Quarterly Outlook

March 2017

US GAAP

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On January 1, 2018, the new revenue standard will be effective for public companies with a calendar year-end. The new lease accounting standard will be effective one year later. Companies can no longer delay their implementation efforts for either standard, and are urged to evaluate the benefits of adopting these standards concurrently.

Meanwhile, the SEC staff continues its focus on non-GAAP financial measures, internal control over financial reporting and the need for useful pre-adoption and transition disclosures, particularly for the new revenue, lease accounting and credit loss standards.

Public companies also are evaluating the effects of several new accounting standards that are effective in the first quarter of 2017.

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

SEC staff comments

The SEC staff continues to focus on non-GAAP financial measures and internal control over financial reporting. The staff also has heightened its emphasis on disclosures about the expected effects of adopting new accounting standards, particularly the new revenue, lease accounting and credit loss standards.

Non-GAAP financial measures

In May 2016, the SEC staff released Compliance and Disclosure Interpretations (C&DIs) that describe prohibited practices related to disclosing non-GAAP financial measures. Also during 2016, the Center for Audit Quality (CAQ) released tools to help stakeholders, including audit committees, management, investors and auditors, assess whether non-GAAP financial measures are accurate, appropriate and useful to investors.

At the December 2016 AICPA National Conference on current SEC and PCAOB Developments, the SEC's Chief Accountant acknowledged that while registrants are making progress on improving how they present non-GAAP financial measures, the SEC staff continues to observe noncompliance with its C&DIs.

The SEC staff has recently issued comments when registrants:

— present non-GAAP financial measures more prominently than GAAP measures.

— provide potentially misleading financial measures by, for example:

  – excluding normal operating expenses,
  – computing the measures inconsistently between periods,
  – including gains, but excluding charges, or
  – tailoring individual accounting principles.

— disclose per share non-GAAP liquidity measures (which are prohibited).

— present earnings before interest and taxes; earnings before interest, taxes, depreciation, and amortization; or free cash flow without reconciling it to a GAAP measure.

Registrants and their audit committees should periodically evaluate and document the population of non-GAAP financial measures, how they are used and why they are important to investors and other users. Companies also need to consider how well they incorporate the development and review of non-GAAP financial measures into their disclosure controls and procedures.

Resources: KPMG's Defining Issues: SEC staff warns about non-GAAP financial measures, C&DIs and CAQ Press Release

Internal control over financial reporting

The SEC staff continues to comment on internal control over financial reporting (ICOFR). SEC staff comments about registrants' assessments of ICOFR and disclosures in periodic SEC filings for SEC comment letters posted to EDGAR through December 31, 2016 include:

— **failure to disclose material changes to ICOFR** - e.g. changes in IT systems, business operations and unusual transactions.

— **immaterial error corrections** - i.e. whether management has assessed and disclosed the effectiveness of ICOFR in the current and prior period when it reports an immaterial correction of a prior period.

— **inadequate description of control failures**, including insufficient detail about (1) the nature of the material weakness and its effect on financial reporting and internal control and (2) management's remediation plans.

— **inconsistency between conclusions** - e.g. concluding that disclosure controls and procedures were ineffective but ICOFR was effective.

— **disclosures about remediation** - i.e. inadequate disclosure about the remediation status of a previously identified material weakness.

— **administrative deficiencies** - e.g. failure to disclose which framework the company used, use of an incorrect assessment date, missing reports and disclosures, nonconforming management certifications, and disclosure of changes in internal controls that address the year-to-date period instead of the required quarterly period.

Transition disclosures about new accounting standards

At the September 2016 EITF meeting, the SEC staff announced that when a registrant does not know and cannot reasonably estimate the effects of adopting a new accounting standard, it should consider additional qualitative financial statement disclosures to help users understand the potential significance of those effects.

The SEC staff expects a registrant to describe the new accounting policies that it expects to apply, if determined, and compare those policies with its current accounting policies. In addition, a registrant should describe its progress toward implementing the new standard and the significant implementation matters that it still must address.

At the December 2016 AICPA National Conference on Current SEC and PCAOB Developments, the SEC staff stressed how important transition disclosures are for investors. Emphasizing this point, the staff expects to comment on materially deficient disclosures in its reviews of 2016 Form 10-K filings. Registrants should avoid boilerplate transition disclosures, and strive to provide useful information about their adoption and implementation efforts, particularly those addressing the new revenue, lease accounting and credit loss standards.

Resources: ASU 2017-03

Other SEC staff focus areas

The SEC staff also frequently comments about:

— Management's Discussion and Analysis,

— fair value measurements,

- income taxes,
- intangible assets and goodwill,
- revenue recognition,
- segment reporting,
- acquisitions and business combinations,
- debt/equity, and
- commitments and contingencies.

Resources: KPMG's Issues & Trends: 2016 AICPA National Conference on Current SEC and PCAOB Developments

SEC rulemaking developments

Congress repeals resource extraction rule

President Trump recently signed a joint Congressional resolution that repealed the SEC's resource extraction rule. The resolution falls under the Congressional Review Act, which permits Congress to overturn certain recently issued federal agency rules. Reasons cited for the repeal include the anticipated costs of the rule, increased regulatory burdens on American companies, job creation worries, and a perception that it put US companies at a disadvantage to their foreign competitors.

