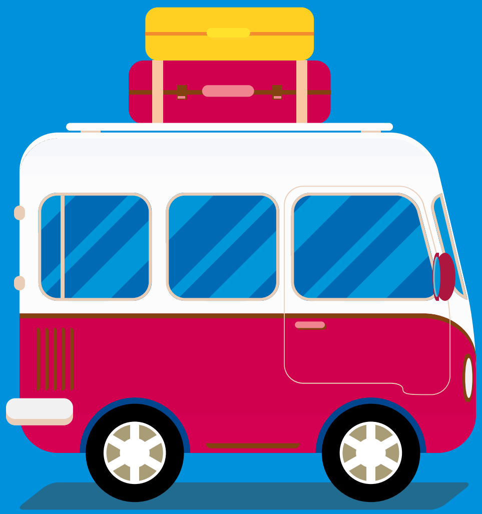
Quarterly Outlook

June 2018



US GAAP

kpmg.com/us/frv

Quarterly Outlook

June 2018

Calendar year-end public companies have already cleared the hurdle of adopting the revenue recognition standard and the financial instruments recognition and measurement standard. However, the expanded revenue disclosures required throughout the year of adoption mean continued obstacles lie ahead. The US tax reform enacted in 2017 also continues to significantly affect companies' accounting for and reporting of income taxes and their related processes and controls.

With the effective date of the leases standard quickly approaching, the FASB is working to finalize technical corrections and amendments so companies can focus on implementing the final standards.

Meanwhile, the FASB's work on other standard-setting projects to simplify and clarify current accounting guidance continues.

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

Contents

1 Current quarter financial reporting matters

US tax reform highlights

H.R. 1, originally known as the Tax Cuts and Jobs Act (the Tax Act), was enacted on December 22, 2017, and is significantly affecting companies' accounting for and reporting of income taxes and their related processes and controls.

Although most of the law's provisions were effective January 1, 2018, companies are still refining their estimates of how the law affects their annual effective tax rates. This process includes evaluating whether expenses that were historically deductible before January 1 remain deductible, applying the new rate provisions of the law, determining the effects of the new interest expense limitations and forecasting whether they will be subject to new taxes on foreign earnings and payments.

Many companies are also assessing the tax effects from adopting the revenue recognition standard and its interaction with new tax law Section 451. Section 451 generally requires accrual method taxpayers to conform their taxable income recognition policies to their financial reporting revenue recognition policies, which may significantly affect how companies identify current and deferred tax amounts.

Also, the Treasury department continues to issue tax technical guidance, the financial statement effects of which companies are evaluating. Further, as companies obtain, prepare or analyze additional information about facts and circumstances that existed at the enactment date, they continue to adjust balances that were recorded provisionally as of December 31, 2017 under SAB 118. Companies are reminded to update their disclosures about provisional balances as required under the SAB.

Financial reporting implications of tax reform legislation

SEC registrants planning to adjust non-GAAP financial measures and/or present pro forma financial information for the effects of the Tax Act should consider these guidelines.

— **Non-GAAP Financial Measures.** While certain adjustments to GAAP financial measures may be permitted, depending on a registrant's facts and circumstances, adjustments need to be balanced (i.e. include revenue and expense impacts) and consider not only the change in the corporate tax rate but also other impacts (e.g. the deemed repatriation transition tax). Adjustments that 'normalize' the tax – i.e. adjustments that apply the new tax rate to periods before enactment may not be appropriate because they may not reflect actual performance due to different tax strategies and changes in judgments or tax assertions that might have been employed had the new rate been in effect.

- **Pro Forma Financial Information.** A registrant that elects to reflect the impact of the Tax Act in pro forma financial information as a material event under Rule 11-01(a)(8) of Regulation S-X is encouraged to discuss its specific facts and circumstances with the SEC staff on a pre-filing basis to determine the appropriateness of those pro forma adjustments.

