FASB EXPOSURE DRAFT

Proposed Accounting Standards Update

Issued: August 15, 2019
Comments Due: September 16, 2019

Financial Instruments—Credit Losses (Topic 326), Derivatives and Hedging (Topic 815), and Leases (Topic 842)

Effective Dates

The Board issued this Exposure Draft to solicit public comment on proposed changes to Topics 326, 815, and 842 of the *FASB Accounting Standards Codification*®. Individuals can submit comments in one of three ways: using the electronic feedback form on the FASB website, emailing comments to director@fasb.org, or sending a letter to "Technical Director, File Reference No. 2019-750, FASB, 401 Merritt 7, PO Box 5116, Norwalk, CT 06856-5116."

Notice to Recipients of This Exposure Draft of a Proposed Accounting Standards Update

The Board invites comments on all matters in this Exposure Draft until September 16, 2019. Interested parties may submit comments in one of three ways:

- Using the electronic feedback form available on the FASB website at Exposure Documents Open for Comment
- Emailing comments to director@fasb.org, File Reference No. 2019-750
- Sending a letter to "Technical Director, File Reference No. 2019-750, FASB, 401 Merritt 7, PO Box 5116, Norwalk, CT 06856-5116."

All comments received are part of the FASB's public file and are available at www.fasb.org.

The *FASB Accounting Standards Codification*® is the source of authoritative generally accepted accounting principles (GAAP) recognized by the FASB to be applied by nongovernmental entities. An Accounting Standards Update is not authoritative; rather, it is a document that communicates how the Accounting Standards Codification is being amended. It also provides other information to help a user of GAAP understand how and why GAAP is changing and when the changes will be effective. A copy of this Exposure Draft is available at www.fasb.org.

FASB FINANCIAL ACCOUNTING STANDARDS BOARD®

Proposed Accounting Standards Update

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Effective Dates

August 15, 2019

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Summary and Questions for Respondents

Why Is the FASB Issuing This Proposed Accounting Standards Update (Update)?

Since 2014, the Board has issued several major Accounting Standards Updates (typically referred to as broad projects on the FASB's technical agenda). On the basis of feedback obtained from outreach with stakeholders and monitoring of implementation, the Board has gained a greater understanding about the implementation challenges encountered by all types of entities when adopting a major Update. The challenges are often magnified for private companies, smaller public companies, and not-for-profit organizations. The following factors (not all-inclusive) affect the severity of challenges encountered by those entities when transitioning to a major Update:

1. Availability of resources (both internal and external)
2. Timing and source(s) of education
3. Knowledge or experience gained from implementation issues encountered by larger public companies
4. Comprehensive transition requirements
5. Understanding and applying guidance from post-issuance standard-setting activities
6. The development or acquisition of:
    a. Sufficient information technology and expertise in developing new systems or effecting system changes
    b. Effective business solutions and internal controls
    c. Better data or estimation processes.

In response to those issues and requests to defer certain major Updates not yet effective for all entities, the Board developed a philosophy to extend and simplify how effective dates are staggered between larger public companies (bucket one) and all other entities (bucket two). Those other entities include private companies, smaller public companies, not-for-profit organizations, and employee benefit plans.

Under this philosophy, a major Update would first be effective for bucket-one entities—entities that are Securities and Exchange Commission (SEC) filers (per the Master Glossary definition), excluding entities eligible to be smaller reporting companies (SRCs) under the SEC's definition. All other entities, including entities eligible to be SRCs, all other public business entities, and all nonpublic business entities (private companies, not-for-profit organizations, and employee benefit plans) would compose bucket two. For those entities, it is anticipated that the Board will consider requiring an effective date staggered at least two years after bucket one for major Updates. Generally, it is expected that early application would continue to be permitted for all entities.

To be eligible as an SRC, an entity must be an issuer as defined by the SEC and may not exceed established levels of public float, annual revenue, or both as defined by the SEC. Under the SEC definition, investment companies (including business development companies), asset-backed issuers, and majority-owned subsidiaries of a parent company that is not an SRC are not eligible for SRC status.

For existing major Updates not yet effective, determining whether an entity is eligible to be an SRC will be based on an entity's most recent SRC determination in accordance with SEC regulations as of the issuance of this final Update (for example, it is anticipated that this date will be June 30, 2019, for calendar-year-end companies). For future major Updates, the determination will be based on an entity's most recent SRC determination in accordance with SEC regulations as of the date that the future final Update is issued.