The SEC rule had been mandated by the Dodd-Frank Wall Street Reform and Consumer Protection Act in July 2016. Congress's action to repeal the resource extraction rule does not repeal the Dodd-Frank provision itself.

The SEC rule would have required resource extraction issuers to disclose payments, or a series of payments, over $100,000 to governments related to the exploration and development of oil, natural gas or minerals. The rule became effective September 26, 2016, and compliance was set to begin for fiscal years ending on or after September 30, 2018.

Resources: Final rule

SEC staff reconsiders two rules

Acting SEC Chairman, Michael S. Piwowar, recently directed the SEC staff to reconsider its guidance about (1) complying with the conflict minerals rule and (2) implementing the pay ratio rule, and to determine whether additional guidance or relief is appropriate. The Chairman also seeks public input on the rules and guidance.

- **Conflict minerals rule.** The 2014 staff guidance stated that a company should file its Form SD and related Conflict Minerals Report as required under the SEC rule, but that no company is required to describe its products as Democratic Republic of the Congo (DRC) conflict free, having not been found to be DRC conflict free or DRC conflict undeterminable.

  Comments are due by March 17.

- **Pay ratio rule.** The rule requires a public company to disclose the ratio of the median of the annual total compensation of all employees to the annual total compensation of the chief executive officer. Currently, registrants must comply with the rule for fiscal years beginning on or after January 1, 2017.

Comments are due by March 23.

Resources: Request for comments about the conflict minerals and pay ratio rules

Chicago Mercantile Exchange derivative rule changes

Effective January 3, 2017, the Chicago Mercantile Exchange (CME) implemented a rule that clarifies that variation margin payments related to derivative instruments cleared through the CME will represent a settlement of the derivative contract and not cash collateral.

Based on discussions with the SEC staff, end-users and clearing members will not need to discontinue existing hedge accounting relationships as a result of the rule changes. The rule is effective prospectively as of the effective date and applies to interest rate swaps, credit default swaps and base guaranty fund products.

As of March 10, 2017, the rule changes related to derivatives cleared with the London Clearing House (LCH) apply only to derivative contracts cleared through an LCH clearing member financial institution that specifically elects to adopt the settled-to-market framework for its own trades and trades made on behalf of customers. If the clearing member financial institution does not make this election, the contract will remain unchanged.

The International Swaps and Derivatives Association (ISDA) also posted to its website a letter confirming discussions with the SEC staff about some of the accounting effects of the rule changes.

Resources: KPMG's Defining Issues: SEC staff clarifies effect of rule changes on hedge accounting, CME rule changes and ISDA confirmation letter

Going concern reminder and related audit developments

US GAAP requires all companies to analyze going concern uncertainties. Management must assess, at each interim and annual reporting period, whether substantial doubt exists about the company's ability to continue as a going concern. Substantial doubt exists if it is probable that the company will be unable to meet its obligations as they become due within one year after the date the financial statements are issued or available to be issued (assessment date).

Management needs to consider known (and reasonably knowable) events and conditions at the assessment date. If substantial doubt exists about a company's ability to continue as a going concern, the company must disclose certain information about the conditions and events giving rise to that substantial doubt even if management has plans to alleviate the risk.

The current accounting and auditing standards are substantially aligned, except that:

- the auditing standards require a one-year assessment from the balance sheet date rather than from the financial statement issuance date, and
- the new accounting standard defines 'substantial doubt'.

In February 2017, the Auditing Standards Board (ASB) issued a new private company auditing standard to address auditors' responsibilities related to going concern. Among other things, the standard:

- requires an auditor to evaluate going concern uncertainties by referencing the accounting framework used by the company – e.g. if the company applies US GAAP, the auditor evaluates the existence of substantial doubt using the definition in the new accounting standard; and
- provides guidance related to interim financial information.

The new auditing standard is effective for audits of private company financial statements for periods ending on or after December 15, 2017.

Professional standards applicable to audits of public company financial statements remain unchanged.

Resources: KPMG's Defining Issues: FASB issues going concern standard, Webcast and Podcast; ASU 2014-15 and SAS No. 132

Highly inflationary economies

The October 2016 World Economic Outlook (WEO) report projected that Argentina's 2016 inflation would be 39 percent, and its cumulative three-year inflation rate would be 105 percent. However, the WEO report provided no inflation data for 2015 or 2016 and included a warning about the inconsistency and comparability of the data.

To analyze the implications of the WEO report, the Center for Audit Quality (CAQ) SEC Regulations Committee's International Practices Task Force (IPTF) calculated three-year cumulative inflation rates as of September 30, 2016. The IPTF calculations were based on monthly amounts from several indices and considered the Wholesale Price Index (WPI), the only consistently calculated national index.

In late December 2016, several US accounting firms submitted a white paper to the SEC staff of the Office of the Chief Accountant recommending that, based on the aforementioned analysis of indices, the SEC staff not require a registrant to consider Argentina's economy as highly inflationary under US GAAP for the reporting period from October 1, 2016 to December 31, 2016. The SEC staff responded that it would not object to the firms' recommendation.

The IPTF later updated the three-year cumulative inflation rates in the aforementioned white paper as of December 31, 2016, reflecting actual inflation data published by Argentina's Bureau of Statistics for October, November and December 2016. The results were relatively consistent with the data published as of September 30, 2016, and indicated that the WPI is improving (i.e. the three-year cumulative WPI is decreasing).

