Quarterly Outlook

December 2018

US GAAP

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The January 1, 2019 effective date of the leases standard for many companies is only weeks away, yet adoption challenges and accounting questions about fundamental aspects of the standard continue to arise. Companies must prioritize their efforts to reach accounting conclusions and implement effective internal controls before the adoption date.

In addition, companies must be mindful of other standards taking effect in 2019. These include a new hedge accounting standard and others aimed at simplifying or clarifying accounting guidance.

On SEC matters, a new rule became effective in November that primarily eliminated or reduced certain disclosure requirements of various SEC rules and regulations, and provides relief to registrants in preparing their year-end filings.

Our *Quarterly Outlook* summarizes these and other accounting and financial reporting developments potentially affecting you in the current period or near term.

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2018 AICPA Conference highlights

The AICPA held its annual Conference on Current SEC and PCAOB Developments, featuring speakers from regulators, standard setters, preparers, auditors and others who discussed recent developments in accounting, auditing and financial reporting.

The overarching theme from SEC leadership was that high-quality financial reporting and reliable audits are a shared responsibility among all participants in the financial reporting architecture, which includes management, audit committees, auditors, standard setters and regulators.

SEC Chairman Jay Clayton and Chief Accountant Wes Bricker shared the Office of the Chief Accountant's blueprint of the US Financial Reporting Structure for Public Issuers, emphasizing that each participant in this architecture has a role and responsibility in preserving and advancing the quality of financial reporting for investors.

The conference devoted significant time to emerging issues, risks and upcoming changes in financial reporting that will affect the roles and responsibilities of management, audit committees and auditors during the 2018 calendar year-end financial reporting process and in 2019 including:

- **Preparing for new accounting standards** – Implementing the revenue recognition, leases and credit impairment standards.
- **Assessing internal controls over financial reporting (ICFR) and best practices** – ICFR in the context of implementing new accounting standards, evaluating control deficiencies and disclosing material weaknesses.
- **Emerging issues and risks** – Cybersecurity, Brexit and the transition away from LIBOR as a benchmark reference for short-term interest rates.
- **SEC focus areas** – Non-GAAP financial measures, the Disclosure Update and Simplification rule, Emerging Growth Company transition issues, modification or waiver of financial statement requirements, auditor independence matters and the SEC's 2019 rule-making agenda.
- **Audit developments and their effect on financial reporting** – Audit quality and regulators' access to audit and other information internationally, the approach of the newly constituted PCAOB and the auditor's reporting model.
- **Demystifying emerging technologies** – Data analytics and initial coin offerings.

Resources: KPMG's SEC Issues & Trends, AICPA Conference on Current SEC and PCAOB Developments

SEC headlines

SEC interim disclosure requirements for changes in stockholders' equity

In August, the SEC adopted a new rule that amended certain disclosure requirements that were duplicative, overlapped or superseded by other SEC disclosure requirements, US GAAP or IFRS. The amendments primarily eliminated or reduced certain disclosure requirements of various SEC rules and regulations. However, in some cases, the amendments added disclosure requirements, including presenting changes in stockholders' equity in interim financial statements.

Under the new rule, registrants are required to disclose in interim financial statements on Form 10-Q:

- the changes in each caption of stockholders' equity and noncontrolling interests for the "current and comparative year-to-date periods, with subtotals for each interim period," and
- the amount of dividends per share for each class of shares.

Under Rule 3-04 of Regulation S-X, registrants can provide the interim disclosures about changes in stockholders' equity, including dividends per share amounts, in a note to the financial statements or in a separate financial statement. Additionally, these disclosures should be in the form of a reconciliation from the beginning balance to the ending balance for each period for which an income statement is required. Registrants should add appropriate captions describing all significant reconciling items.

Although the rule became effective November 5, 2018, the SEC staff released a Compliance and Disclosure Interpretation (C&DI) advising that it will not object to a registrant's adopting this requirement for the first quarter beginning after the effective date – e.g. the first quarter of 2019 for a calendar year-end company.

Resources: KPMG's Hot Topic: SEC, Interim disclosure requirement for changes in stockholders' equity and KPMG's Defining Issues, SEC simplifies and updates disclosure requirements; SEC C&DI and final rule

SEC releases investigative report on cybersecurity

The SEC released an investigative report warning companies about cyber-related threats involving spoofed or manipulated electronic communications (email schemes). Companies should consider these threats when creating and maintaining a system of internal controls.

The SEC's investigation focused on nine companies that were victims of two types of email schemes.

- **Emails from fake executives** – persons pretending to be company executives sent electronic communications requesting large wire transfers to foreign bank accounts controlled by the perpetrator(s).

- **Emails from hacked vendor accounts** – the perpetrator(s) (1) hacked a vendor's e-mail account and (2) inserted illegitimate requests for payments (including payment processing details) into electronic communications for otherwise legitimate transaction requests.

Companies should periodically reassess their internal controls for vulnerabilities to emerging risks from cyber-related frauds. Those efforts should include evaluating whether their current internal control structure provides sufficient and reasonable assurances to safeguard assets from cyber-related risks.

Resources: KPMG's Defining Issues, SEC releases investigative report on cybersecurity frauds; SEC Report

Observations related to adopting the revenue recognition standard

Throughout 2018, regulators, standard-setters and others in the financial reporting community learned many lessons from (1) public companies that were required to adopt the revenue recognition standard this year and (2) companies that chose to early adopt.

— **SEC staff focus areas.** The SEC staff is focused on disclosure requirements and areas of potential misapplication of the new standard. Aside from disclosures, the most common themes in SEC staff comment letters issued over the past year relate to:

  - identifying the performance obligations in the contract;
  - determining the transaction price;
  - capitalizing (and deferring the recognition of) contract costs;
  - recognizing revenue when (or as) an entity satisfies a performance obligation; and
  - disclosing principal versus agent considerations.

  The SEC staff cautioned registrants not to:

  - take false comfort because the registrant did not yet receive comments from the staff;
  - assume that the staff reviews all registrant filings;
  - assume that comments received to-date represent all potential comments that the registrant could receive; and
  - benchmark themselves to other registrants when determining the sufficiency of their disclosures.

— **Disclosure requirements.** The SEC staff has expressed disappointment in the quality of ASC 606 disclosures, and observed that registrants are insufficiently describing the significant judgments they made in applying ASC 606 to their specific transactions. This includes significant judgments about determining performance obligations; principal versus agent conclusions; determining transaction price and assessing transfer of control, including measures of progress.

  The SEC staff also has inquired about registrants' disaggregated revenue disclosures and how those disclosures reconcile to segment disclosures and information provided outside of the financial statements (e.g. earnings reports, MD&A and investor presentations). The SEC staff encouraged registrants to continually assess the adequacy and specificity of the disclosures required under ASC 606 and to enhance their disclosures as needed.

— **Operational challenges.** Companies have experienced operational challenges while adopting the revenue recognition standard, particularly in making the process, systems and automation changes necessary to comply with it. Many companies are using manual or Excel-based methodologies until their automated systems are ready. Other operational challenges companies have reported include making new estimates, allocating contract costs between performance obligations, and managing investor relationships and investor understanding of the business during this period of change.

