Quarterly Outlook

March 2020

The COVID-19 pandemic is causing major disruption to business operations and worldwide markets as the virus spreads. In response to these events, the SEC has taken certain accommodating measures, which includes extending filing deadlines for companies operating or located in regions affected by the coronavirus.

The SEC staff is monitoring the sufficiency of disclosures – including risk factor disclosures in MD&A, Form 10-K and Form 10-Q – not just for the coronavirus, but for other events such as Brexit and reference rate reform.

Also this quarter, many calendar year-end public companies that are concluding their Year 1 financial reporting under the new leases standard are moving directly from that challenge into the adoption of the credit losses standard beginning on January 1, 2020.

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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Current quarter financial reporting matters

**Coronavirus – The impact on accounting and financial reporting**

The COVID-19 pandemic is causing major disruption to business operations and worldwide markets as the virus spreads.

Recognizing that the situation is evolving daily, we encourage companies to refer to SEC.gov and KPMG’s coronavirus web page in Financial Reporting View for real-time notices and guidance about how the coronavirus might affect your company’s accounting and financial reporting in the current and future quarters.

**Regulatory relief**

On March 4, the SEC issued an order extending filing deadlines for companies operating or located in regions affected by the coronavirus.

— The relief applies to filing deadlines between March 1 and April 30.
— Companies relying on the relief are required to furnish Form 8-K (or 6-K) by the later of March 16 or the original reporting deadline, and disclose certain required information.
— Filing deadlines for any report, schedule or form are extended 45 days from the original due date.
— Companies are exempt from the delivery requirements for proxy and information statements to security holders when the holders have mailing addresses in an area where the common carrier has suspended delivery due to the coronavirus, and the company makes a good faith effort to furnish the soliciting materials to the security holders.

The SEC’s Division of Investment Management separately issued a statement extending the no-action position if fund boards did not adhere to certain in-person voting requirements in the event of unforeseen or emergency circumstances affecting some or all of the fund’s directors.

The SEC will continue to consider whether additional relief is necessary as developments unfold.

**Accounting and financial reporting considerations**

On February 19, the SEC issued a public statement, jointly with the PCAOB, on financial reporting considerations and the potential availability of regulatory relief for the effects of the outbreak.

The February statement reiterated key messages from a January 30 public statement, in which SEC Chairman Jay Clayton stated that:
Current quarter financial reporting matters

— the SEC staff will monitor and, as necessary or appropriate, provide guidance and other assistance to issuers for disclosures on current and potential effects of the coronavirus;
— the effects of the coronavirus may be difficult to assess at this time; and
— how an issuer plans for an uncertainty and how it responds to current events can be material to an investment decision.

Also the February statement emphasized:
— the need to consider potential disclosure of subsequent events under ASC 855 (subsequent events); and
— the SEC’s general policy of granting appropriate relief from filing deadlines in situations in which issuers experience circumstances beyond their control.

Affected companies should assess the global and economic effects of the coronavirus on their required reporting and internal controls over financial reporting. This includes periodic disclosures, accounting conclusions and their ability to access financial data needed for consolidated financial information.

As the coronavirus continues to spread, affected companies should consider whether changes in circumstances may require additional or revised disclosure in current and future filings. Companies also are encouraged to maintain close communications with their board of directors, external auditors, legal counsel and other service providers as the circumstances change.

Companies seeking guidance about financial reporting or filing matters resulting from the coronavirus should contact the SEC staff directly to discuss their facts and circumstances.

KPMG Resources: KPMG’s web page dedicated to the financial reporting impacts of the coronavirus

Reference rate reform

Reference rate reform is expected to result in the discontinuance of LIBOR and other interest rate indexes around the end of 2021. The transition away from those rates could have a significant effect on a large number of bonds, loans, derivatives and other contracts with payments based on those rates.

At the 2019 AICPA Conference on Current SEC and PCAOB Developments, SEC Chairman Jay Clayton cautioned preparers not to underestimate the consequences and complexity of reference rate reform. He also emphasized the importance of early consultation with the SEC staff for successful transition. Separately, the SEC staff advised companies to continue to focus on appropriate disclosures about the effects of the reform.

The FASB and IASB have provided companies with optional accounting alternatives to assist with the transition.
FASB and IASB developments

FASB

The FASB issued ASU 2020-04, which provides companies with optional financial reporting alternatives to reduce the cost and complexity associated with the accounting for contracts and hedging relationships affected by reference rate reform. The guidance applies to contracts that:

— reference LIBOR or another rate that is expected to be discontinued as a result of rate reform; and

— have modified terms that affect, or have the potential to affect, the amount and timing of contractual cash flows resulting from the discontinuance of the reference rate.

