

# FASB FLASH REPORT

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## FASB Updates its Recent Credit Loss Standard

The FASB issued ASU 2018-19<sup>1</sup> to defer the implementation date of the new credit loss standard for nonpublic entities by one year, and clarify that operating lease receivables are not within its scope. Rather, operating lease receivables will be tested for impairment under Topic 842, Leases. The ASU is available [here](#), and is effective at the same time as the new standard for credit losses.<sup>2</sup>

### BACKGROUND AND MAIN PROVISIONS

#### Transition and Effective Date for Nonpublic Business Entities

As originally issued, the new credit loss standard is effective for nonpublic business entities for fiscal years beginning after December 15, 2020, and interim periods within fiscal years beginning after December 15, 2021. However, the transition guidance in that ASU requires an entity to make a cumulative-effect adjustment to opening retained earnings as of the beginning of the first reporting period in which the amendments are effective, which would be January 1, 2021, for calendar year-end nonpublic business entities. This ASU defers the adoption date for nonpublic business entities by one year to fiscal years beginning after December 15, 2021, including interim periods within those fiscal years. This also aligns the effective date for their annual financial statements with that of their interim financial statements.

<sup>1</sup> Accounting Standards Update (ASU) No. 2018-19, Codification Improvements to Topic 326, Financial Instruments – Credit Losses

<sup>2</sup> ASU 2016-13, Measurement of Credit Losses on Financial Instruments.

### Operating Lease Receivables

The scope of the new credit loss standard, codified in ASC 326-20, does not specifically address receivables arising from operating leases; however, they appear to meet the definition of financial assets in scope of ASC 326-20. The ASU clarifies that operating lease receivables accounted for by a lessor in accordance with the new leasing guidance in Topic 842 are not in the scope of ASC 326-20. Instead, impairment of receivables from operating leases should be accounted for in accordance with Topic 842, Leases.

### EFFECTIVE DATE AND TRANSITION REQUIREMENTS

The effective date and transition requirements for this ASU are the same as ASU 2016-13.

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