



# CFO Financial Forum Webcast

**Quarterly Outlook for Accounting and Financial Reporting**

September 20, 2016

# Administrative

- CPE regulations require that online participants take part in online questions
  - Must respond to a minimum of five questions
  - Polling questions will appear on your media player
  - Results will be reviewed in the aggregate; no responses will be tracked back to any individual or organization
- To ask a question, use the “Ask A Question” box in your media player
- Technical issues: use the ? button in the upper-right corner of your Webcast player to access our online help portal
  - If this does not resolve your issue, please submit a question through the Ask a Question box, and you will receive a reply from our technical staff shortly in the Answered Questions box

# Agenda



SEC activities



This quarter's headlines



Major Board projects



Other FASB projects



Emerging Issues Task Force activities



# Glossary

# Glossary

**ASC** – Accounting Standards Codification

**ASU** – Accounting Standards Update

**EBIT** – Earnings Before Interest and Taxes

**EBITDA** – Earnings Before Interest, Taxes, Depreciation, and Amortization

**EITF** – Emerging Issues Task Force

**FASB** – Financial Accounting Standards Board

**GAAP** – Generally Accepted Accounting Principles

**IASB** – International Accounting Standards Board

**SEC** – Securities and Exchange Commission

**XBRL** – eXtensible Business Reporting Language



# SEC activities

# SEC activities



## SEC Compliance & Disclosure Interpretations (issued May 17, 2016) prohibit:

- **Non-GAAP measures given equal or more prominence than GAAP measures**
- **Misleading financial measures**
  - Excluding normal operating expenses
  - Inconsistency in presentation between periods
  - Including gains, but excluding charges
  - Individually tailored accounting principles
- **EBIT, EBITDA, or free cash flow that is not reconciled to GAAP measures**
- **Per share non-GAAP liquidity measures**
- **Inappropriate adjustments for tax expenses**

There has been a significant uptick in SEC comment letters from:



### Division of Corporate Finance

- Primarily focused on inconsistencies with the updated Compliance and Disclosure Interpretations (C&DIs)
- Generally allow comments to be addressed in future filings



### Division of Enforcement

- Primarily focused on *C&DI 102.10 Equal or Greater Prominence of Most Directly Comparable GAAP Measure*
- Begins the investigation of possible violations of federal securities laws through the dissemination of false or misleading non-GAAP financial measures

# Other activities



**Center for Audit Quality tool for audit committees emphasizes:**

- Transparency
- Consistency
- Comparability



**International Organization of Securities Commissions framework for preparing disclosures that:**

- Contribute to the reliability and year-to-year comparability of non-GAAP financial measures
- Reduce the potential of misleading disclosures



# SEC proposes to reduce redundant disclosures

## Select proposed changes

- Eliminate SEC disclosures already required by GAAP
- Eliminate some bright-line disclosures when GAAP requires similar information
- Remove some disclosures from Management Discussion and Analysis
  - Refer these to the FASB for incorporation into U.S. GAAP
- Eliminate SEC disclosures that have limited usefulness
- Combine disclosures into one place



If certain disclosures were incorporated into U.S. GAAP, private companies and smaller reporting companies may require additional disclosures.

# Polling question #1

**Do you believe the SEC's proposal to reduce redundant disclosures will provide benefits to financial statement preparers or users or both?**

- A. Financial statement users
- B. Financial statement preparers
- C. Both
- D. Neither
- E. Not sure

# Other SEC activities

## Inline XBRL permitted

### Permits:

- Embedded XBRL in financial statements
- Use in quarterly and annual financial statements through March 2020



Public companies using Inline XBRL should consider the effect on financial statement preparation and review processes.

## Final rule for payments by resource extraction issuers

### Disclose:

- Payments of \$100,000 or more made to the U.S. Federal government and foreign governments for the commercial development of oil, natural gas, or minerals
- Project-level detail

### Targeted exemptions for:

- Acquired businesses
- Exploratory activity

### Effective:

- Fiscal year ending no earlier than 9/30/2018

# SEC proposal for smaller reporting entity qualification

## Current

- Public float less than \$75 million

## Proposed

- Public float less than \$250 million
- If no public float, then less than \$100 million in revenue
- If status is lost by exceeding limits:
  - Regain status at less than \$100 million in public float (or less than \$80 million in revenue, if no public float)



Entities with greater than \$75 million public float would still qualify as accelerated filers with shorter filing deadlines and internal control over financial reporting audit requirements.