The ASU allows companies to:

— account for a modified contract as a continuation of an existing contract without performing detailed analysis;

— continue hedge accounting for certain hedging relationships when critical terms change because of reference rate reform;

— perform some effectiveness assessments in ways that disregard potential sources of ineffectiveness; and

— make a one-time transfer of certain debt securities classified as held-to-maturity to available-for-sale or trading. The debt securities must have been classified as held-to-maturity before January 1, 2020.

The accommodations are effective for all entities as of March 12, 2020 through December 31, 2022. They may be applied from the beginning of the interim period that includes the issuance date of the ASU.

IASB


Separately, the IASB has concluded its discussions for Phase 2 of its rate reform project, which focuses on financial reporting after the new rates are in effect.

The IASB is planning to publish its proposed amendments in April, followed by a 45-day comment period.

KPMG resources: KPMG’s Defining Issues: FASB provides relief to companies for reference rate reform

Brexit disclosures

On January 31, 2020, the United Kingdom (UK) formally separated from the European Union (EU). Immediately following ‘Brexit day’, an 11-month transition period began during which the UK and EU must agree to the terms of their future relationship. Until the transition period ends on December 31, 2020, the UK will continue to follow all of the EU’s rules and its trading relationships will remain the same.
The SEC staff is closely monitoring how registrants (primarily those with operations in the UK or EU, or with operations that link to the UK) disclose the effect that Brexit has had, and may potentially have, on their business operations.

In addition to risk factor disclosures in Form 10-K or 10-Q, a registrant should consider whether Brexit-related economic uncertainties and market volatility will significantly affect its accounting judgments and estimates.

Registrants should closely monitor Brexit-related developments for changes that may require them to revise risk factors in their 2020 quarterly reports.

**Other SEC headlines**

**SEC amends accelerated and large accelerated filer definitions**
The SEC has issued a final rule that amends the ‘accelerated filer’ and ‘large accelerated filer’ definitions to exclude ‘smaller reporting company’ issuers with less than $100 million in annual revenue. The amendments relieve these issuers from the internal control over financial reporting auditor attestation requirements.

The final rule is effective 30 days after publication in the Federal Register and will apply to annual filings due on or after the effective date.

**KPMG resources:** KPMG’s web article

**SEC amends required disclosures for certain registered debt instruments**
The SEC has issued a final rule that amend Rules 3-10 and 3-16 of Regulation S-X and add new Article 13. The rules aim to improve the financial disclosure requirements for guarantors and issuers of guaranteed securities and affiliates whose securities collateralize issuers’ securities.

The final rule is effective on January 4, 2021. Companies may voluntarily comply with the rule before the effective date.

**KPMG resources:** KPMG’s web article: SEC rule affects financial disclosures of certain registered debt instruments

**SEC proposes further amendments to Regulation S-K**
The SEC has issued a proposal to further amend Regulation S-K, including amendments to management’s discussion and analysis (MD&A) and other financial disclosure requirements. The objective of the amendments is to eliminate repetition, enhance the quality of disclosures and simplify compliance efforts.

Among other things, the proposed amendments to MD&A would:

— add a new item to state the objectives of MD&A for fiscal years and interim periods;
— replace the requirement to discuss off-balance sheet arrangements under a separate caption with a principles-based instruction;
— eliminate tabular disclosure of contractual obligations;
— eliminate the requirement to discuss inflation and the effects of changing prices;
Current quarter financial reporting matters

— add critical accounting estimates as a new disclosure requirement;
— revise the interim disclosure requirement to allow registrants the flexibility to compare the current quarter with either the corresponding quarter in the prior year or the prior quarter; and
— clarify certain terms (in italics) used in current disclosure requirements, including:
  - material cash requirements;
  - known events reasonably likely to cause a material change in the relationship between costs and revenues; and
  - underlying reasons for material changes (i.e. increases and decreases) in net sales or revenues.

Certain conforming amendments also would apply to Forms 20-F and 40-F.

The comment period ends April 28.

**KPMG resources:** KPMG’s Hot Topic: SEC issues Regulation S-K proposal to streamline disclosures

**SEC issues guidance on MD&A**

The SEC has issued guidance highlighting disclosure considerations when discussing key performance indicators (KPIs) and metrics in MD&A. The guidance also reminds registrants to maintain effective disclosure controls and procedures when disclosing material KPIs or metrics in MD&A.

The SEC staff also issued three Compliance and Disclosure Interpretations (C&DIs) on preparing MD&A when a company has omitted a discussion of the earliest of the three years in a filing.

