Financial Reporting ADVISORS

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VIA EMAIL TO: director@fasb.org

Technical Director
File Reference No. 2019-750
Financial Accounting Standards Board
401 Merritt 7
PO Box 5116
Norwalk, CT 06856-5116

Re: Proposed Accounting Standards Update, *Financial Instruments—Credit Losses (Topic 326), Derivatives and Hedging (Topic 815), and Leases (Topic 842): Effective Dates*

To Whom It May Concern:

Our firm, Financial Reporting Advisors, LLC, provides accounting and SEC reporting advisory services, litigation support services, and dispute resolution services. We specialize in applying generally accepted accounting principles to complex business transactions. We are writing to provide our comments on the above referenced proposal to extend the effective dates of selected accounting standards ("the Proposal").

We applaud the Board for listening to the concerns of preparers who have requested more time to implement the new standards on credit losses, hedging transactions and leases. We have no objection to delaying the implementation of new standards if the end result is an improvement in financial reporting.

However, the Board's decision to treat smaller public companies similar to private companies troubles us. We question whether the Board should be stipulating which public company investors should be receiving improved financial reporting on a timely basis and which ones should be required to wait. In particular, we are surprised by the Board's decision to alter its effective date philosophy for new standards without a more robust debate and extensive due process.

We acknowledge that small companies typically face more resource constraints than large ones. But the Board has explicitly and consistently decided to base its framework for tiered financial reporting on the needs of users, not the resource constraints of preparers. A very large private company is eligible to use a simpler approach to accounting for goodwill and to defer its adoption of the new revenue recognition rules not because it is resource constrained but because its users differ from those of a public company. Conversely, a small public company is prohibited from using the simpler approach to accounting for goodwill and is required to implement the new revenue recognition rules on the same timeline as other public companies despite its more limited resources because the needs of its users are the same as those of other public companies.

The Board explains its basis for providing private companies with additional time to implement new standards in its decision-making framework for private companies. The framework specifically addresses how the Board should approach the effective date of new standards for private companies:

> "In determining whether the effective date for private companies should be more than one year after the first annual period required for public companies, the Board and the PCC should consider (a) the complexity of and the extent of change expected from the amendments, (b) whether the amendments are required to be applied using a retrospective method of transition, and (c) *the extent to which users may be adversely affected as a result of an extended period of time in which private company and public company financial statements are not reported on a comparable basis. An extended period of noncomparability would be an even more important consideration when the amendments affect reported cash balances, cash flows, adjusted EBITDA, working capital, total borrowings, or liquidity and leverage metrics*."[1] (emphasis added)

We would expect a major Update (as that term is used in the Proposal) to represent a significant improvement in financial reporting and, in many cases, to materially affect the financial statements and related metrics of companies. Segmenting public companies into two "buckets" for purposes of adopting a major Update would seem to create exactly the situation that the Board concluded it should avoid, even with respect to private vs. public companies.

The Securities and Exchange Commission (SEC) has not historically provided this type of relief to public companies. Congress did so on a limited basis in 2012 by amending federal securities laws to provide certain newly public companies with a transition accommodation for the adoption of new accounting standards.[2] But this change was made to spur capital formation and was restricted to new issuers. To date, the SEC has not extended that accommodation to other public companies. In our view, the Commission should determine if and when to tier the disclosure requirements of public companies.

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[1] Financial Accounting Standards Board/Private Company Council, *Private Company Decision-Making Framework: A Guide for Evaluating Financial Accounting and Reporting for Private Companies*, Section 4: Determining the Effective Date of Guidance, paragraph 4.4. Also refer to paragraph BC58 in the Basis for Conclusions.

[2] The Jump Start Our Business Startups (JOBS) Act, Title I, Section 102 (b)(1)(B).

We respectfully suggest that the FASB reconsider its new philosophy. Public companies that require relief from the rules for public companies should be provided that relief by securities regulators.

Thank you for your consideration. If we can answer any questions, please do not hesitate to contact us.

Sincerely,

Financial Reporting Advisors, LLC