Real estate accounting and reporting

The impact of new standards and guidance

December 2019

kpmg.com

As a leader in real estate financial reporting, KPMG LLP creates this report annually to assist real estate companies and funds with their financial accounting, regulatory, and compliance reporting requirements.

This year's report provides technical insights on accounting rules that went into effect in 2019, such as the new leasing requirements for public companies, revenue recognition for private companies, and other changes to existing U.S. GAAP.

While the revenue and leasing standards will affect real estate companies to varying degrees, these changes undoubtedly present challenges as the standards are applied and organizations begin to measure the level of impact. This document is intended to provide our perspectives on how to address the key financial reporting and regulatory issues the industry is facing. We would be happy to discuss your specific situations or objectives in more detail.

We look forward to continuing to work with you to effectively navigate this increasingly dynamic accounting and regulatory environment, as well as support your efforts to achieve your broader business objectives.

Thank you.

Greg Williams
National Sector Leader, Building, Construction &
Real Estate/Asset Management
KPMG LLP

KPMG

Contents

Accounting reminders – Effective in 2019 for public companies and later for private companies 1

- Changes to hedge accounting 1
- Improvements to nonemployee share-based payment accounting 1
- Leasing standard effective for public companies, delayed for private companies 1

Accounting reminders – Effective in 2019 for private companies 3

- Revenue recognition standard now effective for all companies 3
- Equity investments and financial liabilities 3
- Statement of cash flows: presentation and classification issues 3
- Restricted cash presentation 4
- Clarifying the definition of a business 4
- Clarifying the scope of derecognition of nonfinancial assets 6

Looking ahead to new standards and guidance 7

- Changes to fair value measurement disclosures 7
- Implementation costs of cloud computing arrangements 8
- Targeted improvements to related party guidance for VIEs 8
- Simplifying goodwill impairment accounting 9

Proposed guidance 10

- New disclosure requirements for private entities 10
- Amending income tax disclosures 10
- Proposed changes to convertible debt accounting 10

Appendix 11

1 Accounting reminders—Effective in 2019 for public companies and later for private companies

Reminders for certain new guidance effective January 1, 2019, for public calendar year-end companies and effective January 1, 2020 or later, for private calendar year-end companies.

Changes to hedge accounting

In August 2017, the Financial Accounting Standards Board (FASB) issued new guidance[1] that changes the recognition and presentation requirements of hedge accounting including eliminating the requirement to separately measure and report hedge ineffectiveness and adding a requirement to present all the income statement effects of hedge accounting in the same caption as the hedged item.

The guidance also provides new alternatives for applying hedge accounting to additional hedging strategies, measuring the hedged item in fair value hedges of interest rate risk, reducing the cost and complexity of applying hedge accounting by easing the requirements for effectiveness testing, hedge documentation and application of the critical terms match method, and reducing the risk of material error corrections if an entity applies the shortcut method inappropriately.

The new guidance is effective for public business entities for annual and interim periods in fiscal years beginning after December 15, 2018. For other entities, it is effective for annual periods in fiscal years beginning after December 15, 2020 and interim periods in fiscal years beginning after December 15, 2021. Early adoption is permitted at any time. If adopted at a period other than the beginning of a fiscal year, cumulative effect adjustments are reflected as of the beginning of the fiscal year.

Improvements to nonemployee share-based payment accounting

In June 2018, the FASB issued guidance[2] eliminating the separate accounting model for nonemployee share-based payment awards and generally requiring companies to account for share-based payment transactions with nonemployees in the same way as share-based payment transactions with employees.

The accounting remains different for expense attribution and provides a contractual term election for valuing nonemployee equity share options. Expense attribution, which represents how the equity-based payment cost is recognized over the vesting period, will continue to be determined for nonemployee awards as if the company issuing equity had paid cash for the goods and/or services. Accordingly, an entity should consider the nature of what it received to determine the appropriate period and pattern in which to recognize the cost.

The new guidance is effective for public business entities for annual and interim periods in fiscal years beginning after December 15, 2018. For other entities, it is effective for annual periods in fiscal years beginning after December 15, 2019 and interim periods in fiscal years beginning after December 15, 2020. Early adoption is allowed, but no earlier than the entity's adoption date of the revenue recognition standard.

Leasing standard effective for public companies, delayed for private companies and most other entities

ASC 842, Leases, became effective for public companies and certain not-for-profit entities and employee benefit plans for annual and interim periods in fiscal years beginning after December 2018. In October 2019, the FASB voted unanimously to delay the effective dates for private companies and all other entities by one year, with the standard effective for annual reporting periods in fiscal years beginning after December 15, 2020.

In August 2019, KPMG published an updated version of our Leases Handbook. The Handbook offers an in-depth understanding of the accounting requirements of ASC 842. The updated book answers questions that have been encountered in practice, including new ones that continue to arise even after the effective date has passed for public companies. The book includes examples and observations to explain key concepts and key changes from ASC 840. Additionally, KPMG published a Q&A for real estate lessors that provides a road map to the Handbook's existing technical guidance on key issues that are likely to be of interest for real estate lessors, and focuses on the implications for US GAAP reporting entities.