— **Transaction considerations.** Companies that are considering major transactions, such as a merger or acquisition, or a public offering, need to understand the implications for the transaction of adopting the revenue recognition standard.

Resources: KPMG's webpage on Revenue

US tax matters

SAB 118 reminder

Since the SEC staff issued SAB 118, many registrants have been recognizing provisional income tax amounts for the effects of the US federal income tax law change (commonly referred to as the Tax Cuts and Jobs Act, or TCJA) enacted in 2017. SAB 118 allows a company to recognize provisional amounts during a measurement period when it does not have the necessary information available, prepared or analyzed (including computations) in reasonable detail to complete its accounting for the change in tax law. The measurement period ends when a company has obtained, prepared and analyzed the information necessary to finalize its accounting, but it cannot extend beyond one year from the TCJA enactment date. Registrants are reminded that the one-year limit ends December 22, 2018.

Reclassifying residual tax effects from AOCI

Earlier this year, the FASB issued ASU 2018-02, which permits companies to reclassify residual tax effects from accumulated other comprehensive income (AOCI) to retained earnings in each period in which the effect of the corporate tax rate change under the TCJA is recognized. The ASU also requires companies to disclose:

— their accounting policy for releasing income tax effects from AOCI;
— whether they elected to reclassify the residual income tax effects that arose under the TCJA; and
— information about other income tax effects that are reclassified.

The Codification amendments are effective in 2019 for all companies.

FASB developments

The FASB recently discussed its proposed ASU about changes to the disclosure requirements for income taxes.

A forthcoming proposed ASU would require...	to disclose...
all entities...	— income (or loss) from continuing operations before income tax expense (or benefit) disaggregated between domestic and foreign. — pretax income (or loss) from continuing operations before intracompany eliminations. — income tax expense (or benefit) and income taxes paid disaggregated between domestic and foreign.
public business entities...	— the line items in the statement of financial position in which unrecognized tax benefits are presented and the related amounts of those unrecognized tax benefits. — the amount and explanation of the valuation allowance recognized or released during the reporting period. — any reconciling item that amounts to more than 5 percent of the amount computed (i.e. consistent with SEC Regulation S-X). — the valuation allowance associated with the tax-effected amounts of federal, state and foreign carryforwards.
all entities other than public business entities...	— the non-tax-effected amount of credit carryforwards and to show credit carryforwards separate from loss carryforwards.
all entities that prepare interim financial statements...	— interim taxes paid.

The proposed ASU also would **remove existing requirements** for all entities to disclose:

— the cumulative amount of each type of temporary difference when a deferred tax liability is not recognized because of the exceptions to comprehensive recognition of deferred taxes related to subsidiaries and corporate joint ventures; and

— unrecognized tax benefits that could change in the next 12 months.

The Board directed the staff to incorporate its decisions into a proposed ASU.

Resources: KPMG's Handbook, Accounting for income taxes; KPMG's Q&A, Tax reform – Supplement to KPMG's Handbook, Income Taxes; SAB 118; ASU 2018-02

2018 financial reporting reminders

In the first quarter of 2018, calendar year-end public companies were required to adopt not only the revenue recognition standard, but also several other standards that simplify or clarify accounting requirements.

- **Financial instruments – recognition and measurement (ASU 2016-01)** allows companies to measure equity securities without readily determinable fair values either (1) at fair value with changes in fair value recognized in net income or (2) using a new measurement alternative – cost adjusted to fair value when there are observable transactions, less impairment.
- **Recognizing breakage for certain prepaid stored-value products (ASU 2016-04)** requires entities to recognize breakage (i.e. the unredeemed portion of the total dollar value on prepaid stored-value products) related to certain financial liabilities.
- **Classification of cash receipts and cash payments (ASU 2016-15)** provides guidance on eight issues related to classification of cash flows.
- **Accounting for income taxes on intercompany transfers (ASU 2016-16)** requires the seller and buyer to recognize at the transaction date the current and deferred income tax consequences of intercompany asset transfers (except for inventory transfers).
- **Restricted cash (ASU 2016-18)** requires companies to include in total cash (and cash equivalents) on the statement of cash flows all cash (and cash equivalents) that have restrictions on withdrawal or use. The ASU does not define 'restricted cash' or 'restricted cash equivalents', but companies need to disclose the nature of the restrictions.
- **Clarifying the definition of a business (ASU 2017-01)** provides a new framework for determining whether transactions should be accounted for as acquisitions (or disposals) of a group of assets or of a business. Under the framework, 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 significantly contribute to its ability to create outputs. The new framework includes an initial screening test (Step 1) that reduces the population of transactions an entity needs to analyze in determining whether a set includes an input and a substantive process (Step 2).
- **Accounting for derecognition of nonfinancial assets (ASU 2017-05)** clarifies that the guidance in ASC 610-20 about accounting for derecognition of a nonfinancial asset applies only when the asset (or asset group) (1) does not meet the definition of a business and (2) is not a not-for-profit entity. The ASU also applies to 'in-substance nonfinancial assets', (as defined in the ASU) and includes guidance on partial sales of nonfinancial assets.
- **Presentation of net periodic pension cost and net periodic postretirement benefit cost (ASU 2017-07)** requires companies to present the service cost component in the income statement line item in which it reports compensation cost. All other components of net benefit cost should be reported in the income statement separate from the service cost component and outside operating income, if that subtotal is presented. Additionally, the service cost component is the only component that a company can capitalize.
- **Scope of modification accounting (ASU 2017-09)** clarifies that companies should apply modification accounting when they change the terms or conditions of a share-based payment award unless the fair value,

vesting conditions and classification of a modified award are the same before and after the modification.

— **Identifying the customer in a service concession arrangement (ASU 2017-10)** clarifies that the customer in a service concession arrangement is always the grantor (i.e. the government or a public sector entity).

The Appendix – Accounting standards effective dates provides a complete list of accounting standards that companies need to adopt in 2018 and in the future.

Companies also should consider disclosures about **all** issued but not yet adopted accounting standards (i.e. SAB 74 disclosures) when preparing their 2018 financial statements (see Leases – the final countdown and Other changes for 2019).

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New standards and guidance

Leases – the final countdown

The January 1, 2019 effective date of the leases standard for many companies is only weeks away. However, companies continue to (1) face adoption challenges with respect to internal systems and accumulating and abstracting lease data and (2) have accounting questions about fundamental aspects of the standard. Additionally, many companies have not finalized their transition and ongoing accounting policy elections, which they must do to effectively adopt the standard on January 1.

Companies should dedicate sufficient time and attention to their 2018 financial reporting to ensure the completeness and accuracy of their final lease-related disclosures prepared under current US GAAP, which generally will be the basis for their accounting on transition to the new leases standard.

On December 10, the FASB issued ASU 2018-20, which provides 'narrow-scope improvements' for lessor accounting. Also in December, the FASB decided to propose two further amendments to ASC 842. The proposals pertain to (1) cash flow presentation for financial institution lessors and (2) determining the fair value of the underlying asset for lessors that are not manufacturers or dealers.

