



Real estate accounting and reporting

**The impact of new standards
and guidance**

2015/2016

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As a leader in real estate financial reporting, KPMG LLP (KPMG) has created this annual report to assist real estate companies and funds with their 2015 financial accounting, regulatory, and compliance reporting requirements.

In addition to the technical guidance on current requirements, we also discuss forthcoming accounting rules that will continue to change existing US GAAP requirements, as well as offer some brief insight on the current regulatory environment facing our industry.

We kick off this year's report with commentary from Constance Hunter, KPMG's chief economist, on what the economy's mixed messages—combining tepid growth rates with slow-but-steady employment growth—means for the real estate industry.

But even as the economic outlook provides contrasting signals, applying evolving accounting rules to your business realities remains a clear and serious challenge. This document is intended to provide our perspectives on how to address the key issues you will face, and we would be happy to discuss your specific situations or objectives in more detail.

We look forward to continuing to collaborate with you to effectively navigate this increasingly dynamic accounting and regulatory environment, as well as helping you achieve your broader business objectives.

Thank you.

Greg Williams

National Sector Leader, Building, Construction & Real Estate/Asset Management
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Economic update: A soft patch or the beginning of the end?



Constance Hunter
KPMG LLP Chief Economist

A lackluster recovery has been underway since mid-2009, and 2015 continued the trend. A combination of shocks such as the tsunami in March of 2011, severe weather in the first quarters of 2014 and 2015 and the surprise drop in commodity prices have combined with the time-consuming process of recovering from a debt-fueled recession to produce a low growth rate.

GDP has averaged only 2.0 percent a year since the U.S. economy resumed expanding in 2009. In keeping with the somewhat stronger pace of growth in 2014 of 2.4 percent, KPMG projects a similar growth rate for 2015 with construction and real estate again being part of the positive story.

Weakness in the manufacturing and metals and mining sectors were drags on the economy in the third quarter. The collapse in commodity prices have cut oil production and demand for the equipment associated with mining and an overbuilding of inventories in the first half of the year is currently being worked off. Additionally, weak growth overseas has served to strengthen the dollar, thereby causing net trade to be a larger negative factor as well. Thus we must ask, is this slower growth within the global economy and the domestic manufacturing sector the beginning of the end of the expansion? **KPMG research suggests it is a soft patch** rather than the impetus for a new recession or softer growth in the quarters ahead.

The biggest argument for a temporary soft patch is **the resiliency of the U.S. consumer.** KPMG forecasts consumer spending will maintain a 3 percent-plus rate into 2016 buttressed by strong jobs growth. By November of 2015, **the U.S. economy had added nearly 13 million jobs since the fourth quarter of 2009, exceeding the 8.7 million jobs lost in the prior peak-to-trough.** Furthermore, the headline unemployment rate stood close to 5 percent, the lowest since 2008 while the more comprehensive U-6 fell from a peak of

17.1 percent down to 9.9 percent.¹ In addition, legislation that removes the ban on oil exports could offer new life and jobs to the now-struggling oil and gas sector which in November showed a loss of 16,700 jobs since payrolls peaked for this sector in October of 2014.²

Real Estate Sweet Spot

It is KPMG's belief that **solid domestic demand will benefit much of the U.S. real estate industry** especially in the multifamily and retail sectors. When one also considers that interest rates remain low, this provides a positive backdrop for the continuation of happy days in building and construction.

The Fed lifted its policy rate in December 2015, but policymakers made it clear that future rate increases will be much more gradual than previous rate hiking cycles.

The Fed believes economic growth will run slightly above potential over the next few years, labor markets will continue to improve and inflation will show signs of sustaining itself at or above 2.0 percent. The current low inflation rate is largely the result of falling energy prices. The inflation rate for services—everything from rent to doctor's fees to a movie ticket—is already running above the Fed's 2 percent target at 2.5 percent year-over-year in November. **When the top-line inflation rate is no longer dragged down by falling energy prices, the uptrend in service inflation will reassert itself.**

Nonresidential construction as a whole has also picked up. Spending on private nonresidential construction increased 15.3 percent during the year ended in October 2015.³ The gain was led by lodging, office, manufacturing, and recreation projects (including casinos and sports facilities.) **Thus at this point in the cycle** with growth remaining steady, rates remaining low and the consumer gathering momentum from five years of jobs growth, **real estate remains in the sweet spot for growth for at least another year if not beyond.**

¹ Haver Analytics, KPMG Economics, U.S. Bureau of Labor Statistics

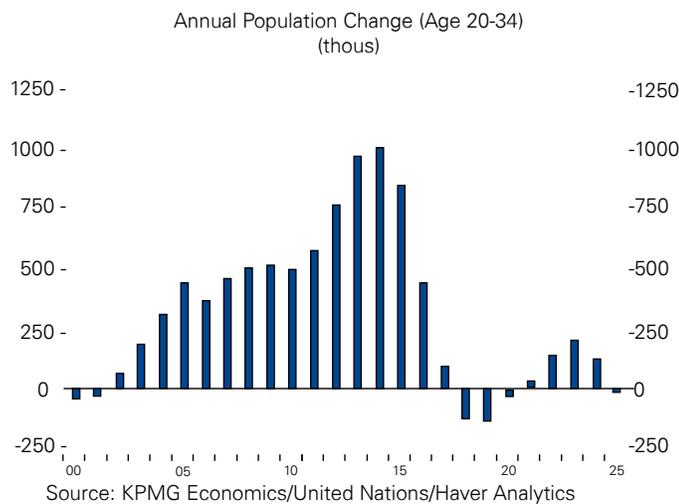
² Haver Analytics, KPMG Economics, U.S. Bureau of Labor Statistics

³ Haver Analytics, KPMG Economics, U.S. Census Bureau



Mulling Millennials⁴

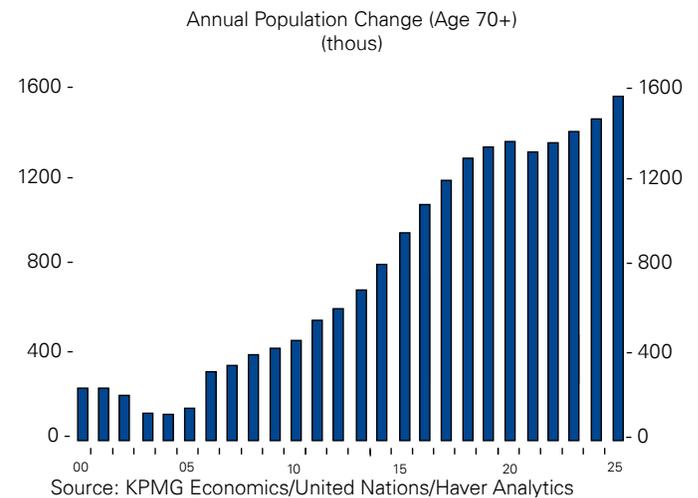
Millennials have had a significant influence on the multi-family segment of the real estate market. Demand has been driven by three main factors: the desire to live in urban settings, a delayed home ownership rate, and **the sheer size of this cohort which grew 11 percent from 2003-2015**. Many millennials are delaying house purchases beyond the age of previous generations due to a combination of living preferences and the need for many in the cohort to pay off student loan debt. **The home ownership rate for the 25-34 year cohort now sits at 42 percent, compared to 45.6 percent for the similar age group in 2000.**⁵



Whilst stronger demand for rental properties has driven up apartment absorption rates and kept cap rates high in this sector, demographic trends over the next five years are less supportive of growth in the multi-family sector. This comes at a time when national apartment starts are extending their five-year growth trend. In September, these starts reached their second-highest level since 1987.⁶ The market may be near

all-time highs if millennial demand is the engine many believe it is. This is **because in the next five years, that age group is projected to decline by 0.1 percent annually, a sharp drop from the 1.2 percent annual increase of the previous five years.**⁷ This could slow demand for the multifamily sector over the next several years and market participants would be wise to understand the impact this demographic has had on the sector's growth over this recent cycle.

The Boomer Boom: Healthcare Demand Is Set to Grow



Population shifts may add some caution to the outlook for apartment demand, but demographics are flashing a **very positive signal for the healthcare sector**. The leading edge of the boomer generation will pace population growth in the next five years. **The population aged 70 years and over is forecast to grow 4 percent a year from now through 2020,** compared with a yearly rate of 2 percent from 2003 through 2015.⁸ Healthcare REITs are already benefitting from the shift. Rent growth and occupancy are near post-recession highs, even amid sustained supply increases

⁴ The U.S. Census Bureau does not define the Millennial Generation. In this piece, Millennials are defined as the age cohort born from 1981 through 1995

⁵ The Urban Institute, "Headship and Homeownership: What Does the Future Hold" June 2015

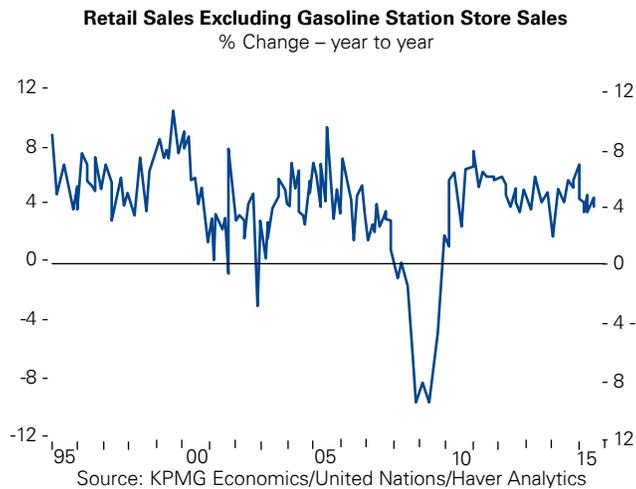
⁶ Haver Analytics, KPMG Economics, U.S. Census Bureau

⁷ Haver Analytics, United Nations Population Statistics

⁸ Haver Analytics, United Nations Population Statistics

Retail Revival

Once left for dead as on-line merchant sales grow, the retail sector is poised for moderate growth with outperformance expected especially in high-end markets. **Solid job growth, along with the help of cheap gasoline, are keeping consumers shopping.** A good way to look at retail activity is to exclude sales at gas stations, which have suffered from falling oil prices. Retail sales excluding gasoline purchases have been growing at an average pace of 4.6 percent year-over-year for 2015.⁹ Among retail REITs, U.S. retail property vacancies matched a five-year low of 10.1 percent in the second quarter of 2015, after peaking at 11.1 percent in 2011, according to Reis.