**KPMG resources:** KPMG’s web articles about the SEC’s new MD&A guidance and C&DIs

**SEC proposes extractive industry payment disclosures**

The SEC has issued a proposal that would clarify the required disclosure for payments to governments by extractive industry issuers required to file an annual report on Form 10-K, 20-F or 40-F. The proposed rules would also provide an extended filing timeline compared with previous rules governing disclosure of extractive industry payments.

The comment period ended March 16.

**KPMG resources:** KPMG’s Hot Topic: SEC proposes extractive industry payment disclosures

**SEC issues guidance on confidential treatment applications**

In December 2019, the SEC’s Division of Corporation Finance issued staff guidance addressing how and what a registrant should submit when filing an application objecting to public release of information otherwise required to be filed under the Securities Act and the Securities Exchange Act. This guidance replaces the guidance provided in Staff Legal Bulletins 1 and 1A.

**SEC issues guidance on IP and technology risks associated with international operations**

In December 2019, the SEC’s Division of Corporation Finance issued staff guidance on disclosure obligations that companies should consider about the
intellectual property (IP) and technology risks from engaging in international operations.

**Most public companies adopt CECL**

In Q1 2020, SEC filers that are not eligible to be smaller reporting companies are required to adopt the credit losses standard (ASC 326). Although much of the focus has been on financial institutions, commercial companies also are working on implementation issues, such as how to apply the standard to certain guarantees.

**Commercial company guarantees**

Many companies, including commercial companies, provide guarantees that create off-balance sheet credit exposure but are not accounted for as either derivatives or insurance. A guarantee is in the scope of ASC 326 if it has off-balance sheet credit exposure. Examples of these types of guarantees are a franchisor’s guarantee of a franchisee’s lease obligation and an investor’s guarantee of an investee’s debt obligation.

A guarantee in the scope of ASC 326 has two components (1) a *contingent* obligation to make future payments if specific conditions occur and (2) a *non-contingent* obligation to stand ready to perform. The contingent obligation is recognized separately and accounted for under ASC 326. The non-contingent component is accounted for under ASC 460 (guarantees).

The effect of adopting the credit losses standard is recognized through a cumulative-effect adjustment to retained earnings.

**KPMG resources:** KPMG’s web page on Financial instruments; Handbook: Credit impairment; and Hot Topic: CECL may affect commercial company guarantees

**Year 1 and other lease reporting reminders**

Although most public companies have issued their first set of annual financial statements under the new leases standard (ASC 842), companies with later filing deadlines and off-calendar year-ends have yet to do so. Private companies have until 2021 to implement the standard.

These presentation and disclosure reminders apply to all companies preparing financial statements after adopting ASC 842.

**Lessee discount rate disclosures.** If the effect of discounting is material to the lessee’s financial reporting, the lessee should provide information about how it determined the discount rates used in measuring its lease assets and liabilities. If the lessee is using a portfolio approach to determine discount rates, or if it has a significant number of leases for which the discount rate reflects the rate of the parent or group – rather than the legal entity (e.g. subsidiary) entering into the lease with the lessor – it should disclose that fact as well. Lessees should not merely repeat the definition of ‘incremental borrowing rate’ from ASC 842.
— **Changes in operating lease right-of-use (ROU) assets.** Based on our reading of recent SEC staff comment letters, we believe companies should not refer to the periodic change in the carrying amount of the ROU asset in an operating lease as ‘amortization’ – e.g. when reconciling lease expense to lease payments in the operating section of the statement of cash flows. An alternative description, such as ‘reduction in the carrying amount of the ROU asset’ may be more appropriate.

— **Practical expedient to not separate lease and non-lease components.** A lessee that elects the practical expedient to not separate lease and non-lease components must disclose (1) that it has elected the practical expedient and (2) the class(es) of underlying asset(s) to which the practical expedient applies.

— **Disclosing variable lease and short-term lease cost.**
  - ASC 842 requires *separate* disclosure of a lessee’s variable and short-term lease cost. It is not appropriate to disclose these costs as a single amount.
  - If a lessee has material variable short-term lease costs, it should disclose where those amounts are included in its quantitative lease cost disclosures – i.e. (1) with other short-term lease costs or (2) with other variable lease costs.
  - Lessees should ensure that the variable lease cost disclosure includes all amounts that meet the definition. Variable lease costs are not only those amounts that relate to performance or use of the underlying asset (e.g. percentage rent or per-usage fees), but also other variable lease payments not included in the measurement of the lease liability (e.g. incremental rent paid during the year due to a change in CPI and variable payments of property taxes and insurance).

