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No. 2020-02
February 2020

Financial Instruments—Credit Losses (Topic 326) and Leases (Topic 842)

Amendments to SEC Paragraphs Pursuant to SEC Staff Accounting Bulletin No. 119 and Update to SEC Section on Effective Date Related to Accounting Standards Update No. 2016-02, *Leases (Topic 842)*

An Amendment of the *FASB Accounting Standards Codification*®

Financial Accounting Standards Board

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Securities and Exchange Commission (SEC) Content

Introduction

1. The Accounting Standards Codification is amended as described in paragraphs 2–5. Terms from the Master Glossary are in **bold** type. Added text is <u>underlined</u>, and deleted text is ~~struck out~~.

Amendments Pursuant to SEC Staff Accounting Bulletin No. 119

This Accounting Standards Update adds an SEC paragraph pursuant to the issuance of SEC Staff Accounting Bulletin No. 119.

Amendments to Subtopic 326-20

2. Add Section 326-20-S99, with no link to a transition paragraph, as follows:

[For ease of readability, the new Section is not underlined.]

Financial Instruments—Credit Losses—Measured at Amortized Cost

SEC Materials

General

> SEC Staff Guidance

> > Staff Accounting Bulletins

> > > SAB Topic 6.M, Financial Reporting Release No. 28 – Accounting for Loan Losses by Registrants Engaged in Lending Activities Subject to FASB ASC Topic 326

326-20-S99-1 The following is the text of SAB Topic 6.M, Financial Reporting Release No. 28 – Accounting for Loan Losses by Registrants Engaged in Lending Activities Subject to FASB ASC Topic 326.

1. Measuring current expected credit losses

General: This staff interpretation applies to all registrants that are creditors in loan transactions that, individually or in the aggregate, have a material effect on the registrant's financial condition.[FN74]

FASB ASC Subtopic 326-20 addresses the measurement of current expected credit losses for financial assets measured at amortized cost basis, net investments in leases recognized by lessors, reinsurance recoverables, and certain off-balance-sheet credit exposures.[FN75]

At each reporting date, an entity shall record an allowance for credit losses on financial assets measured at amortized cost basis and net investments in leases recognized by lessors and shall record a liability for credit losses on certain off-balance-sheet exposures not accounted for as insurance or derivatives, including loan commitments, standby letters of credit, and financial guarantees.[FN76]

For financial asset(s), the allowance for credit losses is a valuation account that is deducted from, or added to, the amortized cost basis of the financial asset(s) to present the net amount expected to be collected on the financial asset(s).[FN77]

The allowance for credit losses is an estimate of current expected credit losses considering available information relevant to assessing collectibility of cash flows over the contractual term of the financial asset(s).[FN78]

Information relevant to establishing an estimate of current expected credit losses includes historical credit loss experience on financial assets with similar risk characteristics, current conditions, and reasonable and supportable forecasts that affect the collectability of the remaining cash flows over the contractual term of the financial assets. An entity shall report in net income (as a credit loss expense) the amount necessary to adjust the allowance for credit losses and liabilities for credit losses on off-balance-sheet credit exposures for management's current estimate of expected credit losses.[FN79]

This staff guidance is applicable upon a registrant's adoption of FASB ASC Topic 326.[FN80] Upon a registrant's adoption of FASB ASC Topic 326, the staff guidance in SAB Topic 6, Section L: *Financial Reporting Release No. 28 – Accounting for Loan Losses by Registrants Engaged in Lending* Activities[FN81] will no longer be applicable.

On November 15, 2019, the FASB delayed the effective date of FASB ASC Topic 326 for certain small public companies and other private companies. As amended, the effective date of ASC Topic 326 was delayed until fiscal years beginning after December 15, 2022 for SEC filers that are eligible to be smaller reporting companies under the SEC's definition, as well as private companies and not-for-profit entities. Nothing in this staff interpretation should be read to accelerate or delay the effective dates of the standard as modified by the FASB.