Resources: KPMG's Q&A, Tax reform – Supplement to KPMG's Handbook, Income Taxes; FASB Staff Q&As; ASU 2018-02; SAB 118; Center for Audit Quality (CAQ) SEC Regulations Committee March 2018 meeting highlights

Observations on the effects of adopting the revenue recognition standard

First quarter 2018 transition disclosures about the adoption of the revenue recognition standard have been informative about trends in adoption methods and other disclosure matters.

Adoption method insights

Company filings show that the majority of adopters are transitioning using the cumulative-effect method. A company adopting the standard using the cumulative-effect method does not revise its historical financial statements. However, to inform investors about the effects of adoption, the cumulative-effect adopter will, in effect, need maintain dual-reporting to comply with the transition disclosure requirements in the year of adoption. Those companies will need to implement new (or redesign existing) processes and controls to track two accounting methods during the year of adoption to disclose:

- the amount by which applying ASC 606 affects each financial statement line item in the current period; and
- the amount and reason for the significant changes between the reported results under ASC 606 and those that would have been reported under legacy US GAAP (ASC 605, *Revenue Recognition*).

Resources: KPMG's webpage on Revenue, KPMG's executive view, Early thinking in adopting ASC 606

Management's discussion and analysis (MD&A) disclosures

In addition to the required transition disclosures, many companies are providing additional information in MD&A about the effect of the adoption on prior periods. This presentation is considered a supplemental presentation – not non-GAAP or pro forma financial information. A registrant is permitted to include comparable prior periods under ASC 606 to facilitate comparability of MD&A disclosures as long as it follows certain guidance in the supplemental presentation:

- the discussion is not more prominent than the historical MD&A discussion;
- the discussion is limited to only those items for which the registrant can determine the effects (e.g. a registrant should not present a supplemental measure of gross profit or operating income unless the affected costs can be appropriately adjusted);

- the income statement line items presented are limited to those that would have been affected – a registrant should not present a full income statement; and
- the registrant's discussion may address net income for the prior periods if the registrant is able to determine the effects on all affected income statement line items.

Alternatively, a registrant may present the 2018 results determined under legacy US GAAP similar to what is required by ASC 606 in the notes to the financial statements. This option would be permitted in 2018 only, the year of adoption, and the registrant would need to:

- provide disclosures comparable to those required in the notes to the financial statements under ASC 250, *Accounting Changes and Error Corrections;*
- display the ASC 606 results prominently; and
- limit the discussion about the ASC 605 amounts to comments that enhance an investor's understanding of comparability.

Regardless of whether the registrant chooses this option, it should disclose assumptions or practical expedients used.

Resources: CAQ SEC Regulations Committee March 2018 meeting highlights

Control changes with implementation

Companies that have materially changed their internal controls over financial reporting (ICFR) are required to disclose the changes in their interim and annual filings. Though not required, a number of companies have disclosed the effect of adoption on processes and controls even when management did not believe those changes were material.

When considering whether to disclose internal control changes, it may be helpful to think about the controls associated with adoption in two groups: 'one-time' controls put in place to adopt and transition to the new standard, and 'ongoing' controls needed to account for current and future transactions under ASC 606.

Resources: KPMG's webpage on Revenue, KPMG's executive view, Control changes with ASC 606 implementation

SEC staff comment letters on early adopters

SEC staff comment letters on the 2017 filings of some early adopters provide helpful insight into matters that are important to the SEC staff. The SEC staff asked most early adopters for additional or expanded disclosures in future filings about disaggregation of revenue and performance obligations.

Resources: KPMG's webpage on Revenue, KPMG's executive view, SEC comments on ASC 606 early adopters

SEC headlines

SEC addresses disclosures about cybersecurity

The SEC has issued interpretive guidance addressing public companies' disclosure obligations under existing law for cybersecurity risk and incidents. It stresses the importance of maintaining comprehensive policies, including disclosure controls and procedures, about cybersecurity risks and incidents. The guidance also reminds registrants about broader prohibitions against insider trading and making selective disclosures on cybersecurity risks or incidents. The guidance became effective February 26, 2018.