⁹ Haver Analytics, KPMG Economics, U.S. Census Bureau

¹⁰ The Canadian Dollar is often referred to as the Loon or Loonie because the common loon appears on the coin.

¹¹ Bloomberg Intelligence, Real Estate Report, October 2015

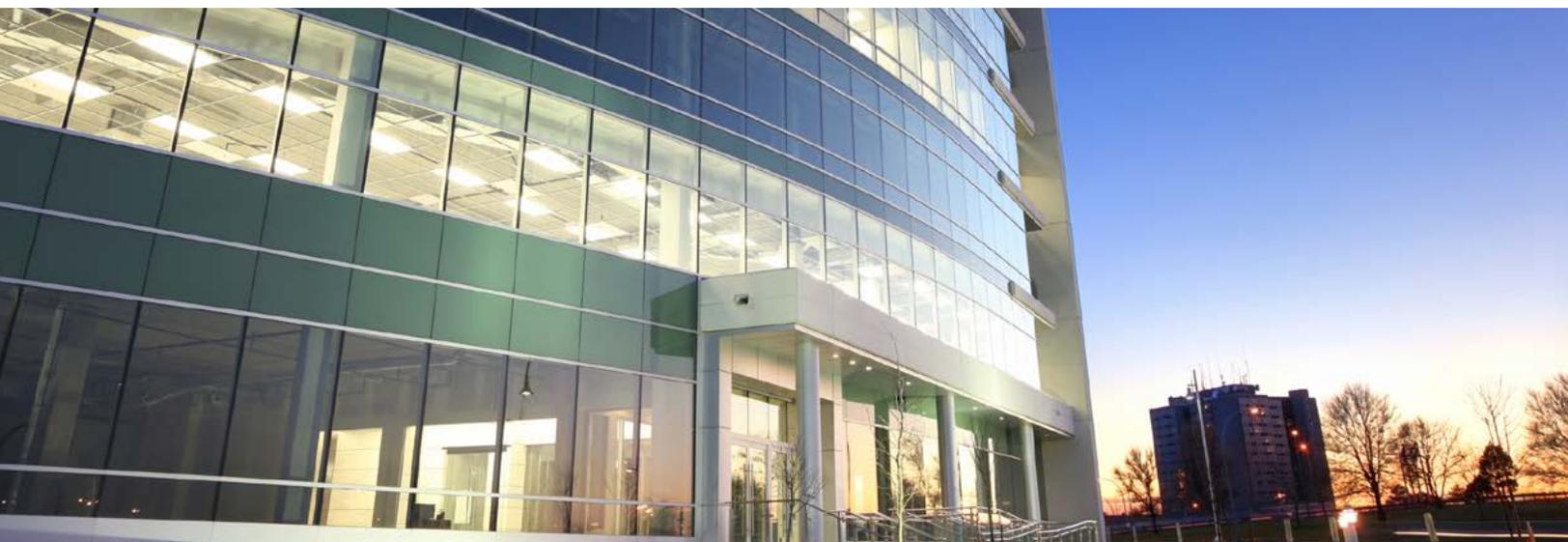
Loons Help the Office Sector Soar¹⁰

Within the office sector, foreign buyers and technology tenants are the primary drivers in markets such as New York and San Francisco, lifting asset values in those markets and pushing share prices higher for REITs located there. While much of the media attention on foreign purchases goes to Chinese buyers, it is **Canadian investors who have used Loonies to gobble up the most real estate over the past year of any foreign investor, acquiring \$3.2 billion in U.S. office properties.** That amount coming from Canada leads purchases from Germany (\$1.6 billion invested in 2015), Brazil (\$1.3 billion), China (\$1.2 billion) and Australia (\$1.1 billion).¹¹

Elevated urban office values have led some investors to shift toward the suburbs or second-tier cities which are popular with the ever influential millennials. The direction of interest rates and currencies will influence office values significantly as it will be a key determinant of foreign purchasing power. Another, perhaps counter-intuitive, **feature of foreign purchases is the amount of liquidity generated due to quantitative easing in Europe and Japan; as liquidity conditions are eased in these markets, investors seek a viable home for their assets** and U.S. real estate, despite the upheavals in 2009, remains the gold standard globally, especially for the office sector.

Conclusion

As 2015 draws to a close, KPMG projects the 2016 outlook for the real estate sector to remain mostly upbeat. Interest rates are expected to stay low. Strong jobs growth will continue to lift demand for apartments and retail space. Demographic trends will drive the use of healthcare and assisted living properties. Real estate investors, however, should be aware that risks are always present. The slowdown in the young-adult population may dampen the demand for apartment, and currency shifts or a rout in the bond market could sway demand in a variety of sectors.



1. Accounting reminders—Effective in 2015

Reminders for certain new guidance effective January 1, 2015, for calendar year-end entities

Pushdown Accounting

New guidance allows, but does not require, an acquired entity to apply pushdown accounting upon acquisition by a new controlling parent. The decision about whether to apply pushdown accounting is made independently for each acquisition in which there is a change in control. However, the new guidance does not change the requirement for the parent company to apply purchase accounting to the acquired entity. Real estate companies may consider a number of factors in determining whether to apply push down accounting for the financial statements of the acquired entities. Such factors may include the needs and expectations of the financial statement users including existing or potential lenders and the impact to the ongoing accounting and consolidation process for the acquired entity. Once pushdown accounting is applied, the election cannot be reversed. Entities that elect to apply pushdown accounting upon acquisition by a new controlling parent would apply the disclosure requirements for business combinations to enable users to evaluate the nature and effect of pushdown accounting. The standard was effective upon issuance on November 18, 2014.

Affordable Housing Tax Credits

A new standard changes the criteria necessary to apply specialized accounting for affordable housing tax credit investments and is intended to make it easier for such investors to use the specialized accounting. An investor that meets the revised criteria (and elects the specialized accounting) will apply a proportional amortization method to the cost of its investment and recognize its net benefits (i.e., tax benefits net of the amortization of the cost of the investment) in income tax expense.

Investors electing the proportional amortization method must apply it retrospectively. However, investors applying the effective-yield method for existing affordable housing investments at the adoption date can continue applying that method to those existing investments.

For public business entities, the guidance is effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2014. For other entities, the guidance is effective for annual periods beginning after December 15, 2014, and interim periods within annual periods beginning after December 15, 2015. Early adoption, including in financial statements that have not yet been issued, is permitted.

Simplified Hedge Accounting Approach

Many real estate companies use interest rate swaps to fix their interest rates on variable rate debt. Under this new guidance, private companies¹² (excluding financial institutions) may use a practical expedient in applying hedge accounting to certain receive-variable, pay-fixed interest rate swaps. The practical expedient assumes no ineffectiveness for qualifying interest rate swap hedging relationships and allows the hedger to exclude non-performance risk from the swap's measurement. Hedge documentation also can be completed any time prior to the date on which the first annual financial statements are available to be issued after the hedge inception.

The alternative is effective for annual periods beginning after December 15, 2014, and interim periods within annual periods beginning after December 15, 2015. Early adoption is permitted for periods for which financial statements have not yet been made available for issuance.

Residential Real Estate Loan Reclassification

New guidance clarifies when lenders should reclassify mortgage loans collateralized by residential real estate from the loan portfolio to other real estate owned (OREO). The guidance clarifies when the mortgage lender has physical possession of the real estate and therefore must reclassify the loan to OREO. Lenders need to disclose, at each balance sheet date, the amount of outstanding residential real estate mortgage loans that have either been foreclosed upon or are in the process of foreclosure.

For public business entities, the guidance is effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2014. For other entities, the guidance is effective for annual periods beginning after December 15, 2014, and interim periods within annual periods beginning after December 15, 2015. Companies may apply the new guidance using a prospective approach or modified retrospective approach, and early adoption is permitted.

Service Concession Arrangements

New guidance clarifies that a public-to-private service concession arrangement should not be accounted for as a lease, if certain conditions are met. Service concession arrangements refer to public-to-private contracts where a public sector entity grants a private sector, operating entity the right to construct, operate, or maintain the public sector entity's infrastructure assets such as roads, tunnels, airports, prisons, or hospitals. Such arrangements may result in recognition of a financial asset, an intangible asset, or both by the private-sector entity.

¹² An entity other than a public business entity, a not for profit entity, or an employee benefit plan

For public business entities, the guidance is effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2014. For other entities, the guidance is effective for annual periods beginning after December 15, 2014, and interim periods within annual periods beginning after December 15, 2015. The new guidance must be applied using a modified retrospective approach, and early adoption is permitted.

Common Control Leasing

Private companies¹³ may elect to not apply variable interest entity (VIE) guidance to certain common control leasing arrangements. This alternative is a policy election and, if elected, must be applied to all qualifying leasing arrangements. The alternative must be applied retrospectively and is effective for annual periods beginning after December 15, 2014, and interim periods within annual periods beginning after December 15, 2015. Early adoption is permitted for periods for which financial statements have not yet been made available for issuance.

