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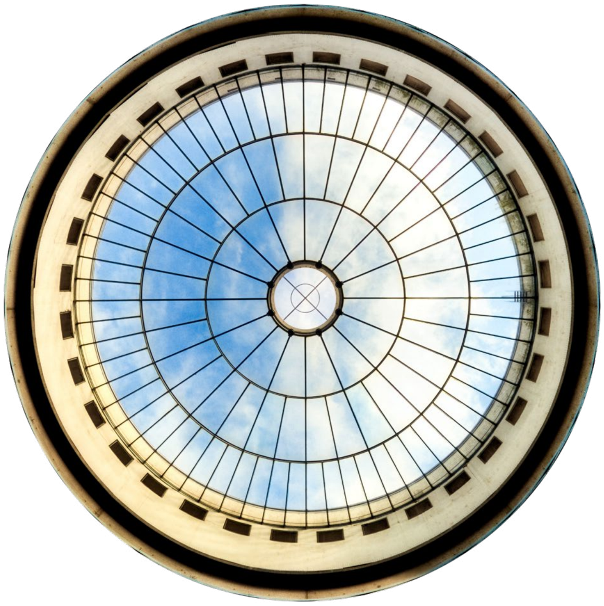

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FASB Tentatively Changes Effective Dates for New Accounting Standards

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Introduction

At its July 17, 2019, Board meeting, the FASB tentatively decided to change the manner in which it staggers effective dates for major standards and to amend the effective dates in some of its recently issued or amended major Accounting Standards Updates (ASUs) to give implementation relief to certain types of entities. Specifically, the Board tentatively decided to change the effective dates of standards on topics in the *FASB Accounting Standards Codification* (ASC) as follows:

- *Derivatives and Hedging (ASC 815)*: Defer the effective date for nonpublic business entities[1] (non-PBEs) by one year.
- *Leases (ASC 842)*: Defer the effective date for non-PBEs by one year.
- *Financial Instruments — Credit Losses (ASC 326)*: Defer the effective date for (1) smaller reporting companies[2] (SRCs) by three years, (2) non-SEC filer[3] PBEs by two years, and (3) non-PBEs by one year.
- *Financial Services — Insurance (ASC 944)*: Defer the effective date for (1) SEC filers, excluding SRCs, by one year, (2) non-SEC filer PBEs and SRCs by three years, and (3) non-PBEs by two years.

[1] See the definition of "public business entity" in the appendix.
[2] See the definition of "smaller reporting company" in the appendix.
[3] See the definition of "SEC filer" in the appendix.

For calendar-year-end entities, the changes can be summarized as follows:

Standard	Affected Group	Effective Date as Issued	Tentative Effective Date
Derivatives and Hedging (ASC 815)	Non-PBEs	January 1, 2020	January 1, 2021
Leases (ASC 842)	Non-PBEs	January 1, 2020	January 1, 2021
Financial Instruments — Credit Losses (ASC 326)	SRCs	January 1, 2020	January 1, 2023
	Non-SEC filer PBEs	January 1, 2021	January 1, 2023
	Non-PBEs	January 1, 2022	January 1, 2023
Financial Services — Insurance (ASC 944)	SEC filers, excluding SRCs	January 1, 2021	January 1, 2022
	Non-SEC filer PBEs and SRCs	January 1, 2021	January 1, 2024
	Non-PBEs	January 1, 2022	January 1, 2024

Details about the Board's decisions and the affected ASUs are discussed below.

Overview

At its May 2019 meeting, the FASB directed its staff to perform research and outreach on how the effective dates of certain recently issued major accounting standards would affect private companies, not-for-profit organizations, and smaller public companies. As discussed in the July 17, 2019, meeting handout, the Board learned that "although large public business entities (PBEs) may encounter difficulties in transitioning to a new standard, the challenges are magnified for smaller PBEs and nonpublic business entities (generally, private companies, not-for-profit organizations, and employee benefit plans)."

As a result of the FASB staff's research and outreach, the Board tentatively approved a new "two-bucket" approach[4] for determining the effective dates of major accounting standards. Under this approach, the buckets would be defined as follows:

- *Bucket 1* — All PBEs that are SEC filers (as defined in U.S. GAAP), excluding SRCs (as defined by the SEC).
- *Bucket 2* — All other entities, including SRCs, other PBEs that are not SEC filers, private companies, not-for-profit organizations, and employee benefit plans.