The Board is proposing in this Update to apply this change in philosophy to the effective dates for the following major Updates (including amendments issued after the issuance of the original Update):

1. Accounting Standards Update No. 2016-13, *Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments* (Credit Losses)
2. Accounting Standards Update No. 2017-12, *Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities* (Hedging)
3. Accounting Standards Update No. 2016-02, *Leases (Topic 842)* (Leases).

The Board also will address the application of this change in philosophy to Accounting Standards Update No. 2018-12, *Financial Services—Insurance (Topic 944): Targeted Improvements to the Accounting for Long-Duration Contracts* (Insurance), as part of a separate project.

What Are the Main Provisions?

Credit Losses

Credit Losses currently is not effective for any entities; early application is permitted for fiscal years beginning after December 15, 2018. Its mandatory effective dates are as follows:

1. Public business entities that meet the definition of an SEC filer for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years
2. All other public business entities for fiscal years beginning after December 15, 2020, including interim periods within those fiscal years

3. All other entities (private companies, not-for-profit organizations, and employee benefit plans) for fiscal years beginning after December 15, 2021, including interim periods within those fiscal years.

Under the revised effective date philosophy, the mandatory effective dates for Credit Losses in this proposed Update would be amended to the following:

1. Public business entities that meet the definition of an SEC filer, excluding entities eligible to be SRCs as defined by the SEC, for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years
2. All other entities for fiscal years beginning after December 15, 2022, including interim periods within those fiscal years.

Hedging

Hedging currently is effective for some entities. Its effective dates are as follows (early application is allowed):

1. Public business entities for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years
2. All other entities for fiscal years beginning after December 15, 2019, and interim periods within fiscal years beginning after December 15, 2020.

Because Hedging already is effective for all public business entities, the Board retained the effective date for those entities, including SRCs. The Board also decided, consistent with having bucket two be at least two years after the initial effective date, to defer the mandatory effective date for Hedging for all other entities by an additional year. Therefore, Hedging would be effective for entities *other than* public business entities for fiscal years beginning after December 15, 2020, and interim periods within fiscal years beginning after December 15, 2021. Early application would continue to be allowed.

Leases

Leases currently is effective for some entities. Its effective dates are as follows (early application is allowed):

1. Public business entities; 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; and employee benefit plans that file or furnish financial statements with or to the SEC for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years
2. All other entities for fiscal years beginning after December 15, 2019, and interim periods within fiscal years beginning after December 15, 2020.

Because Leases already is effective for entities within (1) above, the Board retained the effective date for those entities, including SRCs. The Board also decided, consistent with having bucket two be at least two years after the initial effective date, to defer the effective date for all other entities by an additional year. Therefore, Leases would be effective for entities within (2) above for fiscal years beginning after December 15, 2020, and interim periods within fiscal years beginning after December 15, 2021. Early application would continue to be allowed.

Questions for Respondents

The Board invites individuals and organizations to comment on all matters in this proposed Update, particularly on the issues and questions below. Comments are requested from those who agree with the proposed guidance as well as from those who do not agree. Comments are most helpful if they identify and clearly explain the issue or question to which they relate. Those who disagree with the proposed guidance are asked to describe their suggested alternatives, supported by specific reasoning.

Question 1: Is the two-bucket approach described and applied in this Update understandable? If not, please explain why.

Question 2: Should the population of SEC filers that are afforded a delayed effective date (that is, excluded from bucket one) be entities eligible to be SRCs as defined by the SEC? If not, what definitional threshold, if any, do you suggest and why?

Question 3: Should the determination of whether an entity is eligible to be an SRC be based on its most recent determination in accordance with SEC regulations as of the date that a final Update is issued? If not, what determination date should be applied?

Question 4: Should Credit Losses be effective for entities eligible to be SRCs, private companies, not-for-profit organizations, and employee benefit plans for fiscal years beginning after December 15, 2022, including interim periods within those fiscal years? If not, please explain why.

Question 5: Should Hedging be effective for all entities other than public business entities for fiscal years beginning after December 15, 2020, and interim periods within fiscal years beginning after December 15, 2021? If not, please explain why.

Question 6: Should Leases be effective for (a) private companies, (b) not-for-profit organizations (excluding those 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 (c) employee benefit plans (excluding those that file or furnish financial statements with or to the SEC) for fiscal years beginning after December 15, 2020, and interim periods within fiscal years beginning after December 15, 2021? If not, please explain why.