# This quarter's headlines

# Cash flow classification (ASU 2016-15)



## What are the key changes of the standard?

— Provides statement of cash flow classification guidance on eight issues



## When is it effective?

### Effective dates for all issues

	Annual periods	Interim periods in fiscal years
Public business entities	Beginning after 12/15/2017	Beginning after 12/15/2017
All other entities	Beginning after 12/15/2018	Beginning after 12/15/2019

— Early adoption permitted only if all issues adopted at the same time

# Cash flow classification (ASU 2016-15)

Issue	Classification
Debt prepayment or extinguishment costs	Financing activities
Settlement of zero-coupon bonds or bonds issued at a discount with insignificant cash coupon	At settlement, separate the payments into: <ul style="list-style-type: none"> <li>- Operating activities - Portion attributable to the accreted interest</li> <li>- Financing activities - Portion attributable to the principal (original proceeds)</li> </ul>
Contingent consideration payments made after a business combination	Payments not paid soon after the business combination: <ul style="list-style-type: none"> <li>- Financing activities - Portion of payment that is less than or equal to the amount of the liability recognized at the acquisition date for the contingent consideration</li> <li>- Operating activities - Remainder of the cash outflow</li> </ul>
Proceeds from settlement of insurance claims	Classify based on the nature of the loss
Proceeds from settlement of corporate-owned life insurance policies	<ul style="list-style-type: none"> <li>- Premiums paid as investing activities, operating activities, or a combination of investing and operating activities</li> <li>- Proceeds received as investing activities</li> </ul>

# Cash flow classification (ASU 2016-15)

Issue	Classification
Distributions received from equity method investees	<p>Policy election for all investees:</p> <ul style="list-style-type: none"> <li>- Cumulative-Earnings Approach</li> <li>- Look-Through Approach</li> </ul>
Beneficial interests in securitization transactions	<p>Transferor would:</p> <ul style="list-style-type: none"> <li>- Disclose the receipt of a beneficial interest in a securitization of financial assets as a noncash activity</li> <li>- Classify cash receipts from its beneficial interest in securitized trade receivables as investing activities</li> </ul>
Separately identifiable cash flows and application of the predominance principle	<p>Use reasonable judgment to separate the identifiable sources and uses of an aggregate cash receipt or payment</p> <p>If aspects of more than one class of cash flows and cannot separate by source or use, classification depends on activity that likely would be the <i>predominant source</i> or use of cash flows</p>



# Polling question #2

## **Will the new guidance on statement of cash flows affect your company?**

- A. Yes, we will need to change cash flow classifications
- B. No, we were already using the classification as policy elections, where applicable
- C. No, we do not have any of these cash flow items
- D. Not sure
- E. Not applicable

# Income tax accounting for intra-entity transfers



## What are the key changes of the standard?

- Requires entities to recognize income tax consequences of intra-entity transfers of assets other than inventory immediately when transfer occurs
- Final standard expected Q3 2016

