September 16, 2019

Shayne Kuhaneck
Acting Technical Director
Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, CT 06856-5116

File Reference No. 2019-750
Re: Proposed Accounting Standards Update, Financial Instruments — Credit Losses (Topic 326), Derivatives and Hedging (Topic 815), and Leases (Topic 842): Effective Dates

Dear Mr. Kuhaneck:

Deloitte & Touche LLP is pleased to comment on the FASB’s proposed Accounting Standards Update (ASU) Financial Instruments — Credit Losses (Topic 326), Derivatives and Hedging (Topic 815), and Leases (Topic 842): Effective Dates.

We support the Board’s proposal to defer the effective date of the new major accounting standards (i.e., on credit losses, hedging, and leases) for nonpublic entities and some smaller public reporting companies while allowing such entities to early adopt the standards.

We believe that a deferral will give preparers the time they need to appropriately transition to the new standards, develop accounting policies, design internal controls, and implement any new required systems or processes. We understand that the deferral is particularly important for preparers since the effects of implementing the new accounting standards may extend beyond financial reporting and involve many aspects of an entity’s operation. In addition, we believe that the additional time will extend the opportunity for the accounting profession to learn from public companies’ implementation efforts.

We agree with the Board’s proposed two-bucket method for establishing effective dates of new accounting standards. However, as discussed in the appendix below, we believe that the proposed guidance would necessitate three buckets in some instances. Accordingly, we encourage the Board to reexamine the proposed guidance to ensure that the two-bucket system applies in all circumstances.

The appendix also contains our responses to the proposed ASU’s questions for respondents.

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We appreciate the opportunity to comment on the proposed ASU. If you have any questions concerning our comments, please contact Amy Park at (312) 486-4515.

Yours truly,

Deloitte & Touche LLP

cc: Robert Uhl
    Jon Howard
    Kristin Bauer
    Lisa Mitrovich
Appendix
Deloitte & Touche LLP
Responses to Proposed ASU’s Questions for Respondents

**Question 1:** Is the two-bucket approach described and applied in this Update understandable? If not, please explain why.

While we believe that the introduction of a two-bucket approach is understandable, it may result in complexities for entities that must switch between buckets. Accordingly, we believe that the proposed amendments should clarify which effective dates may be required for such entities.

Under the proposed amendments as written, the determination of whether an entity meets the definition of a smaller reporting company (SRC) is not subject to change. Thus, if an entity subsequently loses its SRC status, it would not be required to apply bucket one’s earlier effective date. However, it is not clear under the proposed amendments which effective date would be required in other scenarios in which an entity’s eligibility may change (e.g., an entity that files an initial registration statement after the bucket one effective date or an emerging growth company (EGC) that elects the private-company effective dates and subsequently loses its EGC status). We also believe that the uncertainty related to when an entity is required to adopt if its eligibility changes would result in significant challenges for preparers, who may be required to adopt more quickly. Such an outcome may not be in the best interest of financial statement users and may place an unnecessary burden on the auditors of those statements.

We suggest that the Board consider adding a “bucket determination date” to the proposed ASU to prevent shifts between the two buckets regardless of a change in an entity’s eligibility in a future period. Such a bucket determination date could be structured in a manner similar to the proposed ASU’s SRC determination date.

Accordingly, we suggest the following edits to ASC 326-10-65-1(a)(1) for the Board’s consideration (proposed additions are underscored):

> The determination of whether an entity is eligible to be a smaller reporting company shall be based on an entity’s most recent determination in accordance with SEC regulations as of [add exact date that a final Update on effective dates is issued — for example, December 15, 2019]. The determination of whether an entity is a public business entity that is a Securities and Exchange Commission (SEC) filer shall be based on whether the entity meets the criteria on [add exact date that a final Update on effective dates is issued — for example, December 15, 2019].

To illustrate this approach, a calendar-year-end entity that is adopting the credit losses standard and is not a public business entity as of the final ASU’s issuance date and is not an SRC or EGC when it files an initial registration statement on June 30, 2021, would continue to use the January 1, 2023, effective date (i.e., bucket two) because the entity would have been in bucket two when the final ASU was issued (assume December 15, 2019, as estimated in the proposed ASU). That is, the entity would not be required to adopt the guidance in the credit losses standard as of January 1, 2020.
While the two-bucket definitions that would apply to the credit losses standard would not apply to the hedging or leases standards, we believe that the Board should clarify the effective dates that would result from a bucket determination date.

