

Disclosure Alert: Consider Transitional Disclosure on Revenue Recognition Standard

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The staff of the Securities and Exchange Commission (SEC) continues to encourage companies to provide useful disclosure to investors with regard to the new revenue recognition standard that will apply for reporting periods beginning after December 15, 2017. The new standard not only changes the method for measuring revenue and the timing of revenue recognition, but also requires expanded disclosures to enable users of financial statements to understand the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. This will mean considerably more disclosures in the first quarter of 2018, or sooner for companies that choose to adopt early.

Of more immediate concern, companies should be reviewing their Form 10-Q disclosures this quarter and for the balance of the year to make sure that they have addressed the SEC staff's transitional disclosure requirements set forth in Staff Accounting Bulletin No. 74 regarding the expected impact of the new revenue recognition rules. If a company does not know, or cannot reasonably estimate, the expected financial statement impact of the new rules, that fact should be disclosed. In that case, however, as noted in a [recent speech](#) by the SEC's Chief Accountant, Wesley Bricker, the SEC staff expects a qualitative description of the effect of the new accounting standard, and a comparison to the company's current accounting, to aid investors in understanding the anticipated impact. Mr. Bricker said that companies "should also disclose the status of its implementation process and significant implementation matters yet to be addressed." Based on a preliminary look at disclosures in SEC filings to date, Mr. Bricker reported that a number of companies have enhanced their transition disclosures, while for others "there is still more work to do."

Mr. Bricker also advised caution for companies that conclude in their transitional disclosures that the impact of the new revenue recognition standard is not expected to be material. Because the new standard includes comprehensive new disclosures about contracts with customers and related judgments made by companies, he warned that "the basis of any statement that the impact of the new standard is immaterial should

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reflect consideration of the full scope of the new standard, which covers recognition, measurement, presentation and disclosure for revenue transactions.”