



SEC Flash Report

No. 2014-03

To:	All Assurance Professionals	Date:	July 21, 2014
Re:	SAB 74 Disclosures Related to New Accounting Standard on Revenue	From:	National Assurance

With the issuance of ASU 2014-09, *Revenue from Contracts with Customers*, in May, SEC registrants will need to make corresponding disclosures under Staff Accounting Bulletin No. 74 (codified in SAB Topic 11-M) in their next interim and annual filings. SAB 74 addresses disclosure of the impact that recently issued accounting standards will have on the financial statements of the registrant when adopted in a future period.

Companies will understandably need time to assess the standard's effects on their financial statements. Accordingly, the initial SAB 74 disclosures about the standard's effect may not be specific in nature. An example of such disclosure to be made in the initial reporting periods following the issuance of ASU 2014-09 might be as follows:

In May 2014, the FASB issued Accounting Standards Update No. 2014-09, *Revenue from Contracts with Customers* (ASU 2014-09), which supersedes nearly all existing revenue recognition guidance under U.S. GAAP. The core principle of ASU 2014-09 is to recognize revenues when promised goods or services are transferred to customers in an amount that reflects the consideration to which an entity expects to be entitled for those goods or services. ASU 2014-09 defines a five step process to achieve this core principle and, in doing so, more judgment and estimates may be required within the revenue recognition process than are required under existing U.S. GAAP.

The standard is effective for annual periods beginning after December 15, 2016, and interim periods therein, using either of the following transition methods: (i) a full retrospective approach reflecting the application of the standard in each prior reporting period with the option to elect certain practical expedients, or (ii) a retrospective approach with the cumulative effect of initially adopting ASU 2014-09 recognized at the date of adoption (which includes additional footnote disclosures). We are currently evaluating the impact of our pending adoption of ASU 2014-09 on our consolidated financial statements and have not yet determined the method by which we will adopt the standard in 2017.

The SEC staff has indicated that it expects these disclosures to evolve over time as companies begin to better understand how the standard will impact their financial statements. As encouraged by SAB 74, registrants should also consider making disclosure of the potential impact of other significant matters that may result from the adoption of the standard (e.g. technical violations of debt covenants or planned changes in business practices). The method of transition should be disclosed as soon as one is elected (which will likely vary across entities). Further, the

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staff is expected to address issues such as whether registrants that adopt the new standard retrospectively must do so for all periods presented in selected financial data tables. Stay tuned for future guidance.

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