

To the Point

FASB defers effective dates of the new revenue and leases standards for certain entities

The deferrals are part of the Board's response to the COVID-19 pandemic.

What you need to know

- ▶ The FASB deferred by one year the effective date of the new revenue standard for entities that have not yet issued (or made available for issuance) financial statements reflecting the adoption of the standard.
- ▶ The FASB deferred by one year the effective date of the new leases standard for private companies, private NFPs and public NFPs that have not yet issued (or made available for issuance) financial statements reflecting the new standard.
- ▶ Early adoption is permitted for entities in the scope of both deferrals.

Overview

The Financial Accounting Standards Board (FASB or Board) issued **final guidance**¹ allowing certain entities to defer adoption of its new standards on revenue recognition² and leases.³

The Board's action was driven by feedback it has received about the effects of the COVID-19 pandemic. Many entities are facing operational challenges in addition to accounting and financial reporting challenges.

Key considerations

Revenue recognition deferral

The Accounting Standards Update (ASU) defers the effective date of the new revenue standard by one year for entities that have not yet issued (or made available for issuance) financial statements that reflect the standard as of 3 June 2020. These entities are now required to

adopt the standard for annual reporting periods beginning after 15 December 2019 and interim reporting periods in annual reporting periods beginning after 15 December 2020. Early adoption is permitted.

The deferral provides relief for certain private and not-for-profit (NFP) entities. The FASB had initially proposed a narrower deferral that would have affected only franchisors that are not public business entities and haven't yet issued financial statements that reflect the standard. The FASB said it expanded the deferral because many entities are facing accounting and financial reporting challenges related to the COVID-19 pandemic.

The deferral doesn't affect public entities, as defined in the new revenue standard, because they have already adopted the guidance. These entities include public business entities, NFPs 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, and employee benefit plans that file or furnish financial statements with or to the Securities and Exchange Commission. Other entities that have already issued (or have made available for issuance) financial statements that reflect the new standard also aren't affected by the deferral.

To address concerns raised by the franchise industry about the new revenue standard, the Board has begun a research project. Franchisors have questioned the timing of revenue recognition for initial franchise 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.

Leases deferral

The ASU defers the effective date of the new leases standard by one year for private companies and private NFPs, as well as public NFPs that have not yet issued (or made available for issuance) financial statements that reflect the new standard as of 3 June 2020. 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.

Private companies and private NFP entities are now required to adopt the new leases standard for annual reporting periods beginning after 15 December 2021 and interim reporting periods in annual reporting periods beginning after 15 December 2022. Public NFP entities in the scope of the deferral are now required to adopt the standard for annual reporting periods beginning after 15 December 2019 and interim reporting periods within those annual reporting periods. Early adoption is permitted.

How we see it

We support the FASB's decision to defer the effective dates for these standards, given the significant operational and financial challenges entities are facing.

Endnotes:

- ¹ ASU 2020-05, *Revenue from Contracts with Customers (Topic 606) and Leases (Topic 842): Effective Dates for Certain Entities*.
- ² Accounting Standards Codification (ASC) 606, *Revenue from Contracts with Customers*.
- ³ ASC 842, *Leases*.

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