In April, the Center for Audit Quality (CAQ) released a tool that helps board members in their oversight of enterprise-wide cybersecurity risk management. The tool provides example questions for discussion with management and auditors about cybersecurity risks and disclosures. It also identifies resources on cybersecurity published by the CAQ, AICPA and others.

Resources: KPMG's Defining Issues, SEC issues guidance on cybersecurity disclosures; SEC interpretation; CAQ tool - cybersecurity risk management oversight

SEC staff and CAQ issue additional guidance about non-GAAP financial measures

In April, the staff of the SEC's Division of Corporation Finance issued two Compliance and Disclosure Interpretations (C&DIs) (101.02 and 101.03) that clarify when forecasted information provided to board members or other parties in connection with a business combination is excluded from the definition of non-GAAP financial measures.

In March, the CAQ issued guidance to assist audit committees in advancing oversight of a company's non-GAAP measures. The guidance addresses key matters to consider, including whether the non-GAAP measures present a fair and balanced view of the company's performance. A companion video includes interviews with audit committee chairs discussing real-life examples of how audit committees are thinking about their oversight role.

Resources: SEC C&DIs; CAQ guide - Non-GAAP Measures: A Roadmap for Audit Committees

CAQ issues a tool for audit committees on the leases standard

In April, the CAQ released a tool to help audit committees with implementing the new lease accounting standard. The tool includes an overview of the standard, questions for audit committee members to consider and a list of publications.

Resources: CAQ tool - Preparing for the Leases Accounting Standard

Disclosure and reporting requirements for new accounting standards

Rule 5-03(b) of Regulation S-X. Requires separate line items on the face of the income statement for certain accounts that may be inconsistent with the presentation and disclosure requirements in the FASB's new revenue and leases standards. The SEC staff encourages registrants to submit live fact patterns that show potential inconsistencies with those new standards.

Pro Forma Financial Information. The SEC staff updated section 3250 of the Financial Reporting Manual (FRM) to address how registrants should treat adoption of new accounting standards in pro forma financial information. If a registrant adopts a new accounting standard as of a date and/or under a transition method that is different from the date or transition method used by a significant acquired business, the registrant needs to conform the date and method of adoption of the acquired business to its own date and method in its pro forma financial information. The SEC staff will consider requests for relief from this requirement, and encourages registrants to discuss in their disclosures their specific facts and circumstances.

Emerging Growth Companies. The SEC staff amended FRM Section 10230 to provide guidance to an Emerging Growth Company (EGC) that selected the extended transition period provision[1] and lost its EGC status after the public company adoption date but before the private company date. Generally, if an EGC loses its status after it would have had to adopt a standard absent the extended transition, the issuer should adopt the standard in its next filing after losing its status. For example, if a calendar year EGC loses its status as of December 31, 2018, it would need to adopt the revenue recognition standard in its 2018 Form 10-K. However, depending on the facts and circumstances, the staff may not object to other alternatives, which the EGC should discuss with the SEC staff.

Resources: CAQ SEC Regulations Committee March 2018 meeting highlights

AICPA headlines

In March, the AICPA issued four Technical Questions and Answers (TQAs) on multiemployer plan payroll compliance services and one TQA on how a partnership should account for payments to the IRS for previous underpayments of taxes, interest and penalties. Additionally, the AICPA moved certain TQAs from section 6935, ‘Multiemployer plans’, to section 6933, ‘Auditing employee benefit plans’.

The AICPA also issued new ‘description criteria’ for use in conjunction with attestation standards AT-C section 105, *Concepts Common to All Attestation Engagements*, and AT-C section 205, *Examination Engagements*. The description criteria should be used in preparing and evaluating the description of a service organization’s internal control examination of a service organization’s controls over security, availability, processing integrity, confidentiality and privacy (SOC 2) examination described in AICPA Guide *SOC 2® Reporting on an Examination of Controls at a Service Organization Relevant to Security, Availability, Processing Integrity, Confidentiality, or Privacy*. DC Section 200A should be used for periods ending as of or before December 15, 2018 (the 2015 description criteria). DC Section 200 should be for used for periods ending as of or after December 16, 2018 (the 2018 description criteria). During the

[1] In March 2017, the Jumpstart Our Business Startups (JOBS) Act amended the Securities Act of 1933 and the Securities Exchange Act of 1934 to permit an Emerging Growth Company to comply with new or revised FASB accounting standards consistent with the private company adoption dates to provide EGCs with additional time to apply updates.

transition period, management should identify in the description whether the 2015 or 2018 description criteria were used.

