four private company accounting alternatives developed by the Private Company Council (PCC). The new guidance is effective immediately and allows a private company[59] to elect any of the PCC alternatives at the beginning of any annual reporting period for the first time without assessing preferability. The new guidance applies to:

— ASU 2014-02, *Accounting for Goodwill*

— ASU 2014-03, *Accounting for Certain Receive-Variable, Pay-Fixed Interest Rate Swaps – Simplified Hedge Accounting Approach*

— ASU 2014-07, *Applying Variable Interest Entities Guidance to Common Control Leasing Arrangements;* and

— ASU 2014-18, *Accounting for Identifiable Intangible Assets in a Business Combination.*

Customer's accounting for fees paid in a cloud computing arrangement

Previously, U.S. GAAP did not include explicit guidance about a customer's accounting for fees paid in a cloud computing arrangement. Examples of cloud computing arrangements include software as a service, platform as a service, infrastructure as a service, and other similar

[59] An entity other than a public business entity, a not-for-profit entity, or an employee benefit plan

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hosting arrangements. The new guidance provides criteria for customers in a cloud computing arrangement to determine whether the arrangement includes a software license.

When a cloud computing arrangement includes a license of software, the customer will capitalize the fee attributable to the software license portion of the arrangement when the criteria for capitalization of internal-use software are met. When a cloud computing arrangement does not include a license of software, the customer will account for the arrangement as a service contract and expense the cost as the services are received. The ASU supersedes the guidance that required companies to analogize to lease accounting when determining the asset acquired in a software licensing arrangement.

For public business entities, the standard is effective for annual and interim periods in fiscal years beginning after December 15, 2015. For all other entities, the standard is effective for annual periods beginning after December 15, 2015, and interim periods in fiscal years beginning after December 15, 2016. Early adoption is permitted for all entities.

Entities may elect to adopt the ASU either prospectively for all arrangements entered into or materially modified after the effective date, or retrospectively. Entities that elect prospective transition should disclose the nature of, and reason for, the change in accounting policy, the transition method, and a qualitative description of the financial statement line items affected by the change. Entities that elect retrospective transition should also disclose quantitative information about the effects of the accounting change.

Going concern

The FASB's going concern standard requires management to assess, at each interim and annual reporting period, whether substantial doubt exists about the company's ability to continue as a going concern. Substantial doubt exists if it is probable (the same threshold that is used for contingencies) that the company will be unable to meet its obligations as they become due within one year after the date the financial statements are issued or available to be issued (assessment date). Management needs to consider known (and reasonably knowable) events and conditions at the assessment date.

If management determines there is substantial doubt, it should consider whether the doubt is overcome by management's plans. If it is probable that management's plans can be both effectively implemented and mitigate the conditions or events that raise substantial doubt, those plans, along with the principal conditions or events that gave rise to that doubt and management's evaluation of the significance of those conditions or events, must be disclosed.

When substantial doubt is not overcome by management's plans, the company must disclose:

- A statement indicating that there is substantial doubt about the company's ability to continue as a going concern;
- The principal conditions and events giving rise to substantial doubt;
- Management's evaluation of the significance of those conditions or events in relation to the entity's ability to meet its obligations; and
- Management's plans that are intended to mitigate the conditions or events that gave rise to the substantial doubt.

The new standard substantially aligns the accounting requirements with current auditing requirements (except that auditing standards require a one-year assessment from the balance sheet date rather than from the financial statement issuance date, the accounting standard specifically defines "substantial doubt" and it requires assessment at every reporting period).

The new standard is effective for all entities for the first annual period ending after December 15, 2016, and interim periods thereafter, with early adoption permitted.

