FASB Considers Extending Time for Major New Standards

On July 17th, 2019 the FASB Board added a project to its agenda to consider changes to the effective date model the board uses to provide adoption dates for public reporting entities to private entities. As such, the effective date changes by entity type would be made to new standards as well as standards currently under the effective date implementation. Consequently, the following standards in the effective date implementation process would include:

- Topic 326, Financial Instruments - Credit Losses (referred to as CECL)
- Topic 842 - Leases
- Recent amendments to Topic 815, Derivatives and Hedging (referred to as Hedging)

The reason for the change is to give smaller public and non-public entities more time to adopt the new standards and allow for better dissemination of best practices from larger companies to aide in the adoption process. FASB received feedback that the volume of new major standards was making it difficult for smaller entities to meet the adoption dates.

The new tiered bucket system would be as follows:

- Bucket One (first to implement) – PBE's that are SEC filers excluding SRC's[i] (smaller reporting companies)
- Bucket Two – All other entities including SRC's, other PBE's (public business entities), private companies, not-for-profit entities, employee benefit plans, including employee benefit plans that file financial statements with the SEC

The Board decided that bucket two should be afforded at least two additional years to implement the new standards.

The proposal will affect the standards listed above as follows:

Credit Loss – CECL
The Board decided that CECL will be effective as follows:

- Bucket One - for fiscal years beginning after December 15, 2019, and interim periods within those fiscal years. For calendar-year-end companies, this will be January 1, 2020. The determination of whether an entity is an SRC will be based on an entity's most recent assessment in accordance with SEC regulations.
- Bucket Two - For all other entities, the Board decided that CECL will be effective for fiscal years beginning after December 15, 2022, including interim periods within those

fiscal years (effective January 1, 2023, for calendar-year-end companies). For all entities, early adoption will continue to be permitted.

Hedging

- Bucket One- The Board decided to retain the existing effective date for Hedging for PBEs (all PBE's including SRC's), which is for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years (effective January 1, 2019, for calendar-year-end companies).
- Bucket Two - The Board decided to defer the mandatory effective date for hedging for all other entities by an additional year. Therefore, Hedging will be effective for entities other than PBEs for fiscal years beginning after December 15, 2020 (effective January 1, 2021, for calendar-year-end companies), and interim periods within fiscal years beginning after December 15, 2021 (effective January 1, 2022, for calendar-year-end companies). Early adoption will continue to be allowed.

Leases

- Bucket One - The Board decided to retain the existing effective date for Leases for (1) all PBEs, (2) not-for-profit bond obligors, and (3) employee benefit plans that file or furnish financial statements with the SEC, which is for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years (effective January 1, 2019, for calendar-year-end companies).
- Bucket Two - The Board decided to defer the mandatory effective date for Leases for all other entities by an additional year. Therefore, Leases will be effective for all other entities beginning after December 15, 2020 (effective January 1, 2021, for calendar-year-end companies), and interim periods within fiscal years beginning after December 15, 2021 (effective January 1, 2022, for calendar-year-end companies). Early adoption will continue to be allowed.

Leasing and Hedging received different bucketing because parts of these standards are already in the adoption process.

The Board instructed the FASB staff to bring the above back to the Board for a vote for exposure and allow for a 30-day comment period. We estimate 45 to 60 days before a final decision will be made. However, we believe the new dates will be approved.

Our thoughts and recommendations moving forward based on these changes are as follows:

- This change was not just done for CECL but multiple standards to give smaller entities more time to implement.
- The effective date changes are NOT an indication that the CECL standard will be abandoned. FASB realizes that smaller entities need more time and you should continue in your current processes. As such we recommend that all entities continue preparing for CECL. You will now have more time to look for data, build and test models and run assessments against your current incurred loss models.
- Since ARCSys has an automated incurred loss application, we recommend starting to use our existing allowance model for your current allowance accounting. This will help you do the following:
  - Start building your data sets
  - Understand your data issues and weaknesses
  - Become familiar with applying losses at the loan level
  - Start using static pools and risk migrated pools
- Prepare to adopt early if you determine it is beneficial based on the economic environment in 2020 and beyond.

We know that the time, effort, and cost for implementing this standard will be an ongoing process that requires more complex and controlled systems. Using your data from our Incurred Loss application will aid your CECL team when implementing into our CECL model. Running parallel with both systems will allow you to monitor the volatility of your CECL calculation and how it compares to your current allowance. The more time you give your institution to monitor your model, the more prepared your team will be for your initial CECL adjustment.

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[i] Under the SEC's September 10, 2018 definition, generally, a company qualifies as a "smaller reporting company" if:

- it has public float of less than $250 million or
- it has less than $100 million in annual revenues and no public float or public float of less than $700 million