The AICPA also issued an omnibus Statement on Standards for Accounting and Review Services. The SSARS:

- adds AR-C section 100, which addresses certain international reporting issues;
- amends AR-C sections 60 (general principles) and 90 (review engagements of financial statements); and
- makes conforming amendments to other AR-C sections.

The amendment to AR-C 90.39 is effective on issuance. AR-C section 100 and all remaining amendments are effective for compilations and reviews of financial statements for periods ending on or after June 15, 2019.

Resources: AICPA TQAs on multiemployer plans; AICPA TQA on partnerships; AICPA SOC 2 report description criteria; AICPA Omnibus Statement on Standards for Accounting and Review Services

2

New standards and guidance

Leases standard effective date draws near

The leases standard takes effect for public companies in 2019 and companies are beginning to identify more detailed implementation issues. Public companies have raised questions about the accounting for real estate sale-leaseback transactions that take place before they adopt the leases standard but after they adopt the new revenue standard, and about how to apply the optional short-term lease exemption. They also have questions about whether it is appropriate to use a recognition threshold below which they would not recognize lease assets and liabilities.

Real estate sale-leasebacks and interaction with the revenue recognition standard

In a sale-leaseback transaction, one company (the seller-lessee) transfers an asset to another company (the buyer-lessor), and subsequently leases that asset back from the buyer-lessor. Pivotal to determining the accounting for that transaction is whether a sale (for the seller-lessee) and purchase (for the buyer-lessor) has taken place.

Companies have raised questions about which guidance a seller-lessee should use when evaluating whether a transfer of real estate qualifies as a sale in a sale-leaseback after they adopt the revenue recognition standard, but before adopting the leases standard. These questions have arisen in part because the revenue recognition standard supersedes the real estate-specific revenue guidance in ASC 360-20. Additionally, after the effective date of the leases standard, sale-leaseback transactions will result in a sale/purchase of the transferred asset only if the sale requirements in the revenue recognition standard and two additional requirements specific to the sale-leaseback guidance in the new leases standard are met.

In response to those questions, we note that it is important to keep in mind certain facts.

— None of the ASUs related to adopting the revenue recognition standard amended the sale-leaseback guidance in ASC 840-40. Therefore, adopting the revenue recognition standard does not change a company’s sale-leaseback accounting unless it adopts the leases standard concurrently.

— ASC 360-20 is superseded for only those sale-leaseback transactions that take place after the effective date of the leases standard.

— There is no concept of a failed purchase for the buyer-lessor in a sale-leaseback transaction under ASC 840-40. A failed purchase can only occur once a company has adopted the leases standard.

Understanding the short-term lease exemption

A short-term lease under the leases standard has a 'lease term' of 12 months or less at the commencement date, and does not include a purchase option on the underlying asset that the lessee is reasonably certain to exercise.

Although short-term leases are in the scope of the leases standard, a *lessee* can elect, by class of underlying asset, not to apply the balance sheet recognition requirements of the standard – i.e. elect not to recognize a right-of-use (ROU) asset or lease liability for short term leases. Lease cost is recognized on a straight-line basis over the lease term. This is how operating leases are accounted for under current US GAAP. A lessee that elects this exemption must disclose in its annual financial statements:

- that it elected the exemption and to which classes of underlying assets the exemption applies;
- lease cost for leases subject to the exemption with a lease term longer than 30 days; and
- undiscounted short-term lease obligations if that amount is significantly different from its short-term lease cost for the most recent annual period.

Because electing the exemption keeps short-term leases subject to the company's election off the balance sheet, a company will have lower lease assets and lease liabilities and can generally avoid making certain judgments related to recognition and measurement (e.g. determining a discount rate).