FN74 This staff interpretation relates to Financial Reporting Release No. 28 – Accounting for Loan Losses by Registrants Engaged in Lending Activities, Release No. 33-6679 (Dec. 1, 1986), (hereinafter “FRR 28”).

FN75 *See* ASC paragraphs 326-20-15-2 and 326-20-15-3.

FN76 *Ibid.*

FN77 *See* ASC paragraph 326-20-30-1.

FN78 As indicated in ASC paragraph 326-20-30-11, the liability for expected credit losses for off-balance-sheet credit exposures shall be based on the contractual period in which the entity is exposed to credit risk via a present obligation to extend credit, unless the obligation is unconditionally cancellable by the issuer.

FN79 *See* ASC paragraphs 326-20-30-1, 326-20-30-6, 326-20-30-7 and 326-20-30-11.

FN80 *See* ASC paragraphs 326-10-65-1, 326-10-65-2, and 326-10-65-3.

FN81 Originally added to the Codification of SABs in Topic 6, Section L, by SAB No. 102 – Selected Loan Loss Allowance Methodology and Documentation Issues, 66 FR 36457 (July 12, 2001).

2. Development, governance, and documentation of a systematic methodology

Facts: Registrant A is developing (or subsequently reviewing) its allowance for credit losses methodology for its loan portfolio.

Question 1: What are some of the factors or elements that the staff normally would expect Registrant A to consider when developing (or subsequently performing an assessment of) its methodology for determining its allowance for credit losses under GAAP?

Interpretive Response: The staff normally would expect a registrant to have a systematic methodology to address the development, governance, and documentation to determine its provision and allowance for credit losses.

It is critical that allowance for credit losses methodologies incorporate management’s current judgments about the credit losses expected from the existing loan portfolio, including reasonable and supportable forecasts about changes in credit quality of these portfolios, on a disciplined and consistently-applied basis.

A registrant’s allowance for credit losses methodology is influenced by entity-specific factors, such as an entity’s size, organizational structure, access to information, business environment and strategy, management's risk assessment, complexity of the loan portfolio, loan administration procedures, and management information systems. Management is responsible for the estimate of expected credit losses, and therefore also responsible for determining whether any allowance methodologies developed by third parties are consistent with GAAP.

While different registrants may use different methods,[FN82] there are certain common elements that the staff would expect in any methodology:

- Identify relevant risk characteristics and pool loans on the basis of similar risk characteristics;[FN83]
- Consider available information relevant to assessing the collectibility of cash flows;[FN84]
- Consider expected credit losses over the contractual term[FN85] of all existing loans (whether on an individual or group basis), and measure expected credit losses on loans on a collective (pool) basis when similar risk characteristics exist;[FN86]
- Require that analyses, estimates, reviews, and other allowance for credit losses methodology functions be performed by competent and well-trained personnel;
- Be based on reliable and relevant data and an analysis of current conditions and reasonable and supportable forecasts;
- Include a systematic and logical method to consolidate the loss estimates that allows for the allowance for credit losses balance to be recorded in accordance with GAAP.

The staff believes an entity's management should review, on a periodic basis, whether its methodology for determining its allowance for credit losses is appropriate. Additionally, for registrants that have audit committees, the staff believes that oversight of the financial reporting and auditing of the allowance for credit losses by the audit committee can strengthen the registrant's process for determining its allowance for credit losses.

A systematic methodology that is properly designed and implemented should result in a registrant's best estimate of its allowance for credit losses.[FN87] Accordingly, the staff normally would expect registrants to adjust their allowance for credit losses balance, either upward or downward, in each period for differences between the results of the systematic methodology and the unadjusted allowance for credit losses balance in the general ledger.[FN88]

Question 2: In the staff's view, what aspects of a registrant's allowance for credit losses internal accounting controls would need to be appropriately addressed in its written policies and procedures?

