

Board Meeting Handout

Effective Date Consideration for Private Companies, Not-for-Profit Organizations, and Small Public Companies

July 17, 2019

Meeting Purpose

1. The July 17, 2019 Board meeting is a decision-making meeting. The staff will ask the Board whether it wants to reconsider its philosophy on establishing effective dates for major projects for private companies, not-for-profit organizations, and smaller public companies. The staff also will ask the Board whether it wants to add projects to its technical agenda to amend certain effective dates for existing major standards that are not yet effective. If the Board chooses to do so, the staff will provide an analysis of alternatives for the Board's consideration. If the Board completes its deliberations, the staff will provide an analysis of costs and benefits and will request the Board's permission to draft a proposed Update for vote by written ballot.
2. The handout is organized as follows:
 - a. Background
 - b. Effective Date Approach and Application
 - c. Appendix A—Master Glossary Definitions.

Questions for the Board

1. Does the Board want to add a project to its agenda to amend the effective dates for major standards that recently created or amended the following Topics:
 - (a) Financial Instruments—Credit Losses (Topic 326) (hereinafter referred to as CECL)
 - (b) Leases (Topic 842) (hereinafter referred to as Leases)
 - (c) Amendments Made to Derivatives and Hedging (Topic 815) (hereinafter referred to as Hedging)?
2. Does the Board want to adopt a two-bucket approach to stagger effective dates for the major standards in Question 1 as follows:
 - (a) Bucket One – SEC Filers (GAAP definition), excluding smaller reporting companies (SRC) as currently defined by the SEC
 - (b) Bucket Two – All Other Entities? If not, what does the Board recommend?

3. For bucket two, as it applies to the major standards in Question 1, does the Board want to provide all other entities with an effective date of at least two years after the effective date established for bucket one?
4. Does the Board agree with the staff's application of the two-bucket approach that provides entities within bucket two with an additional year from that originally established for:
 - (a) Leases
 - (b) Hedging
 - (c) CECL?
5. Does the Board want to add a project to its agenda to amend effective dates for amendments made to Topic 944, Financial Services—Insurance (hereinafter referred to as Insurance)?
6. Does the Board want to provide at least an additional year for public business entities to transition to the Insurance standard?
7. Does the Board want to follow the same philosophy of a two-bucket approach to staggering effective dates for Insurance? If so, does the Board agree with the staff's application of the two-bucket approach for Insurance?
8. Does the Board want to retain the interim reporting requirements for each of the respective projects?
9. Has the Board received sufficient information to make informed decisions on the issues presented? If not, what other information or analyses does the Board need?
10. Subject to what the Board and staff learn through comment letters, does the Board think that the expected benefits of the changes justify the perceived costs for:
 - (a) Leases
 - (b) Hedging
 - (c) CECL?
11. Subject to what the Board and staff learn through comment letters, does the Board think that the expected benefits of the changes justify the perceived costs for Insurance?
12. Does the Board give the staff permission to draft separate proposed Updates for vote by written ballot for the Topics in question 1 and Insurance?
13. What comment period does the Board select for the amendments in the respective proposed Update for:

- (a) Leases
- (b) Hedging
- (c) CECL?

14. What comment period does the Board select for the amendments in the proposed Update for Insurance?

Background

3. In May 2019, the chairman added a project to the research agenda to reconsider the Board's philosophy on effective dates for major standards. The Board has issued many major standards over the past several years. As a result, the Board has been able to gain greater understanding about the operability challenges encountered by all entity types when transitioning to these new standards. This has been achieved primarily through outreach with stakeholders and monitoring implementation activities. The staff apprised the Board and its stakeholders of implementation activities related to CECL, Leasing, Hedging, and Insurance through a series of Board meetings on those individual projects following the issuance of each standard. In addition, the Board recently received agenda requests to defer the effective dates for CECL, Leases (for private companies), and Insurance.
4. 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). The following factors contribute to the challenges and related costs encountered by these entities when transitioning to a major standard:
 - (a) The availability of resources
 - (b) Timing and source of education
 - (c) Learnings from implementation issues encountered by larger public companies and SEC comment letters
 - (d) Application of difficult transition guidance often associated with a major standard
 - (e) Understanding and applying guidance related to additional standard-setting activities and education provided after a major standard is issued
 - (f) The development of:
 - (1) Sufficient information technology and expertise in developing and implementing new IT systems or system changes
 - (2) Effective business solutions and internal controls.