However, a company may decide that electing the exemption is not in its best interest, likely for operational reasons. For example, because of the disclosures required for unrecognized short-term leases, specific processes and controls that are different from those used for the company's other leases may be needed to account for short-term leases. And if a company has invested in a new leasing IT system or is implementing new processes and controls for its operating leases, it may prefer to run all of its leases, including short-term leases, through the same system and processes, particularly if the balance sheet effect of electing or not electing the exemption is minor.

Using recognition thresholds under the leases standard

The FASB observed that in addition to accounting for some leases at a portfolio level, companies would likely be able to reduce their costs of applying the leases standard by adopting reasonable thresholds below which they would not recognize lease assets and lease liabilities. The FASB stated that a company may adopt a practice of using a recognition threshold under the leases standard consistent with its accounting policies to use thresholds in other areas of US GAAP – e.g. when determining whether to capitalize purchases of property, plant and equipment (PP&E).

Many companies have expressed a desire to establish a recognition threshold under which they would not recognize ROU assets or lease liabilities. Some of these companies have asked whether they would still need to include these leases in their required lease disclosures under the leases standard.

While applying a recognition threshold generally will be acceptable, setting it at an appropriate level may require substantial judgment, and it generally would *not be appropriate* for a company to:

- default to its PP&E capitalization threshold;

— evaluate the effect of the threshold based on the net effect on the balance sheet (ROU assets minus lease liabilities); or
— ignore the effect of the threshold on financial statement disclosures.

It may be helpful for companies to evaluate the lease liability first when establishing the recognition threshold. We expect that it would be relatively rare for a company to conclude that its capitalization threshold for ROU assets is less than its recognition threshold for lease liabilities. Further, companies that are considering a recognition threshold should consider how using that threshold would affect their lease disclosures.

Resources: KPMG's Handbook: Leases; webpage on Leases

Implementing the credit impairment standard

The FASB's credit impairment standard is effective in 2020 for public companies with calendar year-ends. Companies should be analyzing the implications of adopting this standard, and considering the adequacy of their disclosures about the expected effects of implementation. Even if a company has not quantified the effects of a new standard, the SEC staff still expects companies to qualitatively describe the expected effects, including how the new policies will compare with current policies.

The FASB's overhaul of credit impairment accounting will significantly affect financial institutions and other companies that originate or invest in financial assets such as loans, receivables and debt securities measured at amortized cost. The new current expected credit loss (CECL) model requires companies to recognize an estimate of credit losses expected to occur over the remaining life of the financial assets, including estimating future economic conditions and the effect those conditions have on expected credit losses.

Although the standard is not effective until 2020, those companies that are most affected by its requirements should be making significant progress toward adoption. The nature and extent of preparations will vary, but companies will need to thoroughly evaluate the effect of the standard and determine what changes to their loss estimation processes will be necessary. Companies may need to collect more data, and significantly change their systems, processes and internal controls to comply with the standard.

The FASB's Transition Resource Group for Credit Losses met on June 11. Based on the discussions at the meeting, the Board is expected to undertake standard setting on certain issues, including:

— **accrued interest** – The TRG members generally agreed that the accounting for accrued interest deemed uncollectible will depend on whether the company applies a nonaccrual policy. A company that applies a nonaccrual policy would recognize the charge for the reversal of accrued interest in interest income. A company that does not apply a nonaccrual policy would treat a reversal of accrued interest as a write-off.

— **recognizing recoveries** – The TRG members generally agreed that a company may include in the estimate of the allowance for credit losses expected recoveries of financial assets that it has previously written off. The TRG members also discussed whether estimating these recoveries should be an option or a requirement; the FASB staff indicated it will consider that issue.

The TRG also discussed:

— capitalized interest;
— transfers of loans from held-for-sale to held-for-investment classification;
— transfers of credit impaired debt securities from available-for-sale to held-to-maturity classification; and
— expected refinancings.

