

CARES Act Deferral for Credit Loss Accounting Rules

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After Congress gave big banks a deferral on the FASB's credit loss rules as part of its coronavirus economic stimulus package, nonfinancial companies that asked the FASB for the same relief may have gotten a response from the board: silence.

The Coronavirus Aid, Relief, and Economic Security (CARES) Act ignores nonfinancial and some finance companies in its deferral rule on the current expected credit losses (CECL) standard, practitioners said.

Those companies as a result still have to apply the CECL standard as of January 1, 2020, if they are a large public calendar year-end company.

Companies thought the FASB would have broached the credit loss CARES Act legislation at its April 8 meeting, and determine whether to codify the language in the law. But the CECL legislation was not among the issues raised at the meeting, set to discuss coronavirus-related accounting issues. Instead the board voted and subsequently proposed a delay for lease accounting and revenue rules for a subset of companies under GAAP.

"Going into the meeting we thought it was going to be broader, but we understand the two narrow issues that they brought up at that meeting," said Mike Monahan, senior director, accounting policy at The American Council of Life Insurers (ACLI). "The legislative folks are really, really good at what they do but they're not accountants, and so to miss a couple of details, that was up to us to help them clean it up," Monahan said in an interview. "So we haven't given up the ship on CECL," he said.

Monahan hopes the FASB will pick up the request to codify the CARES Act deferral for the insurance sector this month or in June. "These are extraordinary times and the reason that we ask FASB to grant us at least one more year is because when you're going through an implementation, it's very difficult to do that remotely," he said. "You need programmers, consultants, you need everybody collaborating, and we had very little runway to begin with and this pandemic just pushed everybody out of the offices."

Asked about the board's lack of response to the CARES Act deferral provisions, a FASB spokesperson on April 30 said, "At this time, the FASB is focused on monitoring

and responding to our stakeholders' questions to support their implementation of the CECL standard."

No Interest in More Delays?

Accountants observed that to date the FASB has not shown any interest in further delaying CECL for any large public company, particularly after vehemently lobbying Congress to remove Sections 4013 and 4014 from the CARES Act after it was passed by the Senate on March 25, but before it was approved by the House and signed by the president on March 27.

Similarly, the SEC was not crazy about the fact that the CARES Act allows certain types of entities to delay adoption of CECL, practitioners said.

This is "evidenced by the limited guidance issued on how to implement Sections 4013 and 4014. One paragraph of guidance was buried in the middle of a staff announcement from the SEC's Chief Accountant as opposed to something more official from the Commissioners," **Scott Ehrlich, president of Mind the GAAP, LLC**, said.

"So, I think both the FASB and SEC have accepted the provisions of the CARES Act—what choice do they have—but neither are going out of their way to provide guidance on its provisions or considering expanding a similar deferral to other industries not specified in the law," he said

Under the CARES Act, large banks, credit unions regulated by the National Credit Union Administration (NCUA), and bank holding companies were singled out for special treatment so that they can opt out of adopting the CECL standard this year as the rules require. More legislation is in the works for a further delay of CECL rules for the same demographic. The legislation was passed three months after the effective date for large public companies. Smaller public companies, private companies, and not-for-profit organizations have until 2023 (under GAAP) to apply the rules.

Practitioners point out that financial institutions are not just banks, but also insurers, and credit card and auto lenders—but the language in the Act does not include them, though the intention might have been to do so.

"We're a financial institution, we're excluded. All of the big credit card lenders they should also be with the federal banks, also the auto loan lenders. There are a lot of folks in there—the intent was to get them in, but the language doesn't get you all there," Monahan said. "We'll see what happens – it's effective now and companies are complying that have to comply. We think that all financial institutions should be on the same playing field," he said.

Rules Enable Better Reflection of Banks' Risks

The FASB issued Accounting Standards Update [\(ASU\) No. 2016-13](#), Financial Instruments—Credit Losses (Topic 326), in 2016 in response to the 2008 financial crisis. Some felt the crisis was exacerbated by the fact that the accounting rules restricted banks from being able to report credit losses they were expecting in a timely manner.

The CECL standard aims to fix those concerns by requiring companies to forecast into the foreseeable future to predict losses over the life of a loan, and then immediately book those losses. Prior to the CARES Act, legislators tried to pressure the board to do an impact study, fearing it will deter lending.

FASB board member Harold Schroeder, a strong advocate for the rules, told Accounting & Compliance Alert in March the standard enables banks to reflect their risks when making initial loans—better accounting than under old rules. “You’re going to end up with a better understanding of what your risk is at a point in time and how that risk is changing over time and that’s really what that standard has been about from the beginning: better aligning the accounting with changes in risk,” he said.

The board has already provided a subset of companies with more time to adopt the rules. In November the FASB deferred the standard for smaller reporting companies (SRCs) as defined by the SEC, private companies, and not-for-profit entities until 2023. Large public companies did not get the deferral, but the board has been working through webinars and other educational outreach to help companies understand how to adopt the changes.

Deferral Requests Keep Trickling in

There has been a continual flow of deferral asks to the board—after the standard was issued. The most recent came from The Independent Community Bankers of America (ICBA) and separately from the NCUA, the regulator for credit unions, the FASB’s website postings indicate. The NCUA, in an April 30 letter, ratcheted up its ask to request a full exemption from the rules for all credit unions. The agency told the board CECL rules will have an immediate negative effect on credit unions’ net worth.

The ICBA, in an April 23 letter, asked the FASB to delay CECL from 2023 to 2025 for all banks—big and small.

“By further extending implementation of CECL an additional two years, the domestic financial system will be able to better focus its attention on the economic reality of today instead of concerning themselves with how their decisions will be reported in the financial statements under a CECL impairment framework,” Rebeca Romero Rainey, president & CEO of ICBA, said.

“ICBA recognizes the importance of the financial accounting model in development of robust financial statements that properly reflect the capitalization, financial condition, and performance of an enterprise,” said Rainey. “But it is clear to us that strict

adherence to GAAP is not always in the best interests of our economy particularly when the country is faced with an unprecedented viral pandemic.”

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