Question 7: This question is for future major Updates and not the amendments in this proposed Update. Under the revised effective date philosophy, certain public business entities, including SRCs, and nonpublic business entities would have a deferred effective date. Should interim reporting be required in the same year as the annual financial statements or in the subsequent year for these entities when they provide interim financial statements?

Amendments to the *FASB Accounting Standards Codification*®

Introduction

1. The Accounting Standards Codification is amended as described in paragraphs 2–4. Terms from the Master Glossary are in **bold** type. Added text is underlined, and deleted text is ~~struck out~~.

Amendments to Subtopic 326-10

2. Amend paragraph 326-10-65-1 as follows:

Financial Instruments—Credit Losses—Overall

Transition and Open Effective Date Information

> Transition Related to Accounting Standards Updates No. 2016-13, *Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, No. 2018-19, *Codification Improvements to Topic 326, Financial Instruments—Credit Losses*, No. 2019-04, *Codification Improvements to Topic 326, Financial Instruments—Credit Losses, Topic 815, Derivatives and Hedging, and Topic 825, Financial Instruments*, and No. 2019-05, *Financial Instruments—Credit Losses (Topic 326): Targeted Transition Relief*

326-10-65-1 The following represents the transition and effective date information related to Accounting Standards Updates No. 2016-13, *Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, No. 2018-19, *Codification Improvements to Topic 326, Financial Instruments—Credit Losses*, No. 2019-04, *Codification Improvements to Topic 326, Financial Instruments—Credit Losses, Topic 815, Derivatives and Hedging, and Topic 825, Financial Instruments*, and No. 2019-05, *Financial Instruments—Credit Losses (Topic 326): Targeted Transition Relief*:

a. The pending content that links to this paragraph shall be effective as follows:
    1. **For public business entities** that meet the definition of a **Securities and Exchange Commission (SEC) filer**, excluding entities eligible to be smaller reporting companies as defined by the SEC, for fiscal

years beginning after December 15, 2019, including interim periods within those fiscal years. The determination of whether an entity is eligible to be a smaller reporting company shall be based on an entity's most recent determination in accordance with SEC regulations as of **{add exact date that a final Update on effective dates is issued—for example, December 15, 2019}**.

2. Subparagraph superseded by Accounting Standards Update No. 201X-XX.~~For public business entities that do not meet the definition of an SEC filer, for fiscal years beginning after December 15, 2020, including interim periods within those fiscal years~~
3. For all other entities, ~~including not-for-profit entities within the scope of Topic 958 and employee benefit plans within the scope of Topics 960 through 965 on plan accounting,~~ for fiscal years beginning after December 15, 2022 ~~2021~~, including interim periods within those fiscal years.

b. Early application of the pending content that links to this paragraph is permitted for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years.

Note: See paragraph 250-10-S99-6 on disclosure of the impact that recently issued accounting standards will have on the financial statements of a registrant.

c. An entity shall apply the pending content that links to this paragraph by means of a cumulative-effect adjustment to the opening retained earnings as of the beginning of the first reporting period in which the pending content that links to this paragraph is effective.

d. An entity shall apply prospectively the pending content that links to this paragraph for **purchased financial assets with credit deterioration** to **financial assets** for which Subtopic 310-30 was previously applied. The prospective application will result in an adjustment to the **amortized cost basis** of the financial asset to reflect the addition of the allowance for credit losses at the date of adoption. An entity shall not reassess whether recognized financial assets meet the criteria of a purchased financial asset with credit deterioration as of the date of adoption. An entity may elect to maintain pools of **loans** accounted for under Subtopic 310-30 at adoption. An entity shall not reassess whether modifications to individual acquired financial assets accounted for in pools are **troubled debt restructurings** as of the date of adoption. The noncredit discount or premium, after the adjustment for the allowance for credit losses, shall be accreted to interest income using the interest method based on the **effective interest rate** determined after the adjustment for credit losses at the adoption date. The same transition requirements should be applied to beneficial interests for which Subtopic 310-30 was applied previously or for which there is a significant difference between the contractual cash flows and expected cash flows at the date of recognition.