Resources: KPMG's Defining Issues, FASB Transition Resource Group discusses potential changes to the credit losses standard; KPMG's Handbook, Credit impairment; ASU 2016-13

Changes to hedge accounting

In August 2017, the FASB issued a standard that allows companies to better align their hedge accounting and risk management activities, and potentially reduce the cost and complexity of applying hedge accounting. The standard requires companies to change how they recognize and present the effects of hedge accounting by:

— eliminating the requirement to separately measure and report hedge ineffectiveness; and
— requiring companies to present all of the elements of hedge accounting that affect earnings in the same income statement line as the effects of the hedged item.

The standard also permits hedge accounting for certain strategies that are not currently permitted, and includes new alternatives for measuring the hedged item for fair value hedges of interest rate risk. The standard eases the requirements for effectiveness testing, hedge documentation and applying the critical terms match method. It introduces new alternatives permitting companies to reduce the risk of material error corrections if they misapply the shortcut method.

Companies may early adopt the hedge accounting standard, including during an interim period. If adopted at other than the beginning of a fiscal year, the cumulative effect adjustments are reflected as of the beginning of the fiscal year.

In March, the FASB discussed the status of, and issues arising from, implementation activities. The Board agreed to add two projects to its agenda.

— A narrow project about the 'last-of-layer method' – specifically about how to account for basis adjustments and multiple-layer hedging strategies. The last of layer method permits a company to designate a fixed amount of a closed portfolio of prepayable financial assets as the hedged item in a fair value hedge of interest rate risk if the company expects the designated amount to remain outstanding at the end of the hedge term.

— A Codification improvement project to clarify a company's ability to change the hedged risk and/or the hedged forecasted transaction during the term of the hedge relationship.

Resources: Issues In-Depth, Hedging – Targeted Improvements; ASU 2017-12

3 Projects and agenda priorities

Emerging Issues Task Force (EITF) activities

On June 7, the EITF reached a final consensus that a customer in a cloud computing arrangement (CCA) (i.e. a hosting arrangement that does not grant the customer a license to the hosted software) should defer implementation costs that it incurs if the customer would capitalize those same costs under the internal-use software guidance for an arrangement that is a software license. The EITF expects to issue a final ASU early in the third quarter.

At its June meeting, the EITF also discussed two new issues:

— **Recognition in a business combination of an assumed liability in a revenue contract.** The EITF reached a consensus-for-exposure 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 new revenue recognition standard. The proposed guidance would require the acquirer to measure the liability at fair value, which would exclude the costs for a market participant to purchase the asset(s) (e.g. intellectual property) used to satisfy the obligation if the asset(s) were acquired in the transaction.

— **Cost capitalization for episodic television series.** This narrow-scope project is addressing the cost capitalization guidance for episodic television series in ASC 926-20, *Entertainment—Films—Other Assets—Film Costs*. The EITF discussed input from the FASB's industry working group about the accounting for production costs, including the requirements for capitalization, amortization and impairment. The EITF expressed a preference to align the guidance for episodic television content with the guidance for films by removing current restrictions on the capitalization of production costs for episodic television content. The EITF asked the FASB staff and working group to perform additional research and provide further input related to the amortization and impairment of those costs.

The EITF's next meeting is September 27.

Resources: KPMG's Defining Issues, EITF reaches a final consensus on implementation costs for cloud computing and a consensus-for-exposure; Proposed ASU

FASB proposals on accounting for insurance contracts

In June 2018, the FASB redeliberated the proposed ASU on long-duration insurance contracts that was exposed in September 2016. The Board revised the modified retrospective transition approach so that insurance entities will not reset the discount rate as of the transition date to calculate net premiums and interest accretion for traditional and limited-payment insurance contracts.

The new ASU will be effective for:

- Public companies – For fiscal years, and interim periods within those fiscal years, beginning after December 15, 2020.
- All other entities – For fiscal years beginning after December 15, 2021, and interim periods within fiscal years beginning after December 15, 2022.

Early adoption is permitted for all entities. The transition date will be the beginning of the earliest period presented.