---

[1] FASB Accounting Standards Update No. 2017-12, *Targeted Improvements to Accounting for Hedging Activities*

[2] FASB Accounting Standards Update No. 2018-07, *Improvements to Nonemployee Share-Based Payment Accounting*

ASC 842: Highlights for Lessors

Topic	Highlights
Revenue recognition guidance applies in determining how to separate and allocate components of the contract	Assuming lessors do not elect the practical expedient in ASU 2018-11: — Lessors will need to separate lease from non-lease components. — Separation of components is based on separation principle in new revenue standard, which has important differences from how lessors allocate on a fair value basis under current GAAP.
Sale-leaseback guidance	— Eliminates sale-lease back accounting as an off-balance sheet financing proposition (e.g., seller-lessees will recognize a ROU asset and lease liability in place of the underlying asset). — Likely will be fewer failed sales in sale-leaseback transactions involving real estate, but there may be more failed sales in equipment sale-lease-leaseback transactions. — Buyer-lessors will have to consider the same sale guidance in the new recognition standard as seller-lessees to determine whether they have purchased the underlying asset, which may result in a failed purchase. — Seller-lessees will recognize the entire gain from the sale of the underlying asset (i.e., the difference between the selling price and the carrying amount of the underlying asset) at the time the sale is recognized rather than over the leaseback term.
Collectibility issues	— No longer preclude sales-type lease classification. Results in lease payments being recognized as deposit liability until collectibility becomes probable or specified events occur. — Operating lease income limited to lease payments received when collectibility is not probable.
No special classification rules for leases of real estate	— No longer necessary for title to transfer to the lessee or for there to be a bargain purchase option to be classified as other than as operating lease.
Initial Direct Costs (IDCs)	— IDCs include only incremental cost that are incurred as a result of the lease having been obtained (i.e., executed). For example, commissions and direct payments made to existing tenant to obtain a lease. — Allocated internal employee costs and other costs that would be required to be paid even if the lease was not executed (e.g., most legal fees) are not IDCs.
Land component	— For leases that include a land element (e.g., a lease of land and a building, or land and integral equipment), the right to use the land is considered a separate lease component and an entity should account for that right as a separate lease component unless the accounting effect of separately accounting for the land element would be "insignificant."

These represent the key changes we expect for real estate lessors. The list is not meant to be exhaustive.

2 Accounting reminders - Effective in 2019 for private companies

Revenue recognition standard now effective for all companies

After becoming effective for public companies in 2018, the revenue recognition standard is now effective for all entities. Calendar year-end private companies are required to adopt and apply the requirements of the standard for annual periods in fiscal years beginning after December 15, 2018 and interim periods in fiscal years beginning after December 15, 2019.

KPMG's Handbook on revenue recognition provides in-depth illustrations on how the new standard applies to common transactions, provides examples about common scenarios, and explains our emerging thinking on key interpretive issues, and compares the new requirements to legacy US GAAP. KPMG has also published a Q&A to provide supplemental technical guidance on key issues when applying the new revenue and other income models to sales of real estate. The Q&A addresses some of the common questions about the effects of the new standards on sales of real estate.

Equity investments and financial liabilities

The FASB issued a new accounting standard that significantly changes the income statement effect of equity investments held by an entity and the recognition of changes in fair value of financial liabilities when the fair value option is elected.

Under the new standard, entities must measure equity investments with readily determinable fair values at fair value and recognize changes in fair value in net income. For equity investments without readily determinable fair values, entities have the option to either measure these investments at fair value, or at cost adjusted for changes in observable prices minus impairment. Changes in measurement under either alternative must be recognized in net income. Because entities must recognize changes in the measurement of equity investments in net income, income statement volatility will increase.

Entities that elect the fair value option for financial liabilities must recognize changes in fair value attributable to instrument-specific credit risk in other comprehensive income so that changes in an entity's credit risk will not affect earnings when the fair value option is elected.

For all private entities, the guidance is effective for fiscal years beginning after December 15, 2018, and interim periods in fiscal years beginning after December 15, 2019.

Statement of cash flows: presentation and classification issues

Classification of certain cash receipts and cash payments

The FASB issued new guidance[4] addressing eight cash flow issues that are expected to reduce diversity in practice and improve financial reporting. Those issues most relevant to the real estate industry include:

Debt prepayment or extinguishment costs. The new guidance states that cash payments for debt prepayment or extinguishment costs should be classified as cash outflows for financing activities.

Settlement of zero-coupon bonds. The new guidance states that the portion of the cash payment at settlement attributable to the accreted interest should be classified as a cash outflow for operating activities. For other bonds issued at a discount, the entire cash payment is classified as a cash outflow for financing activities.

---

[3] FASB Accounting Standards Update No. 2016-01, *Recognition and Measurement of Financial Assets and Financial Liabilities*, and FASB Accounting Standards Update No. 2018-04, *Investments—Debt Securities (Topic 320) and Regulated Operations (Topic 980)*

[4] FASB Accounting Standards Update No. 2016-15, *Classification of Certain Cash Receipts and Cash Payments*

Contingent consideration payments made after a business combination. The new guidance states that cash payments made after a business combination for the settlement of a contingent consideration liability should be separated and classified as:

- A cash outflow for financing activities for the portion of the total cash payment not to exceed the amount of the contingent consideration liability recognized as the acquisition-date fair value (including measurement period adjustments). This classification presumes that the amount is not paid at the time of purchase or soon before (or after) the business combination occurred. Otherwise, it would be classified as a cash outflow for investing activities.
- A cash outflow for operating activities for the amount paid in excess of the amount of the contingent consideration liability recognized as the acquisition-date fair value (including measurement period adjustments).

Distributions received from equity method investees. The new guidance requires an accounting policy election to use either the cumulative-earnings approach or the look-through approach for all investees.