Discontinued Operations

New guidance changes the definition of discontinued operations, which is expected to significantly reduce the number of dispositions resulting in discontinued operations presentation and substantially converges discontinued operations reporting under U.S. GAAP with IFRS.

This new guidance represents a substantial change from previous practice under which most real estate companies' operating properties, when sold, met the definition of discontinued operations. Under the new guidance, the sale of a single property typically will not result in discontinued operations presentation for that property. Because real estate companies may sell properties as part of their normal operations, many in the real estate industry view the new guidance as an improvement to financial reporting.

Under the new guidance, discontinued operations are defined as disposed components (or components held for sale) representing a strategic shift that has (or will have) a major effect on operations and financial results. Examples of a strategic shift for a real estate company include exiting a major geographic area or a major real estate product (i.e. student housing) or a major equity investment. The Financial Accounting Standards Board (FASB) also eliminated the requirement to evaluate continuing involvement with the disposed component to conclude on discontinued operations presentation. The new standard

expands the disclosures about discontinued operations and disposals of individually insignificant components that do not qualify as discontinued operations.

For public business entities and certain not-for-profit entities, the guidance is effective prospectively for disposals (or classifications as held-for-sale) occurring within annual periods beginning on or after December 15, 2014, and interim periods within those annual periods. For other entities, the guidance is effective for disposals (or classifications as held-for-sale) occurring within annual periods beginning on or after December 15, 2014, and interim periods thereafter. Early application is permitted, but only for those disposals (or classifications as held-for-sale) that have not been reported in financial statements previously issued or available for issuance.

Discontinued operations is defined as either:

1. A component of an entity (or a group of components) that:
 - Has been disposed of, meets the criteria to be classified as held-for-sale, or has been abandoned/spun-off; and
 - Represents a strategic shift that has (or will have) a major effect on an entity's operations and financial results, or
2. Is a business or nonprofit activity that, on acquisition, meets the criteria to be classified as held-for-sale.

Presentation differs under Generally Accepted Accounting Principles (GAAP) and SEC Guidance

Under the SEC's guidance S-X Rule 3-15 for Real Estate Investment Trusts (REITs), net income from continuing operations should be presented exclusive of any gain or loss of the sale of real estate properties. In contrast, GAAP requires a gain or loss on the sale of a long-lived asset that is not a discontinued operation to be included in income from continuing operations. Under the new guidance, most dispositions of real estate won't meet the definition of a discontinued operation and, accordingly, public REITs are faced with inconsistent guidance regarding the income statement presentation of the gain or loss of the sale of a property. The SEC staff as acknowledged this inconsistency and indicated that it does not plan to comment on a REITs classification of property sale gains and losses as long as the presentation is transparent to the users of the financial statements.

¹³ An entity other than a public business entity, a not for profit entity, or an employee benefit plan

Development Stage Entities

A new standard eliminates all of the incremental presentation and disclosure requirements for development stage entities and clarifies that the disclosure requirements for risks and uncertainties are applicable to entities that have not commenced planned principal operations.

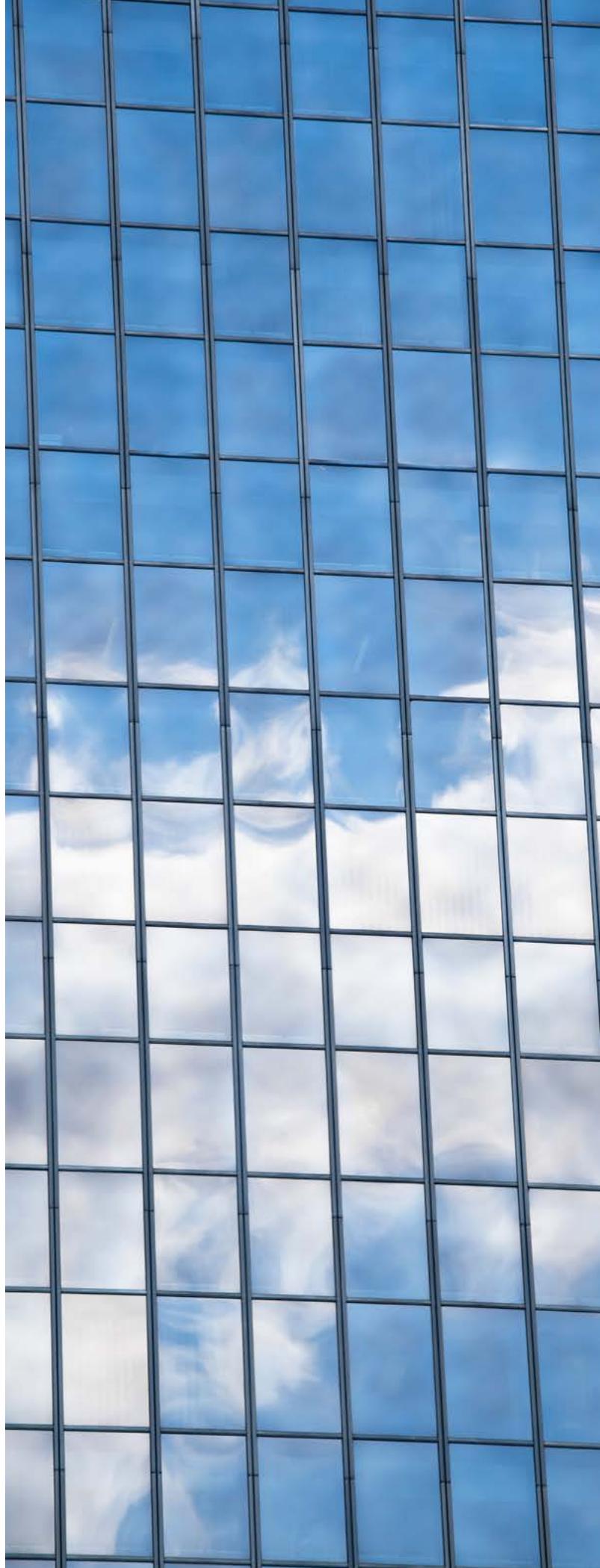
For public business entities, the presentation and disclosure changes are effective for annual periods beginning after December 15, 2014, and interim periods within those annual periods. For entities other than public business entities, those changes are effective for annual periods beginning after December 15, 2014, and interim periods in fiscal years thereafter.

The new standard also removes the development stage entity exception for determining whether an entity is a variable interest entity under consolidation guidance. For public business entities, the elimination of the consolidation exception is effective for annual periods beginning after December 15, 2015, and interim periods within those annual periods. For entities other than public business entities, it is effective for annual periods beginning after December 15, 2016, and interim periods in fiscal years thereafter. Early adoption is permitted for annual and interim periods for which financial statements have not been previously issued or made available for issuance.

Accounting for the Effect of a Federal Housing Administration Guarantee

The FASB issued new guidance requiring creditors to classify certain foreclosed, government-guaranteed, mortgage loans as receivables. The receivable is measured at the amount expected to be recovered under the guarantee, which is not treated as a separate unit of account.

The new guidance is effective for public business entities for annual periods, and interim periods within those annual periods, beginning after December 15, 2014. For all other entities, the new guidance is effective for annual periods ending after December 15, 2015, and interim periods beginning after December 15, 2015. Early adoption is permitted, including in an interim period, if the company has adopted the related standard on residential real estate loan reclassification.



2. Looking ahead to new standards and guidance

Accounting for Share-Based Payments with Certain Performance Targets

The FASB and its Emerging Issues Task Force (EITF) clarified that performance targets that could be achieved after the requisite service period should be treated as performance conditions. For example, a real estate company may grant an executive an option to purchase common shares that requires the executive to work for three years to retain the award, but the award only becomes exercisable based on Funds From Operations (FFO) performance exceeding specified thresholds over a 5 year period. Under the new guidance, the performance condition of achieving the FFO target would not be reflected in estimating the grant date fair value of the award, but instead would be accounted for when the achievement of the performance condition becomes probable.

For all companies, the guidance is effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2015. Early adoption is permitted.

The guidance may be adopted either prospectively for share-based payment awards granted or modified on or after the effective date, or retrospectively, using a modified retrospective approach. The modified retrospective approach would apply to share-based payment awards outstanding as of the beginning of the earliest annual period presented in the financial statements on adoption, and to all new or modified awards thereafter.

Eliminating the Concept of Extraordinary Items

The FASB issued a new standard that simplifies income statement presentation by eliminating the concept of extraordinary items from U.S. GAAP. However, the new guidance does not affect current presentation and disclosure requirements for material events or transactions that are unusual in nature or infrequent in occurrence. Companies also will continue to evaluate whether items are unusual in nature or infrequent in occurrence when estimating the annual effective tax rate for interim reporting purposes. This was the first standard to be issued as part of the FASB's simplification initiative and more closely aligns U.S. GAAP with IFRS.

The new standard applies to all companies for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015. Companies have the option to adopt the new guidance prospectively or retrospectively and may early adopt.

Hybrid Financial Instruments

The FASB issued a standard that requires a company that issues or invests in hybrid financial instruments (e.g., a preferred share with a redemption feature, a conversion feature, or both) to determine the nature of the host contract by considering the economic characteristics of the entire instrument, including embedded derivative feature that is being evaluated for separate accounting. Concluding the host contract is debt-like (versus equity-like) may result in substantially different answers about whether certain features must be accounted for separately.

The guidance provides a modified retrospective transition for all existing hybrid financial instruments in the form of a share, with the option for full retrospective application.

The effective date for public business entities is for annual and interim periods in fiscal years beginning after December 15, 2015. The effective date for other entities would be for annual periods beginning after December 15, 2015, and interim periods in fiscal years thereafter. Early adoption, including adoption in an interim period is permitted.

