



FASB Finalizes One-Year Deferral of the Revenue Standard

At its July 9, 2015 meeting, the FASB agreed to defer by one year the mandatory effective date of its revenue recognition standard, but will also provide entities the option to adopt it as of the original effective date.¹

Key Facts

The FASB agreed to the following mandatory effective dates for its revenue standard:

- Public business entities and certain not-for-profit entities² will be required to adopt the revenue recognition standard in annual reporting periods beginning after December 15, 2017, and interim periods within those annual periods.
- All other entities will be required to adopt the standard in annual reporting periods beginning after December 15, 2018, and interim reporting periods within annual reporting periods beginning after December 15, 2019.
- Early application will be permitted for all entities, but not before the original effective date for public business entities (i.e., annual reporting periods beginning after December 15, 2016).
- The option to use either a retrospective or cumulative-effect transition method will not change.

Key Impacts

Entities that elect to wait for the new effective date to adopt the standard will have an extra year to more effectively implement changes to their accounting systems, processes, and internal controls.

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¹ FASB Accounting Standards Update No. 2014-09, Revenue from Contracts with Customers, available at www.fasb.org.

² This includes not-for-profit entities that have issued, or are conduit bond obligors for, securities that are traded, listed, or quoted on an exchange or an over-the-counter market.

Background

In response to the FASB's exposure draft³ and other outreach activities, many stakeholders indicated that additional time is needed to develop accounting policies, update information technology systems, and change processes and internal controls.⁴ More time also is required to consider the effect on taxes, contracts, and debt covenants, and to train employees.

In addition to the systems and policy concerns, the FASB was influenced by its ongoing consideration of potential amendments to make the standard more operational and limit the potential for diversity to develop in practice.⁵ In the February and March 2015 joint FASB/IASB meetings, the FASB agreed to propose several amendments to its standard.

The IASB issued an exposure draft on May 19, 2015 that also proposes a one-year deferral of its revenue recognition standard.⁶ The comment period on that proposal ended on July 3, 2015. Based on comment letters received, the IASB's constituents generally support a one-year deferral. The IASB's final decision on whether to defer its standard is expected at its scheduled meeting during the week of July 20.

Deferral Decision

The FASB agreed to defer by one year the mandatory effective date of the standard despite requests by some constituents for a longer deferral. The Board concluded that a one-year deferral is sufficient, in part because it expects standard-setting to be substantially complete by the end of 2015. Also, the Board indicated that deferring for more than one year could delay the implementation process and decrease comparability from a convergence standpoint. A deferral period of more than one year also would result in a longer period of non-comparability among U.S. GAAP preparers between early adopters and those adopting at the mandatory date.

The following chart summarizes the effective date for public business entities and certain not-for-profit entities with calendar year-ends versus the effective date for other entities with calendar year-ends:

Year-end	Mandatory Adoption Date	Early Adoption Date
Public business entities and certain not-for-profit entities		
December 31	January 1, 2018 (including the quarter ending March 31, 2018)	January 1, 2017 (including the quarter ending March 31, 2017)

³ FASB Proposed Accounting Standards Update, Revenue from Contracts with Customers: Deferral of the Effective Date, April 29, 2015, available at www.fasb.org.

⁴ See KPMG's Defining Issues Nos. 15-12 and 15-25, available at www.kpmginstitutes.com.

⁵ See KPMG's Defining Issues Nos. 15-5 and 15-11, available at www.kpmginstitutes.com.

⁶ IFRS 15, Revenue from Contracts with Customers.

Year-end	Mandatory Adoption Date	Early Adoption Date
Nonpublic entities		
December 31	January 1, 2019 (with mandatory application for interim reporting for the first interim period ending after January 1, 2020 and the option to apply it to the first interim period ending after January 1, 2019)	January 1, 2017 (with the option to apply it in the first interim period ending after January 1, 2017 or the first interim period ending after January 1, 2018), or January 1, 2018 (with the option to apply it in the first interim period ending after January 1, 2018 or the first interim period ending after January 1, 2019)

Next Steps

SEC registrants with calendar year-ends that plan to adopt the standard on January 1, 2018 using the retrospective transition method will present 2016–2018 information under the new revenue recognition standard. Until the period of adoption, SEC registrants will need to update their disclosures regarding plans for adopting the standard including when they plan to adopt and how they plan to transition as their plans become more concrete.⁷ Entities should use the additional time to ensure their information technology systems are appropriately capturing the information needed for reporting and disclosure purposes.

Many entities will need to make modifications to their accounting policies, information technology systems, business processes, and internal controls before the effective date. They should use the additional time provided by the deferral to continue their implementation efforts.

Entities should monitor future developments as the Boards continue to explore clarifying amendments for certain aspects of the standard. Entities also will need to consider issues identified in future meetings of the Transition Resource Group for Revenue Recognition.

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⁷ SEC Staff Accounting Bulletin Topic 11.M, Disclosure of the Impact That Recently Issued Accounting Standards Will Have on the Financial Statements of the Registrant When Adopted in a Future Period, available at www.sec.gov.