Under the cumulative-earnings approach, all distributions received from the investee are presumed to be returns on investment and classified as operating inflows. However, if the investor's cumulative distributions, excluding distributions in prior years that were determined to be returns of investment, exceed the investor's cumulative equity in earnings, the current period distribution up to this excess is considered a return of investment and classified as investing inflows.

Under the look-through approach, distributions received are classified based on the specific facts and circumstances. If the entity does not have the information necessary to evaluate the specific facts and circumstances of a distribution received from an investee, it applies the cumulative-earnings approach to determine the classification.

For all private entities, the guidance is effective for annual periods beginning after December 15, 2018, and for interim periods beginning after December 15, 2019. Full retrospective transition is required, with a provision for impracticability.

Restricted cash presentation

The FASB issued new guidance[5] requiring that the statement of cash flows explain the change in the total of cash and cash equivalents, including amounts generally described as restricted cash and restricted cash equivalents.

When these total amounts as of the beginning or end of any period presented are included in more than one line item within the statements of financial position, companies should disclose the amounts and line items in which cash and cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents, are reported in each statement of financial position presented. The new guidance also requires an entity to disclose the nature of restrictions on cash and cash equivalents.

For all private entities, the guidance is effective for annual periods beginning after December 15, 2018, and interim periods within fiscal years beginning after December 15, 2019. The new guidance requires retrospective application.

Clarifying the definition of a business

In January 2017, the FASB issued guidance[6] that provides a new framework for determining whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. The guidance states that 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 contribute to the ability to create outputs. The guidance creates an initial screening test that reduces the population of potential businesses before an entity analyzes whether there is an input and a substantive process in the set.

[5] FASB Accounting Standards Update No. 2016-18, *Restricted Cash*
[6] FASB Accounting Standards Update No. 2017-01, *Clarifying the Definition of a Business*

The following is an overview of the two-step test:

step 1	Is substantially all of the fair value of the gross assets acquired concentrated in a single group of similar identifiable assets?

If yes, the set is not a business. If no…

step 2	Evaluate whether an input and a substantive process exist… Does the set have outputs?

If yes...

- The set is a business if it includes one or more inputs and includes:
  - Organized workforce with skills, knowledge or experience critical to continue producing outputs;
  - Process that cannot be replaced without significant cost, effort, or delay, or
  - Process that is considered unique or scarce.

If no...

The set is a business if it includes:

- Employees that form an organized workforce with skills, knowledge, or experience to perform an acquired process (or group of processes) that is critical to the ability to create outputs
- Input(s) that the workforce could develop or convert into outputs.

Fewer real estate acquisitions will qualify as business combinations under the new guidance than qualify today, but it may be difficult to determine whether assets are combined or considered similar in applying the screening test.

The following is an example illustrating the definition:

Example facts

- REIT acquires 10 single-family homes in the Washington, DC metro area. The acquisition includes the land, building, property improvements, and in-place leases.
- Each single-family home has a different layout (e.g., floor plan, square footage, and design). The lessees are a similar class of customers.
- No workforce or other assets are acquired in the transaction.

Analysis

Step 1: REIT identifies the individual assets in the set and concludes that the land, building, property improvements, and in-place leases at each property are considered a single asset for purposes of Step 1. The building and property improvements are attached to and cannot be physically removed and used separately from the land without incurring significant costs or reducing their fair value. The in-place lease intangibles for each home are required to be combined with the leased asset for the screening test.

REIT concludes that the 10 homes are a group of similar assets based on the nature of the homes (single-family) and similar risks associated with managing this portfolio of homes. That is, the risks of operating the homes and managing the tenants are not significantly different.

Because there are no other assets in the set, REIT concludes that the fair value of the gross assets acquired is concentrated in a group of similar identifiable assets (the 10 homes) and Step 1 is met. Step 2 is not necessary.

Conclusion

The acquired set meets the initial screening test (Step 1). Therefore, the acquired set is not a business.

For all private entities, the standard is effective for annual periods in fiscal years beginning after December 15, 2018, and interim periods in fiscal years beginning after December 15, 2019.

Clarifying the scope of derecognition of nonfinancial assets

In February 2017, the FASB issued new guidance[7] that clarifies that the guidance in ASC 610-20 on accounting for derecognition of a nonfinancial asset applies only when the asset (or asset group) does not meet the definition of a business and is not a not-for-profit activity. An in-substance nonfinancial asset is defined as one that is 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 new guidance applies to transfers and exchanges of nonmonetary assets and interests in a subsidiary that contains only nonfinancial assets and in-substance nonfinancial assets, including when the seller retains a noncontrolling interest. When a seller retains a noncontrolling interest, the interest is noncash consideration and is measured at fair value. The guidance eliminates the partial profit recognition models in the real estate sales and nonmonetary transactions guidance. A seller will recognize its full gain in earnings when it loses its controlling financial interest and will not recognize a gain in earnings when it retains a controlling financial interest.

Because ASC 610-20 applies when real estate (or in-substance real estate) does not meet the definition of a business based on the new guidance that clarifies the definition of a business, we believe most noncustomer real estate sales fall within its scope. Additionally, sales of noncontrolling ownership interests accounted for under the equity method that are considered in-substance real estate under current U.S. GAAP will now be accounted for under transfer and servicing guidance (ASC 860) regardless of whether the buyer is a customer or noncustomer.

For all private entities, the guidance is effective for annual periods beginning after December 15, 2018, and for interim periods beginning after December 15, 2019.