FASB update: New ASU

ASU 2018-20 on 'narrow-scope improvements' for lessors:

— permits lessors, as an accounting policy election, to present sales and other similar taxes that arise from a specific leasing transaction on a net basis;

— requires lessors to present lessor costs paid by the lessee directly to a third party on a net basis, regardless of whether the lessor knows, can determine or can reliably estimate those costs;

— requires lessors to present lessor costs paid by the lessee to the lessor on a gross basis; and

— clarifies that lessors should recognize variable payments allocable to non-lease components as revenue under other relevant US GAAP (e.g. ASC 606).

Because the ASU changes certain requirements that generally must be adopted concurrently with the leases standard, lessors should understand the requirements now and prepare for the effect of those requirements on their adoption efforts. Importantly, these changes generally simplify the lessor accounting requirements.

FASB update: Forthcoming proposals

At its December 4 meeting, the FASB decided to propose further amendments to the leases standard.

— **Lessor cash flow presentation.** Lessors that are financial institutions in the scope of ASC 942 would present the principal portion of lessee payments made on sales-type or direct financing leases as cash flows from investing activities (consistent with the classification of similar cash flows from other lending activities), and all other lessee payments as cash flows from operating activities. All other lessors would continue to present all cash flows from lessee payments as cash flows from operating activities.

— **Fair value of underlying asset.** For lessors that are not manufacturers or dealers, the fair value of the underlying asset at lease commencement would not be based on the definition of fair value in ASC 820. Instead, the fair value of the underlying asset would ordinarily be its cost, reflecting any volume or trade discounts that may apply, and include costs incurred to acquire the asset (e.g. sales taxes and delivery costs). However, if a significant amount of time has elapsed from the asset acquisition date to lease commencement, the fair value would be based on the definition of fair value in ASC 820, which would generally result in a fair value that is different from the cost of the asset.

The FASB expects to issue a proposed ASU by the end of the year with a comment letter period ending on the later of (1) 15 days after issuance or (2) January 15, 2019.

Resources: KPMG's Defining Issues, FASB approves changes to lessor accounting for sales and similar taxes and certain lessor costs; KPMG's web article; ASU 2018-20

Implementation challenges

Companies continue to race the adoption date clock to complete IT systems and process changes and to input necessary lease data into new IT systems. In addition, companies have accounting questions in these significant areas:

— **Identifying embedded leases.** Companies are ensuring that they completely and accurately identify contracts with embedded leases. Their efforts are often challenging because contracts that contain embedded leases may not use identifying terms such as 'lease' or 'rent'. Frequently, the embedded lease is a not even a predominant feature of the contract.

  Common contract types with embedded leases include IT service contracts, 'as-a-service' contracts and subcontractor arrangements.

  Companies that elect the 'package of practical expedients' in transition must ensure their lease population is complete under the current US GAAP definition of a lease in ASC 840, rather than the new definition of a lease in ASC 842. The package of practical expedients does not grandfather errors in applying the ASC 840 lease definition.

— **Determining the lease term.** Although the definition of 'lease term' is substantially unchanged from current US GAAP, companies have questions about determining the lease term. Their questions are mainly about the effect of termination rights on the lease term, the meaning of the term 'penalty' under ASC 842, and applying the short-term lease recognition exemption.

  Companies must use the ASC 842 definition of lease term when identifying 'short-term leases'. An incorrect estimate of lease term may lead a company to apply the short-term lease exemption inappropriately.

- **Determining the discount rate for the lease.** Under the new standard, most leases (other than short-term leases) will be recognized on lessees' balance sheets. The discount rate that the lessee determines for the lease may materially affect the amount of the lease liability and right-of-use asset recognized. Companies may find that determining an appropriate lessee discount rate is neither a straightforward exercise nor the same as under current US GAAP.

  In practice, a lessee will infrequently be able to use the rate implicit in the lease. Lessees will generally use their incremental borrowing rate as the discount rate for their leases, and may struggle when estimating ASC 842-compliant incremental borrowing rates. This is because many companies do not have existing borrowings that are substantially similar to their leases. For example, many companies' borrowings are unsecured and involve repayment of the borrowed principal only at the debt's maturity. In contrast, ASC 842 requires that the lessee's incremental borrowing rate be a collateralized (i.e. secured) rate. Additionally, the principal portion of the lease payments in a lease are generally repaid throughout the lease term rather than only at the debt's maturity.

Transition and ongoing accounting policy elections

Companies need to decide whether to make these accounting policy elections on adoption of the new standard.

- **Transition practical expedients.** Companies may use the effective date of the leases standard as the date of initial application on transition (as compared with the beginning of the earliest period presented in their financial statements, as originally required by ASC 842). Companies that elect this option will:

  - not restate comparative period financial information for the effects of ASC 842;
  - not make the new required lease disclosures in comparative periods beginning before the effective date; and
  - recognize their cumulative effect transition adjustment (e.g. for the effect of unamortized initial direct costs required to be written-off at transition) as of the effective date (January 1, 2019 for a calendar year-end public company).

  Companies that elect this option will continue to present their current US GAAP lease disclosures for the comparative periods in the financial statements when they adopt ASC 842. For example, even though under current US GAAP companies do not generally include their prior year-end operating lease maturity tables in their interim and annual financial statements for the current year, companies electing this transition option will be required to include their final operating lease maturity table (e.g. as of December 31, 2018) in each set of interim and annual financial statements issued during the adoption year.

  Separately, companies also must decide whether to adopt these transition practical expedients.

<table>
<tr><th>Package of practical expedients (all or nothing)</th><th>Use of hindsight</th><th>Land easements</th></tr>
<tr><td>An entity may elect not to reassess:
– whether expired or existing contracts contain leases under the new definition of a lease;
– lease classification for expired or existing leases; and
– whether previously capitalized initial direct costs qualify for capitalization under ASC 842.</td><td>An entity may use hindsight in determining the lease term, and in assessing the likelihood that a lessee purchase option will be exercised.</td><td>An entity may elect not to reassess whether land easements meet the definition of a lease if the easements were not accounted for as leases under ASC 840.</td></tr>
<tr><td colspan="3">Each of the three practical expedients may be elected separately from the other two.</td></tr>
<tr><td colspan="3">The practical expedients are applied consistently to all leases for which the entity is a lessee or a lessor, as long as the leases commence before the effective date.</td></tr>
</table>

— **Option not to separate lease and non-lease components.** Lessees may make an accounting policy election by class of underlying asset to not separate lease and non-lease components. They may account for the resulting combined component as a single lease component.

Lessors may make a similar election for lease and non-lease components within the scope of ASC 606 only if:

- the timing and pattern of transfer to the lessee of the lease component and non-lease component(s) associated with that lease component are the same; and

- the lease component, if accounted for separately, would be classified as an operating lease.

— **Short-term lease exemption.** A short-term lease is one that, at the commencement date, has a 'lease term' of 12 months or less and does not include an option to purchase the underlying asset that the lessee is reasonably certain to exercise. Although short-term leases are in the scope of ASC 842, a lessee can elect, by class of underlying asset, to account for these leases like an operating lease under current US GAAP. However, a lessee that makes this election is subject to incremental disclosure requirements.

