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FASB Issues Targeted Transition Relief for Entities Adopting ASU 2016-13

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Introduction

The FASB recently issued [ASU 2019-05](#),¹ which provides transition relief for entities adopting [ASU 2016-13](#).² The amendments in ASU 2019-05 allow entities to elect the fair value option on certain financial instruments. This *Heads Up* highlights key provisions of ASU 2019-05. The changes contained in its amendments are applicable to all entities, at their option, within the scope of the affected guidance.

Key Provisions of the New Guidance

ASU 2019-05 amends ASU 2016-13 to allow companies to irrevocably elect, upon adoption of ASU 2016-13, the fair value option on financial instruments that (1) were previously recorded at amortized cost and (2) are within the scope of ASC 326-20³ if the instruments are eligible for the fair value option under ASC 825-10.⁴ The fair value option election does not apply to held-to-maturity debt securities. Entities are required to make this election on an instrument-by-instrument basis.

Effective Date and Transition Requirements

For entities that have adopted ASU 2016-13, the amendments in ASU 2019-05 are effective for fiscal years beginning after December 15, 2019, including interim periods therein. An entity may early adopt the ASU in any interim period after its issuance if the entity has adopted ASU 2016-13. ASU 2019-05's amendments should be applied "on a modified-retrospective basis by

¹ FASB Accounting Standards Update (ASU) No. 2019-05, *Targeted Transition Relief*.

² FASB Accounting Standards Update No. 2016-13, *Measurement of Credit Losses on Financial Instruments*.

³ FASB Accounting Standards Codification (ASC) Subtopic 326-20, *Financial Instruments — Credit Losses: Measured at Amortized Cost*.

⁴ FASB Accounting Standards Codification Subtopic 825-10, *Financial Instruments: Overall*.

means of a cumulative-effect adjustment to the opening balance of retained earnings balance in the statement of financial position as of the date that an entity adopted the amendments in [ASU] 2016-13." Certain disclosures are required.

For all other entities, the effective date will be the same as the effective date in ASU 2016-13.

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