The new guidance is effective at the same time as the new revenue recognition standard. At adoption, an entity applies the new definition of a business to determine which transactions are in the scope of the new guidance, regardless of the entity's transition method.

For transition to 610-20, is a partial sale a completed contract?

Under legacy U.S. GAAP, when a seller executed a partial sale and kept only a noncontrolling interest, it recognized a partial gain (i.e., the gain attributable only to the portion sold to the third party). The noncontrolling interest held by the seller was characterized as a retained interest in the asset sold and was measured at carryover basis. Under ASC 610-20, when a seller executes a partial sale and keeps only a noncontrolling interest, it recognizes 100 percent gain. The noncontrolling interest held by the seller is characterized as contract consideration at fair value.

Topic 606 defines a completed contract for transition purposes as for which all (or substantially all) of the revenue was recognized under legacy U.S. GAAP.

For noncustomer transactions, we believe a seller should identify completed contracts by determining whether the gain recognized has been measured using all or substantially all of the sales value. In applying that guidance to a partial sale, we believe a seller should evaluate whether the gain recognized was measured using all or substantially all of the sales value received from the third party in exchange for the partial ownership interest. The sales value would not include the fair value or the carrying amount of the ownership interest retained because Subtopic 360-20 did not characterize the retained interest amount as part of the consideration received and the analysis of whether a contract is complete is based on legacy GAAP.

From KPMG's Revenue: Real Estate Q&As, January 2019

[7] FASB Accounting Standards Update No. 2017-05, *Clarifying the Scope of Asset Derecognition Guidance and Accounting for Partial Sales of Nonfinancial Assets*

3 Looking ahead to new standards and guidance

Changes to fair value measurement disclosures

As part of its disclosure framework project, the FASB issued guidance[8] in August 2018 that eliminates, amends, and adds disclosure requirements for fair value measurements. The amended fair value disclosures are part of the FASB's disclosure review project that tests the effectiveness of its disclosure framework. These amendments are expected to reduce costs for preparers while providing more decision-useful information for financial statement users.

The FASB eliminated four disclosures:	The FASB amended and clarified four disclosures:	The FASB also added two new disclosure requirements for public companies:
— Amount of, and reasons for, transfers between Level 1 and Level 2 of the fair value hierarchy. — The policy of timing of transfers between levels of the fair value hierarchy. — The valuation processes for Level 3 fair value measurements. — For nonpublic companies, the changes in unrealized gains and losses for the period included in earnings for recurring Level 3 fair value measurements for instruments held at the end of the reporting period.	— Nonpublic companies are required to disclose transfers into and out of Level 3 assets and liabilities, as well as purchases and issues of Level 3 assets and liabilities instead of providing a detailed roll-forward. — For investments in certain companies that calculate net asset value, disclosures are only required for the timing of liquidation of an investee's assets, and the date when restrictions from redemption might lapse, if the investee has communicated the timing to the investor or has publicly announced it. — The measurement uncertainty disclosure communicated information about the uncertainty as of the reporting date. — Removed the term "at a minimum" from the disclosure requirements.	— Changes in unrealized gains and losses for the period included in other comprehensive income. — The range and weighted average of significant observable inputs used. Alternatively, an entity may choose to disclose other quantitative information if it determines that is a more reasonable and rational method that reflects the distribution of unobservable inputs used.

The new guidance is effective for all entities for annual and interim periods in fiscal years beginning after December 15, 2019. Early adoption is allowed for any period for which financial statements have not yet been issued or made available for issuance. An entity is permitted to early adopt any eliminated or modified disclosure requirement and delay adoption of the additional disclosure requirements until their effective date.

---

[8] FASB Accounting Standards Update No. 2018-13, *Changes to the Disclosure Requirements for Fair Value Measurement*

Implementation costs of cloud computing arrangements

In August 2018, the FASB issued new guidance that requires implementation costs incurred by customers in cloud computing arrangements to be deferred and recognized over the term of the arrangement, if those costs would be capitalized by a customer in a software licensing arrangement under the internal-use software guidance in ASC 350-40. Included in the scope of the guidance are certain "hosting arrangements" that allow customers to access and use software on an as-needed basis without having possession of it.

The guidance requires companies to defer potentially significant, specified implantation costs incurred in a cloud computing arrangement that are often expensed as incurred under the current U.S. GAAP and recognize them over the noncancellable term of the arrangement. The new deferred implementation cost assets will affect companies' financial ratios and deferred tax accounting.

The new guidance is effective for public companies for annual and interim reporting periods for fiscal years beginning after December 15, 2019. For all other companies, the guidance is effective for annual reporting periods for fiscal years beginning after December 15, 2020, and for interim reporting periods for fiscal years beginning after December 15, 2021. Early adoption is permitted.

Targeted improvements to related party guidance for VIEs

The FASB issued new guidance that expands the current variable interest entity (VIE) exemption for private companies to arrangements beyond common control leasing arrangements. Under the new guidance, a private company can elect not to apply the VIE guidance to all legal entities under common control if (a) both the common control parent and the legal entity are also private companies and (b) it does not directly or indirectly have a controlling financial interest in the legal entity under the voting interest entity consolidation guidance.

The new guidance also amends how a decision maker or service provider determines whether its fee is a variable interest in a VIE when a related party under common control also has an interest in the VIE.

The new guidance is effective for private companies for annual reporting periods beginning after December 15, 2020, and for interim reporting periods beginning after December 15, 2021. For all other companies, the guidance is effective for annual and interim reporting periods for fiscal years beginning after December 15, 2019. Early adoption is allowed, including adoption in an interim period.

