The effect of implementing new standards on revenue recognition, leases and credit losses should be disclosed in year-end financial statements, announced a U.S. Securities and Exchange Commission (SEC) staff member at the Financial Accounting Standards Board’s Emerging Issues Task Force meeting on September 22. The announcement comes in time for companies to consider the disclosures for 2016 annual reports; however, companies are encouraged to provide the disclosures in the third quarter 10-Q, if available.

The comments provide insight into the SEC’s expectations related to Staff Accounting Bulletin (SAB) No. 74, Topic 11-M, and expand upon a registrant’s extant requirement to inform users that a new standard will be adopted and discuss the expected impact on its financial position and results of operations.

The staff’s view is that registrants should consider additional qualitative information to help users assess the expected effect to their financial statements for standards issued that do not require adoption until some time in the future. Registrants should describe the effects of applying accounting changes they expect to adopt, if determined, and give a comparison to current accounting policies. Meaningful and appropriate disclosures also should include a description of the registrant’s status in implementing new standards and significant implementation matters yet to be addressed. The staff’s expectations apply to Foreign Private Issuers filings.

Although registrants maintain the option to state that the effects of adopting the standard(s) is unknown or cannot be reasonably estimated, the SEC expects registrants to consider disclosing other meaningful and appropriate information to help users estimate the effect of adopting the three major standards. We encourage registrants to evaluate each of the three new accounting standards and determine appropriate disclosure goals for upcoming filings based on the level of information available.

The new interpretive comments (SAB 74+) relate to the recent major updates to Accounting Standards Codification (ASC) 606, Revenue from Contracts with Customers; ASC 842, Leases, and ASC 326, Financial Instruments—Credit Losses, unless the effect on the registrant’s financial position and results of operations is expected to be immaterial.

The Accounting Standards Update on revenue recognition (ASU 2014-09) was issued in mid-2014 and is effective for calendar-year registrants in the first quarter of 2018. It is the first of the three major standards issued, and we expect the SEC to begin issuing comment letters for 2016 year-end filings for those entities not providing Topic 11-M disclosures and observing its latest guidance. This can be a daunting task because of the numerous amendments made to the standard or in deliberation. At a minimum, we encourage companies to disclose how they plan to adopt the standard (prospective versus retrospective) and its process for implementation, including the current status. Refer to BKD’s article, SEC Guidance for New Revenue Rules.

Check out BKD Thoughtware™ for further guidance on Revenue Recognition, Lease Accounting and Financial Instruments or contact your BKD advisor.
SEC Staff Expectation on Disclosing the Impact of Upcoming Accounting Standards

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