Interpretive Response: Registrants may utilize a wide range of policies, procedures, and control systems in their allowance for credit losses processes, and these policies, procedures, and systems are tailored to the size and complexity of the registrant and its loan portfolio.

However, the staff believes that, in order for a registrant's allowance for credit losses methodology to be effective, the registrant's written policies and procedures for the systems and controls that maintain an appropriate allowance for credit losses would likely address the following:

- The roles and responsibilities of the registrant's departments and personnel (including the lending function, credit review, financial reporting, internal audit, senior management, audit committee, board of directors, and others, as applicable) who determine or review, as applicable, the allowance for credit losses to be reported in the financial statements;
- The registrant's selected methods and policies for developing the allowance for credit losses and determining significant judgments;
- The description of the registrant's systematic methodology, which should be consistent with the registrant's accounting policies for determining its allowance for credit losses (see Question 4 below for further discussion); and
- How the system of internal controls related to the allowance for credit losses process provides reasonable assurance that the allowance for credit losses is in accordance with GAAP.

The staff normally would expect internal accounting controls[FN89] for the allowance for credit losses estimation process to:

- Include measures to provide reasonable assurance regarding the reliability and integrity of information and compliance with laws, regulations, and internal policies and procedures;[FN90] and
- Operate at a level of precision sufficient to provide reasonable assurance that the registrant's financial statements are prepared in accordance with GAAP.

Question 3: Assume the same facts as in Question 1. What would the staff normally expect Registrant A to include in its documentation of its allowance for credit losses methodology?

Interpretive Response: In FRR 28, the Commission provided guidance for documentation of loan loss provisions and allowances for registrants engaged in lending activities. The staff believes that appropriate written supporting documentation for the provision and allowance for credit losses facilitates review of the allowance for credit losses process and reported amounts, builds discipline and consistency into the allowance for credit losses methodology, and helps to evaluate whether relevant factors are appropriately considered in the allowance analysis.

The staff, therefore, normally would expect a registrant to document the relationship between its detailed analysis of the characteristics and credit quality of the portfolio and the amount of the allowance for credit losses reported in each period.[FN91]

The staff normally would expect registrants to maintain written supporting documentation for the following decisions and processes:

- Policies and procedures over the systems and controls that maintain an appropriate allowance for credit losses;
- Allowance for credit losses methodology and key judgments, including the data used, assessment of risk, and identification of significant assumptions in the allowance estimation process;
- Summary or consolidation of the allowance for credit losses balance;
- Validation of the allowance for credit losses methodology; and
- Periodic adjustments to the allowance for credit losses.

Question 4: What elements of a registrant's allowance for credit losses methodology would the staff normally expect to be described in the registrant's written policies and procedures?

Interpretive Response: The staff normally would expect a registrant's written policies and procedures to describe the primary elements of its allowance for credit losses methodology. The staff normally would expect that, in order for a registrant's allowance for credit losses methodology to be effective, the registrant's written policies and procedures would describe all primary elements needed to support a disciplined and consistently-applied methodology, which may include, but is not limited to:[FN92]

- How portfolio segments are determined (*e.g.*, by loan type, industry, risk rating, etc.)[FN93] and the methodology used for each portfolio segment;[FN94]
- The approach used to pool loans based on similar risk characteristics;
- For accounting policy or practical expedient elections set forth in FASB ASC Subtopic 326-20, documentation of the elections made;
- The method(s) used to determine the contractual term of the financial assets, including consideration of prepayments and when the contractual term is extended;[FN95]
- If a loss-rate method is used, the historical data used to develop the components of the loss rate and how that rate is applied to the amortized cost basis of the financial asset as of the reporting date;[FN96]
- The method for estimating expected recoveries when measuring the allowance for credit losses;[FN97]

- The approach used to determine the appropriate historical period for estimating expected credit loss statistics;
- The approach used to determine the reasonable and supportable period;
- The approach used to adjust historical information for current conditions and reasonable and supportable forecasts;[FN98]
- How the entity plans to revert to historical credit loss information for periods beyond which the entity is able to make or obtain reasonable and supportable forecasts of expected credit losses;[FN99] and
- The approach used to determine when a purchased financial asset would qualify to be accounted for as a purchased financial asset with credit deterioration.[FN100]

FN82 ASC paragraph 326-20-30-3 states that "the allowance for credit losses may be determined using various methods. For example, an entity may use discounted cash flow methods, loss-rate methods, roll-rate methods, probability-of-default methods, or methods that utilize an aging schedule."