e. An entity shall apply prospectively the pending content that links to this paragraph to **debt securities** for which an other-than-temporary impairment had been recognized before the date of adoption, such that the amortized cost basis (including previous write-downs) of the debt security is unchanged. In addition, the effective interest rate on a security will remain unchanged as a result of the adoption of the pending content that links to this paragraph. Amounts previously recognized in accumulated other comprehensive income as of the adoption date that relate to improvements in cash flows will continue to be accreted to interest income over the remaining life of the debt security on a level-yield basis. Recoveries of amounts previously written off relating to improvements in cash flows after the date of adoption shall be recorded to income in the period received.
f. An entity shall disclose the following in the period that the entity adopts the pending content that links to this paragraph:
    1. The nature of the change in accounting principle, including an explanation of the newly adopted accounting principle.
    2. The method of applying the change.
    3. The effect of the adoption on any line item in the statement of financial position, if material, as of the beginning of the first period for which the pending content that links to this paragraph is effective. Presentation of the effect on financial statement subtotals is not required.
    4. The cumulative effect of the change on retained earnings or other components of equity in the statement of financial position as of the beginning of the first period for which the pending content that links to this paragraph is effective.
g. An entity that issues interim financial statements shall provide the disclosures in (f) in each interim financial statement of the year of change and the annual financial statement of the period of the change.
h. In the year of initial application of the pending content that links to this paragraph, a public business entity that is not within the scope of paragraph 326-10-65-1(a)(1) ~~does not meet the definition of a SEC filer~~ may phase-in the disclosure of credit quality indicators by year of origination by only presenting the three most recent origination years (including the first year of adoption). In each subsequent fiscal year, the then-current origination year will be added in the periods after adoption until a total of five origination years are presented. Origination years before those that are presented separately shall be disclosed in the aggregate. For example, the phase-in approach would work as follows assuming a calendar year-end entity:
    1. For the first annual reporting period ended December 31, 2X23 ~~2X21~~, after the effective date of January 1, 2X23 ~~2X21~~, an entity would disclose the end of period amortized cost basis of the current period originations within 2X23 ~~2X21~~, as well as the two origination years of 2X22 ~~2X20~~ and 2X21 ~~2X19~~. The December 31, 2X23 ~~2X21~~

end of period amortized cost balances for all prior originations would be presented separately in the aggregate.

2. For the second annual reporting period ended December 31, 2X24 ~~2X22~~, after the effective date of January 1, 2X23 ~~2X21~~, an entity would disclose the end of period amortized cost basis of the current period originations within 2X24 ~~2X22~~, as well as the three origination years of 2X23 ~~2X21~~, 2X22 ~~2X20~~, and 2X21 ~~2X19~~. The December 31, 2X24 ~~2X22~~ ending amortized cost basis would be presented in the aggregate for all origination periods before the four years that are presented separately.
3. For the third annual reporting period ended December 31, 2X25 ~~2X23~~, after the effective date of January 1, 2X23 ~~2X21~~, an entity would disclose the end-of-period amortized cost basis of the current-period originations within 2X25 ~~2X23~~, as well as the four origination years of 2X24 ~~2X22~~, 2X23 ~~2X21~~, 2X22 ~~2X20~~, and 2X21 ~~2X19~~. The December 31, 2X25 ~~2X23~~ ending amortized cost basis would be presented in aggregate for all origination periods before the five years that are presented separately.
4. For interim-period disclosures within the years discussed above, the current year-to-date originations should be disclosed as the originations in the interim reporting period.

i. An entity may irrevocably elect the fair value option in accordance with Subtopic 825-10 for financial instruments within the scope of Subtopic 326-20, except for those financial assets in paragraph 326-20-15-2(a)(2), that also are eligible items in Subtopic 825-10.

Amendments to Subtopic 815-20

3. Amend paragraph 815-20-65-3 as follows:

Derivatives and Hedging—Hedging—General

Transition and Open Effective Date Information

> Transition Related to Accounting Standards Update No. 2017-12, *Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities*

815-20-65-3 The following represents the transition and effective date information related to Accounting Standards Update No. 2017-12, *Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities*:

a. For **public business entities**, the pending content that links to this paragraph shall be effective for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years.
b. For all other entities, the pending content that links to this paragraph shall be effective for fiscal years beginning after December 15, <u>2020</u> ~~2019~~, and interim periods within fiscal years beginning after December 15, <u>2021</u> ~~2020~~.
c. Early adoption, including adoption in an interim period, of the pending content that links to this paragraph is permitted. If an entity early adopts the pending content that links to this paragraph in an interim period, any adjustments shall be reflected as of the beginning of the fiscal year that includes that interim period (that is, the initial application date).

