FASB Proposes Delays to Effective Dates for Four Major Accounting Standards

July 26, 2019

On July 17, the Financial Accounting Standards Board (FASB) voted to delay, for certain entities, the effective dates for four major accounting standards.[1] The board's decision will be reflected in two upcoming drafts outlining the proposals to set the new effective dates, which will be based on certain company criteria ranging from classification by the U.S. Securities and Exchange Commission (SEC) to non-profit status. One proposal will cover Current Expected Credit Losses, or CECL (Topic 326), Leases (Topic 842), and Derivatives and Hedging (Topic 815). A separate proposal will address Insurance (Topic 944). Each proposal also will include a 30-day comment period. It is expected that these proposals will be approved by the FASB.

The board will adopt a two-bucket approach to stagger the effective dates of the standards as follows:

1. **Bucket One** – SEC filers that comply with generally accepted accounting principles, excluding smaller reporting companies (SRCs) as currently defined by the SEC.
2. **Bucket Two** – All other entities, including:
    a. All public business entities (PBEs), including SRCs
    b. Private companies
    c. All not-for-profit organizations
    d. All employee benefit plans

The FASB decided that for CECL, Leases, and Derivatives and Hedging, entities within Bucket Two should be afforded an effective date of at least two years after the effective date

[1] Financial Accounting Standards Board website, "Tentative Board Decisions," July 17, 2019, www.fasb.org/cs/ContentServer?c=FASBContent_C&cid=1176172970471&d=&pagename=FASB%2FFASBContent_C%2FActionAlertPage.

for companies within Bucket One. Normally, such entities are afforded only one additional year beyond the requirements for Bucket One entities.

Following is a summary of what to expect in the FASB's proposal drafts. Note that for all effective dates beginning after December 15, this effectively means January 1 of the following year for calendar year reporting companies.

- **CECL** – For PBEs that are SEC filers, excluding SRCs, the effective date will continue to begin after December 15, 2019. For all other entities, the effective date will begin after December 15, 2022, including interim periods within those fiscal years.
- **Leases** – The existing effective date for periods beginning after December 15, 2018, remains the same for all PBEs, not-for-profit bond obligors, and employee benefit plans that file or furnish financial statements with the SEC. For all other entities, the effective date will begin after December 15, 2020, and it will begin after December 15, 2021, for any interim periods.
- **Derivatives and hedging** – The existing effective date that began after December 15, 2018, remains the same for PBEs. For all other entities, the effective date will begin after December 15, 2020, and it will begin after December 15, 2021, for interim periods.
- **Insurance** – For PBEs that are SEC filers, excluding SRCs, the effective date will begin after December 15, 2021. For all other entities, the effective date will begin after December 15, 2023, and it will begin after December 15, 2024, for interim periods.

Our Point of View

Companies fortunate enough to fall into a bucket being afforded a deferral can take a quick breather, knowing they most likely have additional time to prepare for these complex accounting standards. This truly is recommended to be a very quick breather for lease accounting in particular, given that the year in which companies should have been getting ready is already half over and the additional year looms immediately and will go quickly. Indeed, organizations have spent the last few years preparing for and implementing the new revenue recognition standard, which became effective for public companies last year and is effective for private companies this year. But the initial effective date for the revenue recognition standard was deferred as well, and as is the case with revenue recognition, the

FASB is cognizant of the struggles that companies are encountering to implement complex and impactful new accounting standards. A year ago, for example, the board made targeted improvements aimed at reducing costs and easing the burden of implementation in regard to the new lease accounting standard.

Executives need to remember, however, that the board is only granting a temporary reprieve. They would be well served to remain vigilant in their preparation to comply with these new standards. Our view continues to be that as long as companies follow a complete and thoughtful roadmap, pursue the work diligently, and have the affected financial statements ready for audit, they should be able to execute the transition to the new accounting standards by the effective dates, if not earlier. In fact, the FASB made it clear that organizations are welcome to adopt the standards prior to the effective dates.

Following is a brief overview of the pending changes to the standards:

CECL

The FASB issued detailed guidance on its new loss reserve model in June 2016. The board expects the standard to improve financial reporting by requiring timelier recording of credit losses on loans and other financial instruments held by financial institutions and other organizations.

In short, CECL transitions loss reserve recognition to move from an "incurred loss" to an "expected loss" model. Among other elements, the new rules require organizations to measure all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts. The standard also requires enhanced disclosures to help investors and other financial statement users better understand significant estimates and judgments used in estimating credit losses, as well as the credit quality and underwriting standards of an organization's portfolio.

For more information, read Protiviti's paper, "FASB Releases Final CECL Accounting Standard," and visit www.protiviti.com/CECL.

Leases

In February 2016, the FASB issued its new standard on accounting for leases. The rules overhaul lease accounting for all companies and organizations that lease assets such as real estate, airplanes or ships, as well as construction, office or manufacturing equipment.

In addition to other changes, the new standard requires lessees to recognize a "lease liability" and a "right-of-use asset" for all leases as of the date on which the lessor makes the underlying asset available to the lessee (leases with a duration of less than a year are excluded). Lease liability is the lessee's obligation to make lease payments arising from a lease, measured on a discounted basis. A right-of-use asset is an asset that represents the lessee's right to use, or control the use of, a specified asset during the lease term.

For more information, read Protiviti's paper, "Here We Go Again – FASB Transitioning to the New Leases Standard."

Insurance

Insurance companies were initially exempt from the changes to the revenue recognition standard because of the unique nature of insurance contracts. But that changed in August 2018, when the FASB issued new accounting standards addressing the contracts. The board expects the changes to improve financial reporting by providing a more current measure of insurance liability, a more uniform and current, market-based measure of market-based options or guarantees, a simplified amortization of deferred acquisition costs, and enhanced disclosures.

For more information, read "Insurance Accounting Changes Are Coming Globally, and a Coordinated Approach Is Best" on The Protiviti View.

Derivatives and hedging

In August 2017, the FASB released an update to its derivatives and hedging accounting standard to improve the ability of organizations to properly recognize the economic results of their hedging strategies in their financial statements.

In Closing

The decision to delay effective dates is a clear sign that the FASB is monitoring the progress – or lack thereof – that companies are making to prepare for changes to the four major accounting standards summarized above. Nonetheless, the board won't hand out deferrals indefinitely. The pressure remains on companies to address the new requirements in a timely manner. While organizations can take a brief respite, now is the time to refresh and reevaluate progress and, perhaps, modify plans with an eye on the new effective dates. Organizations in the throes of preparing for lease accounting should continue apace so as not to find themselves short of time or resources next year. History and experience tell us it is unlikely these accounting standards will be deferred again.

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