

FASB FLASH REPORT

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FASB votes to defer the effective date of ASC 842 – Leases for private companies and ASC 606 – Revenue from Contracts with Customers for privately-held franchisors

Summary: The FASB voted in favor of a one-year deferral of the effective date of:

- ▶ ASC 842, *Leases*, for all private companies, and
- ▶ ASC 606, *Revenue from Contracts with Customers*, for privately-held franchisors.

Additionally, the FASB staff provided guidance regarding several technical inquiries it has received related to the impact of COVID-19.

BACKGROUND

At its April 8, 2020, meeting, the FASB voted to defer the effective date for ASC 842, *Leases* ("ASC 842"), and ASC 606, *Revenue from Contracts with Customers* ("ASC 606"), for certain entities. In addition, in response to concerns that the Coronavirus (COVID-19) pandemic may have on stakeholders in the United States and abroad, the FASB staff provided guidance related to several recent technical inquiries.

This summary is based on our observation of the Board's [meeting](#), and is subject to change once the FASB updates its website for the items discussed below.

MAIN PROVISIONS

The FASB voted to defer the effective date for ASC 842 for private companies and certain not-for-profit entities (“NFPs”) for one year. For private companies and private NFPs, the leasing standard will be effective for fiscal years beginning after December 15, 2021, and interim periods within fiscal years beginning after December 15, 2022. For public NFPs the leasing standard will be effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years.

The FASB also voted to defer the effective date for ASC 606, *Contracts with Customers*, for franchisors that are not public business entities for one year. As a result, for such franchisors only, the revenue standard will be effective for periods beginning after December 15, 2019 and interim reporting periods within annual reporting periods beginning after December 15, 2020. The Board also indicated it plans to conduct additional outreach with respect to reducing implementation costs for this industry, including the impact of how franchisors recognize initial franchise fees.

Early adoption would continue to be allowed for each of these standards. The FASB anticipates that it will provide a 15-day public comment period on these proposed deferrals once the proposed accounting standards updates are published.

TECHNICAL INQUIRIES

The FASB staff discussed several technical inquiries it has received related to issues arising from the COVID-19 outbreak, noting that it would soon publish a summary of its decisions for the following matters:

Leases

The FASB staff discussed a technical inquiry related to rent concessions; specifically, whether lease concessions related to the effect of COVID-19 are required to be accounted for in accordance with the lease modification guidance in ASC 842 or ASC 840. Because of the disruption caused by COVID-19, it is expected that many lessors will provide (or that many lessees will request) rent concessions, resulting in a large volume of contracts to be assessed under either ASC 842 or ASC 840. This could be particularly burdensome, complex and challenging for many entities to determine whether each lease contract provides enforceable rights and obligations related to those lease concessions.

During the public Board meeting, the FASB staff noted that the lease modification guidance in ASC 840 and ASC 842 contemplates routine changes in terms and conditions of lease contracts negotiated between lessees and lessors, but not changes rapidly executed on a global scale that arise as a result of COVID-19. Accordingly, the FASB staff stated that for concessions related to COVID-19, an entity could decide not to analyze each lease contract to determine whether enforceable rights and obligations for concessions exist. Instead, an entity can elect to not apply the lease modification guidance in ASC 842 or ASC 840 to those contracts and to account for lease concessions related to the effects of COVID-19 as though those concessions arise from the enforceable rights and obligations of the existing contract (regardless of whether those concessions explicitly exist in the contract). The election can be made for concessions if the total cash flows required by the modified contract remain substantially the same or are less than the total cash flows before the concession. The FASB staff expects that reasonable judgment will be applied in that determination.

Interest Income

The FASB staff discussed a technical inquiry for a situation in which a creditor provided a loan payment holiday to a borrower during which it also waived the accrual of interest. In the fact pattern presented, the loan modification did not represent a troubled-debt restructuring under ASC 310-40 *Troubled-Debt Restructuring by Creditors* and was not accounted for as an extinguishment. Rather, it was considered a continuation of the existing loan.

A question arises as to whether the creditor should establish a new effective interest rate in accordance with ASC 310-20 and continue to recognize interest income during the holiday period or if it should follow the contractual terms, i.e., not recognize interest income during the holiday period. The staff expressed its view that, in this situation, either method would be acceptable.

Hedge Accounting

Supply chain disruptions, work closures, and potential curtailing of business activity may result in reductions, delays, or even cancellations of business transactions. If these forecasted business transactions were previously designated in cash flow hedge relationships and are no longer probable of occurring within the originally specified time period, hedge accounting should be discontinued prospectively. However, amounts deferred in accumulated other comprehensive income (AOCI) related to the discontinued hedge should remain in AOCI unless it is probable that the forecasted transaction will not occur by the end of the period originally specified or within an additional two-month period of time thereafter.

However, in rare cases, the existence of extenuating circumstances that are related to the nature of the forecasted transaction and are outside the control or influence of the reporting entity may cause the forecasted transaction to be probable of occurring on a date that is beyond the additional two-month period of time. In those cases, amounts related to the discontinued cash flow hedge should continue to be reported in AOCI until the forecasted transaction affects earnings, when it is reclassified. That is, in those rare cases, an entity should disregard the additional two-month timing restriction otherwise applicable to the forecasted transaction and continue to defer amounts previously recorded in AOCI until the forecasted transaction affects earnings.

The FASB staff clarified that the exception related to rare cases caused by extenuating circumstances outside the control or influence of the entity may be applied to COVID-19 related delays of the forecasted transactions. Consequently, for discontinued cash flow hedges if the forecasted transaction is probable of occurring after the additional 2-month period, the entity would continue to retain amounts previously recorded in AOCI associated with that forecasted transaction until that forecasted transaction affects earnings. However, if the entity determines that it is not probable that the forecasted transaction will occur because of the effects of COVID-19, the exception would not apply and amounts previously recorded in AOCI related to the discontinued cash flow hedge should be reclassified into earnings immediately and disclosed in the entity's interim and annual financial statements.

Fair Value Accounting

The FASB staff discussed a recent request it received to suspend mark-to-market accounting. In response to that request the FASB staff reminded stakeholders of the orderly transaction guidance that exists in ASC 820, *Fair Value Measurement*, and more specifically paragraphs 820-10-35-54(c) through 35-54(j) which provide guidance for measuring fair value when the volume or level of activity for an asset or liability has significantly decreased and provides guidance for identifying transactions that are not orderly. The staff noted that it stands ready to address any interpretive questions our stakeholders may have with respect to that guidance, but believes that such guidance should answer the questions posed in the recent inquiry.

SBA Loans

The FASB staff introduced a technical inquiry it has recently received, but has not yet evaluated, regarding Small Business Administration ("SBA") loans. The staff noted that the recent stimulus provided by the federal government provides for SBA loans that would be 100% guaranteed and forgivable by the SBA if the small business uses the loan proceeds for certain costs. A question has arisen about how fees for originating these loans should be accounted for – that is, as a yield adjustment over the life of the loan or upfront when received. The staff is reviewing this technical inquiry and will determine the most appropriate way to inform stakeholders of the answer to the inquiry in the coming days.

Other Matters

The FASB indicated that it has also decided to temporarily delay many of its current standard-setting projects, that are not yet effective, to allow entities more time to focus on the pressing issues they are currently facing and to provide resources to assist entities with technical questions. As such, the pace of standard setting may slow during the remainder of the year.



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