Based on all available information, it does not appear that the SEC would view Argentina's economy as highly inflationary under US GAAP for the reporting period from January 1, 2017 to March 31, 2017. However, the IPTF stated that it is not aware of consultations between registrants and the SEC staff about Argentina during this period.

The November 2016 IPTF Joint Meeting Highlights state that the SEC staff indicated that registrants with operations in Argentina should (1) continue to closely monitor the country's economic environment and (2) implement the appropriate processes to identify relevant inflation data to determine whether Argentina should be considered a highly inflationary economy on an ongoing basis

Resources: IPTF Meeting Highlights

Audit firms implement PCAOB Form AP

Beginning in 2017, audit firms will file a new PCAOB Form AP for each issuer audit report filed with the SEC. Form AP includes:

— the name of the engagement partner;

— the name, location and extent of participation of other accounting firms whose participation in the audit exceeded 5 percent of the total audit hours; and

— the number and aggregate extent of participation of all other accounting firms that took part in the audit.

Audit firms are required to file Form AP for audit reports issued on or after:

— **January 31, 2017**, for the engagement partner name.

— **June 30, 2017**, for other accounting firms that participated in the audit.

Audit firms generally need to file Form AP with the PCAOB within 35 days after the auditors' report is first included in an SEC filing. For initial public offerings, audit firms will have 10 days after the auditors' report is first included in an SEC filing to file the Form AP with the PCAOB.

Resources: PCAOB Release No. 2015-008, PCAOB Form AP Resources and CAQ Alert No. 2016-03

Standards effective for 2017

In the first quarter of 2017, calendar year-end public companies will need to adopt several standards intended to simply or clarify accounting requirements.

ASU	Topic	Key requirements
2015-11	**Simplifying the measurement of inventory**	— Changes inventory measurement from the lower of cost or market to lower of cost and net realizable value. — Applies only to inventory measured using first-in, first-out (FIFO) or average cost.

2015-17	**Presentation of deferred taxes as noncurrent**	— Requires companies to offset all deferred tax assets and liabilities (and valuation allowances) for each tax-paying jurisdiction within each tax-paying component and present the net deferred tax as a single noncurrent amount.
2016-05	**Effect of derivative contract novations on existing hedge accounting relationships**	— Clarifies that a change in one of the parties to a derivative contract (through novation) that is part of a hedge accounting relationship does not, by itself, require de-designation of that relationship if all other hedge accounting criteria continue to be met.
2016-06	**Contingent put and call options in debt instruments**	— Clarifies that determining whether the economic characteristics of a put or call are clearly and closely related to its debt host requires only an assessment of the four-step decision sequence outlined in ASC paragraph 815-15-25-24. — Clarifies that companies are not required to assess separately whether the contingency itself is clearly and closely related.
2016-07	**Simplifying the transition to the equity method of accounting**	— Eliminates the requirement for an investor to retroactively apply the equity method when its increase in ownership interest (or degree of influence) in an investee triggers equity method accounting.
2016-09	**Improvements to employee share-based payment accounting**	— Simplifies the accounting for share-based payment transactions. Under the new standard, all companies: – will record all excess tax benefits and tax deficiencies as an income tax benefit or expense in the income statement (i.e. the standard eliminates the APIC pool), and classify excess tax benefits as an operating activity in the statement of cash flows; – may elect an accounting policy to either estimate the number of forfeitures (current US GAAP) or account for forfeitures when they occur; – may withhold up to the maximum individual statutory tax rate without

		classifying the awards as a liability; and – will classify the cash paid to satisfy the statutory income tax withholding obligation as a financing activity in the statement of cash flows. — Provides additional practical expedients for nonpublic entities.

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

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New standards and guidance

Disclosing progress about revenue implementation

While companies continued to make progress on their implementation of the revenue standard in 2016, many have more work to do as January 1, 2018 quickly approaches. Recent surveys indicate a majority of companies are still assessing the effect that the new standard will have on their business. Where implementation is lagging behind plan or users' expectations, preparers and their auditors should discuss the reasons for delay with audit committees.

Management needs to provide more informative disclosures to financial statement users about implementation progress and the significant implementation matters they still must address (see Transition disclosures about new accounting standards). Users, and the SEC staff, expect disclosures about the effect of the new standard to evolve, and for companies to include significantly more detail over time as they progress in their implementation plans.

Companies likely will need to update their internal controls over financial reporting (ICOFR) as they implement the new standard, including controls over measuring the transition adjustments and preparing the expanded disclosures. Registrants should disclose those changes that have materially affected, or are reasonably likely to materially affect, their ICOFR as **the underlying business changes**. Registrants should not wait until the effective date of the new standard to disclose related changes in ICOFR.

Resources: KPMG's Latest on revenue

Adopting the new lease accounting standard

The new lease accounting standard is not effective for public companies until fiscal years beginning after December 15, 2018 (i.e. 2019 for calendar year-end public companies), and one year later for all other entities. However, companies should take steps today to prepare for timely implementation.

Evaluate the benefits of early adoption

Lessees and lessors may find that adopting the new lease accounting and revenue standard concurrently:

— minimizes the extent of systems and process changes, and

— provides financial statement users with more comparable year-over-year information.