[The remainder of this paragraph is not shown here because it is unchanged.]

Amendments to Subtopic 842-10

4. Amend paragraphs 842-10-65-1 and 842-10-65-4 as follows:

Leases—Overall

Transition and Open Effective Date Information

> Transition Related to Accounting Standards Updates No. 2016-02*, Leases (Topic 842)*, No. 2018-01, *Leases (Topic 842): Land Easement Practical Expedient for Transition to Topic 842*, No. 2018-10, *Codification Improvements to Topic 842*, *Leases,* No. 2018-11, *Leases (Topic 842): Targeted Improvements*, No. 2018-20, *Leases (Topic 842): Narrow-Scope Improvements for Lessors*, and No. 2019-01, *Leases (Topic 842): Codification Improvements*

842-10-65-1 The following represents the transition and effective date information related to Accounting Standards Updates No. 2016-02, *Leases (Topic 842)*, No. 2018-01, *Leases (Topic 842): Land Easement Practical Expedient for Transition to Topic 842*, No. 2018-10, *Codification Improvements to Topic 842, Leases*, No. 2018-11, *Leases (Topic 842): Targeted Improvements*, No. 2018-20, *Leases (Topic 842): Narrow–Scope Improvements for Lessors*, and No. 2019-01, *Leases (Topic 842): Codification Improvements*: [**Note**: See paragraph 842-10-S65-1 for an SEC Staff Announcement on transition related to Update 2016-02.]

a. A **public business entity**, a **not-for-profit 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, and an employee benefit plan that files or furnishes financial statements with or to the U.S. Securities and Exchange Commission shall apply the pending content that links to this paragraph for financial statements issued for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years. Earlier application is permitted.

b. All other entities shall apply the pending content that links to this paragraph for financial statements issued for fiscal years beginning after December 15, 2020 ~~2019~~, and interim periods within fiscal years beginning after December 15, 2021 ~~2020~~. Earlier application is permitted.

[The remainder of this paragraph is not shown here because it is unchanged.]

> Transition Related to Accounting Standards Update No. 2019-01, *Leases (Topic 842): Codification Improvements*

842-10-65-4 The following represents the transition and effective date information related to Accounting Standards Update No. 2019-01, *Leases (Topic 842): Codification Improvements:*

a. All entities within the scope of paragraph 842-10-65-1(a) shall apply the pending content that links to this paragraph for financial statements issued for fiscal years beginning after December 15, 2019, and interim periods within those fiscal years. All other entities shall apply the pending content that links to this paragraph for financial statements issued for fiscal years beginning after December 15, 2020 ~~2019~~, and interim periods within fiscal years beginning after December 15, 2021 ~~2020~~. Early application is permitted.
b. An entity shall apply the pending content that links to this paragraph as of the date that it first applied the pending content that links to paragraph 842-10-65-1 and shall apply the same transition method elected for the pending content that links to paragraph 842-10-65-1 in accordance with paragraph 842-10-65-1(c).

The amendments in this proposed Update were approved for publication by the unanimous vote of the seven members of the Financial Accounting Standards Board:

Russell G. Golden, *Chairman*
James L. Kroeker, *Vice Chairman*
Christine A. Botosan
Gary R. Buesser
Susan M. Cosper
Marsha L. Hunt
R. Harold Schroeder

Background Information and Basis for Conclusions

Introduction

BC1. The following summarizes the Board's considerations in reaching the conclusions in this proposed Update. It includes reasons for accepting some alternatives and rejecting others. Individual Board members gave greater weight to some factors than to others.

BC2. Since 2014, the Board has issued several major Updates (typically referred to as broad projects on the FASB's technical agenda). On the basis of feedback obtained from outreach with stakeholders and monitoring of implementation, the Board has gained a greater understanding about the implementation challenges encountered by all types of entities when adopting a major Update. The challenges are often magnified for private companies, smaller public companies, and not-for-profit organizations. The following factors (not all-inclusive) affect the severity of challenges encountered by those entities when transitioning to a major Update:

1. *Availability of resources (both internal and external)*. Private companies and smaller public companies often have fewer dedicated internal resources and less access to external resources (primarily because of financial constraints) than larger public companies.
2. *Timing and source(s) of education*. Private companies and smaller public companies often require additional time to effectively and efficiently implement major Updates. Many of those companies and their auditors acquire valuable knowledge from observing implementation experiences of larger public companies.
3. *Knowledge or experience gained from implementation issues encountered by larger public companies*. It can take more than a year for private companies to learn about implementation issues, approaches, and best practices. Additional time also would allow those companies to have access to a full cycle of public company filings. Smaller public companies could benefit from this as well.
4. *Comprehensive transition requirements*. Given the potential magnitude of change, often major Updates have lengthy and detailed transition approaches that differ by Topic and entity type and require time to understand and apply.
5. *Understanding and applying guidance from post-issuance standard-setting activities*. For major Updates, the Board has committed to monitor implementation activities and provide additional guidance to clarify aspects of major Updates when necessary, which results in the issuance

of additional guidance. Those Updates require time and effort to understand and apply.