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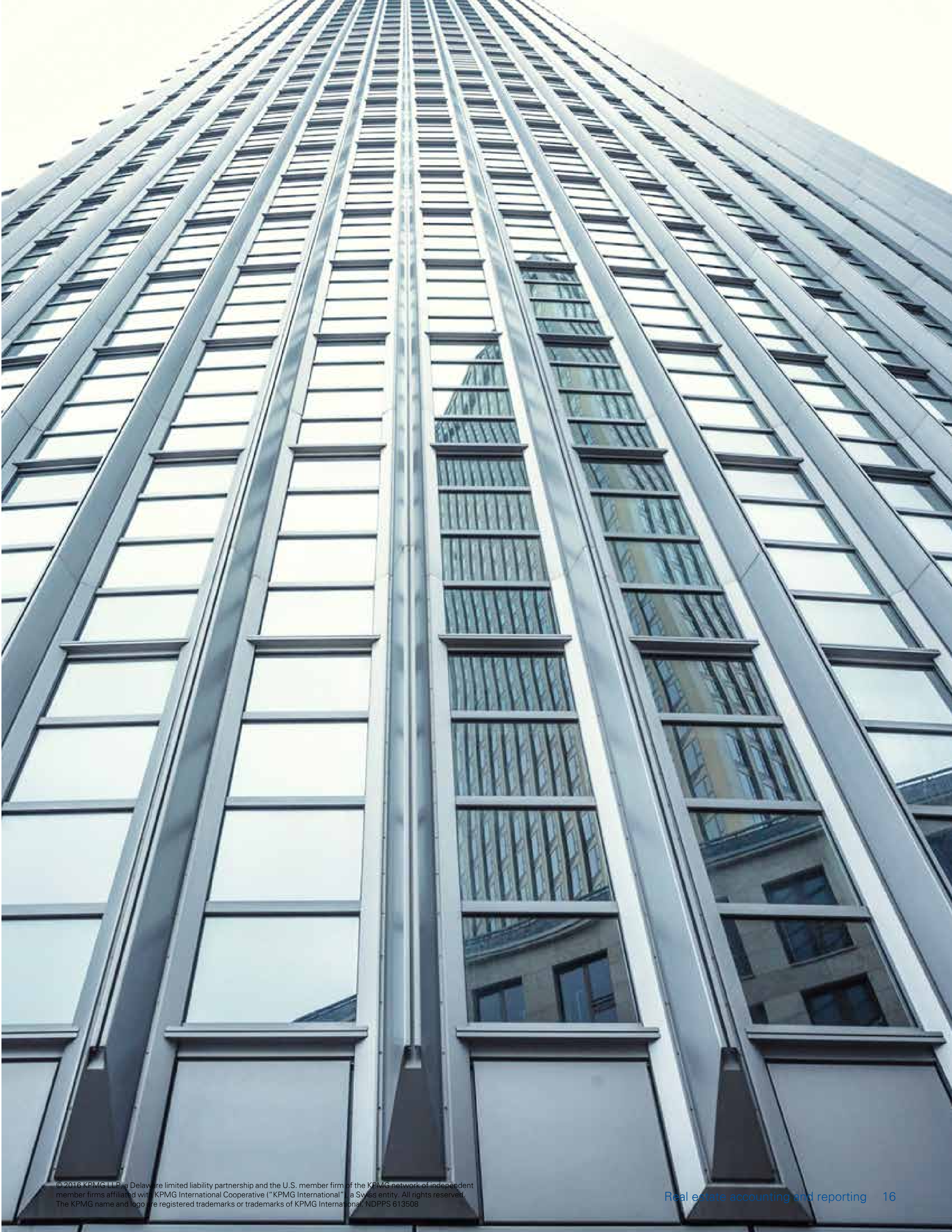

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2 Looking ahead to new standards and guidance

New leasing standard has arrived

In February 2016, the FASB issued a new lease accounting standard that will cause lessees to recognize most leases on-balance sheet. This will increase the lessees' reported assets and liabilities. Lessor accounting remains substantially similar to current U.S. GAAP, but with some important changes. Well before the new standard becomes effective, lessees and lessors will need to assess how widespread its effects will be so they can plan for necessary business and process changes.

The standard is effective for public business entities for annual and interim periods beginning after December 15, 2018, and for other entities for annual periods beginning after December 15, 2019, and interim periods beginning after December 15, 2020. All entities can adopt the standard immediately.

A modified retrospective transition, with elective reliefs, is required. Lessees and lessors will apply the new guidance at the beginning of the earliest period presented in the financial statements in which they first apply the new standard. This may significantly change comparative period balance sheets from what was previously reported for many lessees.

Lessees will recognize most leases on balance sheet

All leases, including operating leases, will be recognized on-balance sheet via a right-of-use asset and lease liability, unless the lease is a short-term lease (i.e., one with an accounting lease term of 12 months or less). Lease classification will determine whether a lease is reported as a financing transaction in the income statement and statement of cash flows.

Identifying a lease

The definition of a lease is the new test for whether a transaction is on-or off-balance sheet. While the new definition is similar to current U.S. GAAP and will yield similar results in most cases, some arrangements that currently contain a lease no longer will. In addition, a new requirement to determine whether the customer has the right to direct the use of the identified asset will require significant new judgments.

Lessee reassessments

Lessees will be required to reassess, and potentially change, aspects of their accounting for leases (e.g., assessments of the lease term, lessee purchase options, and lease classification) during the lease term, and remeasure lease assets and lease liabilities even if there is not a lease modification.

Executory costs

All (or a portion of) fixed payments by the lessee to cover lessor costs related to ownership of the underlying asset that do not represent payments for a good or service will be considered lease payments and reflected in the measurement of lease assets and lease liabilities by lessees (and in the lessor's net investment in the lease for sales-type and direct financing leases).

Collectability considerations and variable payments

The new standard changes how lessors account for leases in which collectability of the lease payment is uncertain. Lessors may now have to recognize some lease payments received as liabilities in those cases. The new standard may also affect leases for which there are significant variable payments because they no longer will be classified as operating leases solely due to the extent of variable payments. This may result in a negative implicit rate for the lease or loss recognition at lease commencement.

Fewer lease origination costs can be capitalized

The new standard has a narrow definition of initial direct costs that will require lessors and lessees to recognize more lease origination costs as expenses when incurred. Only incremental costs incurred as a result of the lease being executed (e.g., commissions) meet the new

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definition and can be capitalized. Accordingly, costs incurred to negotiate and arrange a lease that are not incurred only as a result of executing the lease (e.g., legal fees and certain internal employee costs)—some of which are capitalized under current U.S. GAAP—will now be expensed when incurred.

Expanded quantitative and qualitative disclosures

The new standard requires lessees and lessors to disclose more qualitative and quantitative information about their leases than current U.S. GAAP does.