Presentation of Debt Issuance Costs

Under current U.S. GAAP, debt issuance costs are reported on the balance sheet as assets and amortized as interest expense. Under the new guidance, debt issuance costs related to a recognized debt liability will be presented on the balance sheet as a direct deduction from the debt liability, similar to the presentation of debt discounts. The costs will continue to be amortized to interest expense using the effective interest method. The cost of issuing debt will no longer be recorded as a separate asset, except when incurred before receipt of the funding from the associated debt liability.

The guidance requires retrospective application to all prior periods presented in the financial statements. Upon transition, an entity is required to comply with the applicable disclosures for a change in accounting principle, including the nature of and reason for the change in accounting principle, transition method, description of the prior-period information that has been retrospectively adjusted, and effect of the change on the financial statement line items (the debt issuance cost asset and the debt liability).

The updated guidance did not address the presentation or subsequent measurement of debt issuance costs related to line-of-credit arrangements. The SEC noted it would not object to deferring and presenting the debt issuance costs as an asset and continue to amortize the costs over the term of the

line-of-credit, regardless of whether there are any outstanding borrowings on the arrangement. The FASB codified the SEC guidance in Accounting Standards Update (ASU) 2015-15.

The new guidance is effective for public business entities for fiscal years beginning after December 15, 2015, and interim periods within those fiscal years. It is effective for all other entities for fiscal years beginning after December 15, 2015, and interim periods within fiscal years beginning after December 15, 2016. Early adoption is permitted.

Customer's Accounting for Fees Paid in a Cloud Computing Arrangement

Existing US GAAP does not include explicit guidance about a customer's accounting for fees paid in a cloud computing arrangement. Examples of cloud computing arrangements include software as a service, platform as a service, infrastructure as a service, and other similar hosting arrangements. The guidance provides criteria for customers in a cloud computing arrangement to determine whether the arrangement includes a software license.

When a cloud computing arrangement includes a license of software, the customer will capitalize the fee attributable to the software license portion of the arrangement when the criteria for capitalization of internal-use software are met. When a cloud computing arrangement does not include a license of software, the customer will account for the arrangement as a service contract and expense the cost as the services are received. When effective, the ASU will supersede the guidance that required companies to analogize to lease accounting when determining the asset acquired in a software licensing arrangement.

For public business entities, the standard is effective for annual and interim periods in fiscal years beginning after December 15, 2015. For all other entities, the standard is effective for annual periods beginning after December 15, 2015, and interim periods in fiscal years beginning after December 15, 2016. Early adoption is permitted for all entities.

Entities may elect to adopt the ASU either prospectively for all arrangements entered into or materially modified after the effective date, or retrospectively. Entities that elect prospective transition should disclose the nature of, and reason for, the change in accounting policy, the transition method, and a qualitative description of the financial statement line items

affected by the change. Entities that elect retrospective transition should also disclose quantitative information about the effects of the accounting change.

Going Concern

The FASB issued a new going concern standard, which requires management to assess, at each interim and annual reporting period, whether substantial doubt exists about the company's ability to continue as a going concern. Substantial doubt exists if it is probable (the same threshold that is used for contingencies) that the company will be unable to meet its obligations as they become due within one year after the date the financial statements are issued or available to be issued (assessment date). Management needs to consider known (and reasonably knowable) events and conditions at the assessment date.

If management determines there is substantial doubt, it should consider whether the doubt is overcome by management's plans. If it is probable that management's plans can be both effectively implemented and mitigate the conditions or events that raise substantial doubt, those plans, along with the principal conditions or events that gave rise to that doubt and management's evaluation of the significance of those conditions or events, must be disclosed.

When substantial doubt is not overcome by management's plans, the company must disclose:

- A statement indicating that there is substantial doubt about the company's ability to continue as a going concern;
- The principal conditions and events giving rise to substantial doubt;
- Management's evaluation of the significance of those conditions or events in relation to the entity's ability to meet its obligations; and
- Management's plans that are intended to mitigate the conditions or events that gave rise to the substantial doubt.

The new standard substantially aligns the accounting requirements with current auditing requirements (except that auditing standards require a one-year assessment from the balance sheet date rather than from the financial statement

issuance date, the accounting standard specifically defines “substantial doubt” and it requires assessment at every reporting period).

The new standard is effective for all entities for the first annual period ending after December 15, 2016, and interim periods thereafter, with early adoption permitted.

Disclosures for Investments in Certain Entities That Calculate Net Asset Value (NAV) per Share

The new guidance will eliminate the requirement to categorize investments in the fair value hierarchy disclosure if their fair value is measured at net asset value (NAV) per share (or its equivalent) using the practical expedient in the FASB’s fair value measurement guidance.

Under current U.S. GAAP, categorization within the fair value hierarchy of an investment to which the practical expedient is applied depends on its redemption attributes. This is because redemption dates often depend on the nature of the underlying investments in the investment companies. For example, investment companies that hold very liquid investments (e.g., money market funds and publicly traded equity funds) often can be redeemed frequently. Investments in investment companies holding less liquid or illiquid investments (e.g. real estate funds) are generally redeemable less frequently, such as quarterly, annually, or only upon liquidation of the entity.

Investments measured using the practical expedient that are redeemable at NAV on the measurement date are currently categorized as Level 2. Investments that will be redeemable only upon liquidation of the entity, or with unknown future redemption dates, are categorized as Level 3.

For investments measured using the practical expedient that are redeemable at a future date, reporting entities need to determine if the investment is redeemable in the near term, in which case it is categorized as Level 2. However, near term is not defined in the FASB’s guidance about the fair value hierarchy, and preparers have interpreted it differently (e.g., as the ability to redeem quarterly or semi-annually). This has resulted in diversity in practice.

The amendments in the ASU remove the requirement to categorize within the fair value hierarchy investments whose fair values are measured at NAV (or its equivalent) under the practical expedient in the FASB’s fair value measurement guidance. Investments eligible for the practical expedient, but for which it has not been applied, will continue to be included in the fair value hierarchy.

Reporting entities are required to adopt the ASU retrospectively. The effective date for public business entities is fiscal years beginning after December 15, 2015, and interim periods within those fiscal years. The effective date for all other entities is fiscal years beginning after December 15, 2016, and interim periods within those fiscal years. Early adoption is permitted for all entities.

FASB Simplifies Measurement- Period Adjustments in Business Combinations

A recently issued ASU eliminates the requirement to retrospectively adjust the financial statements for measurement-period adjustments that occur in periods after a business combination is consummated.

The measurement period is a reasonable time period after the acquisition date when the acquirer may adjust the provisional amounts recognized for a business combination if the necessary information is not available by the end of the reporting period in which the acquisition occurs. This may



occur, for example, when the purchase price allocation is not complete for the purchase of an operating property that is purchased near the end of the acquirer's reporting period.

The measurement period ends as soon as the acquirer receives the information it was seeking, or learns that more information is not obtainable. But in any event, the measurement period cannot continue for more than one year from the acquisition date.

Under current GAAP, measurement-period adjustments are calculated as if they were known at the acquisition date, and are recognized by revising information for prior periods. For example under current guidance, real estate companies are often required to revise prior period financial statements to adjust previously recognized depreciation and amortization expense when the purchase price allocation is finalized after the issuance of the previous period's financial statements. The new guidance will continue to require measurement-period adjustments to be calculated as if they were known at the acquisition date, but will be recognized in the reporting period

in which they are determined. Prior period information is not revised. Additional disclosures are required about the effect on current-period income statement line items of adjustments that would have been recognized in prior period if prior-period information had been revised.

An entity will apply the changes prospectively to adjustments of provisional amounts that occur after the effective date. Public business entities will be required to apply the new standard for interim and annual periods in fiscal years beginning after December 15, 2015. All other entities will be required to apply the new standard for fiscal years beginning after December 15, 2016, and interim periods in fiscal years after December 15, 2017. Early adoption is permitted if financial statements were not made available for issuance.

Private Companies – Accounting for Identifiable Intangible Assets

Current U.S. GAAP generally requires an acquirer to recognize separately from goodwill the identifiable assets acquired, liabilities assumed, and any noncontrolling interest in the acquiree, and to measure these items at their acquisition date fair value.

The Private Company Council (PCC) and FASB heard from private company stakeholders that the benefits of separately accounting for certain intangible assets acquired in a business combination may not justify the related cost and complexity particularly for estimating the fair value of intangible assets that do not generate cash flows independent of the other assets of the business. The FASB provided this alternative to address those concerns.

A private company¹⁴ electing the alternative will not separately recognize (a) certain customer-related intangible assets and (b) noncompetition agreements when applying purchase accounting and in certain other limited circumstances. This election also requires the private company to amortize goodwill under the previously issued goodwill alternative.

Some private companies will separately account for fewer intangible assets for future business combinations, which could reduce comparability among companies.

The guidance is effective prospectively for in-scope transactions occurring in the first annual period beginning after December 15, 2015. Early adoption is allowed if the financial statements have not been made available for issuance.



Contingent Put and Call Options in Debt Instruments

Current accounting guidance requires that embedded derivatives be separated from the host and accounted for as derivatives if three criteria are met. These criteria include that the economic characteristics and risks of the embedded derivative are not clearly and closely related to the economic characteristics and risks of the host contract.

Derivatives and hedging guidance provides a four-step decision sequence to be used to determine whether puts and calls are clearly and closely related to the host contract, however, applying that guidance created diversity in practice. Certain entities assessed the puts and calls using only the four-step decision sequence, while other entities also separately evaluated the contingency.