Lessors may be particularly interested in concurrent adoption because key aspects of the revenue and lease accounting models are substantially aligned (e.g. the guidance about separating contract components and allocating consideration to those components, identifying costs that are eligible for capitalization and contract modifications). Concurrent adoption may permit companies to benefit from the synergies between the revenue and lease guidance sooner, and avoid complexities that could arise from continuing to apply a lessor model that is not aligned with the revenue guidance.

Lessees may consider early adoption to take advantage of the revised guidance and transition provisions for sale-leaseback and build-to-suit accounting, because:

— it will be easier for companies to achieve sale accounting for real estate sale-leaseback transactions than under current US GAAP, and

— the transition provisions under the new standard may permit companies to derecognize existing build-to-suit assets and liabilities.

Compile an inventory of all leases

Companies may be surprised at the effort needed to inventory their leases. To date, companies that have begun their implementation efforts have found:

— leases that are missing from their global databases, especially where rental payments closely match the straight-line rent expense (e.g. certain equipment rentals); and

— a surprising number of leases that are implicit in non-lease contracts (e.g. IT service contracts and dedicated supply agreements).

Under current US GAAP, failure to identify these leases may not materially affect the financial statements because there is no balance sheet effect and expense recognition is similar regardless of whether the contract is accounted for as a lease. The same may **not** be true under the new standard. Lessees will be required to recognize all leases on-balance sheet, so omitting leases from the lease inventory could result in understated lease liabilities and right-of-use assets. If a company fails to properly identify and account for its leases, the aggregate effect to the financial statements may be material.

Determine whether to adopt the transition practical expedients

Most companies that are adopting the new standard will elect the package of transition practical expedients that allows them to not reassess (1) whether expired or existing contracts contain leases and (2) lease classification. However, the practical expedients do not provide a pass for arrangements that are not accounted for as leases today even though they meet the current definition of a lease. All companies should include steps in their implementation plans to verify the completeness of their lease inventories. Additionally, companies may need to evaluate the significance of **not** accounting for those arrangements as leases in previously issued financial statements.

Evaluate the adequacy of the transition disclosures

SEC registrants, particularly lessees, should expect scrutiny of their disclosures about the anticipated effects of adopting the new standard. Current operating lease disclosures contain significant information about the magnitude of a company's operating leases that will need to be recognized on the balance sheet when a registrant adopts the new standard. See Transition disclosures about new accounting standards.

Resources: KPMG's Executive View: ASC 842, Leases – Transition disclosures, Issues In-Depth: Build-to-suit-leases and Latest on leases

Moving forward on financial instruments

The FASB's new financial instruments standards that address (1) recognition and measurement and (2) credit impairment are not effective for public business entities with calendar year-ends until 2018 and 2020, respectively. However, companies should promptly begin to analyze the practical business implications of adopting these standards, and consider the adequacy of their disclosures about the expected effects of adopting the standards.

Companies that invest in equity securities should begin analyzing their portfolio to understand the potential effects of the recognition and measurement standard. Companies will need to measure equity investments with readily determinable fair values at fair value and recognize changes in fair value in net income. Under current US GAAP, companies recognize changes in fair value of available-for-sale equity securities in other comprehensive income (OCI). Additionally, the standard introduces a new measurement alternative – and US GAAP concept – 'cost basis adjusted for observable transaction prices' for equity securities without a readily determinable fair value. To date, the measurement alternative has been the source of the greatest number of interpretive questions about the new standard. It also will likely require the most significant changes to processes and controls.

The FASB's overhaul of credit impairment accounting will significantly affect financial institutions, banks 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 model will require companies to recognize an estimate of credit losses expected to occur over the remaining life of the financial assets. Companies may need to collect more data, and significantly change their systems, processes and internal controls to comply with the requirements of the new standard.

Public companies should ensure that they adequately disclose the expected effects of implementing these standards. See Transition disclosures about new accounting standards.

Hedge accounting

The FASB's 2016 proposed improvements to hedge accounting would provide additional opportunities for companies to align their hedge accounting with their risk management activities, and potentially reduce the cost and effort required to apply hedge accounting.

At a recent meeting, the Board decided that an entity should be permitted to return to qualitative assessments of hedge effectiveness:

— after a change in facts and circumstances requires a quantitative assessment to be performed, or

— after the entity performs a quantitative assessment to validate whether qualitative assessments of hedge effectiveness remain appropriate.

The Board also decided that the same principle and factors should be used to evaluate whether an entity could perform qualitative assessments at (1) hedge inception and (2) after a quantitative test has been performed following hedge inception.

The FASB also decided to allow private companies (except financial institutions) additional relief in the timing of hedge documentation and effectiveness assessments. Specifically, a private company must prepare a 'statement of intent' to hedge concurrently with hedge inception but can delay performing and documenting its initial and subsequent hedge effectiveness assessments until the next set of financial statements is available to be issued. The Private Company Council (PCC) recently expressed support for the FASB's hedge accounting proposals, having previously requested that the FASB consider allowing private companies flexibility in completing the hedge documentation and effectiveness testing requirements.