**Question 2:** Should the population of SEC filers that are afforded a delayed effective date (that is, excluded from bucket one) be entities eligible to be SRCs as defined by the SEC? If not, what definitional threshold, if any, do you suggest and why?

We support affording a delayed effective date to the population of SEC filers that are eligible to be SRCs as defined by the SEC. We observe that EGCs, which may be larger than SRCs, have already been granted a delayed effective date under current SEC regulations. Therefore, we believe that it is appropriate to extend such a delayed effective date to SRCs.

**Question 3:** Should the determination of whether an entity is eligible to be an SRC be based on its most recent determination in accordance with SEC regulations as of the date that a final Update is issued? If not, what determination date should be applied?

We support the proposed amendments that would clarify the determination date regarding an entity’s eligibility to be an SRC, and we further believe that such a determination date should apply to all entities and not just SRCs, as described in our response to Question 1 above.

If the Board decides not to provide a “bucket determination date” for all entities (see our response to Question 1), we believe that it should nevertheless clarify which effective date would be required for an entity that meets the definition of an SRC and files an initial registration statement after the final ASU is issued. We suggest that the language in ASC 326-10-65-1(a)(1) be revised as follows (proposed additions are underscored):

The determination of whether an entity is eligible to be a smaller reporting company shall be based on (1) an entity’s most recent determination in accordance with SEC regulations as of {add exact date that a final Update on effective dates is issued — for example, December 15, 2019} or (2) the entity’s determination that was based on an initial registration statement under the Securities Act or Exchange Act for shares of its common equity (including any optional redetermination at the conclusion of the offering), whichever date is later.

We encourage the Board to seek feedback from the SEC staff on the language to include in the final ASU to ensure that it appropriately addresses SRCs that file an initial registration statement after the final ASU’s issuance date.

**Question 4:** Should Credit Losses be effective for entities eligible to be SRCs, private companies, not-for-profit organizations, and employee benefit plans for fiscal years beginning after December 15, 2022, including interim periods within those fiscal years? If not, please explain why.

Other than the comments provided in Question 1 regarding the bucket determination, we support the proposed amendments to extend the effective date of the credit losses standard.
**Question 5:** Should Hedging be effective for all entities other than public business entities for fiscal years beginning after December 15, 2020, and interim periods within fiscal years beginning after December 15, 2021? If not, please explain why.

We support the proposed amendments to extend the current effective date of the hedging standard. However, we observe that the transition paragraph for ASU 2018-16, Derivatives and Hedging (Topic 815): Inclusion of the Secured Overnight Financing Rate (SOFR) Overnight Index Swap (OIS) Rate as a Benchmark Interest Rate for Hedge Accounting Purposes (codified in ASC 815-20-65-4), permits an entity that early adopted the hedging standard to adopt ASU 2018-16 (the secured overnight financing rate (SOFR) standard) by using the same transition dates originally established for the hedging standard (i.e., for fiscal years beginning after December 15, 2018 (public business entities), and for fiscal years beginning after December 15, 2019 (all other entities). The proposed amendments currently would not revise ASC 815-29-65-4(b)(2) to reflect the revised hedging standard’s effective date for all other entities. The Board should consider amending that paragraph to reflect the new proposed effective dates or clarify in the Basis for Conclusions that these entities would not be given additional time to adopt the SOFR standard if they early adopt the hedging standard.

In addition, we observe that under ASC 815, there is one adoption date for PBEs and another (later) for non-PBEs. While the proposed amendments would defer the adoption dates for private companies (i.e., non-PBEs), there is a subset of private companies that would need to apply the PBE adoption dates if their financial statements or financial information would be included in another entity’s SEC filing (e.g., under Rule 3-05 or Rule 3-09).

Similar concerns arose during the adoption of ASC 606 and ASC 842 when the SEC announced that it would not object to certain PBEs’ elections to use the non-PBE effective dates for the sole purpose of adopting ASC 606 and ASC 842. As a result, the Board issued ASU 2017-13, which reflects the SEC’s comments.

