

FASB ALERT

FASB Issues Two Updates to Finalize Deferral of Effective Dates for Major New Accounting Standards

Details

On November 15, 2019, the FASB issued two Accounting Standards Updates (ASUs) to extend the deadline to implement FASB standards on current expected credit losses, ASC 326 *Financial Instruments – Credit Losses* (CECL), ASC 842 - *Leases*, ASC 815 – *Derivatives and Hedging*, and ASC 944 – *Insurance*, that are not yet effective for some or all companies. The ASUs are available [here](#) for CECL, hedging and leases and [here](#) for insurance.

Background and Main Provisions

The FASB issued two ASUs on November 15, 2019 aimed at postponing effective dates of certain major accounting standards that are not yet effective for some or all entities, specifically:

- CECL,
- Hedging,
- Leases, and
- Insurance.

The two ASUs incorporate a new FASB viewpoint about effective dates that will stagger the implementation date of new major accounting standards for larger public companies compared to all other companies. Specifically, the two buckets are:

- **Bucket One** – SEC Filers (GAAP definition), excluding smaller reporting companies (SRCs) as defined by the SEC.
- **Bucket Two** – All Other Entities, including:
 - SRCs,
 - Private companies,
 - All not-for-profit organizations, including not-for-profit entities 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,
 - Employee benefit plans, including those that file financial statements with the SEC.

The FASB applied this new philosophy on effective dates to the existing major accounting standards that are not yet effective for some or all entities. However, some exceptions to the two-bucket approach were made for certain major standards already effective for some companies, such as hedging and leases.

The final effective dates for CECL, leases, hedging and insurance are as follows.

Effective Dates (Calendar Year-End Companies) utilizing new bucket approach:

	SEC Filers excluding SRCs	All Other Entities
CECL	January 2020 *Including interim periods within those years	January 2023 *Including interim periods within those years

Represents a change in the effective date

Early application is permitted for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years.

For CECL, an entity will determine its effective date based on its most recent SRC determination at November 15, 2019, which is the date the ASU was issued. An entity’s SRC status is determined on the last business day of the most recent second quarter. For example, the most recent determination date will be June 28, 2019 for a calendar-year-end company. The effective date for that entity will not change even if the entity subsequently loses its SRC status.

The FASB also aligned the effective dates for the elimination of Step 2 from the goodwill impairment test in ASU 2017-04, *Intangibles—Goodwill and Other (ASC 350): Simplifying the Test for Goodwill Impairment*, with the amended Credit Losses effective dates. Early application of ASU 2017-04 continues to be allowed for interim and annual goodwill impairment tests with a measurement date on or after January 1, 2017.

Effective Dates (Calendar Year-End Companies):

	Public Business Entities	All Other Entities
Leases	January 2019 <ul style="list-style-type: none"> ➤ Including interim periods within those years ➤ Also includes certain Employee Benefit Plans & NFP Conduit Bond Obligors that file or provide financial statements with or to the SEC 	January 2021 <ul style="list-style-type: none"> ➤ Including interim periods beginning January 2022
Hedging	January 2019 <ul style="list-style-type: none"> ➤ Including interim periods within those years 	January 2021 <ul style="list-style-type: none"> ➤ Including interim periods beginning January 2022

Represents a change in the effective date.

Public Business Entities – for Leases and Hedging, bucket One remains all PBEs because these standards are currently effective for these entities.

Early application continues to be permitted.

For leases, the SEC had previously announced that a public business entity (“PBE”) that otherwise would not meet the definition of a PBE except for a requirement for its financial statements or financial information to be included in another entity’s filing with the SEC could adopt leases for fiscal years beginning after December 15, 2019, and interim periods within fiscal years beginning after December 15, 2020 (see ASC 842-10-S65-1).

It is expected that the SEC will conform the effective dates described in that prior announcement to the new effective dates affirmed by the FASB.

Effective Dates (Calendar Year-End Companies) utilizing new bucket approach:

	SEC Filers excluding SRCs	All Other Entities
Insurance	<p>January 2022</p> <p>➤ Including interim periods within those years</p>	<p>January 2024</p> <p>➤ Including interim periods beginning January 2025</p>

Represents a change in the effective date

Early application continues to be permitted.

Like CECL, an entity will determine its effective date based on its most recent SRC determination at November 15, 2019.

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