The EITF reached a final consensus that would clarify that determining whether the economic characteristics of a put or call are clearly and closely related to its debt host requires only an assessment of the current four-step decision sequence. Entities would not be required to separately assess whether the contingency itself is clearly and closely related. This conclusion is consistent with those previously reached by the Derivatives Implementation Group (DIG) when the guidance on the four-step decision sequence was issued.

A modified retrospective transition approach, with a cumulative catch-up adjustment to opening retained earnings in the period of adoption, would be required. For instruments that are eligible for the fair value option, entities also would have a one-time option to irrevocably elect to measure the debt instrument affected by the proposed amendments in its entirety at fair value with changes in fair value recognized in earnings.

For public business entities, this guidance would be effective for annual and interim period beginning after December 15, 2016. For all other entities, it would be effective for annual periods beginning after December 15, 2017 and interim periods beginning after December 15, 2018. Early adoption as of the beginning of an annual period would be allowed for annual and interim periods for which financial statements have not been issued. The FASB will consider these decisions at its December 2015 meeting.

Simplifying Accounting for Share-based Payments

The FASB recently decided to issue an ASU that would simplify the accounting for share-based payment transactions. The forthcoming guidance is intended to reduce the cost and complexity of accounting for share-based payments. However, certain changes could result in increased volatility in reported earnings.

Under the forthcoming standard:

1. Incremental current and deferred tax benefits or deficiencies of share-based payments at settlement or expiration would be recorded through the income statement instead of equity and be treated as discrete items when computing the estimated annual effective tax rate.
2. Excess tax benefits would be classified as operating activities in the statement of cash flows.
3. Entities would be permitted to make an accounting policy election to either estimate the number forfeitures (current GAAP) or account for forfeitures when they occur.
4. Entities would be allowed to withhold up to the maximum individual statutory tax rate without classifying the awards as a liability. The cash paid to satisfy the statutory income tax withholding obligation would be classified as a financing activity in the statement of cash flows.
5. Nonpublic entities would be allowed to use a practical expedient to determine the expected term of certain share-based awards. They also would be allowed to make an election to change the measurement basis for all liability-classified awards to intrinsic value.

The forthcoming standard will be effective for public business entities for annual and interim periods in fiscal years beginning after December 15, 2016. For all other entities, the guidance is effective for annual periods in fiscal years beginning after December 15, 2017, and interim periods within fiscal years beginning after December 15, 2018. Early adoption will be permitted.

Simplifying the Equity Method Accounting

The FASB recently decided to issue an ASU that would eliminate the requirement in applying the equity method of accounting to retroactively apply it when an increase in ownership interest in the investee triggers a change from the cost method to the equity method. The Board also decided to require entities that have an available-for-sale equity security that becomes eligible for the equity method of accounting to recognize the unrealized holding gain or loss in accumulated other comprehensive income through earnings at the date in which the investment qualifies for use of the equity method.

The forthcoming standard will be effective for all entities for annual and interim periods in fiscal years beginning after December 15, 2016 and will be applied prospectively to increases in ownership level or degree of influence occurring after the effective date of the change. Early adoption will be permitted.

Consolidation

The FASB issued a new consolidation standard to improve targeted areas of the consolidation guidance and reduce the number of consolidation models. The new consolidation standard changes the way reporting enterprises evaluate whether (a) they should consolidate limited partnerships and similar entities, (b) fees paid to a decision maker or service provider are variable interests in a variable interest entity (VIE), and (c) variable interests in a VIE held by related parties of the reporting enterprise require the reporting enterprise to consolidate the VIE. It also eliminates the VIE consolidation model based on majority exposure to variability that applied to certain investment companies and similar entities and changed the way the voting rights characteristic in the VIE scope determination is evaluated for corporations (which may significantly impact entities for which decision making rights are conveyed through a contractual arrangement).

The primary objective of the new guidance was to address concerns expressed by financial statement users about the possibility that the existing guidance could require investment managers and similar entities to consolidate certain investment funds that they manage. Another objective of the proposals was to eliminate the inconsistency between how participating rights and kick-out rights are evaluated for VIEs versus other entities.

Changes to VIE Consolidation Requirements

To limit the circumstances in which investment managers and similar entities are required to consolidate the entities that they manage, the FASB decided to eliminate some of the criteria under which their fees are considered a variable interest and limit the circumstances in which variable interests in a VIE held by related parties of a reporting enterprise require the reporting enterprise to consolidate the VIE. The Board also decided that the general partner or managing member of limited partnerships and similar entities should be subject to the new VIE consolidation requirements when the limited partners do not hold substantive kick-out rights or participating rights. Consequently, the Board expanded the VIE criteria to specifically include limited partnerships and similar entities in some circumstances in which they are not considered VIEs under current U.S. GAAP.

In addition, the FASB revised the requirements used to determine whether the equity-at-risk investors in corporations and other entities that are not similar to limited partnerships have the power through voting rights or similar rights to make

decisions about the activities that most significantly impact the entities' economic performance. Those changes essentially obviate the need for a single party to hold a substantive kick-out right or participating right over a decision maker whose fee represents a variable interest for an entity not to be a VIE. Although the Board made this change in response to constituent concerns about the results of applying the previous VIE criteria to certain mutual fund structures, the changes are not restricted to mutual fund entities and may significantly affect previous consolidation conclusions in some cases.

Fees Paid to a Decision-Maker or Service Provider

Variable Interest Determination

Under the ASU's provisions, fees paid to a decision maker or service provider do not represent a variable interest in a VIE if all of the following conditions are met:

- 1) The decision maker's compensation is commensurate with the services provided;
- 2) The arrangement includes only terms, conditions, or amounts that are customarily present in arrangements for similar services negotiated on an arm's-length basis; and
- 3) The decision maker does not hold other interests in the VIE (including interests held through related parties) that individually or in the aggregate, absorb more than an insignificant amount of the VIE's expected losses or receive more than an insignificant amount of the VIE's expected residual returns.

A fee would not presumptively be considered a variable interest when similar fee arrangements do not exist if the fee arrangement relates to a unique or new service or if it reflects a change in what is considered customary for the services. In addition, the magnitude of a fee would not be determinative in evaluating the criteria.

The criteria do not apply to fees or payments in connection with agreements that expose the decision maker or service provider to risk of loss in the VIE, such as fees related to guarantees of the value of the assets or liabilities of a VIE, fees in relation to obligations to fund operating losses, etc. Those fees are automatically considered variable interests under the guidance in the ASU.

Primary Beneficiary Determination

If a decision maker's fees represent a variable interest in a VIE, the decision maker must determine whether it is the VIE's primary beneficiary. Consistent with current U.S. GAAP, a variable interest holder is considered the primary beneficiary and consolidates a VIE when it has: (a) the power to direct the activities that most significantly impact the VIE's economic performance (power), and (b) the obligation to absorb losses of the VIE that could potentially be significant to the VIE and/or the right to receive benefits from the VIE that could potentially be significant to the VIE (potentially significant variable interest).

The FASB decided to exclude fees paid to a decision maker or service provider from the potentially significant variable interest determination if:

- 1) The compensation is commensurate with the services provided; and
- 2) The arrangement includes only terms, conditions, or amounts that are customarily present in arrangements for similar services negotiated on an arm's-length basis.

When eligible fees meet the conditions above, the fees are excluded from the potentially significant variable interest determination in the primary beneficiary evaluation irrespective of whether they are subject to lock-up provisions, settled in variable interests (i.e., not cash) of the VIE, or other variable interests are held by the decision maker or service provider.

Under current U.S. GAAP, fees paid to a decision maker or service provider are included in the potentially significant variable interest determination. The new consolidation guidance places more emphasis on variable interests other than fee arrangements because the FASB believes that these fee arrangements do not subject the decision maker to a risk of loss. Fees or payments in connection with agreements that expose the decision maker or service provider to risk of loss in the VIE (e.g., fees related to guarantees of the value of the assets or liabilities of a VIE, fees in relation to obligations to fund operating losses, etc.) are not eligible for the above exclusion and therefore are included in evaluating whether a decision maker has a potentially significant variable interest.

Related Parties

The new consolidation guidance does not change the related party guidance for situations where power to direct the activities that most significantly impact a VIE's economic performance is shared between two or more parties. However, it does change the way in which related parties are considered in determining whether a fee paid to a decision maker or service provider is a variable interest and the way in which related party interests are considered in determining whether a single party with the power to direct the activities that most significantly impact a VIE's economic performance (i.e., a single decision maker) has a potentially significant variable interest that results in the decision maker meeting both criteria to be the VIE's primary beneficiary. The FASB also decided to change the current VIE guidance requiring an evaluation of which party in a related party group that collectively meets the characteristics to be a VIE's primary beneficiary should consolidate the VIE when none of the parties individually meets the characteristics to be the primary beneficiary.

VIE Criteria

Voting Rights

With the new consolidation guidance eliminating the indefinite deferral of ASU 2009-17¹⁴ provided for certain entities in ASU 2010-10¹⁵, some constituents expressed concerns that certain funds would be considered VIEs because the equity-at-risk investors would not have the power through voting rights to direct the activities that most significantly impact the funds' economic performance. Specifically, a single equity-at-risk investor would not have a substantive unilateral kick-out right or participating right over the asset manager when the asset manager's fee is considered a variable interest. This outcome would have potentially required consolidation of these entities by asset managers that hold a portion of the entities' investment interests until their interests fell below the potentially significant variable interest threshold (rather than the majority exposure to variability threshold in current U.S. GAAP). To address these concerns, the FASB decided to stipulate that two steps are required when evaluating the voting rights characteristic for entities that are not similar to limited partnerships:

Step 1 – Determine whether the holders of the equity investment at risk have power through voting rights or similar rights to direct the activities that most significantly impact the entity's economic performance. If so, the entity would not be a VIE if no other VIE

¹⁴ FASB Accounting Standards Update No. 2009-17, Improvements to Financial Reporting by Enterprises Involved with Variable Interest Entities

¹⁵ FASB Accounting Standards Update No. 2010-10, Amendments for Certain Investment Funds

characteristics are met. If the equity at-risk holders do not have power to direct the activities that most significantly impact the entity's economic performance, Step 2 is performed.