— **Disclosing the nature of variable lease payments.** To the extent variable lease cost is material, and especially if variable lease cost is a significant portion of total lease cost, companies should provide meaningful disclosures about the nature of their variable lease payment arrangements.

— **Topic 840 comparative disclosures.** Companies that have elected the effective date transition method must carry forward all of the disclosures required under ASC 840 for comparative periods presented in their post-adoption financial statements. This includes the company’s final ASC 840 disclosures of future operating and capital lease commitments prepared as of the company’s last balance sheet before the adoption of ASC 842.

— **MD&A contractual obligations table.** The SEC staff does not expect the adoption of ASC 842 to change historical practice of the cash outflows for leases in the contractual obligations table being consistent with the amounts disclosed in the lease maturity analysis disclosure required under US GAAP. However, if the amounts required by ASC 842 do not adequately capture liquidity needs and expected future cash outflows, registrants should consider whether incremental footnote disclosures to the contractual obligations table are necessary.

**FASB updates SEC guidance in ASC 842**

ASU 2020-02 amends an SEC Codification paragraph in ASC 842 to clarify that a public business entity that meets the ‘public business entity’ definition only
because it is required to include its financial statements or financial information in another entity’s filing with the SEC may adopt the leases standard using the private company adoption dates amended by ASU 2019-10. That is, these companies may adopt the leases standard in annual periods beginning in 2021 and in interim periods beginning in 2022.

**ASU 2019-01 is effective for public companies**

ASU 2019-01 made targeted amendments to ASC 842 to (1) reinstate certain fair value guidance from ASC 840 for certain lessors, (2) revise how financial institution lessors should classify lessee payments in the statement of cash flows and (3) clarify interim transition disclosure requirements for ASC 842.

Public company lessors that did not early adopt ASU 2019-01 (i.e. at the same time that they adopted the leases standard) must adopt ASU 2019-01 in Q1 2020. Companies that adopt ASU 2019-01 after they adopt ASC 842 will retrospectively apply the amendments in ASU 2019-01 to:

- their ASC 842 adoption date (if the company used the effective date transition method for ASC 842 adoption); or

- the beginning of the earliest period presented in their post-ASC 842 adoption financial statements (if the company used the comparative transition method for ASC 842 adoption).

**KPMG resources:** KPMG’s web page on Leases; Hot Topic: Year 1 lease reporting reminders; Defining Issues: FASB issues ASU changing lessor accounting

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**Significant changes to customers’ accounting for implementation costs incurred in cloud computing arrangements**

ASU 2018-15 became effective for all calendar-year public companies on January 1, 2020. The ASU aligns the accounting for implementation costs incurred in a hosting arrangement that does not include a license to internal-use software (i.e. a cloud computing arrangement) with one that does include such a license.

It therefore requires companies to defer potentially significant implementation costs in a cloud computing arrangement that were often expensed as incurred under legacy US GAAP and recognize them as expense over the term of the hosting arrangement. The term of the hosting arrangement includes (1) the non-cancellable term of the arrangement plus (2) optional renewal periods that are either reasonably certain to be exercised by the customer or controlled by the cloud service provider.

The ASU applies either retrospectively (as if it had always been effective) or prospectively to all implementation costs for activities performed on or after the effective date, including costs for (1) new cloud computing arrangements entered into on or after the effective date and (2) existing arrangements entered into before the effective date.
KPMG resources: KPMG’s Hot Topic: Customers’ accounting for cloud computing arrangements after adopting ASU 2018-15 addresses some key application questions.

Auditor independence and other reminders for audit committees

At the 2019 AICPA Conference on Current SEC and PCAOB Developments, SEC Chairman Jay Clayton and others from the SEC emphasized that auditor independence is fundamental to the operation of an efficient market system and should be a top priority of audit committees, who are the gatekeepers to audit quality. The SEC has an ongoing project to consider updates to its independence rules and recently issued a proposal on the matter.

Further, the SEC and PCAOB have recently released a statement and document, respectively, to remind audit committees about their oversight role, including interactions with the auditor.

SEC proposes to modernize auditor independence requirements

The SEC proposed amendments that would modernize certain aspects of its auditor independence rules to more effectively focus the independence analysis on those relationships and services more likely to pose threats to an auditor’s objectivity and impartiality.

The comment period ended March 16.

SEC releases a public statement for audit committees

The SEC released a public statement reminding audit committees about their oversight role in the financial reporting system, including a focus on the ‘tone at the top’ and their responsibilities over auditor independence, implementing new GAAP standards, internal control over financial reporting and communications to the audit committee from the independent auditor. The release also addressed non-GAAP measures, reference rate reform and critical audit matters.