Significant changes to sales-leaseback accounting will affect seller-lessees and buyer-lessors

The new standard essentially eliminates sale-leaseback accounting as an off-balance sheet financing proposition. This is because seller-lessees will recognize a right-of-use asset and lease liability in place of the underlying asset (and any asset financing repaid with the sale proceeds).

Additionally, there will be fewer failed sales in sale-leaseback transactions involving real estate, but there may be more failed sales in equipment sale-leaseback transactions. Buyer-lessors will have to consider the same sale guidance in the new revenue recognition standard as seller-lessees to determine whether they have purchased the underlying asset, which may result in a failed purchase. A buyer-lessor accounts for a failed purchase as a financing arrangement rather than the acquisition of an asset and a lease. Seller-lessees will recognize the entire gain from the sale of the underlying asset (i.e., the difference between the selling price and the carrying amount of the underlying asset) at the time the sale is recognized rather than over the leaseback term.

Current build-to-suit lease guidance replaced

The new guidance on determining when a lessee controls an underlying asset before lease commencement probably will result in fewer transactions where the lessee is considered the accounting owner of an asset during the construction period than current U.S. GAAP. This means that fewer build-to-suit lease arrangements will become subject to the sale-leaseback accounting requirements. The changes to the sale-leaseback guidance also make it easier for lessees to remove from their books real estate assets recognized during the construction period. Finally, the transition provisions of the new standard will permit many entities to derecognize build-to-suit assets and liabilities that have remained on the balance sheet after the end of the construction period under current U.S. GAAP.

Revenue recognition

The effective date for the joint standard on revenue recognition published by the IASB and FASB in May 2014 is fast approaching. It replaces, among other things, most of the guidance on profit recognition for real estate sales that currently exists under U.S. GAAP. The impacts to individual real estate companies vary widely depending on the nature of their business and how they contract with their customers and buyers.

In May 2016, KPMG published the second edition of "Revenue Issues In-Depth," which illustrates how the new standard applies to common transactions, provided examples about common scenarios, explains our emerging thinking on key interpretative issues, and compares the new requirements to current U.S. GAAP. Please click http://www.kpmg-institutes.com/institutes/financial-reporting-network/articles/2014/09/issues-in-depth-revenue.html for the publication.

Additionally, KPMG published Q&As on key issues when applying the new revenue model to common real estate transactions. Please click http://www.kpmg-institutes.com/institutes/financial-reporting-network/articles/2016/08/revenue-real-estate-q-a.html for the Q&A publication.

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Simplifications to equity method accounting

As part of its simplification initiative, the FASB recently issued new guidance that eliminates the requirement for an investor to retroactively apply the equity method when its increase in ownership interest (or degree of influence) in an investee triggers a change from cost method to equity method accounting. The Board also decided to require entities that account for their investments in an investee available-for-sale equity securities that must apply the equity method of accounting to recognize the unrealized holding gain or loss in accumulated other comprehensive income through earnings at the date in which the investment triggers the use of the equity method.

The new standard is effective for all entities annual and interim periods, beginning after December 15, 2016. Early adoption is permitted. The new guidance will be applied prospectively to changes in ownership (or influence) after the adoption date.

Equity investments and financial liabilities

The FASB issued a new accounting standard that will significantly change the income statement effect of certain equity investments held by an entity and the recognition of changes in fair value of financial liabilities when the fair value option is elected.

Under the new standard, entities must measure equity investments with readily determinable fair values at fair value and recognize changes in fair value in net income. For equity investments without readily determinable fair values, entities have the option to either measure these investments at fair value, or at cost adjusted for changes in observable prices minus impairment. Changes in measurement under either alternative must be recognized in net income. Because entities must recognize changes in the measurement of equity investments in net income, income statement volatility will increase.

The new standard also requires entities that elect the fair value option for financial liabilities to recognize changes in fair value to instrument-specific credit risk in other comprehensive income (OCI). Current U.S. GAAP requires entities to recognize these changes in earnings.

The new standard also makes changes to valuation allowance assessments. The new guidance requires entities to assess valuation allowances for deferred tax assets related to available-for-sale debt securities in combination with their other deferred tax assets. Currently, entities have a policy election for assessing deferred tax assets associated with unrealized losses on available-for-sale debt securities.

The new standard is effective for public business entities for annual and interim periods beginning after December 15, 2017. For all other entities, it is effective for annual periods beginning after December 15, 2018, and interim periods beginning after December 15, 2019.

Entities that are not public business entities may early adopt the standard in fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. Entities may early-adopt the provisions related to the recognition of changes in the fair value of financial liabilities. This includes financial statements of annual or interim periods that have not yet been issued or, for entities that are not public business entities, have not yet been made available for issuance. In addition, entities that are not public business entities may early-adopt the provisions of the standard that eliminate certain previously required disclosures. These provisions would be applied to financial statements that have not yet been made available for issuance.

Entities must apply the standard using a cumulative-effect adjustment to the balance sheet as of the beginning of the fiscal year of adoption. The provisions related to equity investments without a readily determinable fair value are applied prospectively to equity investments as of the adoption date.

Simplified accounting for share-based payments

In March 2016, the FASB issued new guidance intended to improve the accounting for share-based payment transactions. Under the new guidance:

— Tax benefits or deficiencies related to share-based payments arising at settlement or expiration are recorded through the income statement instead of equity and be treated as discrete items when computing the estimated annual effective tax rate.