Resources: KPMG's Latest on financial instruments

Changes to master trust investment disclosures

The FASB recently issued a standard to clarify how employee benefit plans should present and disclose investments in master trusts[1]:

1. **Presentation of balances and activity.** Net master trust balances and activity will be shown in a single line item on each plan's financial statements. A plan's interest in each master trust and changes in that interest will be presented as a separate line item in the statement of net assets available for benefits and in the statement of changes in net assets available for benefits, respectively.

2. **Disclosure of investments.** Plans will disclose the total master trust investment amounts by general type and dollar amount of the plan's interest in each general type of investment.

3. **Disclosure of other assets and liabilities.** Plans will disclose the other assets and liabilities of the master trust and the dollar amount of the plan's interest in each balance.

4. **Section 401(h) accounts.** Plans will continue to include investment-related disclosures about the account in their financial statements. Health and welfare plans will not be required to make those disclosures in their financial statements, but instead will need to disclose the name of the defined benefit plan in whose financial statements those investment disclosures are provided.

The standard is effective for annual periods in fiscal years beginning after December 15, 2018. Early adoption is permitted, however, a plan must adopt all requirements at the same time.

[1]A 'master trust' is a trust for which a regulated financial institution serves as a trustee or custodian. It holds assets of more than one employee benefit plan sponsored by a single employer or by a group of employers under common control.

Resources: KPMG's FRV webpage and ASU 2017-06

Clarified scope of ASC 610-20 for nonfinancial assets

The FASB recently issued a new standard that clarifies the guidance in ASC 610-20 about the accounting for the derecognition of a nonfinancial asset and an in-substance nonfinancial asset. Specifically, the guidance in ASC 610-20 will apply only when the asset (or asset group):

— does not meet the definition of a business; and

— is not a not-for-profit entity.

The amendments define an 'in-substance nonfinancial asset' as a financial asset (e.g. receivable) included in a contract, or consolidated subsidiary, in which substantially all of the fair value (excluding cash and cash equivalents) is concentrated in nonfinancial assets. The standard also includes guidance about partial sales of nonfinancial assets.

The amendments are effective concurrent with the new revenue standard. At adoption, a company also must apply the FASB's new definition of a business to determine which transactions are in the scope of the new standard. However, a company need not revisit its existing allocation to goodwill if it changes its conclusions about whether a transferred group of assets is a business.

Effective dates and early adoption provisions

	Public business entities and certain other entities*	All other entities
Annual periods – In fiscal years beginning after	December 15, 2017	December 15, 2018
Interim periods – In fiscal years beginning after	December 15, 2017	December 15, 2019
Early adoption allowed?	The earliest a company may apply the ASU or the new revenue recognition standard is for annual and interim periods in fiscal years beginning after December 15, 2016.	

* (1) public business entities; (2) not-for-profits that have issued, or are conduit bond obligors for, securities that are traded, listed or quoted on an exchange or an over-the-counter market; and (3) employee benefit plans that file financial statements with the SEC.

Resources: KPMG's Defining Issues: FASB clarifies scope of derecognition of nonfinancial assets and ASU 2017-05

Simplified goodwill impairment test

The FASB recently issued a new standard to reduce the cost and complexity of accounting for goodwill.

— **Eliminating Step 2 of the goodwill impairment test.** Companies will no longer be required to perform a hypothetical purchase price allocation to measure goodwill impairment. Instead, they will measure impairment as the difference between the carrying amount and the fair value of the reporting unit.

— **Replacing the qualitative assessment.** Companies will no longer perform a qualitative assessment for reporting units with zero or negative carrying amounts. Instead, they will disclose the amount of goodwill allocated to each reporting unit with zero or negative carrying amounts, and disclose in which reportable segment the reporting unit is included.

A private company that applies the private company alternative to amortize goodwill, but does not apply the alternative to subsume intangible assets into goodwill, may adopt this standard without demonstrating that the accounting change is preferable.

Effective dates and early adoption provisions			
	Public business entities		
	SEC filers	Non-SEC filers	Other entities
Annual and interim periods in fiscal years beginning after	December 15, 2019	December 15, 2020	December 15, 2021
Early adoption allowed?	Yes, for goodwill impairment tests with measurement dates on or after January 1, 2017.		

Resources: KPMG's Defining Issues: FASB simplifies goodwill impairment test and ASU 2017-04

Reinstated consolidation guidance for not-for-profit investors

The FASB recently issued guidance that reestablishes the presumption of control by not-for-profit entities (NFPs) that are general partners of a for-profit limited partnership. The NFP general partner is presumed to control the limited partnership, regardless of the size of its ownership interest, unless the limited partners have substantive participating or kick-out rights. The FASB's 2015 amendments to the consolidation guidance did not specify how NFPs should evaluate whether to consolidate for-profit limited partnerships.

The standard also clarifies that the consolidation guidance does not apply to an NFP that invests in a for-profit limited partnership or similar legal entity if the partnership interest is reported at fair value under other US GAAP.

Effective dates and early adoption provisions
— Annual periods in fiscal years beginning after December 15, 2016
— Interim periods in fiscal years beginning after December 15, 2017
— Early adoption permitted

Resources: KPMG's Defining Issues: FASB reinstates presumption of control for NFP general partners and ASU 2017-02

New definition of a business

The FASB released a new framework for determining whether transactions should be accounted for as acquisitions (or disposals) of a group of assets or a business. An integrated set of activities and assets (a set) is a business if it has, at a minimum, an input and a substantive process that together significantly contribute to the ability to create outputs. The new framework includes an initial screening test (Step 1) that reduces the population of transactions an entity needs to analyze to determine whether a set includes an input and a substantive process (Step 2).