— **Portfolio approach.** A company may apply the guidance in ASC 842 to a portfolio of leases with similar characteristics (size and composition) if it reasonably expects that applying the leases model to the portfolio will not be materially different from applying the model to the individual leases in that portfolio.

2018 financial reporting reminders

Companies that have not yet adopted ASC 842 should increase their focus this year-end on the lease disclosures required by current US GAAP. For the majority of companies that elect the new effective date transition option, it is important to remember that final current US GAAP lease disclosures are required to be carried forward into each of the interim and annual filings during the year of adoption. Additionally, enhanced focus may assist a company in ensuring successful adoption of ASC 842 because much of the information that drives the current US GAAP disclosures also will be used in its transition accounting. Specifically:

— **Lease identification.** Companies should ensure that their lease population is complete and accurate because they will generally recognize those same leases on the balance sheet in transition to ASC 842.

— **Lease measurement.** Lessees will, in general, use the 'minimum rental payments' required to be disclosed in their future operating lease commitments table to measure new lease liabilities and right-of-use assets for existing operating leases under ASC 842.

— **Processes and controls.** The processes and controls required for current US GAAP disclosures are substantially similar to many of those needed for complete and accurate financial reporting under ASC 842.

— **SAB 74 disclosures.** Complete and accurate lease disclosure information under current US GAAP may help companies estimate quantitative information about the effect of adopting ASC 842 for their SAB 74 disclosures.

SAB 74 disclosures

Quantitative information companies might disclose includes (1) the new lease liabilities and right of use assets that they will recognize on the balance sheet (or an estimated range thereof) and (2) the amount of plant, property and equipment and financial liabilities recorded under the current build-to-suit leases guidance that they will derecognize in transition to ASC 842.

Qualitatively, companies should discuss their expectations about the effect that adoption may have on the financial statements.

When the adoption effect of a new standard is not known or reasonably estimable, companies should consider disclosing additional qualitative information to assist users in understanding the significance of the effect on the financial statements when adopted.

In addition, companies should disclose the transition method and practical expedients that they intend to elect on adoption, their anticipated adoption date, progress remaining toward implementation and significant implementation matters that they still must address.

Resources: KPMG's Handbook, Leases; KPMG's Executive View, ASC 842, Leases – Transition disclosures

Credit impairment – standard setting activity

Amended effective date for certain companies and scope clarification

The FASB issued ASU 2018-19 that:

— amends the effective date of the credit impairment standard to require companies that are not public business entities to adopt the amendments for annual and interim periods for fiscal years beginning after December 15, 2021; and

- clarifies that operating lease receivables accounted for under ASC 842 will be excluded from the scope of the credit impairment standard.

The effective date and transition requirements are the same as those in the credit impairment standard, as amended by this ASU.

Resources: KPMG's Handbook, Credit impairment; ASU 2018-19

Proposed ASU

The FASB issued a proposed ASU that clarifies and addresses guidance in, and implementation issues associated with, the credit impairment standard. The most significant clarifications include:

- **Recoveries.** Companies would be required to include in the estimate of the allowance the expected recoveries of financial assets previously written off. Companies would be permitted to record a negative allowance on financial assets. However, the negative allowance could not exceed the aggregate amount of previous or expected writeoffs.
- **Contractual extensions.** Companies would be required to consider the effect of extension or renewal options (excluding those accounted for as derivatives) that are included in the original or modified contract and are not unconditionally cancellable by the entity in determining the contractual term of a financial asset.
- **Accrued interest.** Companies may measure the related allowance separately from other components of amortized cost; and elect some or all of these accounting policies:
  - present the accrued interest receivable and related allowance separately from the associated financial assets or net investments in leases;
  - write off accrued interest by either reversing interest income, recognizing credit loss expense or both; and
  - exclude accrued interest from the calculation of the allowance if the company writes off the uncollectible interest in a timely manner.

Resources: Proposed ASU

Targeted transition relief

At its November meeting, the FASB decided to propose a one-time option at adoption of the credit impairment standard that would allow companies to irrevocably elect the fair value option for financial assets measured at amortized cost within the scope of ASC 326-20. Companies would apply the election on an instrument-by-instrument basis. The FASB also decided **not** to provide companies a one-time option to discontinue a previous fair value option election for financial instruments in the scope of ASC 326-20.

A proposed ASU is forthcoming.

Hedge accounting – developments and reminders

Hedge accounting standard effective in 2019

Calendar year-end public companies are reminded that the hedge accounting standard becomes effective in 2019. The ASU allows companies to better align their hedge accounting and risk management activities and potentially reduce the cost and complexity of applying hedge accounting. The ASU:

- eliminates the requirements to separately measure and report hedge ineffectiveness; and
- requires companies to present all hedge accounting elements that affect earnings in the same income statement line as the earnings effect of the hedged item.

The ASU also permits hedge accounting for certain strategies for which it was not previously permitted, and includes new alternatives for measuring the hedged item for fair value hedges of interest rate risk.

Resources: KPMG's Handbook, Hedging; ASU 2017-12

New benchmark interest rate

A new ASU adds the Overnight Index Swap (OIS) rate based on the Secured Overnight Financing Rate (SOFR) as a benchmark interest rate for hedge accounting purposes. This expands the list of eligible benchmark interest rates to facilitate marketplace transition from LIBOR.

The new guidance applies to only new or re-designated hedging relationships entered into on or after the date of adoption.

Adoption date	Public business entities	All other entities
Entities that have **not** adopted ASU 2017-12	Annual and interim periods in fiscal years beginning after December 15, 2018	Adopt concurrent with ASU 2017-12 – i.e. annual periods in fiscal years beginning after December 15, 2019, and interim periods in fiscal years beginning after December 15, 2020
Entities that have adopted ASU 2017-12		Annual and interim periods in fiscal years beginning after December 15, 2019
Early adoption allowed?	Yes, but only if a company has already adopted ASU 2017-12	

Resources: KPMG's web article; ASU 2018-16

Proposed ASU

The FASB issued a proposed ASU to clarify guidance in, and address implementation issues associated with, the hedge accounting standard. The most significant clarifications include these proposed amendments to the transition guidance.

- A company may change from a quantitative hedge effectiveness assessment to a critical terms match assessment without dedesignating the existing hedging relationship.
- A debt security reclassified from held-to-maturity to available-for-sale under the transition provisions would not call into question the entity's intent to hold other held-to-maturity debt securities to maturity. Additionally, the reclassified securities are not required to be designated in a hedging relationship and may be sold after reclassification.

Resources: Proposed ASU

Other ongoing FASB activity

The FASB has two projects on its standard-setting agenda related to hedge accounting:

- a narrow-scope project about the 'last-of-layer method', specifically about how to account for the basis adjustments and multiple-layer hedging strategies; and
- a Codification improvement project to clarify whether a company can change the hedged risk and/or the hedged forecasted transaction during the term of the hedging relationship.