Decision maker or service provider considerations: Related parties under common control

Consolidation step	Current U.S. GAAP	ASU 2018-17
Determine whether a decision maker's fee is a variable interest.	Consider interests held by related parties in their entirety.	Consider interests held by related parties on a proportionate basis, which aligns the analysis with the primary beneficiary determination.
If the fee is a variable interest, determine whether the decision maker is the primary beneficiary of the VIE.	Consider interest held by related parties on a proportionate basis.	No change.

[9] FASB Accounting Standards Update No. 2018-15, *Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That is a Service Contract*

[10] FASB Accounting Standards Update No. 2018-17, *Targeted Improvements to Related Party Guidance for Variable Interest Entities*

Simplifying goodwill impairment accounting

In January 2017, the FASB issued new guidance[11] to simplify the subsequent measurement of goodwill by removing the second step of the goodwill impairment test. An entity would perform its annual or interim goodwill impairment test by comparing the fair value of a reporting unit to its carrying amount. If the reporting unit's carrying amount exceeds its fair value, the difference, up to the carrying amount of the goodwill allocated to the reporting unit, will be recognized as an impairment in goodwill.

The new guidance is effective for annual and interim periods in fiscal years beginning after December 15, 2019 for public business entities that file with the SEC and for annual and interim periods in fiscal years beginning after December 15, 2020 for public business entities that do not file with the SEC. For entities that are not public business entities, the new guidance will be effective for annual and interim periods in fiscal years beginning after December 15, 2022. Early adoption is permitted for goodwill impairment tests with measurement dates after January 1, 2017.

Current requirements	New guidance
Indicators of impairment at an interim date require a quantitative test for goodwill impairment	No change
Optional Step 0 allows qualitative assessment of whether it is more likely than not that goodwill is impaired (annual test only)	No change
Step 1 of the goodwill impairment test identified potential impairment	Single-step test identifies and measures impairment
Step 2 of the goodwill impairment test measures the impairment	Eliminated
Qualitative assessment identifies impairment for reporting units with zero or negative carrying amounts. When impairment is identified, perform Step 2 to measure the impairment.	Replaced. Entities must disclose the amount of goodwill allocated to each reporting unit with zero or negative carrying amounts and the related reportable segment.

[11] FASB Accounting Standards Update No. 2017-04, *Simplifying the Test for Goodwill Impairment Improvements*

4 Proposed guidance

New disclosure requirements for private entities

The FASB issued a proposed ASU that would incorporate several SEC disclosures and presentation requirements into U.S. GAAP. The proposal also would introduce new disclosure requirements for private entities.

Potential disclosure additions would include the impact of derivative instruments in the statement of cash flows; newly consolidated or deconsolidated entities; assets mortgaged, pledged, or subject to lien; and weighted-average interest rate on short-term borrowings and unused lines of credit.

The proposals are the FASB's response to an SEC request that the Board consider incorporating into the Codification certain SEC disclosure requirements that overlap with but provide incremental information to U.S. GAAP.

Amending income tax disclosures

As part of its disclosure framework project, the FASB reproposed an ASU that would modify, eliminate, and add income tax disclosures. The FASB first proposed an ASU in July 2016, but revised several of its proposals based on stakeholder feedback and the effects of U.S. tax reform.

In a scoping decision that would affect all ASC 740 disclosures, the FASB proposed to replace the term "public entity" with the term "public business entity" (PBE). If an entity is not considered a public entity but meets the definition of a PBE, it would be subject to all the PBE disclosure requirements.

Among the proposals, all companies would be required to disaggregate income (or loss) from continuing operations before intra-entity eliminations between domestic and foreign; and disaggregate income tax expense (or benefit) from continuing operations and income taxes paid between federal or national, state, and foreign.

PBEs would be required to disclose the amount of:

- Federal or national, state, and foreign carryforwards (tax effected) before valuation allowance and disaggregated by expiration date for the first five years, the total for any remaining years, and the total for those that do not expire
- Valuation allowance recognized for federal or national, state, and foreign carryforward deferred tax assets; and unrecognized tax benefits that reduce deferred tax assets for carryforwards.

Additionally, when preparing the rate reconciliation, PBEs would be required to separately disclose reconciling items that are more than five percent of the amount computed by multiplying income before tax by the applicable statutory federal or national income tax and explain year-to-year changes in reconciling items.

Proposed changes to convertible debt accounting

The FASB issued a proposed ASU to simplify accounting for convertible instruments and contracts indexed to an entity's own equity. The most significant proposals would:

- Require a company to account for a convertible instrument either as debt with a bifurcated embedded derivative or as a single unit under the traditional convertible debt model
- Eliminate the ASC 470-20 cash conversion, beneficial conversion and substantial premium accounting models for convertible instruments
- Enhance disclosures about convertible instruments including adding information about events or conditions that significantly affect conversion, and require existing fair value disclosures at the instrument, not aggregate, level
- Require more contracts indexed to an entity's own equity, currently accounted for as derivatives, to be classified as equity by disregarding remote contingent events that could cause net cash settlement and removing certain existing criteria requiring derivative accounting.

The proposal would also amend certain earnings per share guidance under ASC 260.

5 Appendix - Accounting standards effective dates

Not-for-profit entities and employee benefit plans generally should apply the effective date guidance in the "private company" table that follows. However, some ASUs require certain not-for-profit entities and employee benefit plans to use public company effective dates. The effective date information for those ASUs is identified with a *, †, ‡, or § in the tables below.

