

**Board Meeting Handout**  
**Effective Date Considerations**  
**April 8, 2020**

**Meeting Purpose**

1. The Board shares global concerns about the effect that the Coronavirus (COVID-19) pandemic may have on stakeholders in the United States and abroad. The Board is monitoring and responding to the situation and is committed to supporting and assisting stakeholders during this difficult time.
2. The April 8, 2020 Board meeting is a decision-making meeting. The Board will discuss the deferral of effective dates for the following standards (including any subsequent amendments made after the original issuance date) for certain entities:
  - (a) Accounting Standards Update No. 2014-09, *Revenue from Contracts with Customers* (Topic 606)
  - (b) Accounting Standards Update No. 2016-02, *Leases* (Topic 842)

**Questions for the Board**

1. Does the Board want to add a project to its technical agenda to:
  - (a) Amend the effective date of Topic 606, Revenue from Contracts with Customers, including subsequent amendments to Revenue, for franchisors that are not public business entities (PBEs)?
  - (b) Amend the effective date of Topic 842, Leases, including subsequent amendments to Leases, for (i) a private company and a private not-for-profit (NFP) entity (referred to as the “all other entity” category in Leases) and (ii) an NFP that has issued, or is a conduit bond obligor for, securities that are traded, listed, or quoted on an exchange or an over-the-counter market (hereinafter referred to as a public NFP) that has not yet issued financial statements?

**Revenue from Contracts with Customers**

2. If yes to question 1(a), does the Board want to defer the effective date for Revenue from Contracts with Customers by one year for annual reporting

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The staff prepares Board meeting handouts to facilitate the audience's understanding of the issues to be addressed at the Board meeting. This material is presented for discussion purposes only; it is not intended to reflect the views of the FASB or its staff. Official positions of the FASB are determined only after extensive due process and deliberations.

periods beginning after December 15, 2019 and interim reporting periods within annual reporting periods beginning after December 15, 2020?

3. Does the Board want to make the amendment for franchisors that are not PBEs optional?

4. Does the Board want to add a research project to its agenda to evaluate how to reduce the costs of implementation of applying Topic 606 to initial franchise fees?

#### **Leases**

5. If yes to Question 1(b), does the Board want to defer the effective date for Leases by one year:

(a) For private companies and private NFPs to fiscal years beginning after December 15, 2021, and interim periods within fiscal years beginning after December 15, 2022?

(b) For public NFPs to fiscal years beginning after December 15, 2019, including interim periods within those fiscal years?

#### **Overall**

6. If the Board adds a project to its technical agenda to amend the effective dates of Topic 606 and Topic 842 for certain entities:

(a) Has the Board received sufficient information to make informed decisions on the issues presented? If not, what other information or analyses does the Board need?

(b) Subject to what the staff learns through comment letters, does the Board think that the expected benefits of the changes justify the perceived costs and, therefore, give the staff permission to draft a proposed Accounting Standards Update for vote by written ballot?

(c) What comment period would the Board like to select for the proposed Update?

### **Revenue from Contracts with Customers**

3. The purpose of the April 8, 2020 decision-making Board meeting is for the staff to provide the Board with an update on an implementation issue in the franchisor industry related to Update 2014-09. The Board will discuss whether it would like to perform standard setting to address the issue.

4. On May 28, 2014, the Board issued a standard on the recognition of revenue from contracts with customers. The new guidance was effective for calendar year-end public companies on January 1, 2018. For calendar year-end private companies, the guidance is effective as of January 1, 2019 for annual reporting periods. Because the guidance is effective for annual reporting periods (not interim), private companies are currently in the midst of adopting the guidance and the audit of their first set of financial statements under Topic 606 is in process for many companies. The Board and the staff have been continually monitoring the implementation process.
5. The Board will discuss a Topic 606 implementation issue related to the franchise industry. Franchisors have raised questions about the timing of revenue recognition under Topic 606 for initial franchise fees (IFF). The IFF is a fee paid to a franchisor in exchange for establishing a franchise relationship, along with the provision of some initial services. This fee is typically paid in a lump sum to the franchisor when a franchise agreement is signed.
6. Before the adoption of Topic 606, under Topic 952, Franchisors, the IFF is recognized when the franchise location opens. Under the guidance in Topic 606, the franchisor determines if the pre-opening activities contain any distinct goods or services in order to determine the appropriate timing of revenue recognition. The Board discussed the application of Topic 606 to IFF in November 2017 at a public Board meeting. Additionally, the staff issued an [educational paper](#) in 2018 to provide education on this issue.
7. Private company franchisors have recently begun the audits of their 2019 financial statements and the industry has raised questions about the accounting for the IFF under Topic 606. The industry has requested that the Board evaluate how to reduce the costs of implementation of applying Topic 606 to initial franchise fees.

## **Leases**

8. Topic 842, Leases, was effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years, for the following:
  - (a) PBEs
  - (b) NFP entities that have issued, or are a conduit bond obligor for, securities that are traded, listed, or quoted on an exchange or an over-the-counter market (public NFPs)
  - (c) Employee benefit plans that file financial statements with the SEC.
9. Leases will be effective for private companies and private NFPs for fiscal years beginning after December 15, 2020, and interim periods within fiscal years beginning after December 15, 2021.

10. The Board will discuss whether to defer the effective date for Leases by one year for the following:

(a) Private companies and private NFPs

(b) Public NFPs that have not yet issued financial statements.