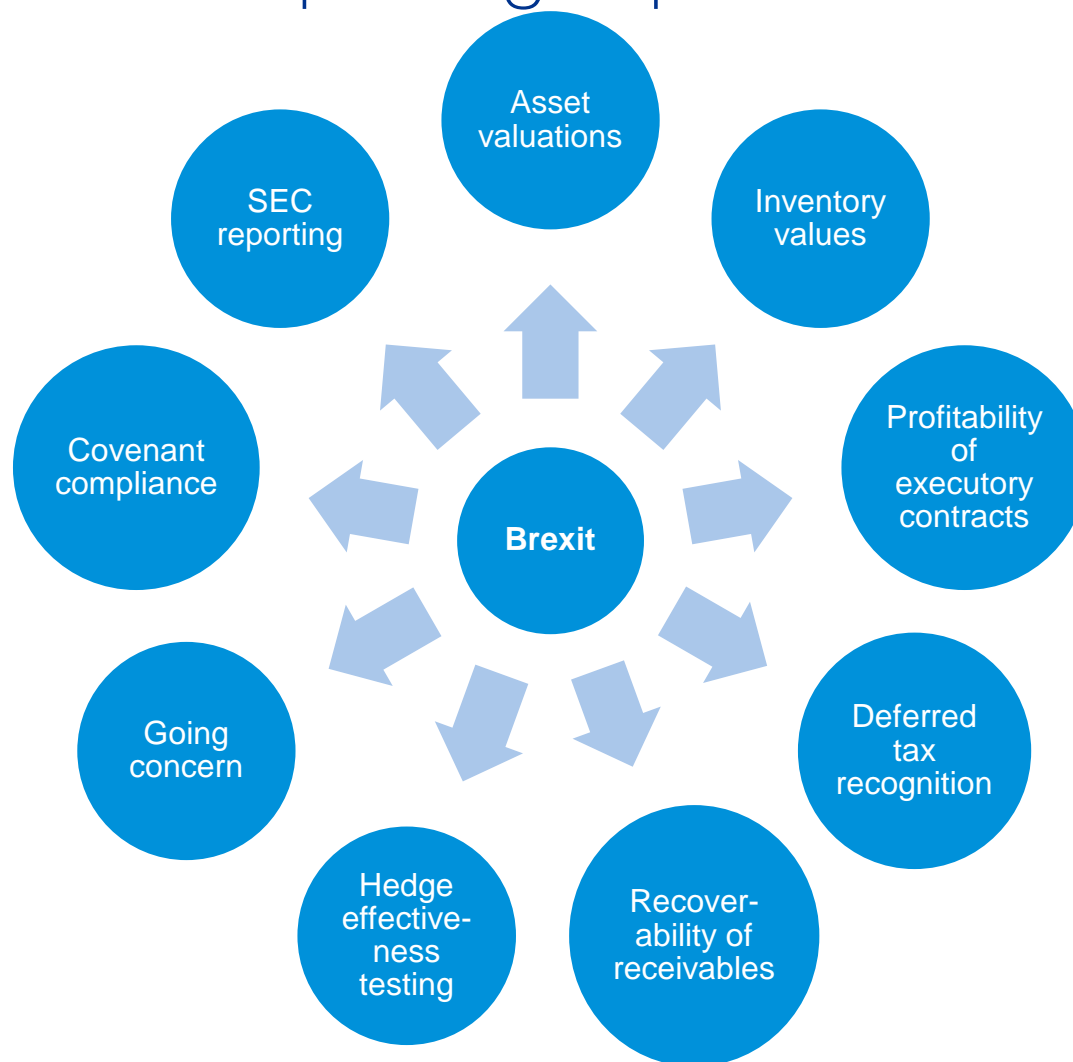


## When is it effective?

Effective dates for all issues		
	Annual periods	Interim periods in fiscal years
Public business entities	Beginning after 12/15/2017	Beginning after 12/15/2017
All other entities	Beginning after 12/15/2018	Beginning after 12/15/2019

- Early adoption is permitted at the beginning of an annual reporting period

# Brexit financial reporting implications



# Polling question #3

**During Q3 2016, the FASB also issued a final standard related to financial statement presentation for not-for-profit entities. Will the new not-for-profit standard affect the entity that you work for or boards that you sit on?**

- A. Yes, I work for a not-for-profit
- B. Yes, it will affect the entity that I work for in some other way
- C. Yes, I sit on a not-for-profit board of directors
- D. No
- E. Not sure