Accounting standards affecting public companies in 2019

Calendar year-end public companies are required to begin applying these accounting standards in 2019.

Topic	Effective date for public companies and, where marked, certain other entities	For more information
Clarifying the scope and the accounting guidance for contributions received and contributions made	Contributions received: Annual and interim periods in fiscal years beginning after 6/15/2018† Contributions made: Annual and interim periods in fiscal years beginning after 12/15/2018‡	ASU 2018-08 Defining Issues
Leases	Annual and interim periods in fiscal years beginning after 12/15/2018* **Note:** Because many public companies and certain other entities adopted ASU 2016-02 and its related amendments before ASU 2019-01 was issued, ASU 2019-01 is effective for annual and interim periods in fiscal years beginning after 12/15/2019. However, early adoption is permitted.	ASU 2016-02 ASU 2017-13 ASU 2018-01 ASU 2018-10 ASU 2018-11 ASU 2018-20 ASU 2019-01 KPMG's web page on Leases
(Part I) Accounting for certain financial instruments with down round features and (Part II) replacement of the indefinite deferral for mandatorily redeemable financial instruments of certain nonpublic entities and certain mandatorily redeemable noncontrolling interests with a scope exception	Annual and interim periods in fiscal years beginning after 12/15/2018	ASU 2017-11 Defining Issues
Targeted improvements to accounting for hedging activities	Annual and interim periods in fiscal years beginning after 12/15/2018	ASU 2017-12 ASU 2019-04 KPMG's web page on Financial instruments
Codification improvements ASC 955, US Steamship Entities	Annual and interim periods in fiscal years beginning after 12/15/2018	ASU 2017-15 Web article

Topic	Effective date for public companies and, where marked, certain other entities	For more information
Reclassification of certain tax effects from accumulated other comprehensive income	Annual and interim periods in fiscal years beginning after 12/15/2018	ASU 2018-02 Tax reform supplement
Premium amortization for purchased callable debt securities	Annual and interim periods in fiscal years beginning after 12/15/2018	ASU 2017-08 Defining Issues Podcast
Improvements to nonemployee share-based payment accounting	Annual and interim periods in fiscal years beginning after 12/15/2018	ASU 2018-07 Defining Issues
Codification improvements	Most amendments were effective on issuance (July 16, 2018). Certain amendments that require transition guidance are effective for annual and interim periods in fiscal years beginning after 12/15/2018. Other amendments, which affect recently issued ASUs that are not yet effective, are effective at the same time as the original ASU.	ASU 2018-09 Web article
Inclusion of the secured overnight financing rate (SOFR) overnight index swap (OIS) rate as a benchmark interest rate for hedge accounting purposes	Annual and interim periods in fiscal years beginning after 12/15/2018	ASU 2018-16 Web article
Amendments to SEC paragraphs pursuant to SEC final rule releases No. 33-10532, Disclosure update and simplification, and Nos. 33-10231 and 33-10442, Investment company reporting modernization, and miscellaneous updates	On issuance (July 26, 2019)	ASU 2019-07

† The 'public company' effective date requirements for ASU 2018-08 also apply to 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 and serve as a resource recipient.

‡ The 'public company' effective date requirements for ASU 2018-08 also apply to 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 and serve as a resource provider.

* The 'public company' effective date requirements for the leases standard also apply to (1) 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; and (2) employee benefit plans that file or furnish financial statements with the SEC.

Accounting standards affecting public companies in 2020 and beyond

Calendar year-end public companies are required to begin applying these accounting standards in 2020 or later and may need to disclose their potential effects in 2019.

Topic	Effective date for public companies and, where marked, certain other entities	For more information
Disclosure framework—Changes to the disclosure requirements for fair value measurement	Annual and interim periods in fiscal years beginning after 12/15/2019	ASU 2018-13 Defining Issues
Customer's accounting for implementation costs incurred in a cloud computing arrangement that is a service contract	Annual and interim periods in fiscal years beginning after 12/15/2019	ASU 2018-15 Defining Issues
Targeted improvements to related party guidance for variable interest entities	Annual and interim periods in fiscal years beginning after 12/15/2019§	ASU 2018-17 Defining Issues Webcast
Collaborative arrangements: Clarifying the interaction between ASC 808 and ASC 606	Annual and interim periods in fiscal years beginning after 12/15/2019	ASU 2018-18 Defining Issues
Improvements to accounting for costs of films and license agreements for program materials	Annual and interim periods in fiscal years beginning after 12/15/2019	ASU 2019-02
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 **Note:** Because certain companies adopted ASU 2016-13 and its related amendments before ASU 2019-05 was issued, ASU 2019-05 is effective for annual and interim periods in fiscal years beginning after 12/15/2019. However, early adoption is permitted.	ASU 2016-13 ASU 2018-19 ASU 2019-04 ASU 2019-05 KPMG's web page on Financial instruments

