Financial Reporting Alert:

Effective Dates Set for FASB Leases and Financial Instruments Standards

November 16, 2015

2019 Effective Date Set for FASB & IASB Leases Standards

The Financial Accounting Standards Board (FASB) and the International Accounting Standards Board (IASB) have tentatively determined the effective date for their new lease standards. Under U.S. GAAP, public entities are required to adopt the standard for annual and interim periods beginning after December 15, 2018, with non-public companies receiving a one year deferral. Early adoption is permitted for all entities. Under IFRS, the effective date will be for annual periods beginning on or after January 1, 2019, with early adoption allowed up to the date IFRS 15, Revenue from Contracts with Customers, is adopted. The FASB and IASB have concluded deliberations on the leases standard and the FASB now expect to issue its guidance in early 2016, while the IASB is still hopeful that theirs will be released by year-end. While the FASB will only allow a modified retrospective transition approach (with practical expedients), the IASB will allow either the modified retrospective or a cumulative effect approach (also with practical expedients).

While the new FASB and IASB leases standards are not converged, all companies complying with U.S. GAAP or IFRS will be capitalizing most leases on their balance sheet, with the joint goal of increasing transparency for trillions of dollars of leases which have historically been off-balance sheet. Required disclosures will increase significantly to further this goal.

2018 and 2019 Effective Dates Set for FASB's Financial Instruments Standards

Last week, the FASB also tentatively set the effective date for Financial Instruments - Overall (Recognition and Measurement) to be for fiscal years beginning after December 15, 2017, and December 15, 2018 for Financial Instruments - Credit Losses. A one-year delay is provided for non-public entities, and early adoption is allowed in some circumstances.

Accounting for recognition and measurement of financial instruments will remain similar to U.S. GAAP, although perhaps the biggest difference is that changes in the fair value of certain equity instruments will be recorded in current earnings rather than equity.

For credit losses, entities will be applying an expected credit loss model, requiring entities to make more estimates of future losses. The standard is expected to require significantly more disclosures, which continues to be a trend for the FASB.

Both financial instruments standards are expected to be finalized in early 2016.