Step 2 – If a decision maker whose fee is a variable interest has power to direct the activities that most significantly impact the entity's economic performance through a contractual arrangement, the entity would be a VIE unless a single equity-at-risk holder has substantive kick-out rights or substantive participating rights over the decision maker and no other VIE characteristics are met.

The two-step analysis above applies to all legal entities that are not similar to limited partnerships.

Limited Partnerships and Similar Legal Entities

The FASB decided to change the VIE criteria so that regardless of the sufficiency or other characteristics of its equity a limited partnership or similar entity is a VIE unless substantive kick-out rights or participating rights are exercisable by either a single limited partner or a simple majority of all limited partner voting interests. Limited partner voting interests held by the general partner, entities under common control with the general partner, and other parties acting on behalf of the general partner are excluded from that analysis. The analysis is not affected by whether the general partner interest qualifies as an equity-at-risk interest. Entities for which investors are eligible to apply the pro rata method of consolidation based on industry practice in the construction industry or extractive industries are not within the scope of this provision. This allows investors in these entities to continue to apply the pro rata method of consolidation when applicable.

Changes to Consolidation Requirements for Entities That Are Not VIEs

The FASB decided to eliminate the consolidation guidance for limited partnerships and similar entities that are not VIEs. Under the new consolidation requirements, those entities will be evaluated for consolidation in generally the same way as corporations that are not VIEs. Limited partner substantive kick-out rights held through voting interests of partnerships and similar entities that are not VIEs will be considered fully the equivalent of the equity interests of corporations that are not VIEs. Limited partner substantive participating rights held through voting interests of partnerships and similar entities will be considered equivalent to equity interests of corporations that are not VIEs for purposes of determining whether those

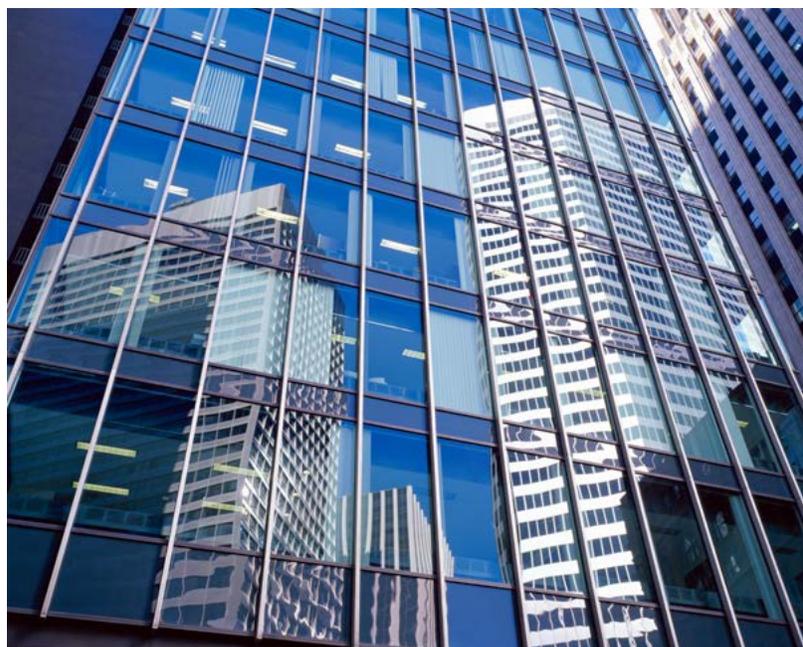
entities are VIEs. However, substantive participating rights will not require consolidation of the entity by a partner with the ability to unilaterally exercise those rights.

Investment Entities Other Than Money Market Funds

ASU 2010-10¹⁶ indefinitely deferred the effective date of the VIE consolidation requirements in ASU 2009-17¹⁷ for reporting enterprises with interest in entities that either have all of the characteristics of investment companies or that apply measurement principles for financial reporting purposes that are consistent with those that apply to investment companies based on acceptable industry practice if the reporting enterprise meets other conditions. The new guidance eliminates this deferral so that the same VIE consolidation requirements apply to all VIEs. Reporting enterprises will no longer evaluate consolidation for these entities when they are VIEs based on majority exposure to variability.

Effective Date

The new consolidation guidance is effective for public business entities for annual and interim periods in fiscal years beginning after December 15, 2015. For all other entities, the guidance is effective for annual periods in fiscal years beginning after December 15, 2016, and interim periods within fiscal years beginning after December 15, 2017.



¹⁶FASB Accounting Standards Update No. 2010-10, Amendments for Certain Investment Funds

¹⁷FASB Accounting Standards Update No. 2009-17, Improvements to Financial Reporting by Enterprises Involved with Variable Interest Entities

3. Proposed guidance

FASB and PCC Propose to Eliminate Effective Dates for Private Company Alternatives

The FASB recently proposed to eliminate the effective dates for four private company accounting alternatives developed by the PCC. The proposal would allow a private company to elect an unconditional, one-time decision to adopt any of the four private company accounting alternatives at any time without assessing whether they are preferable, which U.S. GAAP otherwise requires. In addition, the guidance would allow private companies to elect to apply the specialized transition allowed by the simplified hedge accounting and goodwill amortization alternatives regardless of when they are elected.

The proposed ASU would be effective immediately upon issuance.

Leasing Standard Finally Almost Here

Issuance of the new leases standard is just around the corner. The FASB plans to issue a final leases standard in January 2016 and has set the effective date for the new standard.

Public business entities will be required to apply the new leases standard for interim and annual periods in fiscal years beginning after December 15, 2018. All other entities will be required to apply the new leases standard for fiscal years beginning after December 15, 2019, and interim periods in fiscal years beginning one year later. Early adoption will be permitted for all entities.

Please reach out to one of the authors of this publication for KPMG's latest in-depth analysis of the proposed leasing standard.

Statement of Cash Flows: Classification of Certain Cash Receipts and Cash Payments

The EITF will issue a consensus-for-exposure for public comment for eight cash flow issues that are expected to reduce diversity in practice and improve financial reporting. Those issues most relevant to the real estate industry include:

Debt Prepayment or Extinguishment Costs. The EITF decided that cash payments for debt prepayment or extinguishment costs should be classified as cash outflows for financing activities.

Settlement of Zero-coupon Bonds. The EITF decided that the portion of the cash payment at settlement attributable to the accreted interest should be classified as a cash outflow for operating activities. The portion of the cash payment attributable to the principal (i.e., original proceeds received) should be classified as a cash outflow for financing activities.

Contingent Consideration Payments Made after a Business Combination. The EITF decided that cash payments made after a business combination for the settlement of a contingent consideration liability should be separated and classified as:

- A cash outflow for financing activities for the portion of the total cash payment not to exceed the amount of the contingent consideration liability recognized as the acquisition-date fair value (including measurement period adjustments). This classification presumes the amount is not paid at the time of purchase or soon before or after the business combination occurred. Otherwise it would be classified as a cash outflow for investing activities.
- A cash outflow for operating activities for the amount paid in excess of the amount of the contingent consideration liability recognized as the acquisition-date fair value (including measurement period adjustments).

Distributions Received from Equity Method Investees

The EITF decided to require the cumulative-earnings approach for distributions received from equity method investees. Under this approach, all distributions received from the investee would be presumed to be returns on investment and classified as operating inflows. However, if the investor's cumulative distributions, excluding distributions in prior years that were determined to be returns of investment, exceed the investor's cumulative equity in earnings, the current period distribution up to this excess is considered a return of investment and classified as investing inflows.

For the cash flow issues included in the consensus-for-exposure, the EITF tentatively concluded to require retrospective transition.

FASB Proposes Changes to Materiality for More Effective Disclosures

The FASB recently issued two exposure drafts as part of its Disclosure Framework project that would provide more flexibility and discretion for entities to provide material information in the notes to the financial statements. Some believe that disclosures described in FASB accounting standards must be provided even if the related information is not relevant, resulting in disclosure overload. Others believe not enough relevant information is provided.

The Board proposed amendments to Materiality (as described in FASB Concepts Statement 8) that would be aligned with the legal concept of materiality. Under the proposal, the FASB would observe the U.S. Supreme Court definition of materiality (that can change based on executive, legislative, and judicial actions) for purposes of evaluating when disclosures should be provided. The U.S. Supreme Court defines a fact as material "if there is a substantial likelihood that the disclosure of the omitted fact would have been viewed by a reasonable investor as having significantly altered the total mix of information made available."

The proposed changes would apply to all entities and would be effective upon issuance. Prospective or retrospective application would be permitted.

Revenue Recognition

In May 2014, the IASB and the FASB published their joint standard on revenue recognition. It replaces, among other things, most of the guidance on profit recognition for real estate sales that currently exists under U.S. GAAP. The 2018 effective date may seem a long way off (recently deferred one year with the option to early adopt in 2017), but already many real estate companies are analyzing the implications and are finding that they are impacted in some way. The impacts to individual real estate companies vary widely depending on the nature of their business and how they contract with their customers and buyers.

KPMG issued a white paper, *Building a Bridge from Statement 66: Real Estate Sales Under the New Revenue Standard* that addresses some of the common questions about the new standard's effect on sales of real estate and organized in a form of questions and interpretative guidance. Please click [here](#) for the publication.



4. Regulatory update

SEC Rule – Executive Clawback on Compensation

The SEC recently proposed a rule directing national securities exchanges and associations to establish listing standards that would require listed companies to develop and implement a policy to recover incentive-based compensation that executive officers were awarded erroneously.