6. *The development or acquisition of:*
   a. *Sufficient information technology and expertise in developing new systems or effecting system changes*. Significant variations in information technology systems exist among companies in terms of their ability to implement a major Update. The knowledge and expertise necessary to modify or change systems require both financial and systems change expertise.
   b. *Effective business solutions and internal controls*. Companies may use the implementation of a major Update to develop lasting business solutions that provide both accounting and operational benefits. Additionally, implementing a major Update may require that companies reconsider their internal controls related to the accounting area. For private companies and smaller public companies, it is typical for fewer resources to be available to pursue these solutions in the time given to implement a major Update.
   c. *Better data or estimation processes*. Major Updates often require increased or new data along with different estimation requirements. While some companies may already collect the necessary data to transition to a major Update, others need additional time to improve their data quality or to establish processes to gather those data.

BC3. In response to these issues and requests to defer certain major Updates not yet effective for all entities, the Board developed a philosophy to extend and simplify how effective dates are staggered between larger public companies (bucket one) and all other entities (bucket two). These all other entities include private companies, smaller public companies, not-for-profit organizations, and employee benefit plans.

BC4. The Board applied this philosophy to the effective dates for the following Updates:

1. Update 2016-13 (Credit Losses)
2. Update 2017-12 (Hedging)
3. Update 2016-02 (Leases).

BC5. The Board also will address the application of this philosophy to the effective dates in Update 2018-12 (Insurance) as part of a separate project.

Benefits and Costs

BC6. The objective of financial reporting is to provide information that is useful to present and potential investors, creditors, donors, and other capital market participants in making rational investment, credit, and similar resource allocation decisions. However, the benefits of providing information for that purpose should justify the related costs. Present and potential investors, creditors, donors, and other users of financial information benefit from improvements in financial reporting, while the costs to implement new guidance are borne primarily by present investors. The Board's assessment of the costs and benefits of issuing new guidance is unavoidably more qualitative than quantitative because there is no method to objectively measure the costs to implement new guidance or to quantify the value of improved information in financial statements.

BC7. The Board does not anticipate that entities will incur significant costs, if any, as a result of the amendments in this proposed Update. The proposed amendments would defer certain effective dates related to the Updates referred to in paragraph BC4 while continuing to permit early application. The Board expects that the proposed amendments could reduce implementation costs and improve the quality of implementation for entities electing the amended effective dates.

BC8. The amendments in this proposed Update could potentially and temporarily increase costs for users of financial statements because they would increase the time under which entities are reporting using different standards. The potential increase in noncomparability is mitigated to the extent that entities are compared with similar entities that have the same required effective date (or could elect to adopt early if entities in their peer group had an earlier required effective date). However, absent deferring the effective dates for the Updates referred to in paragraph BC4 for certain entities, these entities may have insufficient time to implement the Updates, which could affect the quality of financial information provided to users of financial statements and could be more costly for users in the long term.

Basis for Conclusions

Effective Dates

BC9. On the basis of the Board's continued outreach, implementation activities, and stakeholder feedback, the Board supports a philosophy to stagger effective dates for major Updates. Using this philosophy, a major Update would first be effective for larger public companies (bucket one). All other entities (bucket two) would have a delayed effective date. It is anticipated that early application would continue to be allowed for all entities.

BC10. The Board also considered a separate three-bucket approach to apply its philosophy. This approach would have staggered effective dates between larger public companies, all other public companies, and all other entities (private companies, not-for-profit organizations, and employee benefit plans). The Board decided against this approach because smaller public companies often will have the same challenges as private companies in implementing a major Update. Additionally, having three buckets as opposed to two could introduce unnecessary complexity in an entity's determination of its effective date and for users of financial statements.