Recognition and measurement – standard setting activity

The FASB issued a proposed ASU to address implementation issues associated with the recognition and measurement of financial instruments. The most significant clarification relates to equity securities without a readily determinable fair value for which the measurement alternative is applied. The proposed amendment would clarify that when a transaction price is observed for an identical or similar security, companies should measure the equity security at fair value under ASC 820.

Resources: KPMG's Q&A, Financial instruments – recognition and measurement; Proposed ASU

New private company VIE exemption

The FASB issued an ASU that allows private companies to make an accounting policy election **not** to apply the variable interest entity (VIE) guidance to legal entities under common control. Private companies can make this election if:

- the common control parent and the legal entity are private companies; and
- they do not directly or indirectly have a controlling financial interest in the legal entity under the voting interest entity consolidation guidance.

Thus, the ASU expands the current VIE exemption to arrangements beyond common control leasing arrangements.

The ASU also aligns the evaluation of whether a decision maker's fee is a variable interest with the guidance in the primary beneficiary test by requiring the decision maker to consider an indirect interest in a VIE held by a related party under common control on a proportionate basis.

Effective dates	All other entities	Private companies
Annual periods – Fiscal years beginning after	December 15, 2019	December 15, 2020
Interim periods – Fiscal years beginning after	December 15, 2019	December 15, 2021
Early adoption allowed?	Yes, including adoption in an interim period	

Separately, the FASB continues to redeliberate its project to reorganize the guidance in ASC 810, Consolidation.

Resources: KPMG's Defining Issues, FASB expands the private company VIE exemption and changes fee guidance for decision makers; KPMG webcast: FASB further amends consolidations guidance; ASU 2018-17

Targeted improvements to the accounting for collaborative arrangements

The FASB issued an ASU to address uncertainties about when a company should apply the revenue recognition standard to collaborative arrangements. Specifically, the ASU:

- clarifies that certain transactions between collaborative partners should be accounted for under ASC 606, when one partner is a customer;
- specifies that a distinct good or service is the unit of account for evaluating whether the transaction is with a customer; and
- precludes a company from presenting income from a collaborative partner that is not in scope of ASC 606 together with revenue from contracts with customers.

The standard does not address the recognition and measurement of collaborative arrangements that are not in the scope of ASC 606.

Effective dates	Public business entities	All other entities
Annual periods – Fiscal years beginning after	December 15, 2019	December 15, 2020
Interim periods – Fiscal years beginning after	December 15, 2019	December 15, 2021
Early adoption allowed?	Yes, but only if a company has already adopted the guidance in ASC 606	

Resources: KPMG's Defining Issues, FASB finalizes targeted improvements for collaborative arrangements; ASU 2018-18

Other changes for 2019

In the first quarter of 2019, calendar year-end public companies must adopt not only the leases, hedge accounting and income taxes standards, but also these standards intended to simplify or clarify accounting requirements.

- **Premium amortization period for purchased non-contingently callable debt securities (ASU 2017-08)** shortens the premium amortization period for these types of securities. This standard more closely aligns the period in which interest income is recognized with the expectations incorporated into the market pricing of the underlying securities.
- **Accounting for EPS and certain instruments with down round features (ASU 2017-11)** clarifies that equity-linked instruments or embedded equity-linked features should not be accounted for as liabilities solely because they contain a down round feature. As compared with current guidance, this clarification means that fewer free-standing equity-linked instruments with down round features will be accounted for as liabilities and fewer embedded equity-linked features with down round features will be bifurcated from the host contract.
- **Nonemployee share-based payment accounting (ASU 2018-07)** eliminates differences in employee and nonemployee share-based payment accounting except for expense attribution and a contractual-term election for valuing nonemployee equity share options. The ASU also includes policy elections offering relief to nonpublic companies when measuring nonemployee equity share options.

Companies also are reminded that they may early adopt **ASU 2017-04** about **simplifying the test for goodwill impairment**. This ASU (1) eliminates the requirement to calculate the implied fair value of goodwill (i.e. Step 2 of today's goodwill impairment test) and (2) replaces the qualitative assessment for entities that have reporting units with zero or negative carrying amounts. This ASU is effective for public companies for annual and any interim goodwill impairment tests performed for annual periods beginning after:

- December 15, 2019 – SEC filers; and
- December 15, 2020 – non-SEC filers.

Companies should consider disclosures about these and **all** other issued but not yet adopted accounting standards (i.e. SAB 74 disclosures) when preparing their 2018 financial statements. The Appendix – Accounting standards effective dates provides a complete list of accounting standards that companies need to adopt in the future.

Critical audit matters

Implementation of Phase 2 of the PCAOB's AS 3101 standard about communication of critical audit matters (CAMs) is quickly approaching. The standard is effective:

- for audits of large accelerated filers: fiscal years ending on or after June 30, 2019; and

— for audits of all other companies to which the requirements apply:[1] fiscal years ending on or after December 15, 2020.

Phase 2 requires auditors to report on the CAMs identified in the audit of the current period's financial statements. CAMs are matters that were communicated to the audit committee; relate to accounts or disclosures that are material to the financial statements; and involved especially challenging, subjective or complex auditor judgment.

In the auditor's report, the auditor identifies the CAM and describes the:

— principal considerations in concluding it is a CAM;
— primary procedures performed to address the CAM; and
— relevant financial statement accounts or disclosures that relate to the CAM.

It is expected that in most audits, the auditor will identify at least one CAM. However, in the infrequent circumstances that no CAMs are identified, the auditor is required to state that in the auditor's report.

Early engagement between the auditor, management and audit committee will be key to successfully implementing the CAM reporting requirement. Management and the audit committee should talk with their auditor about potential CAMs and how their identification and descriptions compare with information currently disclosed by the company.

While the standard does not prohibit the auditor from providing original information in its report, it should limit that information to describing the principal considerations in concluding that a matter was a CAM and how it was addressed in the audit.

Resources: CAQ publication – Critical Audit Matters: Lessons Learned, Questions to Consider, and an Illustrative Example; CAQ publication - Critical Audit Matters: Key Concepts and FAQs for Audit Committees, Investors, and Other Users of Financial Statements; PCAOB Standard and Related Amendments

[1] The communication of CAMs is not required for Emerging Growth Companies; brokers and dealers; investment companies other than business development companies; and employee stock purchase, savings and similar plans.

3 Projects and agenda priorities

Emerging Issues Task Force activities

The EITF has two open issues on its agenda.

— **Cost capitalization for episodic television series.** The FASB issued a proposed ASU that would align the accounting for production costs guidance for (1) films and (2) episodic content produced for television series and streaming services. It also would address when a company should assess films and license agreements for program material for impairment at the film-group level and amend the presentation and disclosure requirements for content that is either produced or licensed. The comment period ended December 7.

— **Recognition in a business combination of an assumed liability in a revenue contract.** In September, the EITF reaffirmed the consensus-for-exposure reached at its June meeting that would:

- align the criteria for recognizing a liability for a revenue contract acquired in a business combination with the criteria for identifying a performance obligation in the revenue recognition standard; and
- require a company to apply the proposed amendments prospectively to all business combinations that occur after the effective date.