We suggest that if it intended to exclude this subset of private companies (i.e., those that will need to apply the PBE adoption dates if their financial statements or financial information will be included in another entity’s filing with the SEC) from the relief provided in the proposed ASU, the Board should acknowledge this in the final ASU’s Basis for Conclusions.

**Question 6:** Should Leases be effective for (a) private companies, (b) not-for-profit organizations (excluding those that have issued or are conduit bond obligors for securities that are traded, listed, or quoted on an exchange or an over-the-counter market), and (c) employee benefit plans (excluding those that file or furnish financial statements with or to the SEC) for fiscal years beginning after December 15, 2020, and interim periods within fiscal years beginning after December 15, 2021? If not, please explain why.

We support the proposed amendments to extend the effective date of the leases standard; however, we observe that as currently written, the proposed ASU would establish three buckets of effective dates within ASC 842. An SEC Staff Announcement, Transition Related to Accounting Standards Updates No. 2014-09 and 2016-02, which is codified in ASC 842-10-S65-1 and ASC 606-10-S65-1, states, in part (emphasis added):

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The SEC staff would not object to a public business entity that otherwise would not meet the definition of a public business entity except for a requirement to include or the inclusion of its financial statements or financial information in another entity’s filing with the SEC adopting . . . ASC Topic 842 for fiscal years beginning after December 15, 2019, and interim periods within fiscal years beginning after December 15, 2020.

Since these paragraphs include specific dates that the proposed ASU does not modify, it is unclear whether the affected entities would be allowed to apply the revised effective dates as drafted in the proposed amendments (i.e., for fiscal years beginning after December 15, 2020, and interim periods within fiscal years beginning after December 15, 2021) or if those entities would be required to apply the guidance in ASC 842-10-S65-1 quoted above. We encourage the Board to seek feedback on this question from the SEC staff and either acknowledge their intention to establish a three-bucket model or amend the referenced paragraphs as applicable to avoid establishing a three-bucket model.

Further, ASC 842-10-65-1(a) states that for PBEs, not-for-profit entities that have issued or are conduit bond obligors for securities, and certain employee benefit plans, the guidance in ASC 842 is effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2018 (e.g., for calendar-year-end entities with fiscal periods beginning on January 1, 2019). Under ASC 842-10-65-1(a), for certain calendar-year-end not-for-profit entities and employee benefit plans, the guidance in ASC 842 is effective on January 1, 2019. However, we have observed that such entities generally do not have interim reporting requirements and that therefore ASC 842 will be first presented in their annual financial statements, which may not be issued until mid- to late 2020 for calendar-year-end companies. We note that the proposed amendments, as written, do not provide relief for these entities and suggest that the Board clarify in the Basis for Conclusions if it did not intend to provide relief to certain not-for-profit entities and employee benefit plans that have not yet filed their financial results that include ASC 842.

**Question 7:** This question is for future major Updates and not the amendments in this proposed Update. Under the revised effective date philosophy, certain public business entities, including SRCs, and nonpublic business entities would have a deferred effective date. Should interim reporting be required in the same year as the annual financial statements or in the subsequent year for these entities when they provide interim financial statements?

We believe that going forward, entities should be required to adopt any new major accounting standards in their interim reporting for the same year as their annual financial statements under the proposed ASU’s revised effective-date philosophy.

The Board’s new two-bucket approach will result in additional bucket two public companies (i.e., SRCs), and these entities should be required to report interim periods within the year of adoption, as must all bucket one public entities. We believe that a deferral of at least two years would allow these entities the time they need to appropriately transition to the new standards, develop accounting policies, design internal controls, and implement any new required systems or processes. The deferral would also permit them, when required, to be
able to report the interim periods within the annual financial statements in the year of adoption.

We have observed challenges when EGCs elect to use private-company adoption dates and thus are permitted to conduct interim reporting in the year after adoption. This has resulted in misalignment between the interim periods and the annual financial statements, which may confuse investors and regulators. By requiring bucket two entities to adopt an accounting standard in interim periods in the same year as the annual financial statements, the FASB would improve the financial information provided to investors during the interim periods, if applicable.

We do not believe that requiring interim reporting in the same year as the annual financial statements will affect all private entities since many private entities generally are not required to provide interim reporting.