All companies listed on a national securities exchange or association would be required to adopt and comply with a written recovery policy for all incentive-based compensation received by executive officers. Companies would be required to disclose the recovery policy in an exhibit to the annual report.

In the event of a material accounting restatement, a company would be required to determine and recover the amount of incentive-based compensation for certain executive officers in excess of what otherwise would have been awarded based on the restated financial statements.

The proposed rule would generally apply to all listed companies, including emerging growth companies, smaller reporting companies, and foreign private issuers. Limited exemptions would be provided for certain listed securities futures, standardized option products, and certain registered investment companies.

Comments on the proposed rule were due in September 2015. Listed companies must apply the required recovery policy no later than 60 days following the date the exchange's rule becomes effective.

SEC Requires Pay Ratio Disclosure

The SEC recently adopted a final rule mandated by the Dodd-Frank Act that requires companies to disclose the ratio of the primary executive officer's (PEO) compensation to the median compensation of all employees. The rule allows flexibility to determine the pay ratio.

The pay ratio disclosure will appear in registration, proxy and information statements, and annual reports that require executive compensation disclosure. Companies must disclose the methodology, assumptions, and estimates used in determining median employee annual total compensation. However, they are permitted, but not required, to disclose other information, such as other ratios or narrative explanations. The SEC believes the pay ratio disclosure should allow shareholders to better understand and assess a particular company's compensation practices rather than facilitating comparison with other companies.

The pay ratio disclosure is required for fiscal years beginning on or after January 1, 2017. The rule does not apply to smaller reporting companies, emerging growth companies, foreign private issuers, Multijurisdictional Disclosure System filers, or registered investment companies.

SEC Revisions for Exempt Offering Rules (Regulation A)

Regulation A offerings are public offerings that have no prohibition on general solicitation and advertising that are exempt from the filing requirements of the Securities Acts of 1933 and 1934. Before adoption of the final rules, Regulation A only permitted unregistered public offerings of up to \$5 million of securities in any 12-month period by non-SEC reporting U.S. and Canadian issuers. The Regulation A exemption requires issuers to file an offering statement with the SEC, which is similar to an abbreviated version of a prospectus in a registered offering, in a paper format.

The revisions to Regulation A create two tiers of offerings. These offerings will be exempt from existing registration requirements if certain requirements are met, including those listed in the following table.

Tier 1	Tier 2
Limit on Aggregate Offering Amount within the Prior 12 Months	
\$20 million, including up to \$6 million by selling security holders	\$50 million, including up to \$15 million by selling security holders
Investment Limitation (on a per Offering Basis)	
None	None for accredited investors For non-accredited investors, no more than 10% of the greater of the investor's annual income or net worth
Compliance with Blue Sky Laws	
Required	Exempt from state securities law requirements

Nonpublic issuers may raise up to \$50 million from non-accredited investors in a public offering. The exemption under Regulation A is limited to equity securities, debt securities, and convertible debt securities. The revisions to Regulation A exclude asset-backed securities, as defined in Regulation AB.

Ineligible Issuers. Exemption under Regulation A is not available for issuers:

- Whose principal place of business is outside the United States or Canada;
- With existing SEC reporting requirements;
- Who are investment companies as defined under the Investment Company Act of 1940;
- That have no specific business plan or a business plan to engage in a merger or acquisition with unidentified companies;
- That are disqualified under *bad actor* provisions if they or other relevant persons, such as underwriters, directors, officers, or significant shareholders have been convicted of, or are subject to, court or administrative sanctions for securities fraud or other violations of specified laws; and
- That have fractional, undivided interests in oil or gas rights, or similar interests in other mineral rights.

The revisions to Regulation A also disqualify issuers that have:

- Not fulfilled their obligation to file ongoing reports under the revised rules during the two years preceding the filing of a new offering statement; and
- Been ordered by the SEC to deny, suspend, or revoke the registration of securities during the five years preceding the filing of a new offering statement.

Issuers must file the forms required by the revised rules on EDGAR. The filings will be subject to SEC staff review and subject to anti-fraud and civil liability provisions under the Securities Act of 1933. The revisions to Regulation A establish different financial reporting requirements for Tier 1 and Tier 2 offerings. Issuers conducting an eligible offering of up to \$20 million may elect to conduct the offering under either Tier 1 or Tier 2.

SEC Permits Crowdfunding and Proposes Rules for Regional Securities Offerings

The SEC adopted final crowdfunding rules that permit start-ups and small companies to publicly raise capital while protecting investors. At the same time, the SEC proposed amendments to current rules that would ease restrictions on intrastate and regional securities offerings.

Beginning in May 2016, a company can raise capital using the new crowdfunding rules if it meets certain requirements. Restrictions also apply to investors.

Final SEC Crowdfunding Rule

Limitation on Capital Raised

A company can raise a maximum aggregate of \$1 million through crowdfunding offerings in a 12-month period.

Limitation on Individual Investment

An individual's investment in all crowdfunding offerings is limited to \$100,000 during a 12-month period. It is further limited to:

The greater of \$2,000, or 5 percent of the investor's annual income or net worth, if annual income or net worth is less than \$100,000; and

The lesser of 10 percent of the investor's annual income or net worth, if annual income or net worth is \$100,000 or more.

Restrictions on Resale

Securities issued in a crowdfunding offering may not be transferred by investors for one year, unless they are transferred back to the company, included as part of its registered offering, or sold to an accredited investor or certain family members.

Intermediary Requirements

Crowdfunding offerings must be conducted through an intermediary that is registered with the SEC as a broker-dealer or as a new entity called a *funding portal*. A company cannot advertise the terms of its offering.

The SEC's final rules exclude companies with existing reporting requirements and certain investment companies that fall under the Investment Company Act of 1940. The final rules require a company that is conducting crowdfunding offerings to file a new Form C that includes financial and other disclosures, and to distribute them to investors and its intermediary.

Appendix

Accounting Standards Affecting Public Companies in 2015

Calendar year-end public companies will apply these accounting standards for the first time in 2015.

Topic	Effective Date for Public Companies	For More Information
Not-for-Profit Services Received from Personnel of an Affiliate	Fiscal years beginning after 6/15/2014, and interim and annual periods thereafter	FASB ASU 2013-06 Defining Issues 13-17 Podcast
Affordable Housing Tax Credits	Fiscal years, and interim reporting periods within those years, beginning after 12/15/2014	FASB ASU 2014-01 Defining Issues 14-3 Webcast Podcast
Residential Real Estate Loan Reclassification	Fiscal years, and interim periods within those years, beginning after 12/15/2014	FASB ASU 2014-04 Defining Issues 13-49 Podcast
Service Concession Arrangements	Fiscal years, and interim periods within those years, beginning after 12/15/2014	FASB ASU 2014-05 Defining Issues 13-49 Podcast
Discontinued Operations	For disposals (or classifications as held-for-sale) that occur within fiscal years beginning on or after 12/15/2014, and interim periods within those years	FASB ASU 2014-08 Defining Issues 14-20 Podcast
Development Stage Entities	The presentation and disclosure changes are effective for fiscal years beginning after 12/15/2014, and interim periods within those years. The elimination of the specified consolidation exception is effective for fiscal years beginning after 12/15/2015, and interim periods within those years.	FASB ASU 2014-10 Defining Issues 14-30
Repurchase Agreements	The accounting changes and certain disclosure requirements are effective for the first interim or annual period beginning after 12/15/2014. Other disclosure requirements are effective for fiscal years beginning after 12/15/2014, and for interim periods beginning after 3/15/2015.	FASB ASU 2014-11 Defining Issues 14-31
Accounting for the Effect of a Federal Housing Administration Guarantee	Fiscal years, and interim periods within those years, beginning after 12/15/2014	FASB ASU 2014-14 Defining Issues 14-27
Pushdown Accounting	Effective upon issuance (November 2014)	FASB ASU 2014-17 Issues In-Depth: Pushdown Accounting Webcast Podcast
Pushdown Accounting: Amendments to SEC Guidance Pursuant to SAB No. 115	Effective upon issuance (May 2015)	FASB ASU 2015-08
Technical Corrections (June 2015)	Most amendments are effective upon issuance (June 2015). Certain amendments that require transition guidance are effective for fiscal years, and interim periods within those years, beginning after 12/15/2015.	FASB ASU 2015-10
Normal Purchase and Normal Sale Exception For Certain Nodal Electricity Contracts	Effective upon issuance (8/10/2015)	FASB ASU 2015-13 Defining Issues 15-26
Debt Issuance Costs Associated with Line-of-Credit Arrangements (SEC Update)	Effective upon issuance of ASU 2015-03	FASB ASU 2015-15 Podcast

Accounting Standards Affecting Public Companies in 2016 and Beyond

Calendar year-end public companies will apply these accounting standards for the first time in 2016 or later and may need to disclose their potential effects in 2015.