The EITF decided not to address measurement of the contract liability and the effect of payment terms on subsequent revenue recognition. Instead, the EITF directed the FASB staff to draft a discussion paper with an invitation to comment on measurement issues related to revenue contract liabilities in a business combination. The FASB expects to issue an exposure draft by the end of the year.

The EITF's next meeting is January 17.

Resources: KPMG's Defining Issues, FASB proposes improvements to accounting for episodic television series and EITF reaches consensus-for-exposure on contract liabilities in business combinations; Proposed ASU

Proposed changes to balance sheet debt classification

In October, the FASB redeliberated its proposed ASU on simplifying balance sheet debt classification and continued its discussion on unused long-term financing arrangements. The Board directed the staff to conduct additional research, specifically to identify a potential alternative that considers the contractual linkage between certain debt arrangements and unused long-term financing arrangements in place at the balance sheet date.

The FASB expects to issue an ASU in the first quarter of 2019 that would be effective for:

- **public companies** – For annual and interim periods in fiscal years beginning after December 15, 2020; and
- **all other entities** – For annual periods in fiscal years beginning after December 15, 2021, and interim periods in fiscal years beginning after December 15, 2022.

Resources: KPMG's Defining Issues, FASB proposes to simplify debt classification; Proposed ASU

September FASAC meeting

In September, the Financial Accounting Standards Advisory Council (FASAC) met and discussed these topics.

- **Tax reform and income tax disclosures.** FASAC members observed that, as a result of the Tax Cuts and Jobs Act, some of the current and proposed disclosure requirements under US GAAP about undistributed foreign earnings may no longer be necessary.
- **SEC's disclosure update and simplification.** FASAC members discussed the SEC's request that the FASB consider incorporating certain disclosure requirements into US GAAP. They advised the FASB to perform its normal pre-agenda research and procedures to determine (1) whether disclosures should be incorporated into US GAAP, (2) which organizations should be required to provide the disclosures and (3) whether the expected benefits outweigh the costs.
- **Accounting and reporting alternatives within US GAAP.** FASAC members discussed various transition and effective date alternatives in recent standards and expressed their views on providing companies with flexibility in transition. They also discussed related considerations about offering staggered effective dates and transition alternatives, including costs to users and preparers, system implications, time and resource availability, investor and regulatory expectations and peer behavior.

Resources: FASAC meeting recap

Private Company Council activities

The PCC met in December and generally expressed support for the FASB's projects on:

- goodwill and certain identifiable intangible assets;
- distinguishing liabilities from equity; and
- Codification improvements – share-based consideration payable to a customer

The PCC also discussed:

- **Disclosures by business entities about government assistance.** The PCC members were split in their views of the project, with certain members questioning whether the expected benefits would justify the costs to preparers.
- **Disclosure improvements in response to SEC release on disclosure update and simplification.** The PCC expressed broad support for some potential disclosures but not for others, primarily due to concerns about the relevance of the disclosures to private company users.

The PCC added to its agenda a project to consider a practical expedient to measure grant-date fair value of equity share-based payments for private companies and directed the staff to conduct further research.

The PCC's next meeting is April 2.

Resources: PCC meeting recap

4 Recommended reading and CPE opportunities

Four steps to help your company respond to tariffs and trade uncertainty

The Minneapolis Star Tribune featured an article by Jessica Libby, Managing Director – Tax, in the trade and customs practice in KPMG's Minneapolis office.

Libby writes that after months of speculation on how US tariffs, European politics and other disruptive factors might affect the US economy, "businesses are starting to feel the effect." She suggests that companies consider a four-step strategic response to help them cope with the tumultuous trade environment. Read the article.

CEO and CIO cyber disconnect: Fixing the communications breakdown

CIO.com featured an article by Tony Buffomante, Principal – Advisory, in the cybersecurity services practice in KPMG's Chicago office. He advises CIOs to find ways to communicate more effectively and consistently with their CEOs and boards to bolster their cybersecurity protections and boost their careers.

KPMG's 2018 US CEO Outlook survey found that 77 percent of CEOs believe their organizations are either 'very well' or 'well' prepared for a cyber incident. This stands in stark contrast to the only 22 percent of CIOs and tech leaders who feel the same way, according to the Harvey Nash/KPMG CIO Survey 2018. Read the article.

Upcoming CPE opportunities

KPMG Executive Education provides a wide range of accounting and finance continuing professional education (CPE) programs in several formats: public seminars, customized on-site instructor-led classes, web-based self-study programs and live webcasts.

KPMG's Financial Reporting View (FRV) offers additional CPE opportunities, including registration information for upcoming CFO Financial Forum webcasts. The webcasts feature KPMG professionals discussing current and impending accounting and financial reporting matters, and guidance for implementing new accounting standards.

5

Appendix - Accounting standards effective dates

Not-for-profit entities and employee benefit plans generally should apply the effective date guidance in the 'private company' tables that follow. However, some ASUs require certain not-for-profit entities and employee benefit plans to use public company effective dates. The effective date information for those ASUs is identified with a *, †, ‡, or § in the tables below.

Accounting standards affecting public companies in 2018

Calendar year-end public companies are required to begin applying these accounting standards in 2018.

Topic	Effective date for public companies and, where marked, certain other entities	For more information
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 ASU 2016-20 ASU 2017-13 ASU 2017-14 KPMG's webpage on Revenue
Recognition and measurement of financial assets and financial liabilities	Annual and interim periods in fiscal years beginning after 12/15/2017	ASU 2016-01 ASU 2018-04 KPMG's webpage on Financial instruments
Technical corrections and improvements to financial instruments—Overall: Recognition and measurement of financial assets and financial liabilities	Fiscal years beginning after 12/15/2017, and interim periods in fiscal years beginning after 6/15/2018. Public business entities with fiscal years beginning in the period between 12/15/17 and 6/15/18 are not required to adopt the amendments until the interim period beginning after 6/15/18.	ASU 2018-03 KPMG's webpage on Financial instruments

Topic	Effective date for public companies and, where marked, certain other entities	For more information
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 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 Webcast Podcast
Intra-entity transfers of assets other than inventory	Annual and interim periods in fiscal years beginning after 12/15/2017	ASU 2016-16 Defining Issues Podcast
Statement of cash flows: Restricted cash	Annual and interim periods in fiscal years beginning after 12/15/2017	ASU 2016-18 Defining Issues Webcast Podcast
Clarifying the definition of a business	Annual and interim periods in fiscal years beginning after 12/15/2017	ASU 2017-01 Defining Issues Webcast
Clarifying the scope of asset derecognition guidance and accounting for partial sales of nonfinancial assets	Annual and interim periods in fiscal years beginning after 12/15/2017	ASU 2017-05 Defining Issues Podcast
Improving the presentation of net periodic pension cost and net periodic postretirement benefit cost	Annual and interim periods in fiscal years beginning after 12/15/2017	ASU 2017-07 Defining Issues Podcast
Scope of modification accounting for share-based payment awards	Annual and interim periods in fiscal years beginning after 12/15/2017	ASU 2017-09 Web article
Identifying the customer in a service concession arrangement	Annual and interim periods in fiscal years beginning after 12/15/2017	ASU 2017-10 Web article Podcast
Amendments to SEC paragraphs pursuant to SEC Staff Accounting Bulletin No. 118	Effective on issuance (March 2018)	ASU 2018-05
Codification improvements to ASC 942, Financial services—Depository and lending	Effective on issuance (May 2018)	ASU 2018-06 Web article