As a result of adopting the new standard, fewer transactions are expected to involve acquiring or selling a business. The real estate and life sciences industries likely will be most affected.

<table>
<tr><th colspan="3">Effective dates and early adoption provisions</th></tr>
<tr><th></th><th>Public business entities</th><th>All other entities</th></tr>
<tr><td>Annual periods – In fiscal years beginning after</td><td rowspan="2">December 15, 2017</td><td>December 15, 2018</td></tr>
<tr><td>Interim periods – In fiscal years beginning after</td><td>December 15, 2019</td></tr>
<tr><td>Early adoption allowed?</td><td colspan="2">Yes – immediately for transactions that have not been reported in financial statements that have been issued or made available for issuance.</td></tr>
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Resources: KPMG's Defining Issues: FASB clarifies the definition of a business and Webcast, and ASU 2017-01

3 Projects and agenda priorities

FASB proposes to align nonemployee and employee share-based payment accounting

As part of its simplification initiative, the FASB recently proposed guidance that would generally align the accounting for nonemployee and employee share-based payments, including:

— the overall measurement objective of share-based payment accounting,

— the measurement date for equity-classified awards,

— the accounting for awards with performance conditions, and

— subsequent measurement.

The FASB concluded that there is no substantive difference between share-based payments awarded to nonemployees and employees because both types of awards are economically similar.

The comment deadline is June 5.

Resources: KPMG's Defining Issues: FASB proposes simplifying the accounting for share-based payments to nonemployees and Proposed ASU

FASB proposes additional inventory disclosures

As part of its broader disclosure framework project, the FASB recently proposed new disclosure requirements and specific changes to existing disclosures about inventory balances. The proposal would require a company:

— that applies the retail inventory method to qualitatively and quantitatively disclose the critical assumptions used to measure inventory at the end of each annual period presented.

— to disclose how different types of inventory might affect future cash flows.

— to disclose inventory balances by segment if the information is provided to the chief operating decision maker.

The comment period ended March 13.

Also within the broader disclosure framework project, the Board recently proposed changes to the disclosure requirements for fair value measurement, defined benefit plans and income taxes. The FASB will hold a public roundtable on March 17 to solicit feedback about its Disclosure Framework and related proposals.

Resources: KPMG's Defining Issues: FASB proposes additional inventory disclosures and Proposed ASU

FASB proposes simplified debt classification

The FASB recently proposed changes to simplify the guidance about when debt should be classified as current on the balance sheet. The proposal would replace the existing rules-based guidance with a principles-based approach that considers a company's facts and circumstances as of the balance sheet date.

Under the proposed standard, debt would be classified as noncurrent if:

— the liability is contractually due more than one year (or operating cycle, if longer) after the balance sheet date, **or**

— a company has the contractual right at the balance sheet date to defer settlement for at least one year (or operating cycle, if longer) after the balance sheet date.

As an exception to the principles-based approach, a company that obtains a debt covenant waiver after the balance sheet date, but before financial statements are issued (or available to be issued), would still classify the debt as noncurrent unless the waiver results in a debt extinguishment or qualifies as a troubled debt restructuring.

The proposals would likely cause more debt arrangements to be classified as current liabilities than under current US GAAP. Current US GAAP allows a company to classify its short-term debt as noncurrent if it can demonstrate its intent and ability to refinance the debt on a long-term basis after the balance sheet date but before the financial statements are issued (or available to be issued). The proposal would eliminate this provision. Therefore, a company would classify all short-term debt as current regardless of its intent to refinance.

The new requirements would apply to companies that present a classified balance sheet and to all debt arrangements, including convertible debt instruments and liability-classified mandatorily redeemable financial instruments.

The comment deadline is May 5.

Resources: KPMG's Defining Issues: FASB proposes simplification to balance sheet classification of debt and Proposed ASU

FASB proposes improvements to accounting for insurance contracts

The FASB recently discussed comments received on its proposed accounting standard that would change how insurance entities recognize, measure, present and disclose long-duration insurance contracts. The FASB will host a public roundtable on March 15 to discuss its proposal with stakeholders.

The proposed improvements to long-duration insurance contracts primarily address:

- **The liability for future policy benefits.** The proposal would require insurers to update cash flow assumptions at the same time every year, unless experience requires more frequent updates. Insurers would update the high-quality, fixed-income instrument yield used for the discount rate quarterly.
- **Contracts with market-risk benefits.** The proposed guidance would change the accounting for certain options and guarantees embedded in variable products.
- **Deferred acquisition costs.** The proposal would simplify the amortization process.
- **Disclosures.** The proposal would enhance the effectiveness of disclosures about the liability for future policy benefits, policyholder account balances, market-risk benefits, deferred acquisition costs, and separate account assets and liabilities.

The changes would apply to only those insurance entities within the scope of US GAAP guidance that prescribes the accounting for insurance contracts (ASC 944). It would exclude holders of insurance contracts and non-insurance entities.