The new guidance will apply to only insurance entities that are within the scope of US GAAP related to insurance contracts, ASC 944. Holders of insurance contracts and contracts issued by non-insurance entities are outside the scope of the ASU. The FASB expects to issue a final ASU in August 2018.

Resources: KPMG's Defining Issues summarizing the October 2017, November 2017 and June 2018 meetings; Proposed ASU

Conceptual framework

In May, the FASB discussed a staff draft of FASB Concepts Statement No. 8, *Conceptual Framework for Financial Reporting – Chapter 8, Notes to Financial Statements*. The FASB expressed support for the staff draft and a final Concepts Statement is forthcoming.

Revenue recognition of grants and contracts by not-for-profit entities

In August 2017, the FASB issued a proposed ASU on ASC 958, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*, that would (1) assist entities in evaluating whether grants and similar agreements should be accounted for as contributions or exchange transactions and (2) distinguish between conditional and unconditional contributions. The FASB has completed its redeliberations and expects to issue a final ASU by June 30.

Resources: KPMG's Defining Issues, FASB proposes to clarify how not-for-profits and others account for grants and similar transactions; Proposed ASU

Targeted improvements to related party guidance for variable interest entities (VIEs)

Private companies

In June 2017, the FASB proposed a new accounting alternative that will exempt private companies from applying the VIE consolidation guidance to interests in other private companies that are under common control.

To qualify for the exemption, the reporting entity, the common control parent and the legal entity being evaluated for consolidation cannot be public business entities.

The accounting alternative will be an accounting policy election and will require enhanced disclosures. The FASB decided to clarify and provide illustrative guidance on how control is established for purposes of applying the private company accounting alternative. The amendments will be effective for private companies for fiscal years beginning after December 15, 2020. Early adoption will be permitted.

All companies

The FASB proposals also will require indirect interests held through related parties in common control arrangements to be considered on a proportional basis when determining whether fees paid to decision makers and service providers are variable interests (decision-making fee guidance). The amendments will be effective for public companies for annual and interim periods in fiscal years beginning after December 15, 2019, and will be applied retrospectively with a cumulative-effect adjustment to retained earnings at the beginning of the earliest period presented. For all other entities, the amendments will be effective for fiscal years beginning after December 15, 2020. Early adoption will be permitted.

The FASB decided not to amend the VIE related party guidance for determining the primary beneficiary of a VIE. Instead, the Board added a project to its research agenda to determine whether amendments to the VIE-related party guidance may be required after the effective dates of the private company accounting alternative and the amendments to the decision-making fee guidance.

The FASB has completed its redeliberations and expects to issue a final ASU in the third quarter.

FASB proposes targeted improvements to the accounting for collaborative arrangements

In April, the FASB proposed changes to ASC 808 to clarify when transactions between collaborative participants are in the scope of ASC 606 and should be presented as revenue.

The proposal would clarify that:

— transactions with a collaborative partner would be accounted for under ASC 606 when the partner is considered a customer (i.e. the company is transferring distinct goods or services that are outputs of its ordinary activities); and

— transactions with a counterparty in a collaborative arrangement who is not considered a customer would not be presented as revenue unless those transactions directly relate to third-party sales.

The FASB decided not to propose a recognition and measurement model for all transactions in collaborative arrangements.

The comment period ended June 11.

Resources: KPMG's Defining Issues, FASB proposes targeted improvements to the accounting for collaborative arrangements; Proposed ASU

PCC activities

The Private Company Council (PCC) met in April and generally expressed support for the FASB's projects on targeted improvements to related party guidance for variable interest entities, accounting for implementation costs for certain cloud computing arrangements, and targeted improvements to the accounting for collaborative arrangements.

Regarding the FASB project on potential private company accounting alternatives for recognition and measurement of equity-classified share-based payment awards, the PCC requested the FASB staff to conduct outreach about whether the current accounting for equity-classified awards provides users of private company financial statements with relevant information.

