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PROFESSIONAL ACCOUNTING UPDATE

LESSONS LEARNED FROM SEC COMMENT LETTERS ON THE NEW REVENUE STANDARD

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FEI identified 21 companies that received comment letters from the SEC related to the new revenue standard and summarized key observations and potential pitfalls to avoid during the adoption of ASC 606 and other new accounting standards.

The FASB's Accounting Standards Update No. 2014-09, Revenue from Contracts with Customers, provides a comprehensive revenue recognition model intended to reduce the complexity inherent in today's guidance by increasing financial statement comparability across companies and industries. The standard is effective for all public entities for annual periods beginning after December 15, 2017 (January 1, 2018 for calendar year-end public entities).

As part of this transition, the SEC has carefully monitored the implementation of the new revenue standard. The SEC's Division of Corporation Finance has selectively reviewed filings to monitor and enhance compliance with applicable disclosure and accounting requirements. In issuing comments to a company, the SEC may request supplemental information so the staff can better understand the company's disclosure, ask the registrant to revise (or provide additional) disclosure in a document on file with the SEC, or to provide additional or different disclosure in a future filing with the SEC.

FEI reviewed ASC 606 related comment letter correspondence between the SEC and filers, and found the following trends:

- Early adopters have been asked to clarify considerations made for operationalizing different aspects of the standard
- The SEC began requesting more robust SAB 74 disclosures for periods ending December 31, 2016
- Several companies have disclosed incorrect effective dates for ASC 606 in their SAB 74 disclosures

The comment letters that fall under these categories are discussed in more detail in the following pages.

EARLY ADOPTER COMMENT LETTERS

Three early adopters of ASC 606 have received comment letters requesting clarification on decisions made in operationalizing the standard. The SEC focused its comments on the following areas:

- Accounting for sources of variable consideration, including refund liabilities and reassessment of variable consideration
- Accounting for rebates paid to customers
- Disclosing the nature of changes in contract balances, including how the timing of payments and satisfaction of performance obligations impact contract assets and liabilities
- Substantiating the method used to recognize revenue on over-time performance obligations
- Determining that costs obtaining a contract are incremental and thus eligible to be capitalized
- Determining of the appropriate amortization period for commissions costs, with consideration to contract renewals
- Disclosing remaining unsatisfied performance obligations

In each instance, companies referred to appropriate areas of the new and old guidance, FASB Transition Resource Group decisions, and the Basis for Conclusions in the standard to explain their decision-making process in determining the appropriate accounting treatment.

The following illustrates correspondence between an early adopter and the SEC. The SEC requested transparency in how the company considered guidance around transaction price allocation in disclosing information about remaining unsatisfied performance obligations. The filer elaborated on its considerations, which led to the determination that the remaining performance obligations that would trigger disclosure under ASC 606-10-50-13 were immaterial, and therefore not disclosed.

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2. **We note your disclosure that you recognize revenue for certain services over time. Please tell us how you considered the requirements in ASC 606-10-50-13 to 50-15 to disclose information about remaining performance obligation or application of optional exemptions.**

Response: In our analysis of ASC 606, we considered certain revenue streams as services transferred over time. Primarily, these revenue streams are recorded in access fees, exchanges services and other fees, and market data fees on our consolidated statements of income. The nature of the services provided in these streams are subscription-based where the customer is billed monthly for its subscription to our market data or its monthly connectivity to our markets. While the services are provided over time, the revenue amounts are known and recognized monthly. Therefore there are no remaining performance obligations related to these services transferred over time at the end of the reporting period.

The balance of contract liabilities at the end of the reporting period that required disclosure under ASC 606-10-50-13 primarily consisted of prepayments of transaction fees and certain access and market data fees, both of which have been categorized in the respective point-in-time or over-time categories as determined by the nature of the revenue stream. Based on the amount of total deferred revenue disclosed in the table on page 10, we determined that any remaining performance obligations that would require disclosure under ASC 606-10-50-13 were immaterial to our financial statements, and as such, we omitted the disclosure.

Click on any image in this article to view full correspondence between the filers and the SEC.

SAB 74 DISCLOSURES COMMENTS

SAB 74 disclosures address the effects a recently issued accounting standard will have on a registrant's financial statements when adopted in a future period. Among other things, registrants should consider disclosing a discussion of the impending adoption's impact, to the extent it is known or reasonably estimable[1]. In nearly every speech officials have made this year, the SEC has consistently reminded preparers of the importance of providing robust SAB 74 disclosures[2]. Q3 2017 represents a pivotal time for the adopters of the revenue standard.