Topic	Effective date for public companies and, where marked, certain other entities	For more information
Codification improvements to ASC 326, Financial instruments—Credit losses, ASC 815, Derivatives and hedging, and ASC 825, Financial instruments	For ASC 326: Entity has adopted ASU 2016-13: Annual and interim periods in fiscal years beginning after 12/15/2019 Entity has NOT adopted ASU 2016-13: Effective at the same time as ASU 2016-13, depending on the nature of the filer	ASU 2019-04 Defining Issues KPMG's web page on Financial instruments
	For ASC 815: Entity has adopted ASU 2017-12: As of the beginning of the first annual period beginning after April 25, 2019 Entity has NOT adopted ASU 2017-12: Effective at the same time as ASU 2017-12 – i.e. annual and interim periods in fiscal years beginning after 12/15/2018	
	For ASC 825: Annual and interim periods in fiscal years beginning after 12/15/2019	
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 Podcast
Disclosure framework—Changes to the disclosure requirements for defined benefit plans	Annual periods in fiscal years ending after 12/15/2020	ASU 2018-14 Defining Issues
Updating the definition of collections	Annual periods in fiscal years beginning after 12/15/2019, and interim periods in fiscal years beginning after 12/15/2020	ASU 2019-03 Defining Issues
Targeted improvements to the accounting for long-duration contracts	Annual and interim periods in fiscal years beginning after 12/15/2020	ASU 2018-12 Defining Issues

§ The 'public company' effective date requirements for ASU 2018-17 apply to all entities other than private companies.

Not-for-profit entities and employee benefit plans generally should apply the effective date guidance in the 'private company' tables that follow. However, some ASUs require certain not-for-profit entities and employee benefit plans to use public company effective dates. The effective date information for those ASUs is identified with a *, †, ‡, or § in the tables below.

Accounting standards affecting private companies in 2019

Calendar year-end private companies are required to begin applying these accounting standards in 2019.

Topic	Effective date for private companies	For more information
Codification improvements to ASC 955, US Steamship Entities	Annual and interim periods in fiscal years beginning after 12/15/2018	ASU 2017-15 Web article
Reclassification of certain tax effects from accumulated other comprehensive income	Annual and interim periods in fiscal years beginning after 12/15/2018	ASU 2018-02 Tax reform supplement
Extending the private company accounting alternatives on goodwill and certain identifiable intangible assets to not-for-profit entities	On issuance (May 30, 2019)	ASU 2019-06 Defining Issues
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 KPMG's web page 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 ASU 2018-03 ASU 2019-04 KPMG's web page 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 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 Webcast Podcast
Intra-entity transfers of assets other than inventory	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 Podcast

Topic	Effective date for private companies	For more information
Statement of cash flows: 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 Webcast 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 Webcast
Clarifying the scope of asset derecognition guidance and accounting for partial sales of nonfinancial assets	Annual periods in fiscal years beginning after 12/15/2018, and interim periods in fiscal years beginning after 12/15/2019*	ASU 2017-05 Defining Issues Podcast
Employee benefit plan master trust reporting	Annual periods in fiscal years beginning after 12/15/2018	ASU 2017-06 Web article
Improving the presentation of net periodic pension cost and net periodic postretirement benefit cost	Annual periods in fiscal years beginning after 12/15/2018, and interim periods in fiscal years beginning after 12/15/2019	ASU 2017-07 Defining Issues Podcast
Identifying the customer in a service concession arrangement	Annual periods in fiscal years beginning after 12/15/2018, and interim periods in fiscal years beginning after 12/15/2019	ASU 2017-10 Web article Podcast
Clarifying the scope and the accounting guidance for contributions received and contributions made	Contributions received: Annual periods in fiscal years beginning after 12/15/2018, and interim periods in fiscal years beginning after 12/15/2019† **Contributions made:** Annual periods in fiscal years beginning after 12/15/2019, and interim periods in fiscal years beginning after 12/15/2020‡	ASU 2018-08 Defining Issues

* The 'public company' effective date requirements for the revenue recognition, other income and leases standards also apply to (1) 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; and (2) employee benefit plans that file or furnish financial statements with the SEC. The revenue recognition and other income standards became effective for public companies in 2018. For the leases standard, see Accounting standards affecting public companies in 2019.

† The 'public company' effective date requirements for ASU 2018-08 also apply to 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 and serve as a resource recipient. See Accounting standards affecting public companies in 2019.

‡ The 'public company' effective date requirements for ASU 2018-08 also apply to 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 and serve as a resource provider. See Accounting standards affecting public companies in 2019.

Accounting standards affecting private companies in 2020 and beyond

Calendar year-end private companies are required to begin applying these accounting standards in 2020 or later.

Topic	Effective date for private companies	For more information
Disclosure framework—Changes to the disclosure requirements for fair value measurement	Annual and interim periods in fiscal years beginning after 12/15/2019	ASU 2018-13 Defining Issues
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 ASU 2018-01 ASU 2018-10 ASU 2018-11 ASU 2018-20 ASU 2019-01 KPMG's web page on Leases
Premium amortization for purchased callable debt securities	Annual periods in fiscal years beginning after 12/15/2019, and interim periods in fiscal years beginning after 12/15/2020	ASU 2017-08 Defining Issues Podcast
(Part I) Accounting for certain financial instruments with down round features, (Part II) Replacement of the indefinite deferral for mandatorily redeemable financial instruments of certain nonpublic entities and certain mandatorily redeemable noncontrolling interests with a scope exception	Annual periods in fiscal years beginning after 12/15/2019, and interim periods in fiscal years beginning after 12/15/2020	ASU 2017-11 Defining Issues
Targeted improvements to accounting for hedging activities	Annual periods in fiscal years beginning after 12/15/2019, and interim periods in fiscal years beginning after 12/15/2020	ASU 2017-12 ASU 2019-04 KPMG's web page on Financial instruments