Topic	Effective Date for Public Companies	For More Information
Accounting for Share-Based Payments with Certain Performance Targets	Fiscal years, and interim periods within those years, beginning after 12/15/2015	FASB ASU 2014-12 Defining Issues 14-15 Podcast
Consolidated Collateralized Financing Entity Liabilities	Fiscal years, and interim periods within those years, beginning after 12/15/2015	FASB ASU 2014-13 Defining Issues 14-27
Hybrid Financial Instruments	Fiscal years, and interim periods within those years, beginning after 12/15/2015	FASB ASU 2014-16 Defining Issues 14-44 Podcast
Eliminating the Concept of Extraordinary Items	Fiscal years, and interim periods within those years, beginning after 12/15/2015	FASB ASU 2015-01 Defining Issues 15-2
Consolidation	Fiscal years, and interim periods within those years, beginning after 12/15/2015	FASB ASU 2015-02 Defining Issues 15-6 Webcast
Presentation of Debt Issuance Costs	Fiscal years, and interim periods within those years, beginning after 12/15/2015	FASB ASU 2015-03 Defining Issues 15-14
Practical Expedient for the Measurement Date of an Employer's Defined Benefit Obligation and Plan Assets	Fiscal years, and interim periods within those years, beginning after 12/15/2015	FASB ASU 2015-04 Defining Issues 15-17
Customer's Accounting for Fees Paid in a Cloud Computing Arrangement	Fiscal years, and interim periods within those years, beginning after 12/15/2015	FASB ASU 2015-05 Defining Issues 15-15 Podcast
Effects on Historical Earnings per Unit of Master Limited Partnership Dropdown Transactions	Fiscal years, and interim periods within those years, beginning after 12/15/2015	FASB ASU 2015-06 Defining Issues 15-10 Podcast
Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share	Fiscal years, and interim periods within those years, beginning after 12/15/2015	FASB ASU 2015-07 Defining Issues 15-20 Podcast
Going Concern	Fiscal years ending after 12/15/2016, and interim and annual periods thereafter	FASB ASU 2014-15 Defining Issues 14-40 Webcast Podcast
Disclosures about Short-Duration Insurance Contracts	Fiscal years beginning after 12/15/2015, and interim periods within fiscal years beginning after 12/15/2016	FASB ASU 2015-09 Issues and Trends in Insurance
Simplifications for Employee Benefit Plans	Fiscal years beginning after 12/15/2015	FASB ASU 2015-12 Defining Issues 15-36 Podcast
Simplifying the Measurement of Inventory	Fiscal years, and interim periods within those years, beginning after 12/15/2016	FASB ASU 2015-11 Defining Issues 15-33
Revenue Recognition	Fiscal years, and interim periods within those years, beginning after 12/15/2017	FASB ASU 2014-09 FASB ASU 2015-14 Latest on Revenue Recognition
Simplifying the Measurement-Period Adjustments in Business Combinations	Fiscal years, and interim period with those years, beginning after 12/15/2015	FASB ASU 2015-16 Defining Issues 15-43
Balance Sheet Classification of Deferred Taxes	Fiscal years, and interim period with those years, beginning after 12/15/2016	FASB ASU 2015-17 Defining Issues 15-55

Accounting Standards Affecting Private Companies in 2015

Calendar year-end private companies will apply these accounting standards for the first time no later than in their 2015 annual financial statements.

Topic	Effective Date for Private Companies	For More Information
Pushdown Accounting	Effective upon issuance (November 2014)	FASB ASU 2014-17 Issues In-Depth: Pushdown Accounting Webcast Podcast
Not-for-Profit Services Received from Personnel of an Affiliate	Fiscal years beginning after 6/15/2014, and interim and annual periods thereafter	FASB ASU 2013-06 Defining Issues 13-17 Podcast
Release of Cumulative Translation Adjustment for Certain Derecognition Events	Fiscal years beginning after 12/15/2014, and interim and annual periods thereafter	FASB ASU 2013-05 Defining Issues 13-5 Podcast
Presentation of Certain Unrecognized Tax Benefits	Fiscal years, and interim periods within those years, beginning after 12/15/2014	FASB ASU 2013-11 Defining Issues 13-29 Podcast
Affordable Housing Tax Credits	Fiscal years beginning after 12/15/2014, and interim periods within years beginning after 12/15/2015	FASB ASU 2014-01 Defining Issues 14-3 Webcast Podcast
Accounting for Goodwill	Fiscal years beginning after 12/15/2014, and interim periods within fiscal years beginning after 12/15/2015	FASB ASU 2014-02 Defining Issues 14-7 Podcast
Simplified Hedge Accounting Approach	Fiscal years beginning after 12/15/2014, and interim periods within fiscal years beginning after 12/15/2015	FASB ASU 2014-03 Defining Issues 14-7 Podcast
Residential Real Estate Loan Reclassification	Fiscal years beginning after 12/15/2014, and interim periods within fiscal years beginning after 12/15/2015	FASB ASU 2014-04 Defining Issues 13-49 Podcast
Service Concession Arrangements	Fiscal years beginning after 12/15/2014, and interim periods within fiscal years beginning after 12/15/2015	FASB ASU 2014-05 Defining Issues 13-49 Podcast
Common Control Leasing	Fiscal years beginning after 12/15/2014, and interim periods within fiscal years beginning after 12/15/2015	FASB ASU 2014-07
Discontinued Operations	For disposals (or classifications as held-for-sale) that occur within fiscal years beginning on or after 12/15/2014, and interim periods thereafter	FASB ASU 2014-08 Defining Issues 14-20 Podcast
Development Stage Entities	The presentation and disclosure changes are effective for fiscal years beginning after 12/15/2014, and interim periods within fiscal years beginning after 12/15/2015. The elimination of the specified consolidation exception is effective for fiscal years beginning after 12/15/2016, and interim periods within fiscal years beginning after 12/15/2017	FASB ASU 2014-10 Defining Issues 14-30
Repurchase Agreements	Fiscal years beginning after 12/15/2014, and interim periods within fiscal years beginning after 12/15/2015	FASB ASU 2014-11 Defining Issues 14-31
Accounting for the Effect of a Federal Housing Administration Guarantee	Fiscal years ending after 12/15/2015, and interim periods within fiscal years beginning after 12/15/2015	FASB ASU 2014-14 Defining Issues 14-27 Podcast

Topic	Effective Date for Private Companies	For More Information
Technical Corrections (June 2015)	Most amendments are effective upon issuance (June 2015). Certain amendments that require transition guidance are effective for fiscal years, and interim periods within those years, beginning after 12/15/2015.	FASB ASU 2015-10
Normal Purchase and Normal Sale Exception For Certain Nodal Electricity Contracts	Effective upon issuance (8/10/2015)	FASB ASU 2015-13 Defining Issues 15-26

Accounting Standards Affecting Private Companies in 2016 and Beyond

Calendar year-end private companies will apply these accounting standards for the first time in 2016 or later.

Topic	Effective Date for Private Companies	For More Information
Accounting for Share-Based Payments with Certain Performance Targets	Fiscal years, and interim periods within those years, beginning after 12/15/2015	FASB ASU 2014-12 Defining Issues 14-15 Podcast
Eliminating the Concept of Extraordinary Items	Fiscal years, and interim periods within those years, beginning after 12/15/2015	FASB ASU 2015-01 Defining Issues 15-2 Podcast
Hybrid Financial Instruments	Fiscal years beginning after 12/15/2015, and interim periods within fiscal years beginning after 12/15/2016	FASB ASU 2014-16 Defining Issues 14-44 Podcast
Accounting Alternative for Identifiable Intangible Assets	Prospectively for in-scope transactions in the first fiscal year beginning after 12/15/2015, and interim periods within fiscal years beginning after 12/15/2016	FASB ASU 2014-18 Defining Issues 15-1 Podcast
Presentation of Debt Issuance Costs	Fiscal years beginning after 12/15/2015, and interim periods within fiscal years beginning after 12/15/2016	FASB ASU 2015-03 Defining Issues 15-14 Podcast
Customer's Accounting for Fees Paid in a Cloud Computing Arrangement	Fiscal years beginning after 12/15/2015, and interim periods within fiscal years beginning after 12/15/2016	FASB ASU 2015-05 Defining Issues 15-15 Podcast
Simplifications for Employee Benefit Plans	Fiscal years, and interim periods within those years, beginning after 12/15/2016	FASB ASU 2015-12 Defining Issues 15-36 Podcast
Consolidated Collateralized Financing Entity Liabilities	Fiscal years ending after 12/15/2016, and interim periods within fiscal years beginning after 12/15/2016	FASB ASU 2014-13 Defining Issues 14-27 Podcast
Going Concern	Fiscal years ending after 12/15/2016, and interim and annual periods thereafter	FASB ASU 2014-15 Defining Issues 14-40 Webcast Podcast
Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share	Fiscal years, and interim periods within those years, beginning after 12/15/2016	FASB ASU 2015-07 Defining Issues 15-20 Podcast
Consolidation	Fiscal years beginning after 12/15/2016, and interim periods within fiscal years beginning after 12/15/2017	FASB ASU 2015-02 Defining Issues 15-6 Webcast

Topic	Effective Date for Private Companies	For More Information
Practical Expedient for the Measurement Date of an Employer's Defined Benefit Obligation and Plan Assets	Fiscal years beginning after 12/15/2016, and interim periods within fiscal years beginning after 12/15/2017	FASB ASU 2015-04 Defining Issues 15-17
Disclosures about Short-Duration Insurance Contracts	Fiscal years beginning after 12/15/2016, and interim periods within fiscal years beginning after 12/15/2017	FASB ASU 2015-09 Issues and Trends in Insurance
Simplifying the Measurement of Inventory	Fiscal years beginning after 12/15/2016, and interim periods within fiscal years beginning after 12/15/2017	FASB ASU 2015-11 Defining Issues 15-33
Revenue Recognition	Fiscal years beginning after 12/15/2018, and interim periods within fiscal years beginning after 12/15/2019	FASB ASU 2014-09 FASB ASU 2015-14 Latest on Revenue Recognition
Simplifying the Measurement-Period Adjustments in Business Combinations	Fiscal years beginning after 12/15/2016, and interim periods within fiscal years beginning after 12/15/2017	FASB ASU 2015-16 Defining Issues 15-43
Balance Sheet Classification of Deferred Taxes	Fiscal years beginning after 12/15/2017, and interim periods within fiscal years beginning after 12/15/2018	FASB ASU 2015-17 Defining Issues 15-55

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