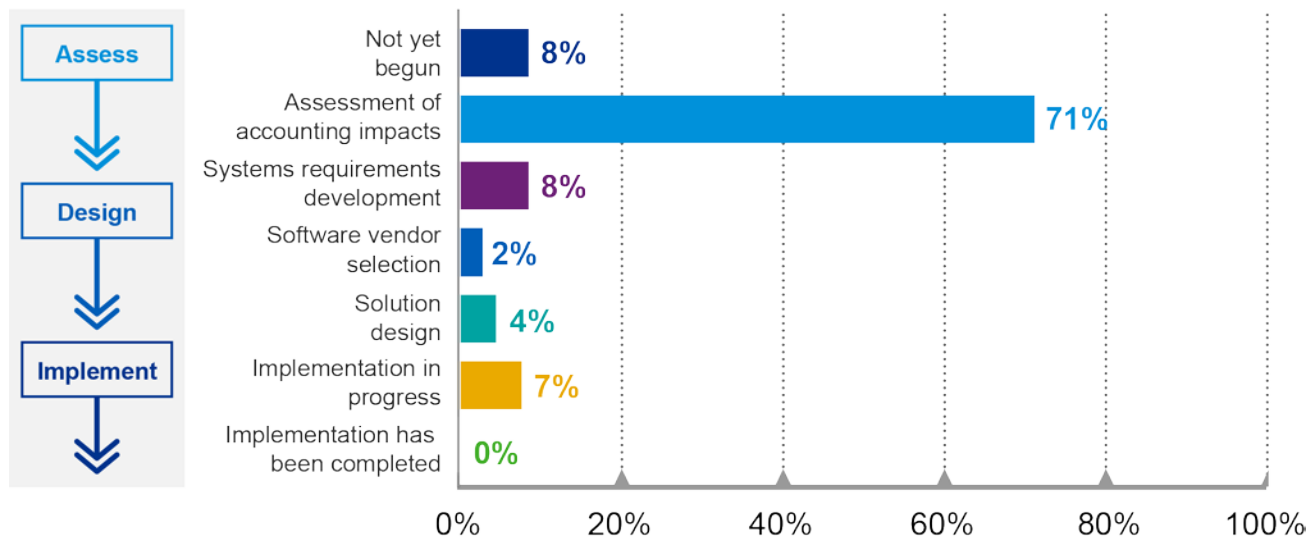
# Question and answer session



# Major Board projects

# Implementation status

## Status of revenue recognition implementation - Public companies

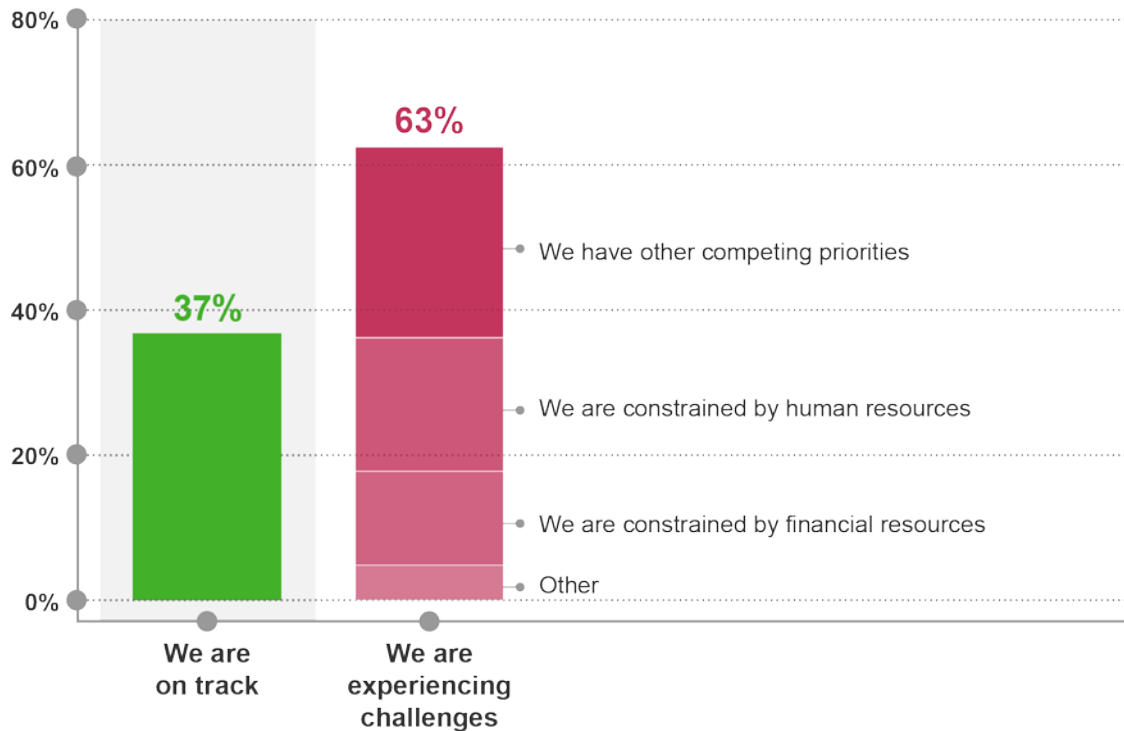