Bucket One—Larger SEC Filers

BC11. The Board is proposing that bucket one comprises entities that are SEC filers (Master Glossary definition), excluding entities that are eligible to be SRCs as defined by the SEC, and that those entities have the earliest effective dates. The Board used the generally accepted accounting principles definition of SEC filer because that definition is more restrictive than that for all public business entities. In other words, entities that meet the definition of an SEC filer are a subset of all public business entities. The Board typically has required that all public business entities implement a major Update before other entities, such as private companies. However, the Board required SEC filers to apply Credit Losses earlier than other public business entities. This is because the definition of SEC filer is expected to capture more sophisticated public business entities that have sufficient resources to implement a major Update. The Board reasoned that non-SEC filer public business entities generally have less resources to implement a major Update. Additionally, some stakeholders observed that determining whether an entity is an SEC filer is simpler than determining whether a non-SEC filer is a public business entity, given the Board's definition of a public business entity.

BC12. The Board then further reduced the population of entities in bucket one by considering existing regulatory/legal definitions for smaller entities that often face similar resource constraints as many private entities. Using an existing definition, rather than developing a new definition within the Codification, is expected to reduce the costs and complexity of introducing a size-based threshold for effective dates. The Board also considered it important to use an existing definition that is stable, rather than those subject to potential change in the near term. On the basis of those factors, the Board decided to leverage the current SEC definition of SRCs and to exclude entities that are eligible to be SRCs from bucket one. To be eligible to be an SRC, an entity must be an issuer as defined by the SEC and cannot exceed established levels of public float, annual revenue, or both. Under the SEC definition, investment companies, asset-backed issuers, and majority-owned subsidiaries of a parent company that is not an SRC are not eligible to be SRCs. The thresholds to be eligible to be an SRC are relatively low compared with other SEC filers. However, entities that are eligible to be SRCs represent a substantial number of the overall U.S. filers. SEC requirements allow SRCs to provide reduced SEC disclosures in certain circumstances and to provide only two years of audited financial statements (as opposed to three for many other filers).

BC13. Broadly, U.S. filers determine their SRC eligibility annually on the last business day of their most recent second quarter. Entities that are eligible to be SRCs when a major Update is issued could subsequently lose their SRC status and vice versa. The Board acknowledged the importance of providing certainty about the effective date that an entity must apply for a major Update and, therefore, is proposing to require a set date for determining SRC status. The Board decided that an entity's SRC status should be based on its most recent determination of whether the entity is eligible to be an SRC in accordance with SEC regulations as of the date a major Update is issued. Consequently, if the Board issues a final Update resulting from the amendments in this proposed Update on effective dates in December 2019, an entity would be required to use its most recent determination of whether the entity is eligible to be an SRC before the December issuance (for example, it is anticipated that this date will be June 30, 2019, for calendar-year-end companies). An entity that is eligible to be an SRC as of that date would qualify for the deferred effective date in bucket two, even if that entity subsequently fails to qualify as an SRC before the effective date for bucket two. The Board decided to not penalize an entity that initially qualifies as an SRC from applying the deferred effective date afforded by the change to the effective date philosophy if the entity subsequently loses its SRC status before the bucket-two effective date. Without a set date for determining an entity's status as an SRC, a change in that status would trigger an immediate change to an entity's required effective date. The Board concluded that this would be unnecessarily costly, complex, and operationally burdensome.

Bucket Two—All Other Entities

BC14. Bucket two comprises all entities not within bucket one. These entities include entities eligible to be SRCs, all other public business entities, and all nonpublic business entities (private companies, not-for-profit organizations, and employee benefit plans). For those entities, the Board concluded that for major Updates, an effective date of at least two years after that for bucket one should be considered. However, the Board retains the flexibility on an Update-by-Update basis to increase or decrease that delay.

BC15. The Board decided to include public business entities that are (a) not SEC filers and (b) SRCs within bucket two and provide an extended effective date for these public business entities primarily for the reasons in paragraph BC2. The Board found that distinguishing between those public business entities, which often are less sophisticated than larger public business entities, and all nonpublic business entities is both arbitrary and unnecessarily complex. In other words, smaller public business entities often face the same implementation challenges as private companies.