FN83 *See* ASC paragraph 326-20-55-5 for a list of risk characteristics that may be applicable.

FN84 *See* ASC paragraph 326-20-30-7.

FN85 *See* ASC paragraph 326-20-30-6.

FN86 *See* ASC paragraph 326-20-30-2.

FN87 ASU 2016-13, BC63 states that "the Board decided that an entity should determine at the reporting date an estimate of credit loss that best reflects its expectations (or its best estimate of expected credit loss)."

FN88 *See* ASC paragraph 326-20-35-1 and 326-20-35-3. Registrants should also refer to the guidance on materiality in SAB Topic 1.M.

FN89 Public companies are required to comply with the books and records and internal controls provisions of the Exchange Act. See Sections 13(b)(2) - (7) of the Exchange Act.

FN90 Section 13(b)(2) - (7) of the Exchange Act.

FN91 FRR 28, Section II states that "the specific rationale upon which the loan loss allowance and provision amount actually reported in each individual period is based — *i.e.*, the bridge between the findings of the detailed review of the loan portfolio and the amount actually reported in each period — would be documented to help ensure the adequacy of the reported amount, to improve auditability, and to serve as a benchmark for exercise of prudent judgment in future periods."

FN92 *See* also, ASC paragraph 326-20-55-6 for additional judgments a registrant may make.

FN93 FASB ASC Subtopic 326-20-20 defines a portfolio segment as the "level at which an entity develops and documents a systematic methodology to determine its allowance for credit losses."

FN94 *See* ASC paragraph 326-20-30-3 for examples of expected loss estimation methods that may be used.

FN95 *See* ASC paragraph 326-20-30-6.

FN96 *See* ASC paragraph 326-20-30-5.

FN97 *See* ASC paragraph 326-20-30-1.

FN98 *See* ASC paragraph 326-20-30-8 and 326-20-30-9.

FN99 *See* ASC paragraph 326-20-30-9.

FN100 *See* ASC paragraph 326-20-30-13 through 326-20-30-15.

3. Documenting the results of a systematic methodology

Question 5: What documentation would the staff normally expect a registrant to prepare to support its allowance for credit losses for its loans under FASB ASC Subtopic 326-20?

Interpretive Response:

Regardless of the method used to determine the allowance for credit losses under FASB ASC Subtopic 326-20, the staff normally would expect a registrant to demonstrate in its documentation that the loss measurement methods and assumptions used to estimate the allowance for credit losses for its loan portfolio are determined in accordance with GAAP as of the financial statement date.

The staff normally would expect a registrant to maintain as sufficient evidence written documentation to support its measurement of expected credit losses under FASB ASC Subtopic 326-20. That documentation should reflect the method(s) used to estimate expected credit losses for each portfolio segment.[FN101]

The staff normally would expect registrants to follow a systematic and consistently-applied approach to select the most appropriate expected credit loss measurement methods and support its conclusions and rationale with written documentation. Typically, registrants decide the methods to use based on many factors, which vary with their business strategies as well as their information system capabilities.

As economic and other business conditions change, registrants often modify their business strategies, which may necessitate adjustments to the methods used to estimate expected credit losses. The staff normally would expect a registrant to maintain a process to evaluate whether adjustments to the methodology are necessary and, if so, maintain documentation to support adjustments to the methodology used.