— Excess tax benefits are reflected as an operating activity in the statement of cash flows.

— Entities are permitted to elect an accounting policy to either estimate the number of forfeitures (current U.S. GAAP) or account for forfeitures when they occur.

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— Entities may withhold up to the maximum individual statutory tax rate without classifying the awards as a liability. The cash paid to satisfy the statutory income tax withholding obligation is classified as a financing activity in the statement of cash flows.

— Nonpublic entities are allowed to use a practical expedient to determine the expected term of certain share-based awards. They also are allowed to make an election to change the measurement basis for all liability-classified awards to intrinsic value when they adopt the new guidance.

For public business entities, the guidance is effective for annual and interim periods beginning after December 15, 2016. It is effective for all other entities for annual periods beginning after December 15, 2016, and interim periods beginning after December 15, 2018. Early adoption is permitted in any interim or annual period provided that all parts of the new guidance are adopted.

Contingent put and call options in debt instruments

Current accounting guidance requires that embedded derivatives be separated from the host and accounted for as derivatives if three criteria are met. These criteria include that the economic characteristics and risks of the embedded derivative are not clearly and closely related to the economic characteristics and risks of the host contract.

Derivatives and hedging guidance provides a four-step decision sequence to be used to determine whether puts and calls are clearly and closely related to the host contract; however, applying that guidance created diversity in practice. Certain entities assessed the puts and calls using only the four-step decision sequence, while other entities also separately evaluated the contingency.

The new guidance clarifies that determining whether the economic characteristics of a put or call are clearly and closely related to its debt host requires only an assessment of the current four-step decision sequence. Entities are not required to separately assess whether the contingency itself is clearly and closely related. This conclusion is consistent with those previously reached by the Derivatives Implementation Group (DIG) when the guidance on the four-step decision sequence was issued.

For public business entities, this guidance is effective for annual and interim periods beginning after December 15, 2016. For all other entities, it is effective for annual periods beginning after December 15, 2017, and interim periods beginning after December 15, 2018. Early adoption as of the beginning of an annual period is allowed for annual and interim periods for which financial statements have not been issued.

A modified retrospective transition approach, with a cumulative catch-up adjustment to opening retained earnings in the period of adoption, is required. For instruments that are eligible for the fair

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value option, entities have a one-time option to irrevocably elect to measure the debt instrument affected by the amendments in its entirety at fair value with changes in fair value recognized in earnings.

Statement of cash flows: presentation and classification issues

Restricted cash presentation

In September 2016, the EITF reached a final consensus that the statement of cash flows should explain the change in the total of cash and cash equivalents and amounts generally described as restricted cash and restricted cash equivalents.

When these total amounts as of the beginning or end of any period presented are included in more than one line item within the statements of financial position, companies would disclose the amounts and line items in which cash and cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents, are reported in each statement of financial position presented. The final consensus also would require an entity to disclose the nature of restrictions on cash and cash equivalents.

The final consensus will be effective for public business entities in interim and annual periods beginning after December 15, 2017. For all other entities, it will be effective for annual periods beginning after December 15, 2018, and interim periods in the year following the annual period in which the consensus is adopted. The consensus will require retrospective application. Early adoption will be permitted and transition disclosures will be required in the first interim and annual period of adoption.

Classification of certain cash receipts and cash payments

The FASB issued new guidance on eight cash flow issues that are expected to reduce diversity in practice and improve financial reporting. Those issues most relevant to the real estate industry include:

<u>Debt prepayment or extinguishment costs.</u> The new guidance determines that cash payments for debt prepayment or extinguishment costs should be classified as cash outflows for financing activities.

<u>Settlement of zero-coupon bonds.</u> The new guidance states that the portion of the cash payment at settlement attributable to the accreted interest should be classified as a cash outflow for operating activities. The portion of the cash payment attributable to the principal (i.e., original proceeds received) should be classified as a cash outflow for financing activities. At settlement, classify the entire cash payment associated with other bonds issued at a discount as a cash outflow for financing activities. In addition to zero-coupon bonds, the scope of this issue would include bonds issued at a discount with an insignificant cash coupon.

<u>Contingent consideration payments made after a business combination.</u> The new guidance determined that cash payments made after a business combination for the settlement of a contingent consideration liability should be separated and classified as:

- A cash outflow for financing activities for the portion of the total cash payment not to exceed the amount of the contingent consideration liability recognized as the acquisition-date fair value (including measurement period adjustments). This classification presumes the amount is not paid at the time of purchase or soon before or after the business combination occurred. Otherwise it would be classified as a cash outflow for investing activities.
- A cash outflow for operating activities for the amount paid in excess of the amount of the contingent consideration liability recognized as the acquisition-date fair value (including measurement period adjustments).

<u>Distributions received from equity method investees.</u> The new guidance requires an accounting policy election to use either the cumulative-earnings approach or the look-through approach for all investees.

Under the cumulative-earnings approach, all distributions received from the investee would be presumed to be returns on investment and classified as operating inflows. However, if the investor's cumulative distributions, excluding distributions in prior years that were determined to be returns of investment, exceed the investor's

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cumulative equity in earnings, the current period distribution up to this excess is considered a return of investment and classified as investing inflows.