Resources: KPMG's Issues & Trends In Insurance: FASB proposes targeted improvements for long-duration insurance contracts and Proposed ASU

Private company exemption from VIE guidance

In March 2017, the FASB tentatively decided to provide private companies an optional accounting alternative that would exempt them from having to apply the variable interest entity (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 would be an accounting policy election and require enhanced disclosures.

The Board also decided to remove the current private company alternative for common control leasing arrangements. A proposed ASU is forthcoming.

EITF continues to discuss service concession arrangements

During 2016, the Emerging Issues Task Force (EITF) reached a consensus-for-exposure that would clarify that the 'grantor' in a service concession arrangement is the operating entity's customer for all goods and services provided by the operating entity under the arrangement. Identifying the customer affects the recognition of revenue and various aspects of the accounting for these arrangements.

The EITF will discuss comments received about the consensus-for-exposure on March 16. The EITF has no other open issues on its agenda.

Resources: KPMG's Defining Issues: September 2016 EITF meeting and Proposed ASU

4 Recommended reading and CPE opportunities

How high-impact boards deliver value

In a byline article for *Corporate Board Member*, KPMG's Dennis T. Whalen said the current business and risk landscape redefines what it means to be an effective board. Whalen also shared insights from KPMG's Board Leadership Center Spring Director Roundtable series to explore how boards are addressing these challenges. Read the article.

Prevention is key to crisis readiness

In a byline article for *Directors & Boards*, KPMG's Jose R. Rodriguez advises that while management has primary responsibility for crisis readiness and prevention, the board plays a crucial role in understanding and overseeing the company's efforts — in particular: management's crisis prevention activities; tone at the top, culture, and incentives; and the company's crisis readiness, particularly whether it has a robust crisis response plan. Read the article.

Navigating uncertainty with risk management

In a byline article for the *Federal Times*, KPMG's Laura Price and Jeffrey Steinhoff say we all face uncertainty in our everyday lives. It's how we manage uncertainty that matters. We all accept risks. What matters is how we decide how much risk to accept and when, and government is no different. Read the article.

Five ways CFOs can implement advanced analytics

KPMG's Viral Chawda discusses five ways chief financial officers can implement advanced analytics in an article for *CFO*. Chawda describes how advanced analytics can help mine internal and external data to get a holistic view of customers, competitors, suppliers, partners and employees, ultimately helping to manage business performance at granular levels. Read the article.

How to build a sustainable, value-focused data culture

In a byline article for *CIO*, KPMG's Robert Parr and Freddie Mac's Jodi Morton weigh-in on how regulation, growth and cost drives the current efforts of chief data officers and how each will affect future endeavors. Parr cites a recent KPMG pulse survey of selected financial services CDOs in the United States and Canada, which revealed that the success—or lack of success—of the CDO organization has largely depended on looking beyond the goal of achieving regulatory compliance. Read the article.

Upcoming CPE opportunities

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

For more information, contact the KPMG Executive Education team at uskpmglearning@kpmg.com or 201-505-6062.

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

5 Appendix - Accounting standards effective dates

Accounting standards affecting public companies in 2017

Calendar year-end public companies are required to begin applying these accounting standards in 2017.

Topic	Effective date for public companies	For more information
Going concern	Annual periods in fiscal years ending after 12/15/2016, and interim periods in fiscal years beginning after 12/15/2016	ASU 2014-15 Defining Issues 14-40 Webcast Podcast
Amendments to SEC paragraphs pursuant to staff announcements at the September 22, 2016 and November 17, 2016 EITF meetings	On issuance (January 2017)	ASU 2017-03
Simplifying the measurement of inventory	Annual and interim periods in fiscal years beginning after 12/15/2016	ASU 2015-11 Defining Issues 15-33 Podcast
Presentation of deferred taxes as noncurrent	Annual and interim periods in fiscal years beginning after 12/15/2016	ASU 2015-17 Defining Issues 15-55 Podcast
Effect of derivative contract novations on existing hedge accounting relationships	Annual and interim periods in fiscal years beginning after 12/15/2016	ASU 2016-05 Defining Issues 15-53 Podcast
Contingent put and call options in debt instruments	Annual and interim periods in fiscal years beginning after 12/15/2016	ASU 2016-06 Defining Issues 15-53 Podcast

Topic	Effective date for public companies	For more information
Simplifying the transition to the equity method of accounting	Annual and interim periods in fiscal years beginning after 12/15/2016	ASU 2016-07 Defining Issues 16-9 Podcast
Improvements to employee share-based payment accounting	Annual and interim periods in fiscal years beginning after 12/15/2016	ASU 2016-09 Defining Issues 16-11 Podcast
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). — 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

Accounting standards affecting public companies in 2018 and beyond

Calendar year-end public companies are required to begin applying these accounting standards in 2018 or later and may need to disclose their potential effects in 2017.