A registrant's methodology should produce an estimate that is consistent with GAAP. The staff normally would expect that, before employing an expected loss method, a registrant would evaluate and modify, as needed, the method's assumptions related to the current estimate of expected credit losses. Also, the staff expects that registrants would typically document the evaluation, the conclusions regarding the appropriateness of estimating expected credit losses with that method, and the objective support for adjustments to the method or its results.

A registrant shall measure expected credit losses on a collective (pool) basis when similar risk characteristic(s) exist.[FN102] The staff normally would expect a registrant to maintain documentation to support its conclusion that the loans in each pool have similar characteristics.

One method of estimating expected credit losses for a pool of loans is through the application of loss rates to the pool's aggregate loan balances.[FN103] Such loss rates should generally reflect the registrant's historical credit loss experience consistent with the remaining contractual terms[FN104] for each pool of loans, adjusted to reflect the extent to which management expects current conditions and reasonable and supportable forecasts to differ from the conditions that existed for the period over which historical information was evaluated.[FN105]

If a registrant utilizes external data, the staff normally would expect that the registrant would demonstrate in its documentation the relevance and reliability of the external data. The registrant should consider whether the external loss experience data comes from loans with credit attributes similar to those of the loans included in the registrant's portfolio and is consistent with the registrant's assumptions regarding current and forecasted economic conditions.[FN106] The staff normally would expect a registrant to maintain supporting documentation for assumptions and data used to develop its loss rates, including its evaluation of the relevance and reliability of any external data.

If a registrant uses the present value of expected future cash flows to measure expected credit losses,[FN107] the staff normally would expect supporting documentation for the assumptions and data used to develop the amount and timing of expected cash flows and the effective interest rate used to discount expected cash flows.

If a registrant uses the fair value of collateral to measure expected credit losses, the staff normally would expect the registrant to document:

- The basis for its conclusion that the loan qualifies under GAAP for measurement of expected credit losses based on the fair value of the collateral;[FN108]
- How it determined the fair value of the collateral, including policies relating to the use of appraisals, valuation assumptions and calculations, the supporting rationale for adjustments to appraised values, if any, and the determination of costs to sell, if applicable; and
- The recency and reliability of the appraisal or other valuation.

Regardless of the method used, the underlying assumptions used by registrants to develop expected credit loss measurements should consider current conditions and reasonable and supportable forecasts. The staff normally would expect a registrant to document the factors used in the development of the assumptions and how those factors affected the expected credit loss measurements.[FN109] Factors to be considered include the following:

- Levels of and trends in delinquencies and performance of loans;
- Levels of and trends in write-offs and recoveries collected;
- Trends in volume and terms of loans;
- Effects of any changes in reasonable and supportable economic forecasts;
- Effects of any changes in risk selection and underwriting standards, and other changes in lending policies, procedures, and practices;
- Experience, ability, and depth of lending management and other relevant staff;
- Available relevant information sources that support or contradict the registrant's own forecast;
- Effects of changes in prepayment expectations or other factors affecting assessments of loan contractual term;
- Industry conditions; and
- Effects of changes in credit concentrations.

Factors affecting collectibility that are not reflected in the registrant's historical loss information should be evaluated to determine whether an adjustment is necessary so that the expected credit loss measurement considers those factors.[FN110] For any adjustment of loss measurements based on current conditions and reasonable and supportable forecasts, the staff normally would expect a registrant to maintain sufficient evidence to (a) support the amount of the adjustment and (b) explain why the adjustment is necessary to reflect current conditions and reasonable and supportable forecasts in the expected credit loss measurements. Supporting documentation for adjustments may include relevant economic reports, economic data, and information from individual borrowers.

The staff normally would expect that, as part of the registrant's allowance for credit losses methodology, it would create a summary of the amount and rationale for the adjustment factor for review by management prior to the issuance of the financial statements. The staff normally would expect the nature of the adjustments, how they were measured or determined, and the underlying rationale for making the changes to the allowance for credit losses balance to be documented. The staff also normally would expect appropriate documentation of the adjustments to be provided to management for review of the final allowance for credit losses amount to be reported in the financial statements.

