

Heads Up

In This Issue:

- Scope
- Making the Transition to the New Requirements
- Effective Dates for the New Requirements
- Consideration Points
- Appendix

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FASB Needs “Dating” Advice Input Sought on Transition and Effective Dates for Certain FASB Projects

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The FASB has received a lot of attention recently about the tidal wave of new accounting standards it expects to finalize over the next year. (For a refresher on the impending changes, see Deloitte’s special edition of [Accounting Roundup](#).) Adopting the new guidance will undoubtedly create a significant burden on certain of the FASB’s constituents. To better understand some of the issues that such constituents will face, the FASB has issued a [discussion paper](#) (DP), *Effective Dates and Transition Methods*. The objective of the DP is to obtain feedback from the FASB’s stakeholders on (1) the time and effort they would need to adopt several new and significant accounting and reporting standards and (2) the dates those new standards should be effective. On the basis of the responses, the FASB plans to develop an implementation plan whose main objective will be to help stakeholders properly manage the cost and pace of these changes. Comments on the DP are due by January 31, 2011.

Scope

The FASB is seeking effective date and transition input on most, but not all, of its current standard-setting projects. The following is a list of the projects within the DP’s scope:

- Accounting for financial instruments and revisions to the accounting for derivative instruments and hedging activities (exposure draft (ED) issued May 2010).
- Balance sheet — offsetting (ED expected to be issued during the fourth quarter of 2010).
- Revenue recognition — revenue from contracts with customers (ED issued June 2010).
- Leases (ED issued August 2010).
- Financial statement presentation (ED expected to be issued during the first quarter of 2011).
- Discontinued operations (ED expected to be issued during the first quarter of 2011).
- Financial instruments with characteristics of equity (ED expected to be issued during the first quarter of 2011).
- Insurance contracts (DP issued September 2010).
- Comprehensive income (ED issued May 2010).

Given the nature of many of these projects, the accounting and operational implications may be broad.

Making the Transition to the New Requirements

The appendix of this *Heads Up* contains a table summarizing (1) the projects within the DP's scope (as well as other projects that are discussed in the DP but are not within its scope) and (2) the FASB's tentative decisions about each project's transition methods. When determining whether retrospective or prospective application was the more appropriate method, the FASB weighed the costs and practicability of applying the standards retrospectively with the benefits of comparability. Separate decisions were made for each draft issued, and feedback on these methods is being sought for each individual document. The FASB also seeks feedback on the time and costs of implementing the proposals on the basis of its tentative decisions on transition methods.

Effective Dates for the New Requirements

The DP notes that the effective dates of the projects within the DP's scope would be either (1) the same date for all projects (what some have termed the "big bang") or (2) separate dates for each respective project (a staggered approach). The FASB has asked stakeholders for input on the two alternatives, including the perceived advantages and disadvantages of each.

Consideration Points

Given the nature of many of these projects, the accounting and operational implications may be broad. The proposed standards would potentially affect a variety of departments throughout organizations, including accounting and finance, sales, information technology, legal, and treasury. Among other things, entities may need to (1) assess their information technology systems, (2) evaluate the existing terms of their contracts and agreements, (3) evaluate accounting policies to ensure consistent application in areas in which significant judgment is required, and (4) consider the impact on financial ratios and metrics. Because many of these projects, if finalized, would cause monumental changes to financial reporting and operations, entities are encouraged to carefully consider the questions raised in the DP and give the FASB meaningful feedback. Such feedback will help ensure that stakeholders' views are appropriately incorporated into the implementation plans developed for these projects.

Appendix

The table below outlines the FASB's tentative decisions on transition methods for the projects within the scope of the DP as well as on other projects that are discussed in the DP but not within its scope.

Project	Transition Method
<i>Projects Within the Scope of the DP</i>	
Accounting for financial instruments	Retrospective
Other comprehensive income	Retrospective
Financial instruments with characteristics of equity	To be decided
Revenue recognition	Retrospective
Leases	Limited retrospective
Financial statement presentation	Retrospective
Accounting for insurance contracts	To be decided
Netting financial instruments	To be decided
<i>Projects Discussed in the DP but Not Within Its Scope</i>	
Consolidation — investment companies	Prospective
Fair value measurement	Limited retrospective

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