Under the look-through approach, distributions received would be classified based on the specific facts and circumstances. If the entity does not have the information necessary to evaluate the specific facts and circumstances of a distribution received from an investee, it would apply the cumulative-earnings approach to determine the classification.

For public business entities, the guidance will be effective for annual periods beginning after December 15, 2017, and for interim periods beginning after December 15, 2017. For all other entities, the guidance will be effective for annual periods beginning after December 15, 2018, and for interim periods beginning after December 15, 2019. Full retrospective transition for all eight cash flow issues is required, with a provision for impracticability. Early adoption is permitted; however, an entity must adopt all issues at the same time.

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3 Proposed guidance

Simplifying goodwill impairment accounting

The FASB has proposed an ASU to simplify the subsequent measurement of goodwill by removing the second step of the goodwill impairment test. An entity that does not elect the private company alternative would perform its annual or interim goodwill impairment test by comparing the fair value of a reporting unit to its carrying amount. If the reporting unit's carrying amount exceeds its fair value, the difference, up to the carrying amount of the goodwill allocated to the reporting unit, would be recognized as an impairment in goodwill.

Current Requirements	Proposed ASU
Assess qualitative factors to determine whether goodwill impairment exists	No change
Step 1 of the goodwill impairment test identified potential impairment	Identifying and measuring impairment would take place in a single quantitative step
Step 2 of the goodwill impairment test measures the impairment	Eliminated
Perform a qualitative assessment to identify impairment for reporting units with zero or negative carrying amounts. When impairment is identified, perform Step 2 to measure the impairment.	No separate qualitative assessment for reporting units with zero or negative carrying amounts. Entities must disclose the existence of these reporting units and the amount of goodwill allocated to them.

Focusing on material and more effective disclosures

The FASB recently issued two exposure drafts as part of its Disclosure Framework project that would provide more flexibility and discretion for entities to provide material information in the notes to the financial statements. Some believe that disclosures described in FASB accounting standards must be provided even if the related information is not relevant, resulting in disclosure overload. Others believe not enough relevant information is provided.

The board proposed amendments to the definition of materiality (as described in FASB Concepts Statement 8 for evaluating disclosures) that would align the U.S. GAAP definition with the legal concept of materiality. Under the proposal, the FASB would observe the U.S. Supreme Court definition of materiality (that can change based on executive, legislative, and judicial actions) for purposes of evaluating when disclosures should be provided. The U.S. Supreme Court defines a fact as material "if there is a substantial likelihood that the disclosure of the omitted fact would have been viewed by a reasonable investor as having significantly altered the total mix of information made available."

The proposed changes would apply to all entities and would be effective upon issuance. Prospective or retrospective application would be permitted.

Targeted changes to hedge accounting

The FASB has proposed new guidance that would ease the requirements for effectiveness testing, hedge documentation, and application of the shortcut and the critical terms match methods. Entities would be permitted to designate contractually specified components as the hedged risk in a cash flow hedge involving the purchase or sale of nonfinancial assets or variable rate financial instruments. Entities would no longer separately measure and report hedge ineffectiveness. Additionally, entities could choose refined measurement techniques to determine the changes in fair value of the hedged item in fair value hedges of benchmark interest rate risk.

Revamping income tax disclosures

As part of its broader disclosure framework project, the FASB recently proposed improvements to disclosures about income taxes to test the effectiveness of its proposed framework.

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Among other proposed changes, the framework would require disaggregated disclosure about domestic and foreign income (loss) from continuing operations before income tax expense (benefit), ncome tax expense (benefit) from continuing operations, and income taxes paid. The FASB believes that disaggregated disclosure would help financial statement users better assess an entity's expected future cash flows.

Clarifying the definition of a business

Under a proposed ASU, 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 contribute to the ability to create outputs. The proposal also includes an initial screening test that reduces the population of potential businesses before an entity analyzes whether there is an input and a substantive process in the set.

The following is an overview:

Is substantially all of the fair value of the gross assets acquired concentrated in a single (group of similar) identifiable asset(s)?

If yes, the set is not a business. If no…..

Evaluate whether an input and a substantive process exist….

Does the set have outputs?

If yes…	*If no…*
— The set is a business if it includes: – Organized workforce with skills, knowledge, or experience critical to continue producing outputs – Process that cannot be replaced without significant cost, effort, or delay – Process that is considered unique or scarce.	— The set is a business if it includes: – Organized workforce with skills, knowledge, or experience to perform an acquired process (group of processes) that, when applied to other acquired input(s), is critical to the ability to develop or convert the acquired input(s) into outputs.

Fewer real estate transactions would qualify as business acquisitions under the proposal than qualify today, but it may be difficult to determine whether assets are combined or considered similar in applying the screening test. There is limited guidance in the proposal beyond the examples, and judgment would be required.

For public business entities, the proposed guidance would be effective for annual and interim periods beginning after December 15, 2017. For all other entities, the proposal guidance would be effective for annual periods beginning after December 15, 2018, and for interim periods beginning after December 15, 2019. An entity would apply the proposal prospectively to transactions that occur on or after the effective date. No disclosures would be required at transition.