BC16. Extending a deferred effective date to entities eligible to be SRCs in bucket two also would eliminate an inconsistency that currently exists between the implementation time afforded to emerging growth companies (EGCs) and SRCs. The EGCs category was created by the Jumpstart Our Business Startups (JOBs) Act, which was signed into law in April 2012. On the basis of that law, an entity is an EGC for the first five years after it completes an initial public offering unless it exceeds certain thresholds. Among the accommodations provided to EGCs is an option to apply the "nonissuer" effective date for all accounting Updates. In recent history, the "nonissuer" date has been the effective date provided for private companies. Filers qualifying for EGC status often are substantially larger than

SRCs, yet they currently are afforded the most time to adopt an Update. In contrast, SRCs currently are given the same amount of time as other SEC filers. Extending the effective date to entities eligible to be SRCs in bucket two with all nonpublic entities essentially provides them with the same amount of implementation time that is currently permitted for EGCs.

Application to Existing Major Updates

BC17. The following paragraphs illustrate the amendments to the effective dates of the major Updates highlighted in paragraph BC4. Note that the application to Insurance will be provided in a separate proposed Update.

Credit Losses

BC18. Credit Losses currently is not required for any entities. Its effective dates are as follows (early application is allowed):

1. Public business entities that meet the definition of an SEC filer for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years
2. All other public business entities for fiscal years beginning after December 15, 2020, including interim periods within those fiscal years
3. All other entities (private companies, not-for-profit organizations, and employee benefit plans) for fiscal years beginning after December 15, 2021, including interim periods within those fiscal years.

BC19. Under the revised effective date philosophy, the mandatory effective dates for Credit Losses would be amended to the following:

1. Public business entities that meet the definition of an SEC filer, excluding entities eligible to be SRCs as defined by the SEC, for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years
2. All other entities for fiscal years beginning after December 15, 2022, including interim periods within those fiscal years.

BC20. The proposed effective dates for Credit Losses would result in an additional three years for implementation for entities within bucket two as compared with those in bucket one. However, all entities must apply the provisions of Credit Losses *within* interim periods immediately following the effective date. In contrast, for Hedging and Leases, nonpublic entities are required to apply the Updates in interim periods *after* their first fiscal year of adoption. Allowing an additional year for interim reporting for Hedging and Leases essentially would provide these nonpublic entities with an extra year for their implementation. Effectively, this would give nonpublic entities three years to apply each of these major Updates.

Hedging

BC21. Hedging currently is effective for some entities. Its effective dates are as follows (early application is allowed):

1. Public business entities for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years
2. All other entities for fiscal years beginning after December 15, 2019, and interim periods within fiscal years beginning after December 15, 2020.

Because Hedging already is effective for all public business entities, including SRCs, the Board retained the effective date for public business entities. The Board also decided, consistent with having bucket two be at least two years after the initial effective date, to defer the mandatory effective date for Hedging for all other entities by an additional year. Therefore, Hedging would be effective for entities other than public business entities for fiscal years beginning after December 15, 2020, and interim periods within fiscal years beginning after December 15, 2021. Early application would continue to be allowed.

Leases

BC22. Leases currently is effective for some entities and its effective dates are as follows (early application is allowed):

1. Public business entities; 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; and employee benefit plans that file or furnish financial statements with or to the SEC for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years
2. All other entities for fiscal years beginning after December 15, 2019, and interim periods within fiscal years beginning after December 15, 2020.

Because Leases already is effective for entities within (1) above, including SRCs, the Board retained the effective date for those entities. The Board also decided, consistent with having bucket two be at least two years after the initial effective date, to defer the effective date for all other entities by an additional year. Therefore, Leases would be effective for entities within (2) above for fiscal years beginning after December 15, 2020, and interim periods within fiscal years beginning after December 15, 2021. Early application would continue to be allowed.

Application to Future Major Updates

BC23. The Board developed the effective date philosophy described above and is proposing to apply that philosophy to major Updates that have been issued but are not yet effective. The Board also considered how effective dates may be established for future major Updates using this philosophy. While the Board anticipates that it will continue to consider this philosophy for future major Updates, the establishment of effective dates will continue to be determined in connection with standard-setting activities on an Update-by-Update basis. In other words, in some circumstances, the Board may establish effective dates for future major Updates that vary from the effective date philosophy after thoroughly considering the costs and benefits of a major Update.

Amendments to the XBRL Taxonomy

The provisions of this Exposure Draft, if finalized as proposed, would not require changes to the U.S. GAAP Financial Reporting Taxonomy (Taxonomy). Any stakeholders who believe that changes to the Taxonomy are required should provide their comments and suggested changes through ASU Taxonomy Changes provided at www.fasb.org.