Private Companies
Practice Section

September 16, 2019

Shayne Kuhaneck
Acting Technical Director
FASB
401 Merritt 7
PO Box 5116
Norwalk, CT 06856-5116

Re: FASB August 15, 2019 Exposure Draft, *Financial Instruments—Credit Losses (Topic 326), Derivatives and Hedging (Topic 815), and Leases (Topic 842): Effective Dates* [File Reference No. 2019-750]; and FASB August 21, 2019 Exposure Draft, *Financial Services—Insurance (Topic 944): Effective Date* [File Reference No. 2019-760]

Dear Mr. Kuhaneck:

The American Institute of CPAs (AICPA) is the world's largest member association representing the accounting profession, with more than 418,000 members in 143 countries, and a history of serving the public interest since 1887. One of the objectives that the Council of the AICPA established for the PCPS Executive Committee is to speak on behalf of local and regional firms and represent those firms' interests on professional issues in keeping with the public interest, primarily through the Technical Issues Committee (TIC). This communication is in accordance with that objective. These comments, however, do not necessarily reflect the positions of the AICPA.

TIC appreciates the Board's efforts to attempt to address some of the implementation challenges with three major accounting standards. TIC sent an unsolicited letter to the Board on May 13, 2019 urging the Board to reconsider the effective date of the lease standard for private companies, noting many of the same implementation challenges noted by the Board in this ED. TIC greatly appreciates the Board's swift action in trying to address some of these issues, not only with regard to leases, but also with the upcoming effective dates related to Derivatives and Hedging, Credit Losses (CECL), and Long-Duration Insurance Contracts.

Since TIC's primary focus is on firms that provide services to private companies, TIC's comments in this letter mainly are focused on the ED questions and provisions related to private companies.

FASB August 15, 2019 Exposure Draft, *Financial Instruments—Credit Losses (Topic 326), Derivatives and Hedging (Topic 815), and Leases (Topic 842): Effective Dates*

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

TIC believes the two-bucket approach is understandable and is an approach that could work well for all standards to be issued in the future (unless they are very limited in scope and easy to apply, for example, Codification Improvements).

The use of the SRC classification, and an entity's status as of the date a final ASU is issued, provides a clear basis for determination that certain SEC filers must already make when filing their periodic reports, and as a result would incur no additional costs in making the determination.

However, there are a group of entities that are not SEC issuers (as that term is defined by section 10A(f) of the Securities Exchange Act of 1934), including nonpublic brokers and dealers in securities, that are included in bucket one regardless of size due to the definition of SEC filer in the ASC Master Glossary. Many of these entities are smaller companies with characteristics of SRCs and private companies. We encourage the FASB to consider whether the bucket two definition should be revised to include broker and dealers that are not SEC issuers or otherwise considered Public Business Entities.

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.*

TIC believes a one-year deferral for private companies and not-for-profit organizations is appropriate and would be welcome for the same reasons articulated in our May 13, 2019 letter requesting a delayed effective date for leases.

Related to this topic, TIC recommends the Board consider also delaying the effective date of ASU 2017-04, *Intangibles—Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment*. It is noted in the BC61 to that Update:

> "Aligning the effective dates of the guidance in this Update with CECL guidance allows an entity to first adjust the carrying amount of its loan portfolios […] before testing for goodwill impairment, eliminating the potential double counting of these losses associated with the loans."

In extending the deferral to ASU 2017-04, the Board has the opportunity to continue to allow entities to avoid this double counting scenario.

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.*

TIC believes a one-year deferral for entities other than public business entities is appropriate and would be welcome for the same reasons articulated in our May 13, 2019 letter requesting a delayed effective date for leases.

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.*

TIC believes a one-year deferral for private companies, not-for-profit organizations, and employee benefit plans is appropriate and would be welcome for the same reasons articulated in our May 13, 2019 letter requesting a delayed effective date for leases.

TIC also believes that additional consideration should be given to extending the effective date for all not-for-profit organizations that have not yet adopted ASC 842, *Leases*, including those that have issued or are conduit bond obligors for securities that are traded, listed, or quoted on an exchange or over-the-counter market.

ASC 842-10-65-1a and 1b refer to "financial statements issued for fiscal years beginning after December 15, 20XX," and interim periods within those fiscal years. TIC believes that many not-for-profit conduit debt obligors do **<u>not</u>** issue **GAAP basis interim financial statements**. While these entities may have quarterly financial reporting requirements with the bond trustee, the unaudited interim financial statements provided generally do not include all of the basic financial statements, e.g., a statement of cash flows, and / or notes to the financial statements.

The Board did not propose an extension to the effective date for not-for-profit conduit debt obligors on the premise that the lease standard is currently effective (fiscal years beginning after December 15, 2018, including interim periods within those fiscal years) for those entities. TIC believes many of those entities have not yet issued **GAAP basis** financial statements and, thus, could take advantage of a delayed effective date. TIC would suggest that the lease standard be effective for not-for-profit conduit debt obligors that have not yet issued GAAP basis financial statements for fiscal years beginning after December 15, 2020, consistent with private companies and all other not-for-profit organizations.

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?*

TIC believes that since many private companies do not issue interim financial statements, this will not have a significant impact. TIC believes that permitting additional time, by requiring interim reporting in the subsequent year, could be beneficial for private companies that issue interim financial statements.

However, if the interim reporting issue presents significant complexity or other negative implications, the overall project is very important to private companies and TIC would not want this one issue to hold up the issuance of this standard. Interim reporting typically impacts public companies more so than private companies, so TIC would defer to those that deal more with interim financial statement issuances as to what they prefer.

FASB August 21, 2019 Exposure Draft, *Financial Services—Insurance (Topic 944): Effective Date*

Question 2: *Should the amendments in Update 2018-12 be effective two years after the effective date for larger public companies for entities other than larger public companies (that is, for entities other than larger public companies, effective for fiscal years beginning after December 15, 2023)? If not, please explain why not.*

TIC agrees with the proposed effective date for entities other than larger public companies (fiscal years beginning after December 15, 2023) for the same reasons articulated in our May 13, 2019 letter requesting a delayed effective date for leases.

TIC appreciates the opportunity to present these comments on behalf of PCPS member firms. We would be pleased to discuss our comments with you at your convenience.

Sincerely,

Danielle Supkis-Cheek, Chair
On Behalf of the PCPS Technical Issues Committee