Similarly, the staff normally would expect that registrants would maintain documentation to support the identified range and the rationale used for determining which estimate is the best estimate within the range of expected credit losses and that this documentation would also be made available to the registrant's independent accountants. If changes frequently occur during management or credit committee reviews of the allowance for credit losses, management may find it appropriate to analyze the reasons for the frequent changes and to reassess the methodology the registrant uses.

Facts: Registrant H has completed its estimation of its allowance for credit losses for the current reporting period, in accordance with GAAP, using its established systematic methodology.

Question 6: What summary documentation would the staff normally expect Registrant H to prepare to support the amount of its allowance for credit losses to be reported in its financial statements?

Interpretive Response: The staff normally would expect that, to verify that the allowance for credit losses balances are presented fairly in accordance with GAAP and are auditable, management would prepare a document that summarizes the amount to be reported in the financial statements for the allowance for credit losses,[FN111] and that such documentation also include sufficient evidence to support the allowance and internal controls over the allowance. Common elements that the staff normally would expect to find documented in allowance for credit losses summaries include:

- The reasonable and supportable economic forecasts used;
- The estimate of the expected credit losses using the registrant's methodology or methodologies;
- A summary of the current allowance for credit losses balance;
- The amount, if any, by which the allowance for credit losses balance is to be adjusted; and
- Depending on the level of detail that supports the allowance for credit losses analysis, detailed subschedules of loss estimates that reconcile to the summary schedule.

Generally, a registrant's review and approval process for the allowance for credit losses relies upon the data provided in these consolidated summaries. There may be instances in which individuals or committees that review the allowance for credit losses methodology and resulting allowance balance identify adjustments that need to be made to the loss estimates to provide a better estimate of expected credit losses. These changes may occur as a result of holistically evaluating the individual components of the estimation process and considering the overall estimate of the allowance for credit losses as a whole or due to information not known at the time of the initial loss estimate. It would be important that these adjustments be consistent with GAAP and be reviewed and approved by appropriate personnel. Additionally, it would typically be appropriate for the summary to provide each subsequent reviewer with an understanding of the support behind these adjustments. Therefore, the staff normally would expect management to document the nature of any adjustments and the underlying rationale for making the changes.

The staff also normally would expect this documentation to be provided to those among management making the final determination of the allowance for credit losses amount.

FN101 *See supra* note 20.

FN102 *See* ASC paragraph 326-20-30-2. Also refer to ASC paragraph 326-20-55-5 for a list of risk characteristics that may be applicable.

FN103 *See* ASC paragraph 326-20-55-18 through 326-20-55-22 for an example illustrating one way an entity may estimate expected credit losses on a portfolio of loans with similar risk characteristics using a loss-rate approach.

FN104 *See* ASC paragraph 326-20-30-6 for guidance on determining the contractual term.

FN105 *See* ASC paragraph 326-20-30-9 for guidance related to adjusting historical loss information.

FN106 *See* ASC paragraph 326-20-30-8.

FN107 *See* ASC paragraph 326-20-30-4.

FN108 *See* ASC paragraph 326-20-35-4 through 326-20-35-6 for guidance regarding when it is appropriate to measure expected credit losses based on the fair value of the collateral as of the reporting date.

FN109 *See* ASC paragraph 326-20-55-4 for examples of factors to consider.

FN110 *See* ASC paragraph 326-20-30-9 for guidance on when it is not appropriate to make adjustments to historical loss information for forecasted economic conditions.

FN111 *See supra* note 16.

4. Validating a systematic methodology.

Question 7: What is the staff's guidance to a registrant on validating, and documenting the validation of, its systematic methodology used to estimate allowance for credit losses?

Interpretive Response: The staff believes that a registrant's allowance for credit losses methodology is considered reasonable when it results in a valuation account that adjusts the net amount of its existing portfolio to cash flows expected to be collected.[FN112]

The staff normally would expect the registrant's systematic methodology to include procedures to assess the continued relevance and reliability of methods, data, and assumptions used to estimate expected cash flows.

