



The SEC comments on ASC 606 early adopters

March 2018

SEC comment letters on ASC 606 provide insight into key focus areas. KPMG discusses the themes.

Applicability

ASC 606, ASC 340-40, and all recently issued ASUs for these topics:

- All companies

Disclosure, disclosure, disclosure

ASC 606 was adopted by a small number of early adopters last year. While the population isn't significant, a few helpful hints can be gleaned from publicly available SEC comment letters on the 2017 filings of some of these early adopters.

The SEC seems to be particularly focused on disclosure. Most of the early adopters that received comment letters committed to provide additional or expanded disclosures in future filings.

The emphasis on disclosure should come as no surprise given the importance that financial statement users placed on these disclosures when the requirements were being deliberated by the FASB and IASB. The objective of the disclosure requirements is to help users of financial statements understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers.

With that objective in mind, two disclosure areas in particular elicited a number of comments: the disaggregation of revenue and performance obligations.

Disaggregation of revenue

As a reminder, ASC 606 requires a company to:

- disaggregate revenue into categories that depict how revenue and cash flows are affected by economic factors; and
- provide sufficient information to enable users of financial statements to understand the relationship between the disaggregated revenue disclosure and each reportable segment's revenue information.

In a few instances, the comment letter questions focused on information presented outside the financial statements (e.g. in earnings releases or investor presentations) and information reviewed by the chief operating decision maker to evaluate the financial performance of operating segments. The SEC sought to

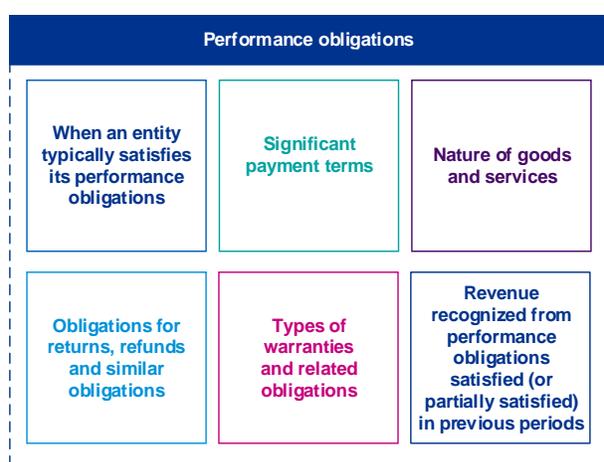
understand how companies considered this information when selecting the categories of revenue to disclose on a disaggregated basis.

The SEC's comments are a clear reminder to companies to consider how they present their revenue for other internal and external purposes. This does not automatically mean that information should be included in the disaggregated revenue disclosure. However, companies should carefully evaluate this information and ensure their analysis and disclosure conclusions are well-reasoned and documented. Companies should also consider whether the disaggregation disclosure should affect operating segment disclosures.

A company's revenue disaggregation disclosure is based on its specific facts and circumstances and will require significant judgment. Given the importance investors place on this disclosure, we expect this to be a continued focus area for the SEC in much the same way as segment disclosures have been for many years.

Performance obligations

ASC 606 requires the following qualitative and quantitative disclosures about a company's performance obligations.



SEC questions focused on ensuring compliance with all of the required disclosures, including:

- the separate identification of multiple performance obligations;
- a description of the nature of the goods or services promised;
- the timing of when performance obligations are typically satisfied;
- the significant judgments evaluated to determine when performance obligations are satisfied;
- an explanation of significant payment terms;
- an explanation of how the timing of satisfaction of performance obligations and significant payment terms affect contract asset and liability balances; and
- the rationale for why the measure of progress selected represents a faithful depiction of the transfer of goods or services.

While no early adopters were required to amend a filing, a number of companies provided incremental or supplemental disclosure language that will be included in future filings. So, companies should consider a cold read of their draft disclosures and compare them to what is required to ensure that the information is complete.

Transition disclosures

Public companies that have not yet adopted (such as issuers with off-calendar year-ends) should also consider the SEC staff comments on Topic 11.M (formerly SAB 74) transition disclosures.

The SEC has provided its disclosure expectations through several staff speeches and in comment letters. The purpose of the transition disclosures is to ensure that financial statement users understand the

significance of the effect that ASC 606 is expected to have on the company's financial statements, and to provide a clear timeline for the company's expected implementation of the standard.

Comments have focused on encouraging companies to disclose information they have about the effect of the standard even when their evaluation is ongoing. In case you missed it and are an off calendar year-end issuer, see our [Executive View](#) that discusses the SEC's key messages about these transition disclosures.

Other focus areas

In addition to disclosures, the SEC had a number of comments about transaction price, principal versus agent conclusions, and contract costs.

- The SEC staff asked for explanations about how companies treated different items in the transaction price, whether variable consideration was estimated at inception of the contract and reassessed, and whether certain payments should be a reduction of the transaction price.
- For principal versus agent conclusions, the SEC staff requested one company's analysis of the accounting treatment for several different revenue streams.
- Related to contract costs, a number of questions were raised, including whether sales commissions were incremental costs to obtain a contract, how the amortization period for capitalized costs was determined, and whether the amortization period considered renewals and was appropriate when compared to the contract period.

Many of the early adopters were actively engaged in the ASC 606 standard setting process. This provided them with opportunities to engage with the FASB and SEC on issues that directly affected how they applied the standard. As a result, they may have faced fewer questions from the SEC or challenges supporting their accounting conclusions than what other companies could face.

Final thoughts

It's no surprise to see the SEC staff focused on how companies went about adopting ASC 606, with few comments outside of this topic for the ASC 606 early adopters. The key takeaways are that companies should thoughtfully comply with the disclosure requirements of ASC 606; document the analysis supporting management's conclusions, particularly in significant judgmental areas such as disaggregated revenue and principal versus agent; and expect that the SEC could have many questions about the adoption of the new revenue standard on 2018 filings.

More resources

Handbook	Assists you in gaining an in-depth understanding of the new five-step revenue model by answering the questions that we are encountering in practice, providing examples to explain key concepts and highlighting the changes from legacy US GAAP. Chapter 15 dealing with disclosure is particularly relevant to this article.
Illustrative disclosures	We show how one fictitious company has navigated the complexities of the revenue disclosure requirements.

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