FEI identified 18 companies that received comment letters with remarks on SAB 74 disclosures. Fourteen of the 18 companies received comments on their form 10-K for the fiscal year ended December 31, 2016; one company received comments on its 10-Q for the fiscal quarter ended March 31, 2017. In each case, the SEC requested:

- Qualitative disclosures of the potential impact ASC 606 will have on their financial statements
- Description of the expected effects of the accounting policies
- Comparison to the current revenue recognition policies
- Description of the status of the implementation process
- Description of any significant implementation matters yet to be addressed
- Disclosure of the quantitative impact that adoption of ASC 606 is expected to have, if determinable

The company that received comments on its 10-Q received an observation from the SEC that its disclosure had not changed since the company filed its 10-K. The SEC requested the company revise the disclosure to provide information similar to the other requests related to SAB 74 disclosures (provided in the above list). The SEC also formally requested the company to disclose the effective date of the standard, which the company had failed to disclose. A sample comment letter exchange on SAB 74 disclosures is excerpted below:

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2. *You state that you are in the process of evaluating the impact that the amended revenue recognition guidance in Topic 606 will have on your consolidated financial statements. Please revise to provide qualitative financial statement disclosures of the potential impact that this standard will have on your financial statements when adopted. In this regard, include a description of the effects of the accounting policies that you expect to apply, if determined, and a comparison to your current revenue recognition policies. Describe the status of your process to implement the new standard and the significant implementation matters yet to be addressed. In addition, to the extent that you determine the quantitative impact that adoption of Topic 606 is expected to have on your financial statements, please also disclose such amounts.*

Response:

In response to the Staff's comment, the Company advises the Staff that it is in the very early stages of evaluating the amended revenue recognition guidance in Topic 606. The evaluation has yet to progress to a stage where there is sufficient information for a preliminary position of the impact on the Company's consolidated financial statements. Therefore, the Company is unable at this time to provide (i) qualitative financial statement disclosures of the potential impact that this standard will have on its financial statements when adopted, (ii) a description of the effects of the accounting policies it expects to apply, (iii) a comparison to its current revenue recognition policies and (iv) a method for adoption.

In future filings, beginning with the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2017, anticipated to be filed with the Commission in May 2017, the Company will continue to update both its progress in evaluating the amended revenue recognition guidance in Topic 606 and, when attained, its preliminary estimate of the impact on the Company's consolidated financial statements.

[1] www.sec.gov/interps/account/sabcodet11.htm#M

[2] www.sec.gov/news/speech/bricker-remarks-financial-reporting-institute-conference-060817
www.sec.gov/news/speech/bricker-remarks-annual-life-sciences-accounting-and-reporting-congress-032117
www.sec.gov/news/speech/speech-teotia-2017-09-21
www.sec.gov/news/speech/alicea-remarks-bloomberg-bna-conference-revenue-recognition-050817#_edn17
www.sec.gov/news/speech/alicea-2016-aicpa.html

In the remaining three companies that received comment letters on their SAB 74 disclosures, the SEC requested a revision of the effective date of the standard. Two of the three disclosed the original 2016 effective date of the guidance, and the third disclosed incorrectly that the standard was effective in 2018. In each case, the company responded with an acknowledgement of the wrong date and made the corresponding correction.

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17. Please revise your disclosure to state that entities are required to apply ASU 2014-09 for annual periods beginning after December 15, 2017 instead of December 15, 2018.

We have revised our disclosures to state that entities are required to apply ASU 2014-09 for annual periods beginning after December 15, 2017 instead of December 15, 2018. Specifically, we have included the following language in our Amendment No. 1 to the Registration Statement:

> "In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*. ASU 2014-09 will supersede virtually all existing revenue guidance. Under this update, an entity is required to recognize revenue upon transfer of promised goods or services to customers, in an amount that reflects the expected consideration received in exchange for those goods or services. As such, an entity will need to use more judgment and make more estimates than under the current guidance. ASU 2014-09 is to be applied retrospectively either to each prior reporting period presented in the financial statements, or only to the most current reporting period presented in the financial statements with a cumulative effect adjustment to retained earnings. The Company will elect to apply the impact (if any) of applying ASU 2014-09 to the most current reporting period presented in the financial statements with a cumulative effect adjustment to retained earnings. In August 2015, the FASB issued ASU No. 2015-14, *Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date*. ASU 2015-14 defers the effective date of ASU 2014-09 for one year, making it effective for the year beginning December 31, 2017, with early adoption permitted as of January 1, 2017. The Company currently expects to adopt ASU 2014-09 in the first quarter of 2018. The Company does not expect adoption of ASU 2014-09 to have a material impact on its consolidated financial statements."

TAKEAWAYS

As companies finalize their revenue recognition policies and begin to draft their disclosures in preparation for the effective date, there is the opportunity to learn from the comment letters received by early adopters. Preparers should take note of the areas the SEC questioned, and consider their own accounting policy decisions abd disclosures in these potential areas.

Based on comment letters that address the revenue standard, companies might expect the SEC to request more information from SAB 74 disclosures a year prior to the effective date of any new accounting standard. For many, ASC 842, Leases, should be considered within this next round of SAB 74 disclosures. For this leases standard, 12/31 year-end preparers should focus on including the following in their SAB 74 disclosures:

- Qualitative assessment of the potential impact of the standard once adopted
- Description of the effects of the accounting policies that the company expects to apply
- Comparison to accounting policies under ASC 840
- Description of the status of the implementation process
- Description of any significant implementation matters yet to be addressed

FEI will continue to monitor for additional SEC comment letters and look out for any potential trends or common emerging areas.

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