“Many companies appear to be ‘stuck’ in assessment activities”

– KPMG’s 2016 Accounting Change Survey

# Implementation challenges

Challenges in completing revenue recognition implementation

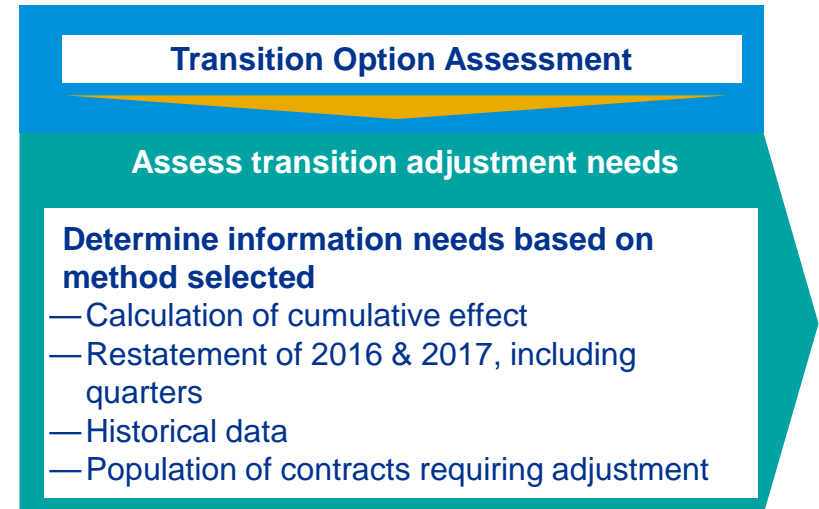
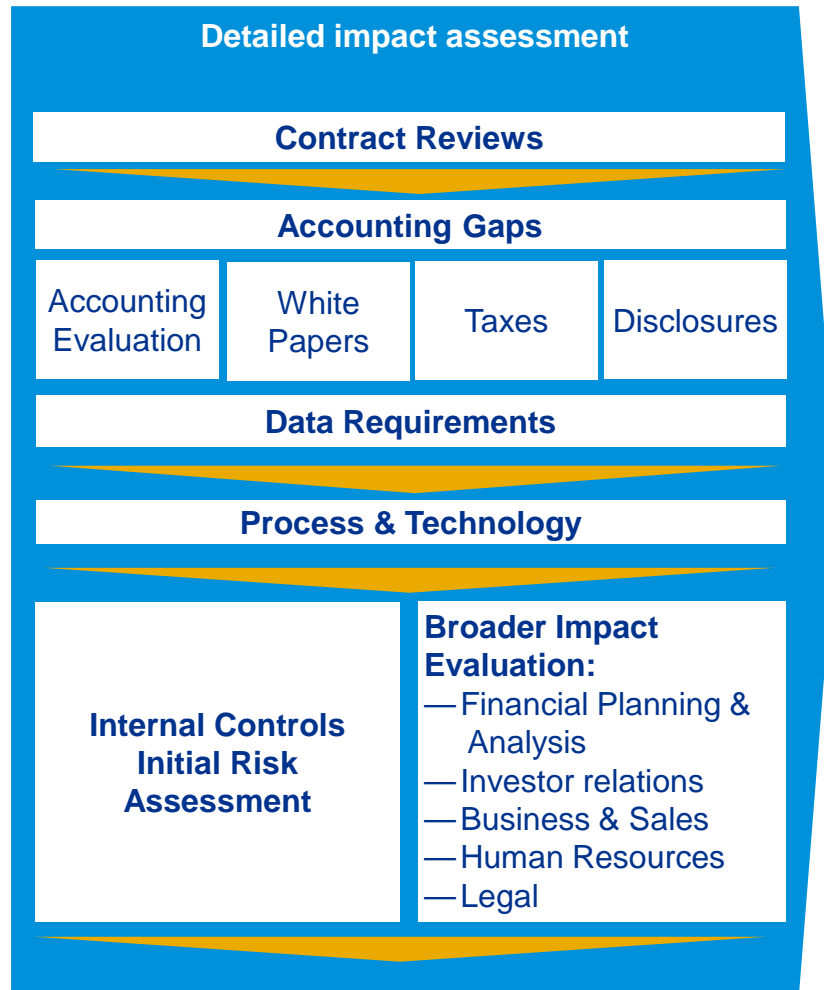