The FASB tentatively decided that a major accounting standard would become effective for entities in Bucket 2 at least two years after the effective date applicable to entities in Bucket 1 (subject to the Board's discretion). Further, the FASB indicated that entities in Bucket 1 would apply the new accounting standard to interim periods within the fiscal year of adoption while entities in Bucket 2 would apply it to interim periods beginning in the fiscal year after the year of initial adoption.

[4] The two-bucket approach would not apply to the derivatives and hedging or leases standards because all PBEs were required to adopt those standards for fiscal years beginning after December 15, 2018.

Connecting the Dots

Historically, the FASB has issued standards with different effective dates for (1) PBEs and (2) all other entities. PBEs that adopted a major new accounting standard generally were required to apply the standard to interim periods within the year of adoption. Under the proposed two-bucket approach, certain PBEs (e.g., SRCs and non-SEC filers) would be included in Bucket 2 and therefore would not be required to apply the new standard in interim periods until the fiscal year after the year of adoption.

Note that the Board's tentative decisions would not affect the relief granted under SEC rules related to the adoption of new accounting standards by emerging growth companies.

Changes to Effective Dates as a Result of the Tentative Decisions

Derivatives and Hedging (ASC 815)

On August 28, 2017, the FASB issued ASU 2017-12,[5] which amends the hedge accounting recognition and presentation requirements in ASC 815. Subsequent ASUs have amended certain aspects of the ASU's guidance.

The tentative decisions would change the ASU's effective dates as follows:

	PBEs	All Other Entities
As issued	Fiscal years beginning after December 15, 2018, and interim periods therein.	Fiscal years beginning after December 15, 2019, and interim periods within fiscal years beginning after December 15, 2020.
Tentative changes	No changes.	Fiscal years beginning after December 15, **2020**, and interim periods within fiscal years beginning after December 15, **2021**.

Entities would continue to be permitted to early adopt the new guidance in any interim or annual period.

Leases (ASC 842)

On February 25, 2016, the FASB issued ASU 2016-02,[6] which replaces the guidance in U.S. GAAP on lease accounting with the new lease accounting model in ASC 842. Subsequent ASUs have amended certain aspects of the ASU's guidance.

The tentative decisions would change the ASU's effective dates as follows:

	PBEs[7]	All Other Entities
As issued	Fiscal years beginning after December 15, 2018, and interim periods therein.	Fiscal years beginning after December 15, 2019, and interim periods within fiscal years beginning after December 15, 2020.
Tentative changes	No changes.	Fiscal years beginning after December 15, **2020**, and interim periods within fiscal years beginning after December 15, **2021**.

[5] FASB Accounting Standards Update No. 2017-12, *Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities*. See Deloitte's August 30, 2017, *Heads Up* for more information about ASU 2017-12.

[6] FASB Accounting Standards Update No. 2016-02, *Leases (Topic 842)*. See Deloitte's *A Roadmap to Applying the New Leasing Standard* for more information about ASU 2016-02 and ASC 842.

[7] Includes a not-for-profit entity 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, and an employee benefit plan that files or furnishes financial statements with or to the SEC.

Entities would continue to be permitted to early adopt the new guidance in any interim or annual period.

Financial Instruments — Credit Losses (ASC 326)

On June 16, 2016, the FASB issued ASU 2016-13,[8] which amends the Board's guidance on the impairment of financial instruments. The ASU adds to U.S. GAAP an impairment model (known as the current expected credit loss model) that is based on expected losses rather than incurred losses. Subsequent ASUs have amended certain aspects of the ASU's guidance.

The tentative decisions would change the ASU's effective dates as follows:

	PBEs That Are SEC Filers	PBEs That Are Not SEC Filers	All Other Entities
As issued	Fiscal years beginning after December 15, 2019, and interim periods therein.	Fiscal years beginning after December 15, 2020, and interim periods therein.	Fiscal years beginning after December 15, 2021, and interim periods therein.

	SEC Filers Excluding SRCs	All Other Entities[9]
Tentative changes	Fiscal years beginning after December 15, 2019, and interim periods therein.	Fiscal years beginning after December 15, **2022**, and interim periods therein.

