

AN ALERT FROM THE BDO NATIONAL ASSURANCE PRACTICE

BDO FLASH REPORT

SEC MATTERS



SUBJECT

SAB 74 DISCLOSURES RELATED TO EXPECTED ACCOUNTING STANDARD ON LEASES

DETAILS

The FASB is expected to issue its new standard on leases in February. When it does, SEC registrants will need to begin assessing their disclosures under Staff Accounting Bulletin No. 74 (codified in SAB Topic 11-M) in their next annual and interim filings, including annual reports on Form 10-K for the year ended December 31, 2015 which have not yet been filed with the SEC. 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 be general in nature. Examples of disclosure that might be made in the initial reporting periods following the issuance of the new standard, depending on whether the entity is a lessee, lessor, or both are shown below (please note that a registrant must include actual ASU references):

Lessees

In February 2016, the FASB issued Accounting Standards Update No. 2016-XX, *Leases*. The new standard establishes a right-of-use (ROU) model that requires a lessee to record a ROU asset and a lease liability on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement.

The new standard is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. A modified retrospective transition approach is required for lessees for capital and operating leases existing at, or entered into after, the beginning of the

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earliest comparative period presented in the financial statements, with certain practical expedients available.

[We are currently evaluating the impact of our pending adoption of the new standard on our consolidated financial statements.]

OR

[While we are still evaluating the impact of our pending adoption of the new standard on our consolidated financial statements, we expect that upon adoption we will recognize ROU assets and lease liabilities and that the amounts could be material.]

Lessors

In February 2016, the FASB issued Accounting Standards Update No. 2016-XX, *Leases*. The new standard requires a lessor to classify leases as either sales-type, finance or operating. A lease will be treated as a sale if it transfers all of the risks and rewards, as well as control of the underlying asset, to the lessee. If risks and rewards are conveyed without the transfer of control, the lease is treated as a financing. If the lessor doesn't convey risks and rewards or control, an operating lease results.

The new standard is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. A modified retrospective transition approach is required for lessors for sales-type, direct financing, and operating leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements, with certain practical expedients available.

We are currently evaluating the impact of our pending adoption of the new standard on our consolidated financial statements.

These disclosures will be expected 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).

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