“More than 60 percent of respondents admitted that they are behind schedule”

– KPMG’s 2016 Accounting Change Survey



# Detailed impact assessment



# Polling question #4

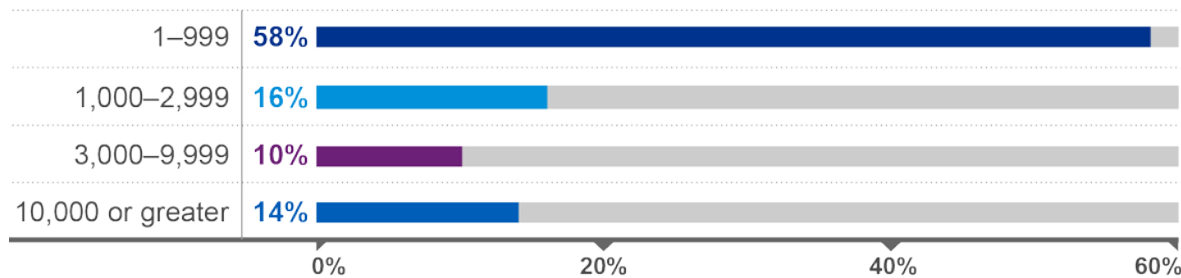
**Where along the implementation spectrum would you say your company is relative to the new revenue recognition standard?**

- A. Currently assessing the effects of the new standard (i.e., high-level assessment)
- B. Currently performing contract reviews, identifying accounting gaps, and assessing transition options (i.e., detailed assessment)
- C. Assessment complete or near complete, and planning implementation
- D. Implementation activities are underway
- E. Implementation in parallel reporting
- F. Not sure/not applicable

# Operational effort

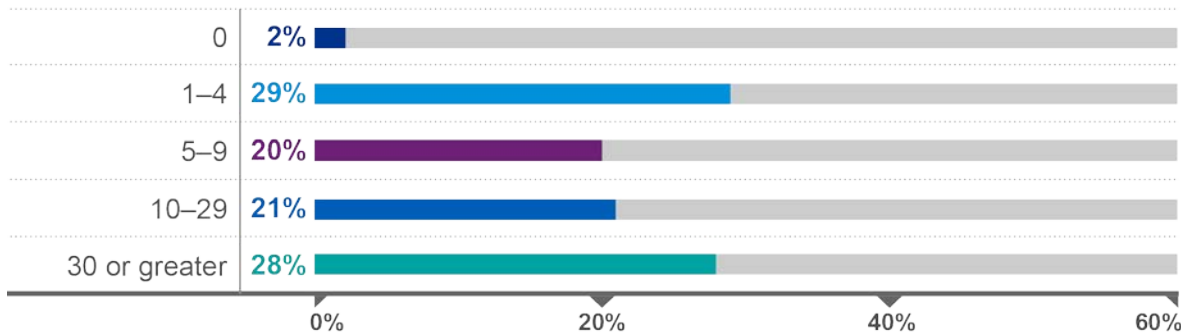
## Number of Leases

Note: The total is not equal to 100 percent due to rounding.



