FASB In Focus

Proposed Accounting Standards Update: Financial Instruments—Credit Losses (Topic 326), Derivatives and Hedging (Topic 815), and Leases (Topic 842): Effective Dates

Background

On August 15, 2019, the Financial Accounting Standards Board (FASB) issued a proposed Accounting Standards Update (ASU) that would grant private companies, not-for-profit organizations, and certain small public companies additional time to implement FASB standards on current expected credit losses (CECL), hedging, and leases. Stakeholders are encouraged to review and provide comments on the proposed ASU by September 16, 2019.

Why Is the FASB Issuing This Proposed ASU?

Since 2014, the FASB has closely monitored implementation of major standards to understand and address any issues that might prevent stakeholders from successfully applying them. During this process, the FASB observed that implementation challenges that may arise often are magnified for private companies, smaller public companies, and not-for-profit organizations. The following factors (not all-inclusive) affect the severity of challenges encountered by those entities when transitioning to a major standard:

1. Availability of resources (both internal and external)
2. Timing and source(s) of education
3. Knowledge or experience gained from implementation issues encountered by larger public companies
4. Comprehensive transition requirements
5. Understanding and applying guidance from post-issuance standard-setting activities
6. The development or acquisition of:
   a. Sufficient information technology and expertise in developing new systems or changing existing ones
   b. Effective business solutions and internal controls
   c. Better data or estimation processes.

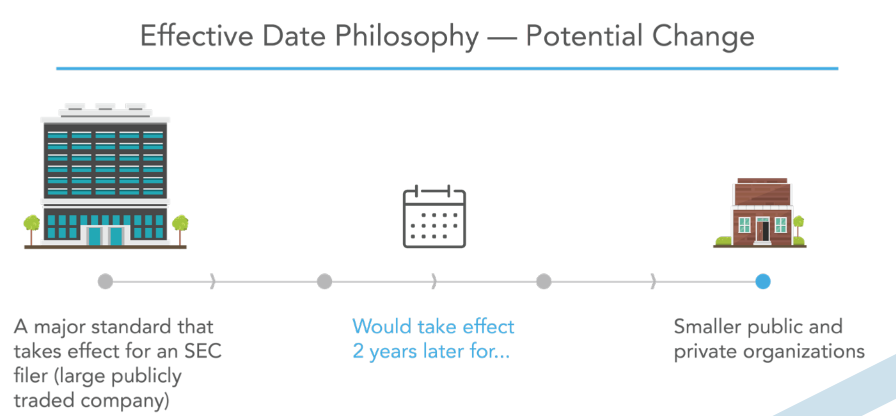
As a result of these and other factors, some private companies, smaller public companies, and not-for-profit organizations have asked the FASB to delay implementation for some standards not yet effective, including CECL, hedging, and leases.

How Would the Proposed ASU Improve the Transition to Major FASB Standards?

The proposed ASU sets forth a new philosophy to facilitate a more efficient and successful transition to major standards. Specifically, it would extend and simplify how effective dates are staggered between larger public companies (bucket one) and all other entities (bucket two). Those "other entities" include private companies, smaller public companies, not-for-profit organizations, and employee benefit plans.

Under the new philosophy, bucket-one entities would implement major standards first. These entities would consist of U.S. Securities and Exchange Commission (SEC) filers as defined in the *FASB Accounting Standards Codification*® Master Glossary, excluding those that are eligible to be smaller reporting companies (SRCs) under the SEC's definition.

Bucket two entities generally would be permitted to implement a major standard at least two years after bucket one entities. Bucket two would include entities that are eligible to be SRCs, all other public business entities, and all nonpublic business entities (private companies,



not-for-profit organizations, and employee benefit plans). It is also expected that early application would continue to be permitted for all entities.

To be eligible as an SRC, an entity must be an issuer as defined by the SEC and may not exceed established levels of public float, annual revenue, or both as defined by the SEC. Under the SEC definition, investment companies (including business development companies), asset-backed issuers, and majority-owned subsidiaries of a parent company that is not an SRC are not eligible for SRC status.

What Effective Dates Would the Proposed ASU Change?

The proposed ASU would apply this change in philosophy to the effective dates for the following major ASU (including amendments issued after the issuance of the original ASU):

1. Accounting Standards Update No. 2016-13, *Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments* (Credit Losses)
2. Accounting Standards Update No. 2017-12, *Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities* (Hedging)
3. Accounting Standards Update No. 2016-02, *Leases (Topic 842)* (Leases).

Effective dates for these standards would be changed as illustrated in the chart above (assuming calendar-year end).

How Effective Dates Would Change

Standard	SEC Filers	All Other Public Business Entities (PBEs)	Private & All Others
Hedging	January 2019	January 2019	~~January 2020~~ January 2021
Leases	January 2019	January 2019*	~~January 2020~~ January 2021
CECL	January 2020 (Except SRCs January 2023)	~~January 2021~~ January 2023	~~January 2021~~ January 2023

= No change in effective date

*Also includes Employee Benefit Plans and Not-for-Profit Conduit Bond Obligors that file or furnish financial statements with or to the SEC.

An entity would establish whether it is eligible to be an SRC based on its most recent SRC determination in accordance with SEC regulations upon issuance of a final ASU. For example, it is anticipated that the SRC determination date will be June 30, 2019, for calendar year-end companies.

Who Would Be Affected by the Amendments in This Proposed ASU?

The proposed ASU would primarily affect entities who are eligible to be SRCs as described above, all other public business entities, and all nonpublic business entities (private companies, not-for-profit organizations, and employee benefit plans).

When Would the Amendments Be Effective?

The provisions in the proposed ASU would be effective as soon as it is issued as a final ASU. The Board plans to issue a final ASU before December 31, 2019.

For more information about the project, please visit the FASB's website at www.fasb.org.

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