PCAOB releases Conversations with Audit Committee Chairs

The PCAOB released a summary of their conversations with audit committee chairs of almost all of the US issuers whose audits they inspected in 2019. The conversations focused broadly on audit quality, relationship and communications with the auditor, new auditing and accounting standards, and technology-driven changes. In response to requests from audit committee chairs, the summary also provides an overview of the PCAOB inspection process.

CAMs – Trends and observations

Critical audit matters (CAMs) are now being communicated in auditors’ reports on financial statements of large accelerated filers. Based on a KPMG analysis of CAMs as of March 4, almost 1,900 public filings include auditors’ reports that communicated CAMs. The most frequent categories of CAMs have been goodwill and intangibles, revenue, business combinations, and – for financial services companies – the allowance for loan and lease losses. For the majority
Current quarter financial reporting matters

of companies, the number of CAMs communicated in the auditors’ report has been either one or two, with the average number of CAMs for the approximately 1,900 reports being 1.6.

For audits conducted in accordance with PCAOB standards, the requirement to communicate CAMs is applicable to all other companies to which the CAM requirements apply\(^1\) for fiscal years ending on or after December 15, 2020.

**CAMs resources:**

**PCAOB staff guidance.** Critical Audit Matters: Spotlight, Insights for Investors and Audit Committees, and Implementation of Critical Audit Matters:

- The Basics
- Staff Observations from Review of Audit Methodologies
- A Deeper Dive on the Determination of CAMs
- A Deeper Dive on the Communication of CAMs

**CAQ publications.** Critical Audit Matters:

- Lessons Learned, Questions to Consider, and an Illustrative Example
- Key Concepts and FAQs for Audit Committees, Investors, and Other Users of Financial Statements

**Other 2020 financial reporting reminders**

In the first quarter of 2020, most calendar year-end public companies must adopt not only the credit losses and cloud computing standards but also several standards intended to simplify or clarify accounting requirements.

- **Simplifying the goodwill impairment test** (ASU 2017-04) eliminates the requirement to calculate the implied fair value of goodwill (i.e. Step 2 of today’s goodwill impairment test), and replaces the qualitative assessment for companies with reporting units that have zero or negative carrying amounts.

- **Changes to the fair value disclosure requirements** (ASU 2018-13) modifies, eliminates and adds disclosure requirements for fair value measurements. Nonpublic entities are exempt from certain requirements.

- **Related party guidance for VIEs** (ASU 2018-17) allows private companies to make an accounting policy election not to apply the variable interest entity (VIE) guidance to legal entities under common control if they meet certain criteria. 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.

- **Clarifying the interaction between ASC 808 and ASC 606** (ASU 2018-18) clarifies that certain transactions between collaborative partners should

\(^1\) The communication of CAMs is not required for audits of emerging growth companies; brokers and dealers; investment companies other than business development companies; and employee stock purchase, savings and similar plans.
be accounted for as revenue under ASC 606 when the collaborative partner is a customer. The ASU also specifies that a distinct good or service is the unit of account for evaluating whether a transaction is with a customer.

— **Improvements to the accounting for costs of films and license agreements for program materials (ASU 2019-02)** aligns the accounting requirements for (1) films and (2) episodic content produced for television series and streaming services in certain respects, and removes the restrictions on capitalization of production costs for episodic television content.

— **Share-based consideration payable to a customer (ASU 2019-08)** clarifies that companies must measure and classify share-based payment awards to a customer following the guidance in ASC 718 (stock compensation).

The Appendix – Accounting standards effective dates provides a complete list of accounting standards that companies need to adopt in 2020 and beyond.
FASB issues Codification improvements for financial instruments

ASU 2020-03 makes specific (mostly conforming) amendments to certain financial instruments guidance within US GAAP. The ASU also makes these clarifying amendments to ASC 326 (credit losses).

— **Issue 6: Interaction of ASC 842 (leases) and ASC 326.** The amendments clarify that the contractual term used to estimate the loss allowance for a net investment in a lease should be the 'lease term' as defined in ASC 842.

— **Issue 7: Interaction of ASC 326 and Subtopic ASC 860-20 (sales of financial assets).** The amendments clarify that when an entity regains control of financial assets sold, an allowance for credit losses should be recorded under ASC 326.

The amendments to ASC 326 are effective at the same time as ASU 2016-13. The remaining amendments are either effective on issuance (March 9, 2020) or at a prescribed later date. Refer to ASU 2020-03 for more information.