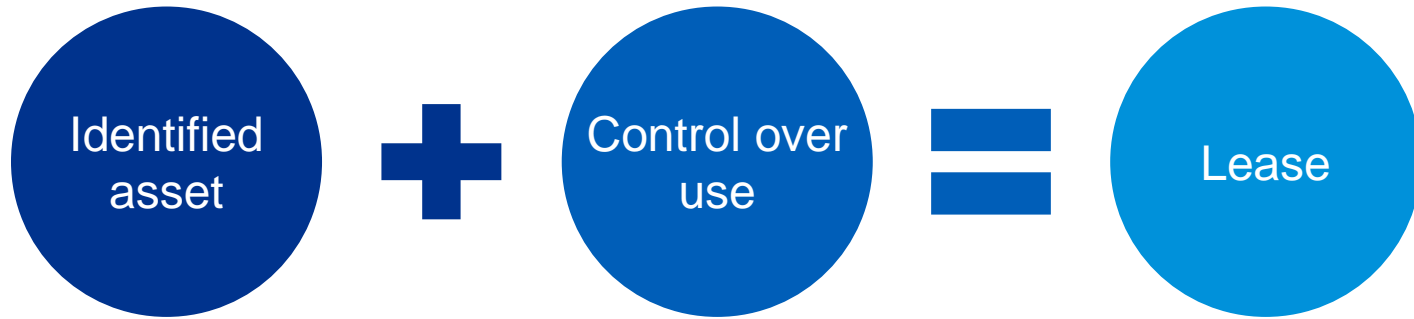
“Just finding and collecting data will... be a significant task for most companies. Many companies may find that the original estimates of their lease population is understated...”

## Number of locations with leases



– KPMG’s 2016 Accounting Change Survey

# Lease identification



- Asset is explicitly or implicitly specified in a contract
- Asset is physically distinct
  - Applies to distinct portions but not generic capacity
- Supplier does not have a substantive substitution right

- Customer has the right (throughout the period of use) to:
  - Obtain substantially all of the economic benefits from use of the asset
  - Direct (including the right to *change*) how and for what purpose the asset is used

**Converged  
FASB/IASB  
definition**

# Classification and measurement



— Targeted changes with significant potential effect on those areas

- Equity securities will be recorded at fair value through net income (i.e., will result in increased volatility)
- New measurement alternative for equity securities without readily determinable fair values
  - Cost +/- observable transactions less impairment
  - Cost method eliminated



— Effective in 2018 for public companies

# Credit losses



- New *current expected credit loss* model requires immediate recognition of an estimate of credit losses expected to occur over the remaining life of the financial assets measured at amortized cost
- Scope includes:
  - Loans
  - Trade receivables
  - Net investments in leases
  - Debt securities classified as held-to-maturity
  - Loan commitments
  - Financial guarantee contracts that are not accounted for as insurance contracts



- Effective in 2020 for public companies

# Hedging



**Exposure draft with targeted improvements to broaden use and decrease operational burdens**



**Proposed changes would:**

- Permit entities to designate contractually specified components as the hedged risk in a cash flow hedge involving:
  - Purchase or sale of nonfinancial assets
  - Variable rate financial instruments
- Eliminate requirement to separately measure and report hedge ineffectiveness
- Allow entities to choose refined measurement techniques to determine changes in fair value of the hedged item in fair value hedges of benchmark interest rate risk



