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SEC provides clarification for EGCs adopting new accounting standards

December 17, 2018

KPMG reports on SEC staff remarks about adoption dates of new accounting standards for emerging growth companies and new registrants.

Applicability

Public companies that qualify as emerging growth companies (EGCs) and new registrants.

Background

Companies that qualify as EGCs may elect¹ to defer compliance with new or revised accounting standards until private companies are required to comply.

For example, a calendar year-end EGC that has elected to defer adoption of newly issued accounting standards would adopt the new revenue standard² using private company requirements. Therefore, it would adopt the new standard on January 1, 2019 for its fiscal year 2019 Form 10-K and in 2020 for quarterly reporting, unless early adopted.

Companies are not required to update quarterly information in their 2019 Form 10-K for the adoption of the standard; however, this is encouraged by the SEC staff.

KPMG's Handbook, [Revenue recognition](#)³,

provides an example on reporting requirements for adoption of the new revenue standard by an EGC.

However, if the same EGC loses its status at the end of its fiscal year 2018, it would be required to comply with the public company effective date.

EGC status loss vs. standard adoption

The SEC staff recently made remarks⁴ about adopting new accounting standards when an EGC electing private company adoption dates loses its status. If an EGC adopted a new standard before it lost its status at the end of its fiscal year, the SEC staff would not expect the EGC to revise its adoption date of the standard. Additionally, previously issued financial statements do not need to be amended.

The SEC staff provided an example using the revenue standard to demonstrate this guidance. The example on page two assumes the company has a calendar year-end and that it elected to defer adoption of new accounting standards until private companies are required to adopt them.

¹ EGCs must make a one-time irrevocable election to apply all new or revised accounting standards at the same date required of non-EGCs or defer adoption until private company compliance dates.

² ASC 606, Revenue from Contracts with Customers

³ KPMG Handbook, [Revenue Recognition](#), Question 16.4.40

⁴ These comments were made by a staff member of the Division of Corporation Finance on December 11 at the 2018 AICPA Conference on Current SEC and PCAOB Developments, Washington D.C.

SEC example

Status is lost at December 31, 2018

- The revenue standard is adopted as of January 1, 2018. All financial information, including quarterly information*, is updated in the company's 2018 Form 10-K.
- Form 10-Q filings do not need to be amended to reflect the January 1, 2018 adoption date.

Status is lost at December 31, 2019

- All financial information, including quarterly information*, is updated in the company's 2019 Form 10-K for the January 1, 2019 adoption date.
- A company is not expected to revise its date of adoption to January 1, 2018.
- Form 10-Q filings do not need to be amended to reflect the January 1, 2019 adoption date.

Status is lost at December 31, 2020

- All financial information, including quarterly information, in the company's 2020 Form 10-K must reflect the January 1, 2019 adoption date.
- A company is encouraged to revise its comparative 2019 quarterly information in the 2020 Form 10-Qs for the January 1, 2019 adoption if interim reporting was not early adopted.
- A company is not expected to revise its date of adoption to January 1, 2018.

* Companies are expected to disclose that the quarterly information presented in their Form 10-Ks is not consistent with information in previously filed Form 10-Qs.

KPMG observation

When an EGC loses its status on a specific date because it issues more than \$1 billion in non-convertible debt in the previous rolling three-year period, the SEC Financial Reporting Manual indicates the adoption of a new or revised accounting standard should be applied in a company's Form 10-Q for the quarter subsequent to loss of status.⁵

For example, if a calendar year-end EGC loses its status on July 15, 201X, the adoption of the new standard would be reflected from January 1, 201X in the company's next Form 10-Q (i.e. September 30 quarter-end). The SEC staff may consider providing relief to companies based on their specific circumstances, and encourages companies to consult with them.

New registrants

The SEC staff indicated that a new registrant filing its initial registration statement that does not qualify as an EGC should adopt accounting standards as of the effective date for public companies.

Public companies must adopt the revenue standard in fiscal years beginning after December 15, 2017.

For example, a calendar year-end private company seeking to go public (as a non-EGC) in

2020 that adopted the revenue standard in 2019 would push its adoption date back a year for the financial information in its registration statement.

Any required quarterly financial information also would reflect the adoption of the new standard on January 1, 2018.

The SEC staff's remarks do not change Regulation S-X. The SEC staff indicated that the Financial Reporting Manual would be updated for these clarifications. Companies are encouraged to consult with the SEC staff on specific questions.

⁵ See SEC Financial Reporting Manual, Section 10230.1, [Accounting Standards Transition Period Accommodation](#).

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KPMG's Financial Reporting View

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