Clarifying the scope of derecognition of nonfinancial assets

A FASB proposal would clarify that the guidance in Subtopic 610-20 on accounting for gains and losses from the sale of a nonfinancial asset, including an *in-substance nonfinancial asset*, to a noncustomer applies only when the asset (or asset group) does not meet the definition of a *business* or is not a nonprofit activity. An in-substance nonfinancial asset would be defined as one that is included in a contract or consolidated subsidiary

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in which substantially all of the fair value (excluding cash and cash equivalents) is concentrated in nonfinancial assets. Because subtopic 610-20 would apply when real estate (or in-substance real estate) does not meet the definition of a business based on the proposal to clarify the definition of a business, we believe most noncustomer real estate sales would fall within its scope.

The proposal would apply to transfers and nonmonetary exchanges of an in-substance nonfinancial asset when the seller retains a noncontrolling equity interest. The seller would account for the noncontrolling interest as noncash consideration and measure it at fair value. This proposal model would eliminate the partial profit recognition models in real estate and nonmonetary transactions guidance when a seller retains a noncontrolling interest in the transferred asset. A seller would recognize its full gain in earnings when it loses its controlling financing interest, and would not recognize a gain in earnings when it retains a controlling financial interest.

Subtopic 610-20 would not apply to transfers of investments (e.g. equity method investments), even if the underlying assets would be considered in-substance nonfinancial assets.

Accordingly, sales of noncontrolling ownership interests accounted for under the equity method that are considered in-substance real estate under current U.S. GAAP would be accounted for under transfer and servicing guidance regardless of whether the buyer is a customer or noncustomer.

The proposed amendments would be effective at the same time as ASU 2014-09, *Revenue from Contracts with Customers* (i.e., for annual periods beginning after December 15, 2017, for public business entities and certain not-for-profit entities and for annual periods beginning after December 15, 2018, for all other entities).

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4 Regulatory update

SEC rule – executive clawback on compensation

The SEC proposed a rule directing national securities exchanges and associations to establish listing standards that would require listed companies to develop and implement a policy to recover incentive-based compensation that executive officers were awarded erroneously.

All companies listed on a national securities exchange or association would be required to adopt and comply with a written recovery policy for all incentive-based compensation received by executive officers. Companies would be required to disclose the recovery policy in an exhibit to the annual report.

In the event of a material accounting restatement, a company would be required to determine and recover the amount of incentive-based compensation for certain executive officers in excess of what otherwise would have been awarded based on the restated financial statements.

The proposed rule would generally apply to all listed companies, including emerging growth companies, smaller reporting companies, and foreign private issuers. Limited exemptions would be provided for certain listed securities futures, standardized option products, and certain registered investment companies.

Comments on the proposed rule were due in July 2016. Listed companies must apply the required recovery policy no later than 60 days following the date the exchange's rule becomes effective.

SEC requires pay ratio disclosure

The SEC adopted a final rule mandated by the Dodd-Frank Act that requires companies to disclose the ratio of the primary executive officer's (PEO) compensation to the median compensation of all employees. The rule allows flexibility to determine the pay ratio.

The pay ratio disclosure will appear in registration, proxy and information statements, and annual reports that require executive compensation disclosure. Companies must disclose the methodology, assumptions, and estimates used in determining median employee annual total compensation. However, they are permitted, but not required, to disclose other information, such as other ratios or narrative explanations. The SEC believes the pay ratio disclosure should allow shareholders to better understand and assess a particular company's compensation practices rather than facilitating comparison with other companies.

The pay ratio disclosure is required for fiscal years beginning on or after January 1, 2017. The rule does not apply to smaller reporting companies, emerging growth companies, foreign private issuers, Multijurisdictional Disclosure System filers, or registered investment companies.

SEC permits crowdfunding and proposes rules for regional securities offerings

The SEC adopted final crowdfunding rules that permit start-ups and small companies to publicly raise capital while protecting investors. At the same time, the SEC proposed amendments to current rules that would ease restrictions on intrastate and regional securities offerings.

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Beginning in May 2016, a company could raise capital using the new crowdfunding rules if it meets certain requirements. Restrictions also apply to investors.

Final SEC Crowdfunding Rule Limitation on Capital Raised. A company can raise a maximum aggregate of $1 million through crowdfunding offerings in a 12-month period.

Limitation on Individual Investment An individual's investment in all crowdfunding offerings is limited to $100,000 during a 12-month period. It is further limited to:

- The greater of $2,000, or 5 percent of the investor's annual income or net worth, if annual income or net worth is less than $100,000; and
- The lesser of 10 percent of the investor's annual income or net worth, if annual income or net worth is $100,000 or more.

Restrictions on Resale Securities issued in a crowdfunding offering may not be transferred by investors for one year, unless they are transferred back to the company, included as part of its registered offering or sold to an accredited investor or certain family members.

Intermediary Requirements Crowdfunding offerings must be conducted through an intermediary that is registered with the SEC as a broker-dealer or as a new entity called a funding portal. A company cannot advertise the terms of its offering.

The SEC's final rules exclude companies with existing reporting requirements and certain investment companies that fall under the Investment Company Act of 1940. The final rules require a company that is conducting crowdfunding offerings to file a new Form C that includes financial and other disclosures and to distribute them to investors and its intermediary.

Non-GAAP financial measures

The SEC staff recently updated its guidance about how companies are allowed to use non-GAAP financial measures and specifically listed prohibited practices. The new guidance follows recent comments by the SEC chair and SEC staff warnings that enforcement action will be taken against companies that do not comply with guidance outlining how a company must present non-GAAP financial measures.

