PROTIVITI FLASH REPORT

Effective Date of Revenue Recognition Standard to be Deferred

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Yesterday, the Financial Accounting Standards Board (FASB) voted to defer, by one year, the effective date of the board's new revenue recognition standard. Issued almost a year ago, this new guidance resulted from a collaborative effort by the FASB and International Accounting Standards Board (IASB) to agree on a global standard based on common principles that can be applied across industries and regions. The FASB voted for a one-year deferral of the effective date of the new standard and will issue an exposure draft proposing the deferral, with a 30-day comment period.

With respect to public companies: In the original release, the new standard is expected to be effective for fiscal years, including interim periods within those years, beginning after December 15, 2016. The proposal would now require application of the new standard no later than annual reporting periods beginning after December 15, 2017, including interim reporting periods therein. For example, a calendar year reporting company would now be required to apply the new standard during 2018, including the interim periods therein.

For nonpublic entities: The standard, as originally issued, is expected to be effective for fiscal years beginning after December 15, 2017, and interim periods thereafter. The proposal would now require application of the new standard no later than annual reporting periods beginning after December 15, 2018, including interim reporting periods therein. For example, a calendar year reporting company would be required to apply the new standard during 2019, including the interim periods therein.

Under the proposal, public entities would be permitted to elect to ***early adopt*** the new standard as of the original effective date, as described above – in effect, a year earlier than the proposed new effective date. In addition, a nonpublic entity may elect to apply the amendments as of the original effective date for public companies. The originally proposed new standard did not allow early adoption.

The FASB's proposal is based on its outreach to various stakeholders. The board determined that a deferral is necessary to provide companies adequate time to effectively implement the new standard. Interestingly, the IASB (which also issued this standard) has not provided a specific timeline to make a decision regarding a potential delay in its original effective date, although at least one of its board members has referred to such a delay as "inevitable."

What does the deferral mean?

This deferral is not a surprise. Not only was it expected, but it has been an assumption baked into the planning and implementation practices among many companies that have started the transition to the new standard in earnest. In effect, a one-year delay still means "full steam

ahead" for public companies, especially for those who may not have begun working on the transition process.

A quarter of the current year is now spent, and by the time the exposure draft and comment period are done, it could be half the year. Thus, the only delay is in the effective date of the standard; there should be no delay in management's efforts to position the organization in a prudent state of readiness.

The introduction of the "early adoption" option presents an opportunity for those who have started, were focused on the new standard and now are, or will be, ready to adopt early. Also, it presents yet another choice (whether to early adopt) to the list of decisions for companies, which already includes deciding whether to adopt prospectively or retrospectively. This added choice is one with which the audit committee and the external auditor will want to be involved. In addition, analysts, regulators, lenders and other stakeholders may have an interest in the organization's decision. The possibility of early adoption by some, but not all, also allows those who might be more cautious to learn from the triumphs and mistakes of the early adopters.

Whatever management's take on the available options, the pressure remains on the immediate need for companies to perform diagnostic work to demystify the impact on their financial reporting. Otherwise, absent a determination of the impact of the applicability of this new standard, they risk overestimating either the simplicity or the complexity, and run the risk of doing too little, too late, or too much, too soon.

One other point: Now that early adoption will be available for those who have already moved forward with the transition under the original timeline, it will be interesting to see how companies respond when their peers early adopt.

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