Topic	Effective date for public companies and, where marked, certain other entities	For more information
Clarifying the scope and the accounting guidance for contributions received and contributions made	**Contributions received:** Annual and interim periods in fiscal years beginning after 6/15/2018† **Contributions made:** Annual and interim periods in fiscal years beginning after 12/15/2018‡	ASU 2018-08 Defining Issues
Codification improvements	Most amendments were effective on issuance (July 2018). Certain amendments that require transition guidance are effective for annual and interim periods in fiscal years beginning after 12/15/2018. Other amendments, which affect recently issued ASUs that are not yet effective, are effective at the same time as the original ASU.	ASU 2018-09 Web article

* The 'public company' effective date requirements also apply to (1) not-for-profit entities that have issued, or are conduit bond obligors for, securities that are traded, listed or quoted on an exchange or an over-the-counter market; and (2) employee benefit plans that file or furnish financial statements with the SEC.

† The 'public company' effective date requirements also apply to not-for-profit entities that have issued, or are conduit bond obligors for, securities that are traded, listed or quoted on an exchange or an over-the-counter market and serve as a resource *recipient*.

‡ The 'public company' effective date requirements also apply to not-for-profit entities that have issued, or are conduit bond obligors for, securities that are traded, listed or quoted on an exchange or an over-the-counter market and serve as a resource *provider*.

Accounting standards affecting public companies in 2019 and beyond

Calendar year-end public companies are required to begin applying these accounting standards in 2019 or later and may need to disclose their potential effects in 2018.

Topic	Effective date for public companies and, where marked, certain other entities	For more information
Leases	Annual and interim periods in fiscal years beginning after 12/15/2018*	ASU 2016-02 ASU 2017-13 ASU 2018-01 ASU 2018-10 ASU 2018-11 KPMG's webpage on Leases
(Part I) Accounting for certain financial instruments with down round features, (Part II) Replacement of the indefinite deferral for mandatorily redeemable financial instruments of certain nonpublic entities and certain mandatorily redeemable noncontrolling interests with a scope exception	Annual and interim periods in fiscal years beginning after 12/15/2018	ASU 2017-11 Defining Issues
Targeted improvements to accounting for hedging activities	Annual and interim periods in fiscal years beginning after 12/15/2018	ASU 2017-12 Defining Issues
Codification improvements ASC 955, US Steamship Entities	Annual and interim periods in fiscal years beginning after 12/15/2018	ASU 2017-15 Web article
Reclassification of certain tax effects from accumulated other comprehensive income	Annual and interim periods in fiscal years beginning after 12/15/2018	ASU 2018-02 Tax reform supplement Webcast
Premium amortization for purchased callable debt securities	Annual and interim periods in fiscal years beginning after 12/15/2018	ASU 2017-08 Defining Issues Podcast
Improvements to nonemployee share-based payment accounting	Annual and interim periods in fiscal years beginning after 12/15/2018	ASU 2018-07 Defining Issues

Topic	Effective date for public companies and, where marked, certain other entities	For more information
Inclusion of the secured overnight financing rate (SOFR) overnight index swap (OIS) rate as a benchmark interest rate for hedge accounting purposes	Annual and interim periods in fiscal years beginning after 12/15/2018	ASU 2018-16 Web article
Disclosure framework—Changes to the disclosure requirements for fair value measurement	Annual and interim periods in fiscal years beginning after 12/15/2019	ASU 2018-13 Defining Issues
Customer's accounting for implementation costs incurred in a cloud computing arrangement that is a service contract	Annual and interim periods in fiscal years beginning after 12/15/2019	ASU 2018-15 Defining Issues
Targeted improvements to related party guidance for variable interest entities	Annual and interim periods in fiscal years beginning after 12/15/2019**§**	ASU 2018-17 Defining Issues Webcast
Collaborative arrangements: Clarifying the interaction between Topic 808 and Topic 606	Annual and interim periods in fiscal years beginning after 12/15/2019	ASU 2018-18 Defining Issues
Measurement of credit losses on financial instruments	**SEC filers:** Annual and interim periods in fiscal years beginning after 12/15/2019 **Non-SEC filers:** Annual and interim periods in fiscal years beginning after 12/15/2020	ASU 2016-13 ASU 2018-19 Defining Issues KPMG's webpage on Financial instruments
Simplifying the test for goodwill impairment	**SEC filers:** Annual and interim periods in fiscal years beginning after 12/15/2019 **Non-SEC filers:** Annual and interim periods in fiscal years beginning after 12/15/2020	ASU 2017-04 Defining Issues Podcast
Disclosure framework—Changes to the disclosure requirements for defined benefit plans	Annual periods in fiscal years **ending** after 12/15/2020	ASU 2018-14 Defining Issues

Topic	Effective date for public companies and, where marked, certain other entities	For more information
Targeted improvements to the accounting for long-duration contracts	Annual and interim periods in fiscal years beginning after 12/15/2020	ASU 2018-12 Defining Issues

* The 'public company' effective date requirements also apply to (1) not-for-profit entities that have issued, or are conduit bond obligors for, securities that are traded, listed or quoted on an exchange or an over-the-counter market; and (2) employee benefit plans that file or furnish financial statements with the SEC.

§ The 'public company' effective date requirements for ASU 2018-17 apply to all entities other than private companies.

Not-for-profit entities and employee benefit plans generally should apply the effective date guidance in the 'private company' tables that follow. However, some ASUs require certain not-for-profit entities and employee benefit plans to use public company effective dates. The effective date information for those ASUs is identified with a *, †, ‡, or § in the tables below.

Accounting standards affecting private companies in 2018

Calendar year-end private companies are required to begin applying these accounting standards in 2018.

Topic	Effective date for private companies	For more information
Technical corrections	Most amendments were effective on issuance (December 2016). Certain amendments that require transition guidance are effective for: — annual and interim periods in fiscal years beginning after 12/15/2016 (for fair value measurements); and — annual periods in fiscal years beginning after 12/15/2017, and interim periods in fiscal years beginning after 12/15/2018 (for cloud computing arrangements).	ASU 2016-19
Scope of modification accounting for share-based payment awards	Annual and interim periods in fiscal years beginning after 12/15/2017	ASU 2017-09 Web article
Simplifying the presentation of deferred taxes	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 Podcast
Effect 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 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 Podcast

Topic	Effective date for private companies	For more information
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 Podcast
Presentation of financial statements of not-for-profit entities	Annual periods in fiscal years beginning after 12/15/2017, and interim periods in fiscal years beginning after 12/15/2018	ASU 2016-14
Amendments to SEC paragraphs pursuant to SEC Staff Accounting Bulletin No. 118	Effective on issuance (March 2018)	ASU 2018-05
Codification improvements to ASC 942, Financial services——Depository and lending	Effective on issuance (May 2018)	ASU 2018-06 Web article
Codification improvements	Most amendments were effective on issuance (July 2018). Certain amendments that require transition guidance are effective for annual and interim periods in fiscal years beginning after 12/15/2019. Other amendments, which affect recently issued ASUs that are not yet effective, are effective at the same time as the original ASU.	ASU 2018-09 Web article

Accounting standards affecting private companies in 2019 and beyond

Calendar year-end private companies are required to begin applying these accounting standards in 2019 or later.