5. The chairman requested that the staff research the FASB’s existing practices for establishing effective dates for major standards and whether effective dates should be different between large public companies, smaller public companies, private companies,¹ and not-for-profit organizations. Furthermore, the Board asked the staff to analyze different ways effective dates could be staggered using (a) definitions of types of entities in the Codification (for example, public business entities and SEC Filer—see definitions in Appendix A) and (b) existing legal definitions established by the SEC (for example, smaller reporting companies (SRC)).
6. Finally, the Board asked the staff to consider whether, based on its research and analysis, changes to effective dates should be made to major standards that are not yet effective. Those changes could be for either all entities or a subset of entities (in other words, the standard may be effective for public business entities but not yet effective for other entities). Those standards are:
 - (a) Hedging
 - (b) Leases
 - (c) CECL
 - (d) Insurance.
7. The following chart shows the existing effective dates for calendar-year-end companies for these standards (all of these standards permit early application):

	SEC Filers	All Other PBEs	Privates and All Others
Hedging	Jan 19	Jan 19	Jan 20
Leasing	Jan 19	Jan 19*	Jan 20
CECL	Jan 20	Jan 21	Jan 22
Insurance	Jan 21	Jan 21	Jan 22

*Also includes Employee Benefit Plans and NFP Conduit Bond Obligors that file or furnish financial statements with or to the SEC.

¹ Note that in accordance with the *Private Company Decision-Making Framework: A Guidance for Evaluating Financial Accounting and Reporting for Private Companies* (PCDMF), the effective date for private companies for all standards is at least one year after the effective date for public companies.

Effective Date Approach and Application

8. When considering a change in philosophy to stagger effective dates between larger public business entities, smaller public business entities and all other entities (private companies, not-for-profit organizations, and employee benefit plans), the staff developed a two-bucket approach.² Bucket one establishes the initial mandatory effective date of a major standard and comprises SEC Filers, less SRCs as currently defined by the SEC. Bucket two comprises all other entities and includes:
- (a) All other PBEs, including SRCs
 - (b) Private companies
 - (c) 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
 - (d) All employee benefit plans, including employee benefit plans that file financial statements with the SEC.
9. Entities within bucket two could be afforded an effective date of at least two years after the initial mandatory effective date applicable to bucket one for a major standard. After considering the challenges encountered by entities within bucket two for each of the existing major standards, the following are proposed effective dates for calendar-year-end companies under the two-bucket approach:

	SEC Filers excluding SRCs	All Other Entities*
CECL	Jan-20	Jan-23

*Includes all other PBEs (including SRCs), private companies, not-for-profit organizations, and employee benefit plans.

	PBEs^	All Other Entities
Hedging	Jan 19	Jan 21
Leases	Jan-19*	Jan-21

² Note that a three-bucket approach also was considered but not pursued for purposes of suggesting revised effective dates for major standards not yet effective. Under this approach, the effective dates would have been staggered between larger public companies, all other public companies, and all other entities (private companies, not-for-profit organizations, and employee benefit plans).

^For Hedging and Leases, Bucket one remains all PBEs because these standards are currently effective for these entities.

*Also includes Employee Benefit Plans and NFP Conduit Bond Obligors that file or furnish financial statements with or to the SEC.

Insurance

10. Entities subject to Insurance are in the first year of their implementation because the standard was issued in August 2018 and is effective for calendar-year-end public business entities in January 2021. The Board and staff recently performed outreach and operational readiness visits with various companies. Based on the input provided, there are significant systems and data challenges encountered by insurance companies (including public business entities), as well as concerns regarding the feasibility of the current implementation timeline.
11. On the basis of feedback received, the Board will consider whether to (a) defer Insurance for public business entities by at least a year and (b) stagger effective dates based on the two-bucket approach. If the Board decides to do so, the amended effective dates for Insurance would be:

	SEC Filers, excluding SRCs	All Other Entities
Insurance	Jan 22	Jan 24