The PCC also discussed two of the private company-specific revenue recognition issues outlined in a comment letter submitted by the AICPA Technical Issues Committee (TIC) and Center for Plain English Accounting (CPEA). It discussed the operational challenges that may result when recognizing revenue over time under the new standard for some short-cycle manufacturing contracts. The PCC also discussed the complexity involved in estimating out-of-pocket costs for some arrangements when the out-of-pocket costs are reimbursable by the customer. The PCC requested that the FASB staff conduct outreach about applying the new revenue guidance to out-of-pocket costs.

The next PCC meeting will be held on June 26.

Resources: PCC Meeting recap

4

Recommended reading and CPE opportunities

Tax reform's impact on trade and customs

In a bylined article for BNA *Tax Management International Journal*, KPMG's Luis Abad, Kimberly Majure and Brian Cody highlight how a few key corporate tax changes may strategically influence supply chain decisions, and, in turn, may potentially affect trade compliance issues and customs duty costs. Read the article.

Uncle Sam's tax gift basket

Jeff LeSage, Americas Vice Chairman – Tax at KPMG, is quoted in *Directors & Boards* discussing the swiftness with which the Tax act was enacted and the likely need for some provisions to be corrected as a result. "Directors should expect clear explanations of their exposures and liabilities and how they are being reported and addressed," LeSage advises. "They should be comfortable with their organizations' efforts to come to a reasonable interpretation of the law." Read the article.

The new lease accounting standard: Don't delay compliance

In a bylined article for *New Jersey CPA*, KPMG's Kevin Bogle advises that although the 2019 implementation deadline for FASB's new lease accounting standard seems a long way off, companies must begin preparing now. "Compiling a complete inventory of a company's lease agreements and key terms is a critical first step," Bogle said. 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

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	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
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

Appendix – Accounting standards effective dates

Topic	Effective date for public companies	For more information
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 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 – presentation of restricted cash	Annual and interim periods in fiscal years beginning after 12/15/2017	ASU 2016-18 Defining Issues 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
Income Taxes (ASC 740): Amendments to SEC Paragraphs Pursuant to SEC Staff Accounting Bulletin No. 118	Effective upon issuance (March 2018).	ASU 2018-05
Codification Improvements to ASC 942, Financial Services—Depository and Lending	Effective upon issuance (May 2018).	ASU 2018-06

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	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 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
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
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 Defining Issues KPMG's webpage on Financial instruments
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

Topic	Effective date for public companies	For more information
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

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 (December 2016)	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

Topic	Effective date for private companies	For more information
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
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
Income Taxes (ASC 740): Amendments to SEC Paragraphs Pursuant to SEC Staff Accounting Bulletin No. 118	Effective upon issuance (March 2018).	ASU 2018-05
Codification Improvements to ASC 942, Financial Services—Depository and Lending	Effective upon issuance (May 2018).	ASU 2018-06

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
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
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 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 – presentation of 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 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
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
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 KPMG's webpage on Leases
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

Topic	Effective date for private companies	For more information
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
Measurement of credit losses on financial instruments	Annual periods in fiscal years beginning after 12/15/2020, and interim periods in fiscal years beginning after 12/15/2021	ASU 2016-13 Defining Issues KPMG's webpage on Financial instruments
Simplifying the test for goodwill impairment	Annual and interim periods in fiscal years beginning after 12/15/2021	ASU 2017-04 Defining Issues Podcast

KPMG Financial Reporting View

Insights for financial reporting professionals

As you evaluate the implications of new financial reporting standards on your company, KPMG Financial Reporting View is ready to inform your decision-making.

Visit kpmg.com/us/frv for accounting and financial reporting news and analysis of significant decisions, proposals, and final standards and regulations.

US news & views | CPE | Reference library | Newsletter sign-up

FRV focuses on major new standards (including revenue recognition, leases and financial instruments) – and also covers existing US GAAP, IFRS, SEC matters, broad transactions and more.

kpmg.com/us/frv
Insights for financial reporting professionals

Acknowledgments

This Quarterly Outlook is a publication of the Department of Professional Practice of KPMG LLP in the United States.

Shoshana Feldman
Associate Director

Angie Storm
Partner

kpmg.com/socialmedia