To verify that the allowance for credit losses methodology is reasonable and conforms to GAAP, the staff believes it would be appropriate for management to establish internal control policies, appropriate for the size of the registrant and the type and complexity of its loan products and modeling methods.

These policies may include procedures for a review, by a party who is independent of the allowance for expected credit losses estimation process, of the allowance methodology and its application in order to confirm its effectiveness.

While registrants may employ many different procedures when assessing the reasonableness of the design and performance of its allowance for credit losses methodology and appropriateness of the data and assumptions used, the procedures should allow management to determine whether there may be deficiencies in its overall methodology. Examples of procedures may include:

- A review of how management's prior assumptions (including expectations regarding loan delinquencies, troubled debt restructurings, write-offs, and recoveries) have compared to actual loan performance;
- A review of the allowance for credit losses process by a party that is independent and possesses competencies on the subject matter. This often involves the independent party reviewing, on a test basis, source documents and underlying data and assumptions to determine that the established methodology develops reasonable loss estimates;
- A retrospective analysis of whether the models used performed in a manner consistent with the intended purpose of developing an estimate of expected credit losses; and

- When the fair value of collateral is used, an evaluation of the appraisal process of the underlying collateral. This may be accomplished by periodically comparing the appraised value to the actual sales price on selected properties sold.

The staff believes that management should support its validation process with documentation of the specific validation procedures performed, including any findings of an independent reviewer. The staff normally would expect that, if the methodology is changed based upon the findings of the validation process, documentation that describes and supports the changes would be maintained.

FN112 *See* ASC paragraph 326-20-30-1.

Amendments Update to SEC Section on Effective Date Related to Accounting Standards Update No. 2016-02, *Leases (Topic 842)*

This Accounting Standards Update adds a note to an SEC paragraph pursuant to the issuance of Accounting Standards Update No. 2019-10, Financial Instruments—Credit Losses (Topic 326), Derivatives and Hedging (Topic 815), and Leases (Topic 842): Effective Dates.

At the December 2019 AICPA National Conference on Current SEC and PCAOB Developments, the SEC staff announced that it would not object to a public business entity that otherwise would not meet the definition of a public business entity except for a requirement to include or the inclusion of its financial statements or financial information in another entity's filing with the SEC adopting Topic 842 for fiscal years beginning after December 15, 2020, and interim periods within fiscal years beginning after December 15, 2021. Those dates are consistent with the effective dates for Topic 842 as amended in Update 2019-10.

Amendments to Subtopic 842-10

3. Amend paragraph 842-10-S65-1, with no link to a transition paragraph, as follows:

Leases—Overall

Transition <u>and Open Effective Date Information</u>

General

> SEC Staff Guidance

> > SEC Staff Announcement: Transition Related to Accounting Standards Updates No. 2014-09 and 2016-02

842-10-S65-1 **Note:** At the December 2019 AICPA National Conference on Current SEC and PCAOB Developments, the SEC staff announced that it would not object to a public business entity that otherwise would not meet the definition of a public business entity except for a requirement to include or the inclusion of its financial statements or financial information in another entity's filing with the SEC adopting Topic 842, Leases, for fiscal years beginning after December 15, 2020, and interim periods within fiscal years beginning after December 15, 2021. Those dates are consistent with the effective dates for Topic 842 as amended in Accounting Standards Update No. 2019-10, *Financial Instruments—Credit Losses (Topic 326), Derivatives and Hedging (Topic 815), and Leases (Topic 842): Effective Dates.* The following is the text of SEC Staff Announcement: Transition Related to Accounting Standards Updates No. 2014-09 and 2016-02.

