

AN OFFERING FROM THE BDO CENTER FOR CORPORATE GOVERNANCE
AND FINANCIAL REPORTING

BDO FLASH REPORT

CORPORATE GOVERNANCE



SUBJECT

REMINDER: SEC SAB 74 DISCLOSURES AND CONTROLS FOR NEW ACCOUNTING STANDARDS

SEC reminds issuers:

- ▶ To make disclosure of status of implementation of new accounting standards – **with only two quarters remaining expect scrutiny of disclosures in the second and third quarter of 2017 on ASC 606 – Revenue**
- ▶ Footnote disclosure is an important aspect of adopting new GAAP – **even if revenue recognition does not change on adoption, new disclosures are required**
- ▶ Controls are important and often change with new GAAP – **be prepared to demonstrate how internal control process worked to adopt new GAAP and in ongoing compliance with new GAAP**

SUMMARY

In June 2017, the Center for Audit Quality (CAQ) released CAQ Alert No. 2017-03, [SAB Topic 11.M – A Focus on Disclosures for New Accounting Standards](#) (CAQ Alert 2017-03 or the Alert). Although CAQ Alert 2017-03 is geared toward public companies, the content may also be helpful for private companies as well.

DETAILS

The SEC Staff Accounting Bulletin No. 74 (codified in SAB 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* (SAB 74), requires that when a recently issued accounting standard has not yet been adopted, a registrant disclose the potential effects of the future adoption in its interim and annual SEC filings. FASB Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, ASU No. 2016-02, *Leases (Topic 842)*, and ASU No. 2016-13, *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, all become effective over the next few years, and these new accounting standards are expected to present significant changes for many companies.

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SAB 74 Disclosures

U.S. generally accepted accounting principles (U.S. GAAP) requires that SAB 74 disclosures should be both qualitative and quantitative. According to the Alert, the SEC staff expects that SAB 74 disclosures will become more robust and quantitative as the new accounting standard's effective date approaches. Therefore, the following types of SAB 74 disclosures are expected in a registrant's financial statements in the periods, before new accounting standards are effective:

- ▶ A comparison of accounting policies. Registrants should compare their current accounting policies to the expected accounting policies under the new accounting standard(s).
- ▶ Status of implementation. The status of the process should be disclosed, including significant implementation matters not yet addressed or if the process is lagging.
- ▶ Consideration of the effect of new footnote disclosure requirements in addition to the effect on the balance sheet and income statement. A new accounting standard may not be expected to materially affect the primary financial statements; however, it may require new significant disclosures that require significant judgments.
- ▶ Disclosure of the quantitative impact of the new accounting standard if it can be reasonably estimated.
- ▶ Disclosure that the expected financial statement impact of the new accounting standard cannot be reasonably estimated.
- ▶ Qualitative disclosures. When the expected financial statement impact is not yet known by a registrant, a qualitative description of the effect of the new accounting standard on the registrant's accounting policies should be disclosed.

Internal Control Considerations

The Alert also emphasizes that registrants, their audit committees, and auditors should discuss the status of implementation of the new accounting standard(s), including changes in internal control over financial reporting (ICFR).

▶ **Management Responsibilities**

Determine whether appropriate internal controls are in place to minimize risk that SAB 74 disclosure are inaccurate or incomplete.

▶ **Audit Committee Responsibilities**

Setting the appropriate tone and establishing oversight and review processes to ensure that management is exercising appropriate judgment and that appropriate and adequate SAB 74 disclosure controls are in place and operating effectively.

▶ **Auditor Responsibilities**

Obtain a sufficient understanding of ICFR and respond to identified risks regarding the controls over financial statement disclosures. As part of the audit of ICFR, auditors are required to assess the design effectiveness and to test the operating effectiveness of relevant controls, which may include controls over SAB 74 disclosures.

More on Auditor Responsibilities

The Alert highlights the expectation that auditors evaluate whether adequate SAB 74 disclosures have been included in the financial statements prior to the adoption of new accounting standards and consider reviewing SAB 74 disclosures during reviews of interim financial information. After the effective date of a new accounting standard, auditors would ordinarily inquire of management about the application of new accounting standards as part of their interim reviews. PCAOB auditing standards also require the auditor to communicate to the audit committee if concerns are identified regarding management's expected implementation of a new accounting standard. Further, in the post-effective period, auditors are required to evaluate consistency of the financial statements with U.S. GAAP, including newly adopted accounting principles.

The Alert also includes an appendix that includes certain relevant SEC staff speech and public comment excerpts regarding SAB 74 disclosures for consideration.

For more information and educational opportunities on these and other topics related to audit committee oversight, please visit [BDO's Center for Corporate Governance and Financial Reporting](#).