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 Latest 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 Latest on financial instruments
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 15-53 Podcast
Statement of cash flows - classification of certain cash receipts and payments	Annual and interim periods in fiscal years beginning after 12/15/2017	ASU 2016-15 Defining Issues 16-22 Podcast
Accounting for income taxes on intercompany transfers	Annual and interim periods in fiscal years beginning after 12/15/2017	ASU 2016-16 Defining Issues 16-34 Podcast
Change to VIE primary beneficiary test	Annual and interim periods in fiscal years beginning after 12/15/2017	ASU 2016-17 Defining Issues 16-35 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 16-32 Podcast

Topic	Effective date for public companies	For more information
Clarifying the definition of a business	Annual and interim periods in fiscal years beginning after 12/15/2017	ASU 2017-01 Defining Issues 17-1 Webcast
Leases	Annual and interim periods in fiscal years beginning after 12/15/2018	ASU 2016-02 Latest on leases
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 16-23 Latest on financial instruments
Simplifying the test for goodwill impairment	**SEC filers:** Annual and interim periods in fiscal years beginning after 12/15/2019 **Non-SEC filers:** Annual and interim periods in fiscal years beginning after 12/15/2020	ASU 2017-04 Defining Issues 17-5

Accounting standards affecting private companies in 2016

Calendar year-end private companies are required to begin applying these accounting standards in 2016.

Topic	Effective date for private companies	For more information
Accounting for share-based payments with certain performance targets	Annual and interim periods in fiscal years beginning after 12/15/2015	ASU 2014-12 Defining Issues 14-15 Podcast
Eliminating the concept of extraordinary items	Annual and interim periods in fiscal years beginning after 12/15/2015	ASU 2015-01 Defining Issues 15-2 Podcast

Topic	Effective date for private companies	For more information
Hybrid financial instruments	Annual periods in fiscal years beginning after 12/15/2015, and interim periods in fiscal years beginning after 12/15/2016	ASU 2014-16 ASU 2016-11 Defining Issues 14-44 Podcast
Presentation of debt issuance costs	Annual periods in fiscal years beginning after 12/15/2015, and interim periods in fiscal years beginning after 12/15/2016	ASU 2015-03 Defining Issues 15-14 Podcast
Customer's accounting for fees paid in a cloud computing arrangement	Annual periods in fiscal years beginning after 12/15/2015, and interim periods in fiscal years beginning after 12/15/2016	ASU 2015-05 Defining Issues 15-15 Podcast
Consolidated collateralized financing entity assets and liabilities	Annual periods in fiscal years ending after 12/15/2016, and interim periods in fiscal years beginning after 12/15/2016	ASU 2014-13 Defining Issues 14-27 Podcast
Going concern	Annual periods in fiscal years ending after 12/15/2016, and interim periods in fiscal years beginning after 12/15/2016	ASU 2014-15 Defining Issues 14-40 Webcast Podcast
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). — 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

Accounting standards affecting private companies in 2017 and beyond

Calendar year-end private companies are required to begin applying these accounting standards in 2017 or later.

Topic	Effective date for private companies	For more information
Eliminating certain investments from the fair value hierarchy table	Annual and interim periods in fiscal years beginning after 12/15/2016	ASU 2015-07 Defining Issues 15-20 Podcast
Simplifications for employee benefit plans	Annual and interim periods in fiscal years beginning after 12/15/2016	ASU 2015-12 Defining Issues 15-36 Podcast
Simplifying the transition to the equity method of accounting	Annual and interim periods in fiscal years beginning after 12/15/2016	ASU 2016-07 Defining Issues 16-9 Podcast
Consolidation	Annual periods in fiscal years beginning after 12/15/2016, and interim periods in fiscal years beginning after 12/15/2017	ASU 2015-02 Defining Issues 15-6 Webcast
Practical expedient for the measurement date of an employer's defined benefit obligation and plan assets	Annual periods in fiscal years beginning after 12/15/2016, and interim periods in fiscal years beginning after 12/15/2017	ASU 2015-04 Defining Issues 15-17
Disclosures about short-duration insurance contracts	Annual periods in fiscal years beginning after 12/15/2016, and interim periods in fiscal years beginning after 12/15/2017	ASU 2015-09 Issues & Trends In Insurance 15-4
Simplifying the measurement of inventory	Annual periods in fiscal years beginning after 12/15/2016, and interim periods in fiscal years beginning after 12/15/2017	ASU 2015-11 Defining Issues 15-33 Podcast
Simplifying measurement-period adjustments	Annual periods in fiscal years beginning after 12/15/2016, and interim periods in fiscal years beginning after 12/15/2017	ASU 2015-16 Defining Issues 15-43 Podcast

Appendix – Accounting standards effective dates

Topic	Effective date for private companies	For more information
Change to VIE primary beneficiary test	Annual periods in fiscal years beginning after 12/15/2016, and interim periods in fiscal years beginning after 12/15/2017	ASU 2016-17 Defining Issues 16-35 Podcast
Clarifying when a not-for-profit entity that is a general partner or a limited partner should consolidate a for-profit limited partnership or similar entity	Annual periods in fiscal years beginning after 12/15/2016, and interim periods in fiscal years beginning after 12/15/2017	ASU 2017-02 Defining Issues 17-4
Presentation of deferred taxes as noncurrent	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 15-55 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 15-53 Podcast
Contingent put and call options in debt instruments	Annual periods in fiscal years beginning after 12/15/2017, and interim periods in fiscal years beginning after 12/15/2018	ASU 2016-06 Defining Issues 15-53 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 16-11 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

Topic	Effective date for private companies	For more information
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 Latest 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 Latest 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 15-53 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 16-22 Podcast
Accounting for income taxes on intercompany transfers	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 16-34 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 16-32 Podcast
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 17-1 Webcast

Topic	Effective date for private companies	For more information
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 Latest on leases
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 16-23 Latest 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 17-5

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