

### Financial institutions, including asset managers

The new standard may impact certain transactions and contracts entered into by financial institutions, including asset managers

#### Scope

Financial institutions will first apply other U.S. GAAP to account for contracts that include both services and financial instruments such as a loan. For the remaining consideration, the financial institution will use the fivestep revenue recognition model. However, after recognizing the financial instruments under other U.S. GAAP, there may be only minimal consideration that will fall under the new revenue recognition standard. Other transactions may result in more significant changes.

# Identification of a contract — sales of other real estate owned

The new standard will apply to the sale of nonfinancial assets that are not an output of the financial institution's ordinary activities, including other real estate owned. A financial institution will need to analyze the contract for commercial substance and evaluate the buyer's ability and intent to pay to determine if the contract meets the criteria to be accounted for under the revenue recognition model. This may result in earlier profit recognition than under current U.S. GAAP.

#### Identifying the customer – asset managers

When asset managers of pooled investment vehicles evaluate contracts with customers, the asset manager will need to identify whether the customer is the fund or the investor in the fund. Entities will need to consider the specific facts and circumstances of each contract, and that conclusion may affect how the new revenue recognition model is applied.

## Identifying performance obligations – credit card loyalty programs

If a separate performance obligation is determined to exist for credit card award points, a portion of the interchange fee will be allocated to the performance obligation and deferred until redemption occurs. Judgment will be required to determine whether the credit card loyalty program constitutes a separate performance obligation and further implementation guidance may be necessary.

#### **Constraint — performance-based fees**

Asset managers who enter into arrangements that include performance-based incentive fees will be subject to the revenue constraint. The recognition of these fees will be limited to amounts for which it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur. As part of that assessment, asset managers should consider the impact of external factors (e.g., market volatility) on their incentive fees. Asset managers will need to update their assessment at each reporting date and this may result in some asset managers recognizing revenue for performance-based incentive fees only at or near the end of the contract period.

#### **Contract acquisition costs**

Under the new standard, incremental costs to obtain contracts are required to be capitalized if the entity expects the costs to be recoverable and the amortization period is more than 12 months, which will change current practice for some entities. The new standard will not affect current U.S. GAAP cost guidance for mutual fund distribution fees associated with contingent deferred sales charges.

The descriptive and summary statements in this newsletter are not intended to be a substitute for the potential requirements of the standard or any other potential or applicable requirements of the accounting literature or SEC regulations. Companies applying U.S. GAAP or filing with the SEC should apply the texts of the relevant laws, regulations, and accounting requirements, consider their particular circumstances, and consult their accounting and legal advisors.

The FASB issued ASU No. 2014-09, Revenue from Contracts with Customers, in May 2014. This information is current as of May 2014.

© 2014 KPMG LLP, a Delaware limited liability partnership and the U.S. member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity. All rights reserved. KPMG and the KPMG logo are registered trademarks of KPMG International Cooperative ("KPMG International"), a Swiss entity NDPPS 178735