FASB clarifies the accounting for certain equity method investments

ASU 2020-01 clarifies the interactions between ASC 321 (equity securities), ASC 323 (equity method and joint ventures) and ASC 815 (derivatives and hedge accounting). The new guidance addresses accounting for the transition into and out of the equity method and measuring certain purchased options and forward contracts to acquire investments.

— **ASC 321 and 323:** If a company is applying the measurement alternative for an equity investment under ASC 321 and must transition to the equity method under ASC 323 because of an observable transaction, it will remeasure its investment immediately *before* transition.

If a company is applying the equity method under ASC 323 and must transition to ASC 321 because of an observable transaction, it will remeasure its investment immediately *after* transition.

— **ASC 321, 323 and 815:** If a company holds certain nonderivative forward contracts or purchased call options to acquire equity securities, it will generally measure those instruments using the fair value principles of ASC 321 before settlement or exercise. A company will not consider how it will account for the resulting investments on eventual settlement or exercise.
Effective dates | Public business entities | All other entities
---|---|---
Annual and interim periods in fiscal years beginning after... | December 15, 2020 | December 15, 2021
Early adoption permitted? | Yes. | |

**KPMG resources:** KPMG’s web article

### Income tax accounting developments

**FASB simplifies income tax accounting**

ASU 2019-12 introduces new guidance to simplify accounting for income taxes, changes the accounting for certain income tax transactions and makes minor improvements to the Codification.

The ASU introduces new guidance by providing:

- a policy election to not allocate consolidated income taxes when a member of a consolidated tax return is not subject to income tax; and
- guidance on how to evaluate whether a step-up in tax basis of goodwill relates to a business combination or separate transaction.

The ASU changes the current guidance on:

- making an intraperiod allocation, if there is a loss in continuing operations and gains outside of continuing operations;
- determining when a deferred tax liability is recognized after an investor in a foreign entity transitions to or from the equity method of accounting;
- accounting for tax law changes and year-to-date losses in interim periods; and
- determining how to apply the income tax guidance to franchise taxes partially based on income.

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**KPMG resources:** KPMG’s Defining Issues, Simplifications to accounting for income taxes

**AICPA Technical Q&A on deferred tax assets**

The AICPA issued a Technical Q&A (Section 3300.01-02), which addresses how a company should assess the realizability of its existing deferred tax assets related to disallowed interest deductions under section 163(j) of the Internal
Revenue Code when there are (1) existing deferred tax liabilities and (2) an expectation of future interest deductions that also will be limited under section 163(j).

**KPMG resources:** KPMG’s Handbook: *Accounting for income taxes* (Chapter 4)
Projects and agenda priorities

FASB supports private company practical expedient for measuring grant-date fair value of certain share-based awards

At a February meeting, the FASB endorsed the Private Company Council’s (PCC’s) decisions on Issue No. 2018-01 and decided to issue a proposed ASU that would allow a nonpublic company to use a valuation performed under the requirements of section 409A of the Internal Revenue Code to determine the current price of its underlying share in determining the grant-date fair value of an equity-classified share-based award.

Under the forthcoming proposal, a nonpublic company would:

— be permitted to apply the practical expedient to only equity-classified share-based awards issued to employees or nonemployees;
— apply the practical expedient on an award-by-award basis; and
— prospectively apply the practical expedient, with early adoption permitted.

The staff is drafting a proposed ASU, which is anticipated in Q2 2020.

Recent PCC meetings

In December 2019, the PCC met (1) in a PCC members only session and (2) jointly, with the Small Business Advisory Committee (SBAC). Issues that the advisory groups addressed include:

— **Leases (ASC 842) implementation.** The PCC and SBAC discussed leases implementation progress, experience with the standard, and costs and benefits. SBAC members shared their implementation issues related to determining the incremental borrowing rate and observations about identifying embedded leases, acknowledging that the same application questions existed under legacy US GAAP.

— **Identifiable intangible assets and accounting for goodwill.** The PCC and SBAC discussed feedback received from the 2019 Invitation to Comment and the November 2019 public roundtable. Members of both advisory groups discussed whether the goodwill alternative should be amended if the guidance for public business entities changes. Many members of the advisory groups preferred a simplified amortization approach for goodwill accounting, noting that information about goodwill impairment is useful only to certain financial statement users and is relevant for a limited time.

— **Simplifying the balance sheet classification of debt.** The FASB staff provided the PCC with an overview of the revised proposed ASU on the topic. Overall, PCC members expressed general support for the project, but
Projects and agenda priorities

reiterated their concerns about unused long-term financing arrangements and the potential increase in debt issuance cost.