Topic	Effective date for private companies	For more information
Improvements to nonemployee share-based payment accounting	Annual periods in fiscal years beginning after 12/15/2019, and interim periods in fiscal years beginning after 12/15/2020	ASU 2018-07 Defining Issues
Inclusion of the secured overnight financing rate (SOFR) overnight index swap (OIS) rate as a benchmark interest rate for hedge accounting purposes	Entities that have not adopted ASU 2017-12: Adopt concurrent with ASU 2017-12 – i.e. annual periods in fiscal years beginning after 12/15/2019, and interim periods in fiscal years beginning after 12/15/2020 Entities that have adopted ASU 2017-12: Effective for annual and interim periods in fiscal years beginning after 12/15/2019	ASU 2018-16 Web article
Updating the definition of collections	Annual periods in fiscal years beginning after 12/15/2019, and interim periods in fiscal years beginning after 12/15/2020	ASU 2019-03 Defining Issues
Improvements to accounting for costs of films and license agreements for program materials	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 Webcast
Clarifying the scope of asset derecognition guidance and accounting for partial sales of nonfinancial assets	Annual and interim periods in fiscal years beginning after 12/15/2020	ASU 2019-02
Measurement of credit losses on financial instruments	Annual and interim periods in fiscal years beginning after 12/15/2021 **Note:** For companies who adopted ASU 2016-13 and its related amendments before ASU 2019-05 was issued, ASU 2019-05 is effective for annual and interim periods in fiscal years beginning after 12/15/2019. However, early adoption is permitted.	ASU 2016-13 ASU 2018-19 ASU 2019-04 ASU 2019-05 Defining Issues KPMG's web page on Financial instruments

Topic	Effective date for private companies	For more information
Codification improvements to ASC 326, Financial instruments—Credit losses, ASC 815, Derivatives and hedging, and ASC 825, Financial instruments	**For ASC 326:** Entity has adopted ASU 2016-13: Annual and interim periods in fiscal years beginning after 12/15/2019 Entity has NOT adopted ASU 2016-13: Effective at the same time as ASU 2016-13 – i.e. annual and interim periods in fiscal years beginning after 12/15/2021 **For ASC 815:** Entity has adopted ASU 2017-12: As of the beginning of the first annual period beginning after April 25, 2019 Entity has NOT adopted ASU 2017-12: Effective at the same time as ASU 2017-12 – i.e. annual periods in fiscal years beginning after 12/15/2019, and interim periods in fiscal years beginning after 12/15/2020\ For ASC 825: Annual and interim periods in fiscal years beginning after 12/15/2019	ASU 2019-04 Defining Issues KPMG's web page on Financial instruments
Disclosure framework—Changes to the disclosure requirements for defined benefit plans	Annual periods in fiscal years ending after 12/15/2021	ASU 2018-14 Defining Issues
Customer's accounting for implementation costs incurred in a cloud computing arrangement that is a service contract	Annual periods in fiscal years beginning after 12/15/2020, and interim periods in fiscal years beginning after 12/15/2021	ASU 2018-15 Defining Issues
Targeted improvements to related party guidance for variable interest entities	Annual periods in fiscal years beginning after 12/15/2020 and interim periods in fiscal years beginning after 12/15/2021§	ASU 2018-17 Defining Issues Webcast
Collaborative arrangements: Clarifying the interaction between ASC 808 and ASC 606	Annual periods in fiscal years beginning after 12/15/2020 and interim periods in fiscal years beginning after 12/15/2021	ASU 2018-18 Defining Issues

Topic	Effective date for private companies	For more information
Simplifying the test for goodwill impairment	Annual and interim periods in fiscal years beginning after 12/15/2021	ASU 2017-04 Defining Issues Podcast
Targeted improvements to the accounting for long-duration contracts	Annual periods in fiscal years beginning after 12/15/2021, and interim periods in fiscal years beginning after 12/15/2022	ASU 2018-12 Defining Issues

Contact us

For more information or guidance on these issues, please contact any member of our national real estate leadership team:

Greg Williams
National Sector Leader
Asset Management/Building, Construction & Real Estate
T: 214-840-2425
E: gregorylwilliams@kpmg.com

Northeast
Phil Marra
T: 212-954-7864
E: pmarra@kpmg.com

Yessi Scheker
T: 212-954-3509
E: yscheker@kpmg.com

Midatlantic
Tom Gerth
T: 703-286-6566
E: tgerth@kpmg.com

Midwest
Tony Circolone
T: 312-665-2210
E: acircolone@kpmg.com

Southeast
Chris Turner
T: 404-222-3334
E: cturner@kpmg.com

Southwest
Troy Butts
T: 214-840-2107
E: tbutts@kpmg.com

Pacific Northwest
Roger Power
T: 415-963-5410
E: rjpower@kpmg.com

Pacific Southwest
Martin Griffiths
T: 213-955-8339
E: magriffiths@kpmg.com

Roger Yang
T: 213-630-8080
E: rogerlyang@kpmg.com

Authors

Tal Reichman
Managing Director, Audit
T: 212-954-2195
E: treichman@kpmg.com

Daniel O'Connor
Senior Manager, Audit
T: 212-954-8480
E: dpoconnor@kpmg.com

kpmg.com/socialmedia

The information contained herein is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavor to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act upon such information without appropriate professional advice after a thorough examination of the particular situation.

© 2019 KPMG LLP, a Delaware limited liability partnership and the U.S. member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity. All rights reserved. Printed in the U.S.A. The KPMG name and logo are registered trademarks or trademarks of KPMG International. NDP045371