

03

# Updates relating to US GAAP



**This article aims to:**

Provide an overview of the recent updates relevant for companies following US GAAP.



## The Securities and Exchange Commission (SEC) issued following updates relevant for companies following US GAAP framework:

- **Amendment in definitions of accelerated and large accelerated filer:** The SEC has issued a final rule that amends the 'accelerated filer' and 'large accelerated filer' definitions to exclude 'smaller reporting company' issuers with less than USD100 million in annual revenue. The amendments relieve these issuers from the internal control over financial reporting auditor attestation requirements.

These amendments are effective for annual report filings due on or after 27 April 2020.

- **Guidance on MD&A:** The SEC has issued a guidance highlighting disclosure considerations when discussing Key Performance Indicators (KPIs) and metrics in Management's Discussion and Analysis of Financial Condition and Results of Operations (MD&A).

The SEC generally expects disclosures to include:

- A clear definition of the metric and how it is calculated
- A statement indicating why the metric is useful to investors
- A statement indicating how management uses the metric in managing or monitoring the company's performance.

Companies should also consider whether disclosure of the estimates or assumptions related to the metric or its calculation is necessary for the metrics not to be materially misleading. If the method of calculating or presenting the metric changes, the company should consider the need to disclose:

- Differences in the metric's calculation or presentation as compared to the prior year
- Reasons for and effects of such changes
- Any other differences in methodology and results that would reasonably be expected to be relevant to an understanding of the company's performance
- Whether prior metrics should be recast to conform to current presentation.

The guidance also reminds registrants to maintain effective disclosure controls and procedures when disclosing material KPIs or metrics in MD&A.

The guidance is effective from 25 February 2020.

- **Brexit disclosures:** The SEC staff is closely monitoring how registrants (primarily those with operations in the United Kingdom (UK), European Union (EU) or with operations that link to the UK) disclose the effect that Brexit has had, and may potentially have, on their business operations. In addition to risk factor disclosures in their annual reports, a registrant should consider whether Brexit-related economic uncertainties and market volatility will significantly affect its accounting judgements and estimates.

Registrants should closely monitor Brexit-related developments for changes that may require them to revise risk factors in their 2020 quarterly reports.

## CAMs: Trends and observations

Critical Audit Matters (CAMs) are now being communicated in auditors' reports on financial statements of large accelerated filers. Based on a KPMG International analysis of CAMs as of early March 2020, almost 1,900 public filings include auditors' reports that communicated CAMs. The most frequent categories of CAMs have been goodwill and intangibles, revenue and business combinations. For financial services companies, CAMs have been reported for the allowance for loan and lease losses. For the majority of companies, the number of CAMs communicated in the auditors' report has been either one or two, with the average number of CAMs for the approximately 1,900 reports being 1.6.

For audits conducted in accordance with Public Company Accounting Oversight Board (PCAOB) standards, the requirement to communicate CAMs is applicable to all other companies to which the CAM requirements apply for fiscal years ending on or after 15 December 2020.

*(Source: 'Quarterly Outlook - March 2020 edition' issued by KPMG LLP - a Delaware LLP and the U.S. member firm of the KPMG network)*