— **Distinguishing liabilities from equity.** The PCC expressed overall support for the Board’s proposed ASU, but several members recommended that the Board consider setting an effective date for private companies two years after the effective date for public business entities.

The PCC plans to revisit certain of these issues and discuss others at its next meeting.
Recommended reading and CPE opportunities

Lease accounting: Key takeaways and next steps for private companies
In a byline article for *New Jersey CPA Magazine*, Ingo Zielhoff, a partner in KPMG’s accounting advisory services practice, and Amit Singh, a director in that practice, discuss the FASB’s decision to defer the effective date of ASC 842 for private companies by one year to 2021. Read the article.

Survival skills for tax season 2020
Bloomberg Tax’s *Daily Tax Report* featured an article by Christine Kachinsky, New Jersey tax practice leader for KPMG, outlining the steps that tax professionals can take as they aim for a successful 2020 tax compliance season. In the article, Kachinsky writes that as many companies look for efficiencies in response to challenges faced last year due to the complexities of the Tax Cuts and Jobs Act, practitioners should consider putting into practice three critical survival skills: strong teamwork and collaboration, disciplined project management and an innovative approach to tax compliance. Read the article.

Governance is key to smooth the adoption of automation
Government Computer News posted commentary by Kirke Everson, KPMG principal and head of intelligent automation in government, who advises that intelligent automation – whether it’s artificial intelligence or bots or something in between – carries some baggage. “There’s no way around it; employees will naturally have concerns and questions. Automation can’t -- and shouldn’t -- be slipped into an agency under the radar. The best approach is to have a clear strategy, communicate it openly and keep people informed all along the way.” Read the article.

Stronger health care organizations build with IT
In a byline article for the *Houston Chronicle*, Darron Gill, health care partner in KPMG’s advisory practice, advises that health care providers are increasingly looking at technology to play a more profound role in addressing their economic, risk, regulatory and patient care concerns. Gill offers several
Recommended reading and CPE opportunities

examples of the way today’s enhanced technologies can help health care organizations succeed. Read the article.

Upcoming CPE opportunities

KPMG Executive Education provides a 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 future accounting and financial reporting matters, and guidance for implementing new accounting standards.
5 Appendix – Accounting standards effective dates

In this table:
A = annual periods
I = interim periods
* = Indicates a gap in ASU sequencing. ASUs excluded from this list are effective for all applicable entities, including entities with off-calendar year-ends.
☐ = If ‘Complex effective date’ is marked ‘Yes’, additional information is required to determine when the ASU is effective for your company. Refer to the source ASU at FASB.org for complete effective date information. For certain ASUs, additional information is provided in the footnotes.
✓ = Certain not-for-profit entities and employee benefit plans must adopt this ASU using the public company effective dates. For more information, refer to the source ASU at FASB.org.

**Blue shading indicates that the ASU is first effective in 2020 for a calendar year-end entity.**

The ASUs in this table are generally effective for A/I periods in fiscal years beginning on or after the dates provided.
## Appendix – Accounting standards effective dates

### Public business entities

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<tr>
<th>ASU</th>
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1. ASU 2020-04 is effective for all entities as of March 12, 2020 through December 31, 2022.
2. The effective dates of ASU 2020-03 shown here apply to Issues 1, 2, 4 and 5. Issues 3, 6 and 7 have different effective dates. Refer to ASU 2020-03 for more information.
3. For companies that have adopted ASU 2016-13, this ASU is effective for annual and interim periods in fiscal years beginning after 12/15/2019.
4. The effective date of ASU 2019-08 for public business entities also applies to entities that have adopted ASU 2018-07.
### Appendix – Accounting standards effective dates

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5 The effective dates of ASU 2019-04 shown here relate to the amendments to ASC 326 only and apply to entities that have not yet adopted ASU 2016-13. Refer to ASU 2019-04 for detailed effective date information for early adopters and the other amendments therein.

6 For companies that have adopted ASU 2016-02, ASU 2018-20 can be elected at (1) the beginning of the first financial reporting period in which the ASU was issued, (2) the beginning of the first financial reporting period after the ASU was issued, or (3) the company’s mandatory ASC 842 effective date.

7 ASU 2018-16 is generally effective at the same time as ASU 2017-12. However, nonpublic companies that have adopted ASU 2017-12 are required to adopt ASU 2018-16 for annual and interim periods in fiscal years beginning after 12/15/2019.
## Appendix – Accounting standards effective dates

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<thead>
<tr>
<th>ASU</th>
<th>Title</th>
<th>ASC Topic</th>
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^a ASU 2018-14 is effective for public business entities for annual periods ending after 12/15/2020 and, for all other entities, for annual periods ending after 12/15/2021.

