

# To the Point

## FASB plans to defer effective dates of certain standards and staff discusses accounting for COVID-19

The Board decided to propose deferring certain effective dates for the new leases standard and the effective date of the revenue recognition standard for certain franchisors.

### What you need to know

- ▶ The FASB decided to propose deferring the effective date of the new leases standard for private companies, private NFPs and NFPs that have issued or are conduit bond obligors for certain securities by one year. Entities could still early adopt the standard.
- ▶ The FASB decided to propose an option for franchisors that are not PBEs to defer adoption of the new revenue recognition standard to fiscal years beginning after 15 December 2019 and interim periods in the following fiscal year.
- ▶ The FASB staff discussed its responses to questions about applying the guidance on lease modifications, loan modifications, hedge accounting and fair value in light of the economic effects of the COVID-19 pandemic.

### Overview

The Financial Accounting Standards Board (FASB or Board) decided to propose allowing certain entities to defer adoption of its new standards on leases<sup>1</sup> and revenue recognition.<sup>2</sup>

The actions by the Board were driven by feedback it has received about the effects of the COVID-19 pandemic. Many companies are facing operational challenges in addition to accounting and financial reporting challenges.

The FASB staff also discussed its responses to questions about how to apply the guidance on lease modifications, loan modifications, hedge accounting and fair value measurement in light of the economic effects of the COVID-19 pandemic. This information has been posted on the FASB website. The staff also plans to issue a separate question-and-answer document soon.

The Board also said it will temporarily stop issuing other proposals and performing outreach on other topics to make sure that the FASB staff and the Board are available to respond to questions in a timely manner. However, the Board said it will continue work on its project on Not-for-profit reporting of gifts in kind because any decisions may affect the accounting for gifts in kind made in response to the COVID-19 pandemic.

FASB Chairman Russell Golden said the Board will monitor standards effective in 2022 and beyond in addition to the sunset provision of the relief related to reference rate reform.

## Key considerations

### Proposal on effective date deferrals

The FASB said it will soon propose deferring the effective dates for its new leases standard for private companies and what it referred to as public and private not-for-profit (NFP) entities. The term “public NFP” refers to an NFP that has issued or is a conduit bond obligor for securities traded, listed or quoted on an exchange or over-the-counter market. Public companies have already adopted the standard.

The table below shows how calendar-year entities would be affected by the proposal, which will have a 15-day comment period:

Effective dates the FASB plans to propose		Current effective dates	
Public NFP entities that have not yet issued financial statements	Private NFP entities and private companies	Public NFP entities	Private NFP entities and private companies
2020, including interim periods in 2020	2022 for annual periods, 2023 for interim periods	2019, including interim periods in 2019	2021 for annual periods, 2022 for interim periods
<i>Early adoption, including adoption in an interim period, is permitted.</i>			

The Board said it will propose the change because private companies and NFPs may not have the resources to adopt the standard due to the disruptions related to COVID-19.

The Board decided to propose giving franchisors that are not public business entities (PBEs) the option to defer adoption of the new revenue standard by one year to periods beginning after 15 December 2019 and interim periods in annual reporting periods beginning after 15 December 2020. The Board also decided to add a research project to its agenda to evaluate how to reduce the costs of implementing the standard relating to initial franchise fees.

Franchisors have questioned the timing of revenue recognition for these fees, which they receive in exchange for establishing a franchise and providing some initial services. Under the legacy guidance, franchisors have recognized these fees when the franchise location opened. The new guidance requires them to evaluate whether the initial services contain any distinct goods or services when they determine the timing of revenue recognition.

### How we see it

We support the FASB's decision to propose deferring the effective dates for these standards given the significant operational and financial challenges they are facing.

## Questions addressed by the FASB staff

The FASB staff discussed questions it had received about how to apply the guidance on the following topics:

- ▶ Lease modifications – The FASB staff discussed whether lease-related relief that lessors provide to mitigate the economic effects of COVID-19 on lessees is a lease modification under Accounting Standards Codification (ASC) 842 or ASC 840.<sup>3</sup>
- ▶ Loan modifications – The FASB staff discussed a technical inquiry on how a financial institution should account for interest income if it provides a payment holiday during which interest is not accrued for a borrower affected by COVID-19 and the payment holiday is not considered a troubled debt restructuring.
- ▶ Hedge accounting – The FASB staff discussed a question on discontinued cash flow hedges and whether delays in the timing of forecasted transactions related to COVID-19 may be considered rare cases caused by extenuating circumstances outside the control or influence of the reporting entity (ASC 815-30-40-4).
- ▶ Fair value measurement – The FASB staff addressed a question about whether mark-to-market accounting would be suspended by saying that ASC 820<sup>4</sup> provides guidance on the measurement of fair value when the volume or level of activity for an asset or a liability has significantly decreased and when transactions are not orderly.

This information has been posted on the FASB website. The FASB staff also plans to issue a separate question-and-answer document soon. We will issue a separate publication once the document is posted.

### Endnotes:

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- <sup>1</sup> ASC 842, *Leases*.
  - <sup>2</sup> ASC 606, *Revenue from Contracts with Customers*.
  - <sup>3</sup> ASC 840, *Leases*.
  - <sup>4</sup> ASC 820, *Fair Value Measurement*.