



# FASB Proposes to Ease Transition to the Credit Losses Standard

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On February 6, 2019, the FASB issued a [proposed ASU](#)<sup>1</sup> that would allow entities to irrevocably elect, upon adoption of [ASU 2016-13](#),<sup>2</sup> the fair value option for financial instruments that were previously recorded at amortized cost (except for held-to-maturity debt securities) and that are within the scope of ASC 326-20,<sup>3</sup> provided that the instruments are eligible for the fair value option under ASC 825-10.<sup>4</sup> This election would be made on an instrument-by-instrument basis. Comments on the proposed ASU are due by March 8, 2019.

Since the issuance of ASU 2016-13, the FASB has received agenda requests to provide transition relief by allowing entities to elect the fair value option for certain financial instruments. Stakeholders noted that, among other things, an entity may elect the fair value option under ASC 825-10 for newly originated or purchased assets after adopting ASU 2016-13. As a result, some assets may be measured at fair value while others may continue to be measured at amortized cost. Stakeholders believe that this inconsistency would be eliminated if an entity were provided with a one-time election to measure existing assets at fair value upon adopting ASU 2016-13.

For first-time adopters of ASU 2016-13, the election of the fair value option would take place on adoption and entities would apply a modified retrospective approach in which the cumulative effect of the election would be recorded in beginning retained earnings in the period of adoption. For entities that have already adopted ASU 2016-13, the FASB will determine the effective date after considering feedback received on the proposed ASU.

<sup>1</sup> FASB Proposed Accounting Standards Update (ASU), *Targeted Transition Relief for Topic 326, Financial Instruments — Credit Losses*.

<sup>2</sup> FASB Accounting Standards Update No. 2016-13, *Measurement of Credit Losses on Financial Instruments*.

<sup>3</sup> FASB Accounting Standards Codification (ASC) Subtopic 326-20, *Financial Instruments — Credit Losses: Measured at Amortized Cost*.

<sup>4</sup> FASB Accounting Standards Codification Subtopic 825-10, *Financial Instruments: Overall*.

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