Building a better working world

Ernst & Young LLP
5 Times Square
New York, NY 10036

Tel: +1 212 773 3000
ey.com

Mr. Shayne Kuhaneck
Acting Technical Director
File Reference No. 2019-750
Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, CT 06856-5116

16 September 2019

Proposed Accounting Standards Update, *Financial Instruments — Credit Losses (Topic 326), Derivatives and Hedging (Topic 815), and Leases (Topic 842): Effective Dates (File Reference No. 2019-750)*

Dear Mr. Kuhaneck:

We appreciate the opportunity to comment on the Proposed Accounting Standards Update, *Financial Instruments — Credit Losses (Topic 326), Derivatives and Hedging (Topic 815), and Leases (Topic 842): Effective Dates*, issued by the Financial Accounting Standards Board (FASB or Board).

We support the FASB's proposal to defer certain effective dates for the new standards on credit losses, hedging and leases. We also support the FASB's proposal to extend and simplify how effective dates are staggered between larger public companies (bucket one) and all other entities, including smaller public companies, private companies, not-for-profit organizations and employee benefit plans (bucket two). This proposal, based on the Board's continued outreach, implementation activities and stakeholder feedback, would give bucket-two entities more time to implement major new standards.

We commend the Board for addressing stakeholder issues in a timely manner. Our responses to questions in the proposal are set out in the appendix to this letter.

* * * * *

We would be pleased to discuss our comments with the Board or its staff at its convenience.

Very truly yours,

Ernst + Young LLP

Appendix — Responses to *Questions for Respondents* included in the FASB's proposal

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

Yes. We believe the two-bucket approach described and applied in the proposal would be understandable.

Question 2: Should the population of SEC filers that are afforded a delayed effective date (that is, excluded from bucket one) be entities eligible to be SRCs as defined by the SEC? If not, what definitional threshold, if any, do you suggest and why?

We believe that the proposed threshold would be appropriate. The definition of a smaller reporting company (SRC) is well-known, and there are well-established guidelines and practices in place for determining whether an entity is an SRC.

Question 3: Should the determination of whether an entity is eligible to be an SRC be based on its most recent determination in accordance with SEC regulations as of the date that a final Update is issued? If not, what determination date should be applied?

We believe that the determination of whether an entity is eligible to be an SRC based on its most recent determination in accordance with the SEC regulations as of the date that a final Update is issued would be appropriate. We believe the Board should also clarify in the Basis for Conclusions that an entity whose SRC status changes after the determination date, but before the effective date of a final Update, would not have to reassess the determination of the effective date that applies to it, regardless of the reason for the change in SRC status.

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.

We believe that the new credit losses standard should be effective for entities eligible to be SRCs, private companies, not-for-profit organizations and employee benefit plans for fiscal years beginning after 15 December 2022, including interim periods within those fiscal years. We believe the proposed deferral should provide these entities with sufficient time to implement the standard.

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.

We agree that the new hedge accounting standard should be effective for all entities other than public business entities (PBEs) for fiscal years beginning after 15 December 2020 and interim periods within fiscal years beginning after 15 December 2021. We believe the proposed one-year deferral should provide these entities with sufficient time to implement the standard.

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.

We believe that the new leases standard should be effective for private companies, 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 employee benefit plans (excluding those that file or furnish financial statements with or to the SEC) for fiscal years beginning after 15 December 2020 and interim periods within fiscal years beginning after 15 December 2021. We believe the proposed one-year deferral should provide these entities with sufficient time to implement the standard.

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?

We believe bucket-two entities should be required to adopt a new standard for interim reporting in the year after they adopt it for annual reporting. Currently, non-PBEs that would be included in bucket two effectively have two full years to adopt new standards.

Consider the following example under today's approach to effective dates. Assume a new standard has the following effective dates for calendar-year entities:

- 1 January 20X1 for PBEs and interim periods within that year
- 1 January 20X2 for non-PBEs and interim periods beginning 1 January 20X3

In this case, non-PBEs effectively have two additional years to implement the new standard because they don't begin reporting under the new standard until the end of 20X2.

The objective of the proposal is to give bucket-two entities more time than they have now to implement major new standards. While SRCs and non-PBEs would be given more time to adopt a standard than they currently have (given bucket two's two-year delay), requiring bucket-two entities to adopt a standard for interim reporting in the same year as annual reporting would only provide three months' more time for non-PBEs that also report on an interim basis. That's because those entities would need to adopt the new standard in the first quarter of the year of adoption, giving them only three months more than they have under current requirements. We do not believe this would meet the FASB's objective.

We believe bucket-two entities should be required to adopt new standards for annual reporting two years after bucket-one entities and one year after that for interim reporting. If the Board determines that it is important for interim reporting to be required in the same year as the annual financial statements, we believe that adoption by bucket-two entities should occur three years following adoption by bucket-one entities. This would provide an additional year of relief, in line with the Board's objective.