**Comment period ends November 22**

# Polling question #5

**Does your company enter into hedging relationships that do not currently qualify for hedge accounting?**

- A. Yes
- B. No
- C. Not sure
- D. Not applicable





# Other FASB projects

# Other FASB projects - status



## Redeliberations

- Clarifying the Definition of a Business
- Consolidation: Interests Held through Related Parties that Are under Common Control
- Disclosure Framework: Board's Decision Process
- Disclosure Framework: Entity's Decision Process
- Disclosure Framework: Defined Benefit Plans
- Disclosure Framework: Fair Value Measurement
- Disclosures by Business Entities about Government Assistance
- Financial Statements of Not-for-Profit Companies (Phase 2)
- Goodwill Impairment
- Income Tax Accounting for Intra-Entity Asset Transfers
- Insurance: Targeted Improvements to the Accounting for Long-Duration Contracts
- Presentation of Net Period Pension Cost and Net Periodic Postretirement Benefit Cost
- Restricted Cash (EITF 16-A)
- Sales of Nonfinancial Assets and Partial Sales
- Technical Corrections and Improvements – Revenue
- Technical Corrections and Improvements

# Other FASB projects - status



## **Comment period**

- Employee Benefit Plan Master Trust Reporting (EITF 16-B) (September 26)
- Disclosure Framework: Income Taxes (September 30)
- Consolidation for Not-for-Profit Entities (October 3)
- Conceptual Framework: Presentation (November 9)
- Financial Instruments: Hedging (November 22)

# Proposed disclosures for income taxes



## **What are the key changes of the standard?**

New disclosures, including:

- Disaggregated disclosure about domestic and foreign income (loss) from continuing operations before income tax expense (benefit), income tax expense (benefit) from continuing operations, and income taxes paid
- Amount of foreign income taxes paid to a country, if significant
- Explanation of a change in assertion about indefinitely reinvested undistributed foreign earnings
- Description of an enacted tax law change if it is probable it will affect the entity in a future period
- Description of individually negotiated, legally enforceable agreements with governments that may reduce income tax burden
- Separate presentation of the unrecognized tax benefits that were settled using existing tax assets from those that were settled in cash (public business entities only)
- Amount and explanation of the valuation allowance recognized and released (public business entities only)

Modifications to existing disclosures, including:

- Removing the requirement to disclose the nature and estimate of possible changes in unrecognized tax benefits for the next 12 months

# Proposed disclosures for income taxes



## **How could it impact your business?**

- More flexibility and discretion to decide what information is material and should be included in disclosures
- Would need to evaluate existing processes and controls over accumulating and aggregating the data necessary to comply with the new disclosures



**Comment period ends September 30**

# Polling question #6

**Other than income taxes, which of the following disclosure reviews will most significantly affect your company?**

- A. Defined benefit and postretirement plans
- B. Fair value measurement
- C. Inventory
- D. Interim reporting
- E. Not sure/not applicable

# Other recent exposure drafts

## **Concept Statement for presenting items in financial statements**

- Would become a framework for the Board to create presentation requirements
- Concepts would address how to:
  - Group items into line items and subtotals
  - Clarify the relationships among assets, liabilities, and equity and the effects on comprehensive income and cash flows
- Comment period ends November 9



# Emerging Issues Task Force activities



# EITF activities



## **Restricted Cash (EITF 16-A)**

- Statement of cash flows would explain the change in cash, cash equivalents and restricted cash under the exposure draft

To be redeliberated  
September 22



## **Employee Benefit Plan Master Trust Reporting (EITF 16-B)**

- Consensus-for-exposure on eight issues that would affect presentation and disclosures in the financial statements of employee benefit plans with investments held in master trusts

Comments due  
September 26



## **Service Concession Arrangements (EITF 16-C)**

- Day 2 accounting - application of revenue guidance when accounting for construction and operation services, and major maintenance

New issue to be  
deliberated  
September 22

# Polling question #7

**Does your company currently or historically present restricted cash?**

- A. Yes
- B. No
- C. Not sure
- D. Not applicable



# Question and answer session

## Presenter's contact details

Name	E-mail
<b>Angie Storm, Partner</b>	astorm@kpmg.com
<b>Sam Hall, Senior manager</b>	shalliv@kpmg.com
<b>Vicky Pollock, Senior manager</b>	vferrigno@kpmg.com
<b>Ellen Russo, Director</b>	erusso@kpmg.com
<b>Jennifer Yruma, Director</b>	jyruma@kpmg.com

### Financial Reporting Network:

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