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# FASB Defers Effective Dates of Revenue and Leasing Standards for Certain Entities

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## Overview

On June 3, 2020, the FASB issued [ASU 2020-05](#),<sup>1</sup> which amends the effective dates of the Board's standards on revenue (ASC 606<sup>2</sup>) and leasing (ASC 842<sup>3</sup>) to give immediate relief to certain entities as a result of the widespread adverse economic effects and business disruptions caused by the coronavirus disease 2019 (COVID-19) pandemic. Specifically, the Board deferred the effective dates of (1) ASC 606 for private companies and private not-for-profit (NFP) entities and (2) ASC 842 for private companies, private NFP entities, and public NFP entities.<sup>4</sup> The deferrals apply only if those entities have not yet issued their financial statements (or made their financial statements available for issuance) as of June 3, 2020.

While the Board acknowledged that it will continue to evaluate the effective dates of its other standards, the ASC 606 and ASC 842 deferrals were a top priority given the upcoming adoption deadlines for private entities and public NFP entities.

<sup>1</sup> FASB Accounting Standards Update (ASU) No. 2020-05, *Revenue From Contracts With Customers (Topic 606) and Leases (Topic 842): Effective Dates for Certain Entities*.

<sup>2</sup> FASB Accounting Standards Codification (ASC) Topic 606, *Revenue From Contracts With Customers*.

<sup>3</sup> FASB Accounting Standards Codification Topic 842, *Leases*.

<sup>4</sup> A public NFP entity is an NFP entity that has issued or is a conduit bond obligor for securities that are traded, listed, or quoted on an exchange or an over-the-counter market.

## Revenue Standard

ASU 2020-05 permits private entities<sup>5</sup> that have not yet issued their financial statements or made financial statements available for issuance as of June 3, 2020, to adopt ASC 606 for annual reporting periods beginning after December 15, 2019, and for interim reporting periods within annual reporting periods beginning after December 15, 2020. However, since the deferral is not mandatory, private entities may still elect to adopt ASC 606 in accordance with previous guidance (i.e., for annual reporting periods beginning after December 15, 2018, and for interim reporting periods within annual reporting periods beginning after December 15, 2019).



### Connecting the Dots

The Board initially proposed limiting the deferral of ASC 606's effective date to franchisors that are not PBEs, primarily because it had received questions from stakeholders in the franchise industry about the revenue recognition of initial franchise fees. However, after reviewing feedback indicating that many other private entities were experiencing challenges related to adopting ASC 606 under a compressed timeline because of the COVID-19 pandemic, the Board decided to extend the deferral to all private entities.

In addition, as described in Deloitte's *Heads Up*, "FASB Decides to Defer Certain Effective Dates and Provides Guidance on COVID-19," the Board unanimously decided at its meeting on April 8, 2020, to add a research project to its agenda to evaluate whether it can reduce the costs of applying ASC 606 to initial franchise fees. Accordingly, the amendments in ASU 2020-05 will give the Board time to conduct that evaluation.

## Leasing Standard

In November 2019, the FASB issued [ASU 2019-10](#),<sup>6</sup> which amended the effective dates of certain major new accounting standards, including ASC 842, to give implementation relief to certain types of entities. The following table shows the leasing standard's effective dates (1) as originally issued, (2) as amended by ASU 2019-10, and (3) as amended by ASU 2020-05:

|  | Public Entities <sup>7</sup>  | Public NFP Entities <sup>8</sup>  | All Other Entities <sup>9</sup>   |
|--|---|---|---|
| As originally issued (ASU 2016-02) <sup>10</sup> | Fiscal years beginning after December 15, 2018, and interim periods therein | Fiscal years beginning after December 15, 2018, and interim periods therein | Fiscal years beginning after December 15, 2019, and interim periods within fiscal years beginning after December 15, 2020 |
| As amended by ASU 2019-10                        | No changes  | No changes  | Fiscal years beginning after December 15, 2020, and interim periods within fiscal years beginning after December 15, 2021 |

<sup>5</sup> The deferral does not apply to public business entities (PBEs), public NFP entities, and employee benefit plans that file or furnish financial statements with or to the SEC.

<sup>6</sup> FASB Accounting Standards Update No. 2019-10, *Financial Instruments — Credit Losses (Topic 326), Derivatives and Hedging (Topic 815), and Leases (Topic 842): Effective Dates*.

<sup>7</sup> Public entities are PBEs, public NFP entities (with the exception of public NFP entities that have not yet issued their financial statements or made financial statements available for issuance as of June 3, 2020), and employee benefit plans that file or furnish financial statements with or to the SEC.

<sup>8</sup> The deferral provided by ASU 2020-05 only applies to public NFP entities and private entities that have not yet issued their financial statements or made financial statements available for issuance as of June 3, 2020.

<sup>9</sup> See footnote 8.

<sup>10</sup> FASB Accounting Standards Update No. 2016-02, *Leases*.

(Table continued)

|                           | Public Entities | Public NFP Entities   | All Other Entities  |
|---------------------------|-----------------|---|---|
| As amended by ASU 2020-05 | No changes      | Fiscal years beginning after December 15, 2019, and interim periods therein | Fiscal years beginning after December 15, 2021, and interim periods within fiscal years beginning after December 15, 2022 |

Early adoption continues to be permitted in any interim or annual period. If an entity adopts the leasing standard in an interim period, it should reflect such early adoption as of the beginning of the annual period.



### Connecting the Dots

#### **Clarification for Public NFP Entities**

The Board acknowledged in the Basis for Conclusions of ASU 2020-05 that certain public NFP entities are required to post interim financial information or interim financial statements to the Electronic Municipal Market Access (EMMA) system, which is publicly accessible. The Board clarified in paragraph BC32 that public NFP entities are eligible for the deferral as long as they have not already posted to EMMA interim or annual financial statements that comply with U.S. GAAP. Thus, public NFP entities that have issued or made available for issuance financial information *other than* U.S. GAAP-compliant financial statements are eligible to defer the effective date of ASC 842 as permitted under ASU 2020-05.

#### **Potential Future Additional Relief**

The SEC staff announcement codified in ASC 842-10-S65-1 provides relief from the requirement to apply the PBE effective date in ASU 2016-02 to entities that meet the definition of a PBE solely because their financial statements or financial information is included in a filing with the SEC, such as a disclosure required by SEC Regulation S-X, Rules 3-05, 3-09, 3-14, or 4-08(g). The dates specified in the SEC staff announcement were not amended in connection with the issuance of ASU 2019-10. However, at the 2019 AICPA Conference on Current SEC and PCAOB Developments, the SEC staff announced that it would not object if those specified PBEs adopt ASC 842 by using ASU 2019-10's effective dates that apply to non-PBEs. This position was subsequently codified in ASU 2020-02.<sup>11</sup> As of the date of this publication, the SEC staff has not provided similar guidance on ASU 2020-05's deferral of the effective dates of ASC 842 for non-PBEs to fiscal years beginning after December 15, 2021, and interim periods within fiscal years beginning after December 15, 2022. We encourage affected entities to monitor any future developments.

<sup>11</sup> FASB Accounting Standards Update No. 2020-02, *Financial Instruments — Credit Losses (Topic 326) and Leases (Topic 842): Amendments to SEC Paragraphs Pursuant to SEC Staff Accounting Bulletin No. 119 and Update to SEC Section on Effective Date Related to Accounting Standards Update No. 2016-02, Leases (Topic 842)*.

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