Topic	Effective date for private companies	For more information
Codification improvements to ASC 955, US Steamship Entities	Annual and interim periods in fiscal years beginning after 12/15/2018	ASU 2017-15 Web article
Reclassification of certain tax effects from accumulated other comprehensive income	Annual and interim periods in fiscal years beginning after 12/15/2018	ASU 2018-02 Tax reform supplement Webcast
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 2016-12 ASU 2016-20 KPMG's webpage on Revenue
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 ASU 2018-03 ASU 2018-04 KPMG's webpage 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 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 Webcast Podcast
Intra-entity transfers of assets other than inventory	Annual periods in fiscal years beginning after 12/15/2018, and interim periods in fiscal years beginning after 12/15/2019	ASU 2016-16 Defining Issues Podcast
Statement of cash flows: Restricted cash	Annual periods in fiscal years beginning after 12/15/2018, and interim periods in fiscal years beginning after 12/15/2019	ASU 2016-18 Defining Issues Webcast Podcast

Topic	Effective date for private companies	For more information
Clarifying the definition of a business	Annual periods in fiscal years beginning after 12/15/2018, and interim periods in fiscal years beginning after 12/15/2019	ASU 2017-01 Defining Issues Webcast
Clarifying the scope of asset derecognition guidance and accounting for partial sales of nonfinancial assets	Annual periods in fiscal years beginning after 12/15/2018, and interim periods in fiscal years beginning after 12/15/2019	ASU 2017-05 Defining Issues Podcast
Employee benefit plan master trust reporting	Annual periods in fiscal years beginning after 12/15/2018	ASU 2017-06 Web article
Improving the presentation of net periodic pension cost and net periodic postretirement benefit cost	Annual periods in fiscal years beginning after 12/15/2018, and interim periods in fiscal years beginning after 12/15/2019	ASU 2017-07 Defining Issues Podcast
Identifying the customer in a service concession arrangement	Annual periods in fiscal years beginning after 12/15/2018, and interim periods in fiscal years beginning after 12/15/2019	ASU 2017-10 Web article Podcast
Clarifying the scope and the accounting guidance for contributions received and contributions made	**Contributions received:** Annual periods in fiscal years beginning after 12/15/2018, and interim periods in fiscal years beginning after 12/15/2019**†** **Contributions made:** Annual periods in fiscal years beginning after 12/15/2019, and interim periods in fiscal years beginning after 12/15/2020**‡**	ASU 2018-08 Defining Issues
Disclosure framework—Changes to the disclosure requirements for fair value measurement	Annual and interim periods in fiscal years beginning after 12/15/2019	ASU 2018-13 Defining Issues
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 ASU 2018-01 ASU 2018-10 ASU 2018-11 KPMG's webpage on Leases

Topic	Effective date for private companies	For more information
Premium amortization for purchased callable debt securities	Annual periods in fiscal years beginning after 12/15/2019, and interim periods in fiscal years beginning after 12/15/2020	ASU 2017-08 Defining Issues Podcast
(Part I) Accounting for certain financial instruments with down round features, (Part II) Replacement of the indefinite deferral for mandatorily redeemable financial instruments of certain nonpublic entities and certain mandatorily redeemable noncontrolling interests with a scope exception	Annual periods in fiscal years beginning after 12/15/2019, and interim periods in fiscal years beginning after 12/15/2020	ASU 2017-11 Defining Issues
Targeted improvements to accounting for hedging activities	Annual periods in fiscal years beginning after 12/15/2019, and interim periods in fiscal years beginning after 12/15/2020	ASU 2017-12 Defining Issues
Improvements to nonemployee share-based payment accounting	Annual periods in fiscal years beginning after 12/15/2019, and interim periods in fiscal years beginning after 12/15/2020	ASU 2018-07 Defining Issues
Inclusion of the secured overnight financing rate (SOFR) overnight index swap (OIS) rate as a benchmark interest rate for hedge accounting purposes	**Entities that have not adopted ASU 2017-12:** Adopt concurrent with ASU 2017-12 – i.e. annual periods in fiscal years beginning after 12/15/2019, and interim periods in fiscal years beginning after 12/15/2020 **Entities that have adopted ASU 2017-12:** Effective for annual and interim periods in fiscal years beginning after 12/15/2019	ASU 2018-16 Web article
Measurement of credit losses on financial instruments	Annual and interim periods in fiscal years beginning after 12/15/2021	ASU 2016-13 ASU 2018-19 Defining Issues KPMG's webpage on Financial instruments

Topic	Effective date for private companies	For more information
Disclosure framework—Changes to the disclosure requirements for defined benefit plans	Annual periods in fiscal years **ending** after 12/15/2021	ASU 2018-14 Defining Issues
Customer's accounting for implementation costs incurred in a cloud computing arrangement that is a service contract	Annual periods in fiscal years beginning after 12/15/2020, and interim periods in fiscal years beginning after 12/15/2021	ASU 2018-15 Defining Issues
Targeted improvements to related party guidance for variable interest entities	Annual periods in fiscal years beginning after 12/15/2020 and interim periods in fiscal years beginning after 12/15/2021**§**	ASU 2018-17 Defining Issues Webcast
Simplifying the test for goodwill impairment	Annual and interim periods in fiscal years beginning after 12/15/2021	ASU 2017-04 Defining Issues Podcast
Targeted improvements to the accounting for long-duration contracts	Annual periods in fiscal years beginning after 12/15/2021, and interim periods in fiscal years beginning after 12/15/2022	ASU 2018-12 Defining Issues

* The 'public company' effective date requirements also apply to (1) not-for-profit entities that have issued, or are conduit bond obligors for, securities that are traded, listed or quoted on an exchange or an over-the-counter market; and (2) employee benefit plans that file or furnish financial statements with the SEC. See Accounting standards affecting public companies in 2018 and 2019 and beyond for the revenue recognition and leases standards, respectively.

† The 'public company' effective date requirements also apply to not-for-profit entities that have issued, or are conduit bond obligors for, securities that are traded, listed or quoted on an exchange or an over-the-counter market and serve as a resource *recipient*. See Accounting standards affecting public companies in 2018.

‡ The 'public company' effective date requirements also apply to not-for-profit entities that have issued, or are conduit bond obligors for, securities that are traded, listed or quoted on an exchange or an over-the-counter market and serve as a resource *provider*. See Accounting standards affecting public companies in 2018.

§ The 'public company' effective date requirements for ASU 2018-17 apply to all entities other than private companies. See Accounting standards affecting public companies in 2019 and beyond.

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