The updated SEC Compliance and Disclosure Interpretations (C&DIs) specifically prohibit practices for non-GAAP financial measures, including:

- *Misleading financial measures*

The new interpretations provide examples about adjustments that, while not explicitly prohibited, result in non-GAAP financial measures that may be misleading. For example, presenting a performance measure that excludes normal, recurring, cash operating expenses necessary to operate a business could be misleading and violate SEC rules. The new interpretations provide examples about adjustments that, while not explicitly prohibited, result in non-GAAP financial measures that may be misleading.

- *Per share non-GAAP liquidity measures*

While non-GAAP per share performance measures may provide meaningful information about operations, per share non-GAAP liquidity measures are prohibited. Determining whether the per share data is prohibited depends on whether the non-GAAP financial measure can be used as a liquidity measure, even if management presents it solely as a performance measure.

- *Inappropriate adjustments for tax expenses*

The updated C&DIs state that a company should provide income tax effects on its non-GAAP financial measures depending on the nature of the measures. If a measure is a liquidity measure that includes income taxes, it might be acceptable to adjust GAAP taxes to show taxes paid in cash. If a measure is a performance measure, the registrant should include current and deferred income tax expense commensurate with the non-GAAP measure of profitability. However, adjustments to arrive at a non-GAAP financial measure should not be presented "net of tax." Rather, income taxes should be shown as a separate adjustment and clearly explained.

Companies may have to revise or eliminate certain non-GAAP financial measures in filings and press releases, particularly those that include adjustments to revenue.

SEC proposes raising limit to qualify as a smaller reporting company

The SEC proposed rules that would make it easier for smaller companies to qualify for reduced reporting requirements that currently are only available to companies with a public float below $75 million. The proposed rules

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would allow a public company with less than $250 million of public float to qualify as a smaller reporting company. If a company does not have public float, it would qualify if its revenue is less than $100 million. If a company loses its smaller reporting company status by exceeding these limits, it would regain its status if its public float falls below $100 million or, if it does not have public float, if its revenues fall below $80 million. The SEC is not proposing to increase the $75 million threshold in the accelerated filer definition.

The proposed rules would mean more public companies would qualify for reduced reporting, allowing them to present two (instead of three) years of annual statements of income, cash flows, and changes in stockholders' equity in Form 10-K, reduce or eliminate historical and pro forma financial information for acquired businesses, equity investees, and some transactions, and significantly reduce disclosures about executive compensation. More public companies would become both smaller reporting companies and accelerated filers, which subjects them to shorter filing deadlines and requires them to obtain an audit of their internal controls over financial reporting.

Eliminating redundant disclosures

The SEC recently proposed rules that would eliminate redundant and outdated disclosure requirements as part of its disclosure effectiveness initiative.

The SEC also solicited comments on certain disclosure requirements that overlap with U.S. GAAP to determine whether changes should be made, including referring suggested changes to the FASB for the Board to consider incorporating them into U.S. GAAP.

The SEC intends for the proposed rules to simplify compliance efforts without significantly changing the information provided to investors and proposed eliminating some bright-line disclosure thresholds when U.S. GAAP requires similar information.

The proposal would apply to U.S. issuers, foreign private issuers, and investment companies. If some SEC disclosure requirements move into U.S. GAAP, private and smaller reporting companies could become subject to additional disclosure requirements. These changes also could affect whether the disclosures would be subject to annual audit or interim review, an audit of internal control over financial reporting, and XBRL-tagging requirements.

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5 Appendix - Accounting Standards Effective Dates

Accounting Standards Affecting Public Companies in 2016

Calendar year-end public companies will apply these accounting standards for the first time in 2016.

Topic	Effective Date for Public Companies	For More Information
Accounting for Share-based Payments with Certain Performance Targets	Annual and interim periods in fiscal years beginning after 12/15/2015	ASU 2014-12 Defining Issues 14-15 Podcast
Consolidated Collateralized Financing Entity Liabilities	Annual and interim periods in fiscal years beginning after 12/15/2015	ASU 2014-13 Defining Issues 14-27 Podcast
Hybrid Financial Instruments	Annual and interim periods in fiscal years beginning after 12/15/2015	ASU 2014-16 ASU 2016-11 Defining Issues 14-44 Podcast
Eliminating the Concept of Extraordinary Items	Annual and interim periods in fiscal years beginning after 12/15/2015	ASU 2015-01 Defining Issues 15-2 Podcast
Consolidation	Annual and interim periods in fiscal years beginning after 12/15/2015	ASU 2015-02 Defining Issues 15-6 Webcast
Presentation of Debt Issuance Costs	Annual and interim periods in fiscal years beginning after 12/15/2015	ASU 2015-03 ASU 2015-15 Defining Issues 15-14 Podcast
Practical Expedient for the Measurement Date of an Employer's Defined Benefit Obligation and Plan Assets	Annual and interim periods in fiscal years beginning after 12/15/2015	ASU 2015-04 Defining Issues 15-17
Customer's Accounting for Fees Paid in a Cloud Computing Arrangement	Annual and interim periods in fiscal years beginning after 12/15/2015	ASU 2015-05 Defining Issues 15-15 Podcast
Effects on Historical Earnings per Unit of Master Limited Partnership Dropdown Transactions	Annual and interim periods in fiscal years beginning after 12/15/2015	ASU 2015-06 Defining Issues 15-10 Podcast
Eliminating Certain Investments from the Fair Value Hierarchy Table	Annual and interim periods in fiscal years beginning after 12/15/2015	ASU 2015-07 Defining Issues 15-20 Podcast
Simplifying Measurement-Period Adjustments	Annual and interim periods in fiscal years beginning after 12/15/2015	ASU 2015-16 Defining Issues 15-43 Podcast
Going Concern	Annual periods in fiscal years ending after 12/15/2016, and interim periods in fiscal years beginning after 12/15/2016	ASU 2014-15 Defining Issues 14-40 Webcast Podcast
Disclosures about Short-Duration Insurance Contracts	Annual periods in fiscal years beginning after 12/15/2015, and interim periods in fiscal years beginning after 12/15/2016	ASU 2015-09 Issues and Trends in Insurance 15-4
Simplifications for Employee Benefit Plans	Fiscal years beginning after 12/15/2015	ASU 2015-12 Defining Issues 15-36 Podcast