Entities would continue to be permitted to early adopt the new guidance for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years.

Financial Services — Insurance (ASC 944)

On August 15, 2018, the FASB issued ASU 2018-12,[10] which amends the accounting model in ASC 944 under U.S. GAAP for certain long-duration insurance contracts and requires insurers to provide additional disclosures in annual and interim reporting periods.

The tentative decisions would change the ASU's effective dates as follows:

	PBEs	All Other Entities
As issued	Fiscal years beginning after December 15, 2020, and interim periods therein (i.e., January 1, 2021, for calendar-year-end entities).	Fiscal years beginning after December 15, 2021, and interim periods within fiscal years beginning after December 15, 2022.

	SEC Filers Excluding SRCs	All Other Entities
Tentative changes	Fiscal years beginning after December 15, **2021**, and interim periods therein (i.e., January 1, **2022**, for calendar-year-end entities).	Fiscal years beginning after December 15, **2023**, and interim periods within fiscal years beginning after December 15, **2024**.

Entities would continue to be permitted to early adopt the new guidance in any interim or annual period.

8 FASB Accounting Standards Update No. 2016-13, *Financial Instruments — Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*. See Deloitte's June 17, 2016, *Heads Up* for more information about ASU 2016-13.

9 The tentative interim-period requirements are not consistent with the general two-bucket approach discussed by the FASB; however, such requirements are aligned with those in ASU 2016-13 as issued.

10 FASB Accounting Standards Update No. 2018-12, *Financial Services — Insurance (Topic 944): Targeted Improvements to the Accounting for Long-Duration Contracts*. See Deloitte's August 2018 *Insurance Spotlight* for more information about the new guidance in ASU 2018-12.

Next Steps

The FASB plans to issue two proposed ASUs that incorporate its decisions: one on the amended effective dates for the credit losses, derivatives and hedging, and leases standards and one on the insurance standard. Each proposed ASU is expected to have a 30-day comment period.

Appendix — Definitions

The ASC master glossary defines a **public business entity** as follows:

> A public business entity is a business entity meeting any one of the criteria below. Neither a not-for-profit entity nor an employee benefit plan is a business entity.
>
> a. It is required by the U.S. Securities and Exchange Commission (SEC) to file or furnish financial statements, or does file or furnish financial statements (including voluntary filers), with the SEC (including other entities whose financial statements or financial information are required to be or are included in a filing).
>
> b. It is required by the Securities Exchange Act of 1934 (the Act), as amended, or rules or regulations promulgated under the Act, to file or furnish financial statements with a regulatory agency other than the SEC.
>
> c. It is required to file or furnish financial statements with a foreign or domestic regulatory agency in preparation for the sale of or for purposes of issuing securities that are not subject to contractual restrictions on transfer.
>
> d. It 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.
>
> e. It has one or more securities that are not subject to contractual restrictions on transfer, and it is required by law, contract, or regulation to prepare U.S. GAAP financial statements (including notes) and make them publicly available on a periodic basis (for example, interim or annual periods). An entity must meet both of these conditions to meet this criterion.
>
> An entity may meet the definition of a public business entity solely because its financial statements or financial information is included in another entity's filing with the SEC. In that case, the entity is only a public business entity for purposes of financial statements that are filed or furnished with the SEC.

The ASC master glossary defines an **SEC filer** as:

> An entity that is required to file or furnish its financial statements with either of the following:
>
> a. The Securities and Exchange Commission (SEC)
>
> b. With respect to an entity subject to Section 12(i) of the Securities Exchange Act of 1934, as amended, the appropriate agency under that Section.
>
> Financial statements for other entities that are not otherwise SEC filers whose financial statements are included in a submission by another SEC filer are not included within this definition.

SEC Regulation S-K, Item 10(f)(1), defines a **smaller reporting company**, in part, as:

> [A]n issuer that is not an investment company, an asset-backed issuer (as defined in § 229.1101), or a majority-owned subsidiary of a parent that is not a smaller reporting company and that:
>
> (i) Had a public float of less than $250 million; or
>
> (ii) Had annual revenues of less than $100 million and either:
>
> (A) No public float; or
>
> (B) A public float of less than $700 million.

See Deloitte's July 2, 2018, *Heads Up* for more information about the SEC's definition of a smaller reporting company.

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