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Accounting Journal Entry

SEC Reporting Considerations Related to Adoption of the New Revenue Standard

May 6, 2016 — Wesley Bricker, deputy chief accountant in the SEC's Office of the Chief Accountant, spoke at the 2016 Baruch College Financial Reporting Conference yesterday in New York City. Mr. Bricker commented on transition-period activities related to several of the FASB's recently issued accounting standards, including the new revenue standard (ASU 2014-09[1]). His remarks addressed two significant reporting and disclosure matters that broadly affect SEC registrants: (1) SAB Topic 11.M[2] disclosures and (2) the requirement for revised financial statements in a registration statement.

SAB Topic 11.M Disclosures

Mr. Bricker emphasized the importance of providing investors with disclosures that explain the impact that new accounting standards are expected to have on an entity's financial statements ("transition disclosures").[3] Such disclosures provide investors with the information necessary to determine the effects of adopting a new standard and how the adoption will affect comparability period over period. Mr. Bricker highlighted the importance of "timely investor education and engagement" and presented examples of both successful and unsuccessful past transitions to new accounting standards. He indicated that transparent disclosure of anticipated impacts of a new standard in multiple reporting periods preceding its adoption has prevented market participants from reacting adversely to significant accounting changes. In a manner consistent with previous SEC staff comments on transition disclosures,[4] Mr. Bricker reiterated that "[i]nvestors should expect the level of disclosures to increase as companies make further progress in their implementation plans" in connection with newly issued standards.

Requirement for Revised Financial Statements in a Registration Statement

Registrants planning to use the full retrospective method of adoption have expressed concerns about the requirement to provide revised financial statements after the first quarter in which the new revenue standard is adopted but before filing a Form S-3[5] registration statement. If a registrant elects the full retrospective method of adoption and subsequently files a registration statement that incorporates by reference interim financial statements reflecting the impact of the adoption of the new revenue standard, it would be required to retrospectively revise its annual financial statements in its Form 10-K. Those financial statements would include one more year of retrospectively revised financial statements than the number of years that would be required if the registrant did not file a registration statement (the "fourth year").

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1 FASB Accounting Standards Update No. 2014-09, *Revenue From Contracts With Customers*.

2 SEC Staff Accounting Bulletin (SAB) No. 74 (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."

3 See SAB Topic 11.M.

4 See Deloitte's December 15, 2015, *Heads Up* for more information.

5 While Mr. Bricker referred to Item 11(b) of Form S-3, other registration statements, such as Form S-4, include similar requirements.

For example, a calendar-year-end registrant adopts the new revenue standard on January 1, 2018, by using the full retrospective method and files its first quarter Form 10-Q on May 1, 2018. If the registrant files a Form S-3 on June 1, 2018, it is required under Form S-3, Item 11(b), to revise its financial statements retrospectively for the years ending 2017, 2016, and 2015 since financial statements for these years are required in the registration statement. If the registrant did not file a Form S-3, it would only be required to revise 2017 and 2016 retrospectively when it files its 2018 Form 10-K.

Mr. Bricker indicated that the SEC staff is aware of these concerns and acknowledged that, while this requirement applies to any retrospective change, the "pervasive impact of the new revenue standard amplifies the issue." He noted that the new revenue standard refers to current GAAP and therefore contemplates an impracticability exception to retrospective application if, "after making every reasonable effort to do so," a registrant concludes that it is not practicable to apply the standard retrospectively to all periods required to be presented in a registration statement.[6] Mr. Bricker emphasized that the Office of the Chief Accountant is available for consultation.

Editor's Note: We understand that the SEC staff expects registrants to discuss their conclusions regarding impracticability with the staff in advance of filing a registration statement in which they conclude that retrospective application to the "fourth year" is impracticable.

A transcript of Mr. Bricker's remarks is available on the SEC's Web site.

[6] See ASC 250-10-45-9. While Mr. Bricker's remarks only referred to the guidance in ASC 250-10-45-9(a), ASC 250-10-45-9(b) and (c) also describe scenarios in which a conclusion might be supported that retrospective application is impracticable. Namely, ASC 250-10-45(b) states, "Retrospective application requires assumptions about management's intent in a prior period that cannot be independently substantiated." And ASC 250-10-45-9(c) states, "Retrospective application requires significant estimates of amounts, and it is impossible to distinguish objectively information about those estimates that both: (1) Provides evidence of circumstances that existed on the date(s) at which those amounts would be recognized, measured, or disclosed under retrospective application [and] (2) Would have been available when the financial statements for that prior period were issued."