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To the Point

FASB — final guidance

FASB defers certain effective dates for major standards

The Board deferred certain effective dates for its new standards on credit losses, hedging, leases and long-duration insurance contracts.

What you need to know

- The FASB deferred the effective dates of the new credit losses standard for all entities except SEC filers that are not smaller reporting companies to fiscal years beginning after 15 December 2022, including interim periods within those fiscal years.
- The Board aligned the effective dates of ASU 2017-04 on goodwill impairment with the new effective dates of the credit losses standard.
- The FASB deferred the effective dates of its new standards on hedging and leases for entities that are not PBEs (and for leases; for entities that are not NFPs that have issued, or are conduit bond obligors for, certain securities; and are not EBPs that file or furnish financial statements with or to the SEC) to fiscal years beginning after 15 December 2020 and interim periods in the following fiscal year.
- The FASB deferred all of the effective dates of the new standard on long-duration insurance contracts. SEC filers that are not smaller reporting companies are required to adopt it for fiscal years beginning after 15 December 2021, including interim periods within those fiscal years. All other entities are required to adopt it for fiscal years beginning after 15 December 2023 and interim periods a year later.

Overview

The Financial Accounting Standards Board (FASB or Board) issued final guidance to defer certain effective dates for its new standards on **credit losses, hedging and leases**, and all of the effective dates for its new standard on **long-duration insurance contracts**.[1] The Board also aligned the effective dates of Accounting Standards Update (ASU) 2017-04[2] on goodwill impairment with the new effective dates of the credit losses standard.

Building a better working world

The deferrals were driven by feedback that the Board received highlighting the significant challenges encountered by smaller entities in transitioning to a major new standard. The factors contributing to these challenges and related costs include the availability of resources; timing and source of education; lessons learned from the implementation issues encountered by larger public companies; understanding and applying guidance from post-issuance standard setting; and the development of sufficient information technology, effective business solutions and internal controls.

The FASB is also reconsidering its philosophy on establishing effective dates for major standards for private companies, not-for-profit (NFP) organizations, employee benefit plans (EBPs) and smaller public companies. The Board has developed a two-bucket approach that would give these entities more time to implement major new standards.

How we see it

While the deferrals provide many entities with additional time to implement the new standards, entities that received relief should continue to work on implementing the new standards and use the additional time to address resource issues (e.g., engage third-party service providers), obtain required data, make system changes and plan for multiple dry runs. In addition, entities should use the additional time to further educate investors and other stakeholders about the potential effects of adopting the new standards.

Key considerations

Credit losses

The Board deferred the effective dates for its new standard on credit losses for all entities except SEC filers that are not smaller reporting companies (SRCs). The table below shows how calendar-year entities are affected:

	New effective dates			Prior effective dates		
	SEC filers excluding SRCs	All other entities		SEC filers	Other PBEs	Other entities
Credit losses	2020*	2023*		2020*	2021*	2022*
	Early adoption is permitted in fiscal years beginning after 15 December 2018, including interim periods in those fiscal years.					

* Including interim periods within the fiscal year.

The two-bucket approach for adopting the credit losses standard is consistent with the approach that the FASB developed to establish effective dates for major standards. The first bucket includes Securities and Exchange Commission (SEC) filers other than SRCs, as defined by the SEC.[3] The determination of whether an entity is a smaller reporting company will be based on an entity's most recently completed assessment in accordance with SEC regulations as of 15 November 2019, the date the final guidance was issued.

The second bucket comprises all other entities: entities eligible to be SRCs; all other public business entities (PBEs); private companies; all NFP organizations, including conduit bond obligors; and all EBPs, including those that file financial statements with the SEC. Entities that become SEC filers after 15 November 2019, including entities eligible to be SRCs when they become SEC filers (e.g., a private company that goes public and qualifies as an SRC), are required to adopt the credit losses standard in accordance with the earlier effective date.

Hedging and leases

The Board deferred the effective dates for its new standards on hedging and leases for non-PBEs. The tables below show how calendar-year entities are affected:

	New effective dates		Prior effective dates	
	Non-PBEs		PBEs	All other entities
Hedging	2021 for annual periods, 2022 for interim periods		2019, including interim periods within the year	2020 for annual periods, 2021 for interim periods
	Early adoption, including adoption in an interim period, is permitted.			

	New effective dates		Prior effective dates	
	Non-PBEs, except certain NFP entities and EBPs*		PBEs and certain NFP entities and EBPs*	All other entities
Leases	2021 for annual periods, 2022 for interim periods		2019, including interim periods within the year	2020 for annual periods, 2021 for interim periods
	Early adoption, including adoption in an interim period, is permitted.			

* The effective date of the new leases standard for NFPs that have issued or are conduit bond obligors for securities that are traded, listed or quoted on an exchange or an over-the-counter market and EBPs that file or furnish financial statements with or to the SEC will not be changed as a result of ASU 2019-10.

The FASB decided not to amend the effective dates for the new hedging and leases standards for PBEs (and for the leases standard, for certain NFPs and EBPs, as indicated above) because these standards are currently effective for most of these entities.

How we see it

While the deferral of the effective date for the hedging standard may be welcomed by some entities, we believe many non-PBEs will choose to adopt the standard earlier because it allows them to expand their use of hedge accounting, among other things.

Long-duration insurance contracts

The Board deferred the effective dates for its new standard on long-duration insurance contracts. The table below shows how calendar-year entities are affected:

	New effective dates			Prior effective dates	
	SEC filers, excluding SRCs	All other entities		PBEs	All other entities
Long-duration insurance contracts	2022, including interim periods within the year	2024 for annual periods, 2025 for interim periods		2021, including interim periods within the year	2022 for annual periods, 2023 for interim periods
	Early adoption is permitted.				

Like the new credit losses guidance, this guidance requires the determination of whether an entity is a smaller reporting company to be based on the entity's most recently completed assessment in accordance with SEC regulations as of 15 November 2019. Additionally, entities that become SEC filers after 15 November 2019, including entities eligible to be SRCs when they become SEC filers, are required to adopt the standard in accordance with the earlier effective date.

Endnotes:

[1] ASU 2019-10, *Financial Instruments — Credit Losses (Topic 326), Derivatives and Hedging (Topic 815), and Leases (Topic 842): Effective Dates,* and ASU 2019-09, *Financial Services—Insurance (Topic 944).*

[2] ASU 2017-04, *Intangibles — Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment*.

[3] This term is defined in Part 230.405 of the SEC's general rules and regulations, Securities Act of 1933.