Accounting Standards Affecting Public Companies in 2017 and Beyond

Calendar year-end public companies will apply these accounting standards for the first time in 2017 or later and may need to disclose their potential effects in 2016.

Topic	Effective Date for Public Companies	For More Information
Simplifying the Measurement of Inventory	Annual and interim periods in fiscal years beginning after 12/15/2016	ASU 2015-11 Defining Issues 15-33
Presentation of Deferred Taxes as Noncurrent	Annual and interim periods in fiscal years beginning after 12/15/2016	ASU 2015-17 Defining Issues 15-55 Podcast
Effects 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 15-53 Webcast 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 15-53 Webcast 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 16-9 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 16-11 Podcast
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 Latest on Revenue Recognition
Recognition and Measurement of Financial Assets and Financial Liabilities	Annual and interim periods in fiscal years beginning after 12/15/2017	ASU 2016-01 Latest 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 15-53 Webcast Podcast
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 16-22
Leases	Annual and interim periods in fiscal years beginning after 12/15/2018	ASU 2016-02 Latest on Leases
Measurement of Credit Losses on Financial Instruments	SEC filers: Annual and interim periods in fiscal years beginning after 12/15/2019 Not SEC filers: Annual and interim periods in fiscal years beginning after 12/15/2020	ASU 2016-13 Defining Issues 16-23

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Accounting Standards Affecting Private Companies in 2016

Calendar year-end private companies will apply these accounting standards for the first time in 2016.

Topic	Effective Date for Private Companies	For More Information
PCC Effective Date and Transition Guidance	On issuance (March 2016)	ASU 2016-03 Defining Issues 16-8 Podcast
Accounting for Share-Based Payments with Certain Performance Targets	Annual and interim periods in fiscal years beginning after 12/15/2015	ASU 2014-12 Defining Issues 14-15 Podcast
Eliminating the Concept of Extraordinary Items	Annual and interim periods in fiscal years beginning after 12/15/2015	ASU 2015-01 Defining Issues 15-2 Podcast
Hybrid Financial Instruments	Annual periods in fiscal years beginning after 12/15/2015, and interim periods in fiscal years beginning after 12/15/2016	ASU 2014-16 ASU 2016-11 Defining Issues 14-44 Podcast
Presentation of Debt Issuance Costs	Annual periods in fiscal years beginning after 12/15/2015, and interim periods in fiscal years beginning after 12/15/2016	ASU 2015-03 Defining Issues 15-14 Podcast
Customer's Accounting for Fees Paid in a Cloud Computing Arrangement	Annual periods in fiscal years beginning after 12/15/2015, and interim periods in fiscal years beginning after 12/15/2016	ASU 2015-05 Defining Issues 15-15 Podcast
Consolidated Collateralized Financing Entity Liabilities	Annual periods in fiscal years ending after 12/15/2016, and interim periods in fiscal years beginning after 12/15/2016	ASU 2014-13 Defining Issues 14-27 Podcast
Going Concern	Annual periods in fiscal years ending after 12/15/2016, and interim periods in fiscal years beginning after 12/15/2016	ASU 2014-15 Defining Issues 14-40 Webcast Podcast

Accounting Standards Affecting Private Companies in 2017 and Beyond

Calendar year-end private companies will apply these accounting standards for the first time in 2017 or later.

Topic	Effective Date for Private Companies	For More Information
Simplifications for Employee Benefit Plans	Annual and interim periods in fiscal years beginning after 12/15/2016	ASU 2015-12 Defining Issues 15-36 Podcast
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 15-20 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 16-9 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 15-6 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 15-17
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 and Trends in Insurance 15-4

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 15-33
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 15-43 Podcast
Presentation of Deferred Taxes as Noncurrent	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 15-55 Podcast
Effects 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 15-53 Webcast 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 15-53 Webcast 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 16-11 Podcast
Presentation of Not-for-Profit Financial Statements	Annual periods in fiscal years beginning after 12/15/2017, and interim periods in fiscal years beginning after 12/15/2018	ASU 2016-14 Defining Issues 16-29
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 2016-11 ASU 2016-12 Latest on Revenue Recognition
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 Latest 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 15-53 Webcast 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 16-22
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 Latest on Leases
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 16-23

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