Accounting & Auditing Update

FASB Delays Implementation of the Revenue Recognition and Leases Standards and Issues New ASU on Reference Rate Reform

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In response to feedback received from various stakeholders, the Financial Accounting Standards Board (FASB or Board) voted on May 20, 2020 in favor of a one-year deferment of the implementation of the Revenue Recognition (ASC 606) and Leases (ASC 842) standards for private companies that have yet to issue their financial statements. This is a result of the continuing struggle private companies are facing carrying out daily accounting tasks in light of the COVID-19 pandemic.

In March 2020, the Board also issued Accounting Standards Update (ASU) 2020-04, *Reference Rate Reform (ASC 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting*. The accounting guidance provided in this ASU follows.

Implementation Dates: ASU on Revenue Recognition and Leases

The following summarizes the new effective implementation dates of these accounting standards for Revenue Recognition (ASC 606) and Leases (ASC 842).

Standard	New Implementation Date
ASC 606, *Revenues from Contracts with Customers*	Annual reporting periods beginning after December 15, 2019 and interim reporting periods within annual reporting periods beginning after December 15, 2020. Early adoption is still permitted.
ASC 842, *Leases*	Annual reporting periods beginning after December 15, 2021 and interim reporting periods within annual reporting periods beginning after December 15, 2022. Early adoption is still permitted.

The FASB intends to issue the final amendment within the next month.

ASU 2020-04: Reference Rate Reform

On March 12, 2020, the FASB issued Accounting Standards Update (ASU) 2020-04, *Reference Rate Reform (ASC 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting*. It is expected by the end of 2021, banks will no longer be required to report the London Interbank Offered Rate (LIBOR). LIBOR is one of the most commonly used benchmark interest rates for derivative and other commercial agreements.

As LIBOR phases out, banks and regulators are expected to use alternative reference rates, such as the Secured Overnight Financing Rate (SOFR). While LIBOR is developed by using a panel of banks which submit estimates of their borrowing costs, SOFR is calculated using actual transactions and is considered a broad measure of the cost of borrowing cash overnight collateralized by Treasury securities.

The ASU applies to all entities and provides optional guidance to simplify the potential accounting challenges associated with the reference rate reform.

Affected Transaction	Optional Expedient
Contract modifications	The modified contract can be accounted for as a continuation of the existing contract rather than as a new contract. This eliminates the need for other reassessments or re-measurements that would otherwise be required if the transaction was recorded as a de-recognition of a contract and the initial recognition of a new contract.
Hedge accounting	The entity can continue to apply hedge accounting when there are changes to critical terms of the hedge instrument. In addition, the entity can disregard certain potential sources of ineffectiveness when performing effectiveness assessments.
Held to maturity debt securities	The entity may make a one-time sale and/or transfer to available for sale or trading securities for held to maturity debt securities that reference an eligible reference rate and were classified as held to maturity before January 1, 2020.

The ASU was effective as of March 12, 2020 and remains in effect until December 31, 2022. The ASU can be applied as of the beginning of the interim period that includes March 12, 2020 (January 1, 2020 for calendar year-end companies) or any date thereafter.

Contact Us

If you require assistance understanding any of these accounting updates, please contact the partner in charge of your account or:

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