> FASB Accounting Standards Updates No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, issued in May 2014 and codified in ASC Topic 606, Revenue from Contracts with Customers, and No. 2016-02, *Leases (Topic 842)*, issued in February 2016 and codified in ASC Topic 842, Leases, provide effective dates that differ for (1) **public business entities** and certain other specified entities and (2) all other entities. The SEC staff has received inquiries from stakeholders regarding the application of the effective dates of ASC Topic 606 and ASC Topic 842 for a public business entity[FN1] that otherwise would not meet the definition of a public business entity except for a requirement to include or the inclusion of its financial statements or financial information in another entity's filing with the SEC.
>
> The transition provisions in ASC Topic 606 require that a public business entity and certain other specified entities adopt ASC Topic 606 for annual reporting periods beginning after December 15, 2017, including interim reporting periods within that reporting period.[FN2] All other entities are required to adopt ASC Topic 606 for annual reporting periods beginning after December 15, 2018, and interim reporting periods within annual reporting periods beginning after December 15, 2019.
>
> The transition provisions in ASC Topic 842 require that a public business entity and certain other specified entities adopt ASC Topic 842 for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years.[FN3] All other entities are required to adopt ASC Topic 842 for fiscal years beginning after December 15, 2019, and interim periods within fiscal years beginning after December 15, 2020.
>
> In response to the stakeholder inquiries outlined above, the SEC staff would not object to a public business entity that otherwise would not meet the

definition of a public business entity except for a requirement to include or the inclusion of its financial statements or financial information in another entity's filing with the SEC adopting (1) ASC Topic 606 for annual reporting periods beginning after December 15, 2018, and interim reporting periods within annual reporting periods beginning after December 15, 2019, and (2) ASC Topic 842 for fiscal years beginning after December 15, 2019, and interim periods within fiscal years beginning after December 15, 2020.

A public business entity that otherwise would not meet the definition of a public business entity except for a requirement to include or the inclusion of its financial statements or financial information in another entity's filing with the SEC may still elect to adopt ASC Topic 606 and ASC Topic 842 according to the public business entity effective dates outlined above.

This announcement is applicable only to public business entities that otherwise would not meet the definition of a public business entity except for a requirement to include or the inclusion of its financial statements or financial information in another entity's filing with the SEC. This announcement is not applicable to other public business entities.

FN 1 The definition of *Public Business Entity* in the FASB's ASC Master Glossary states, in part, the following:

> A public business entity is a business entity meeting any one of the criteria below . . .
>
> > a. It is required by the U.S. Securities and Exchange Commission (SEC) to file or furnish financial statements, or does file or furnish financial statements (including voluntary filers), with the SEC (including other entities whose financial statements or financial information are required to be or are included in a filing) . . .
>
> An entity may meet the definition of a public business entity solely because its financial statements or financial information is included in another entity's filing with the SEC. In that case, the entity is only a public business entity for purposes of financial statements that are filed or furnished with the SEC.

FN 2 Early adoption of ASC Topic 606 is permitted for public business entities and certain other specified entities only as of annual reporting periods beginning after December 15, 2016, including interim reporting periods within that reporting period.

FN 3 Early adoption of ASC Topic 842 is permitted for public business entities and certain other specified entities, as well as for all other entities.

Amendments to Status Sections

4. Add paragraph 326-20-S00-1 as follows:

326-20-S00-1 The following table identifies the changes made to this Subtopic.

Paragraph	Action	Accounting Standards Update	Date
326-20-S99-1	Added	2020-02	02/06/2020

5. Amend paragraph 842-10-S00-1, by adding the following item to the table, as follows:

842-10-S00-1 The following table identifies the changes made to this Subtopic.

Paragraph	Action	Accounting Standards Update	Date
842-10-S65-1	Amended	2020-02	02/06/2020

Amendments to the XBRL Taxonomy

The amendments to the *FASB Accounting Standards Codification*® in this Accounting Standards Update require improvements to the U.S. GAAP Financial Reporting Taxonomy (Taxonomy). Those improvements, which will be incorporated into the proposed 2021 Taxonomy, are available through Taxonomy Improvements provided at www.fasb.org, and finalized as part of the annual release process.