^ For companies that have adopted ASU 2016-02, ASU 2018-11 became effective on issuance (July 30, 2018), but can only be adopted by companies either at (1) the beginning of the company’s first reporting period after issuance or (2) the company’s mandatory ASC 842 effective date.

^ For companies that have adopted ASU 2016-02, ASU 2018-10 became effective on issuance (July 18, 2018).

^ The effective date of ASU 2018-08 depends on whether the entity is a resource recipient or a resource provider. Refer to ASU 2018-08 for more information.
## Public business entities

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## Appendix – Accounting standards effective dates

| ASU       | Title                                                                 | ASC Topic | A/I | SEC filers not eligible to be an SRC | SEC filers eligible to be an SRC | Not an SEC filer | All other entities | Early adoption | Complex effective date? | Resources       |
|-----------|------------------------------------------------------------------------|-----------|-----|--------------------------------------|----------------------------------|------------------|-------------------|------------------|------------------------|----------------|----------------------|
| 2017-05^ | Derecognition and partial sales of nonfinancial assets                | 610-20    | A   | 12/15/17                            | 12/15/17                         | 12/15/17          | 12/15/17          | Yes              | No                     | Defining Issues |
|           |                                                                        |           | I   | 12/15/17                            | 12/15/17                         | 12/15/17          | 12/15/19          |                 |                        |                 |
| 2017-04  | Simplifying the test for goodwill impairment                         | 350       | A   | 12/15/19                            | 12/15/22                         | 12/15/22          | 12/15/22          | Yes              | No                     | Defining Issues |
|           |                                                                        |           | I   | 12/15/19                            | 12/15/22                         | 12/15/22          | 12/15/22          |                 |                        |                 |
| 2017-01^ | Clarifying the definition of a business                              | 805       | A   | 12/15/17                            | 12/15/17                         | 12/15/17          | 12/15/18          | Yes              | No                     | Defining Issues Issues In-Depth |
|           |                                                                        |           | I   | 12/15/17                            | 12/15/17                         | 12/15/17          | 12/15/19          |                 |                        |                 |
|           |                                                                        |           | I   | 12/15/17                            | 12/15/17                         | 12/15/17          | 12/15/19          |                 |                        |                 |
|           |                                                                        |           | I   | 12/15/17                            | 12/15/17                         | 12/15/17          | 12/15/19          |                 |                        |                 |
| 2016-16^ | Income taxes – Intra-entity transfers of assets other than inventory  | 740       | A   | 12/15/17                            | 12/15/17                         | 12/15/17          | 12/15/18          | Yes              | No                     | Defining Issues Handbook |
|           |                                                                        |           | I   | 12/15/17                            | 12/15/17                         | 12/15/17          | 12/15/19          |                 |                        |                 |
| 2016-15  | Classification of certain cash receipts and cash payments             | 230       | A   | 12/15/17                            | 12/15/17                         | 12/15/17          | 12/15/18          | Yes              | No                     | Handbook |
|           |                                                                        |           | I   | 12/15/17                            | 12/15/17                         | 12/15/17          | 12/15/19          |                 |                        |                 |
| 2016-13^ | Measurement of credit losses on financial instruments                | 326       | A   | 12/15/19                            | 12/15/22                         | 12/15/22          | 12/15/22          | Yes              | No                     | Handbook |
|           |                                                                        |           | I   | 12/15/19                            | 12/15/22                         | 12/15/22          | 12/15/22          |                 |                        |                 |
|           |                                                                        |           | I   | 12/15/17                            | 12/15/17                         | 12/15/17          | 12/15/19          |                 |                        |                 |
| 2016-10**| Revenue – Identifying performance obligations and licensing           | 606       | A   | 12/15/17                            | 12/15/17                         | 12/15/17          | 12/15/18          | Yes              | No                     | Handbook |
|           |                                                                        |           | I   | 12/15/17                            | 12/15/17                         | 12/15/17          | 12/15/19          |                 |                        |                 |
| 2016-08**| Revenue – Principal versus agent considerations (reporting revenue gross versus net) | 606       | A   | 12/15/17                            | 12/15/17                         | 12/15/17          | 12/15/18          | Yes              | No                     | Defining Issues Handbook |
|           |                                                                        |           | I   | 12/15/17                            | 12/15/17                         | 12/15/17          | 12/15/19          |                 |                        |                 |
## Appendix – Accounting standards effective dates

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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.

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Acknowledgments

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Angie Storm
Partner

Robin Van Voorhies
Director

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