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October 6, 2015
Volume 22, Issue 36

Heads Up

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Without Further Delay

FASB Proposes to Change the Effective Date and Transition Guidance in Certain Private-Company ASUs

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Introduction

On September 30, 2015, the FASB issued for public comment a proposed ASU[1] that would give private companies a one-time unconditional option to forgo a preferability assessment the first time they elect a Private Company Council (PCC) accounting alternative within the proposal's scope. It would also eliminate the effective dates of PCC accounting alternatives that are within the proposal's scope as well as extend the transition guidance in ASU 2014-02[2] and ASU 2014-03.[3]

The proposal's amendments could affect all private companies within the scope of ASUs 2014-02 and 2014-03 as well as ASU 2014-07[4] and ASU 2014-18.[5]

Background and Key Provisions of the Proposed ASU

Preferability

Currently, if a private company elects a PCC accounting alternative for the first time after its effective date, the entity must then perform an assessment of preferability of the alternative in accordance with ASC 250.[6]

Concerns were raised by private-company stakeholders about scenarios in which (1) it may be suboptimal for a private company to elect a PCC accounting alternative by its effective date because of that entity's specific facts and circumstances or (2) a private company is unaware that a finalized PCC accounting alternative has been issued and is effective.

[1] FASB Proposed Accounting Standards Update, *Effective Date and Transition Guidance* — a proposal of the Private Company Council.
[2] FASB Accounting Standards Update No. 2014-02, *Accounting for Goodwill*.
[3] FASB Accounting Standards Update No. 2014-03, *Accounting for Certain Receive-Variable, Pay-Fixed Interest Rate Swaps — Simplified Hedge Accounting Approach*.
[4] FASB Accounting Standards Update No. 2014-07, *Applying Variable Interest Entities Guidance to Common Control Leasing Arrangements*.
[5] FASB Accounting Standards Update No. 2014-18, *Accounting for Identifiable Intangible Assets in a Business Combination*.
[6] FASB Accounting Standards Codification Topic 250, *Accounting Changes and Error Corrections*.

Under the proposed ASU, if a private company makes a PCC accounting policy election for the first time after its effective date, it does not need to justify that the use of the alternative is preferable as would otherwise be required under ASC 250; however, any subsequent change to a PCC accounting policy election would require a preferability assessment in a manner consistent with all accounting policy changes.

Impact on Transition Guidance for PCC Accounting Alternatives Related to Goodwill and Derivatives and Hedging

Currently, private companies are not permitted to apply the PCC goodwill accounting alternative in ASU 2014-02 prospectively after the ASU's original effective date because ASC 250 requires entities to apply a change in accounting principle retrospectively unless it is impracticable to do so. However, retrospective application of the goodwill accounting alternative could be costly and diminish the relief that ASU 2014-02 provides. Accordingly, the proposed ASU's transition provisions would allow a private company that elects the goodwill accounting alternative after its effective date to apply the alternative prospectively.

In addition, under current GAAP, private companies are not permitted upon initial election of the simplified hedge accounting approach in ASU 2014-03 to apply that approach (i.e., the transition exception) to existing swaps after ASU 2014-03's original effective date. The proposed ASU would permit transition provisions that extend the transition guidance in ASU 2014-03 indefinitely. However, the transition exception would not apply to subsequent elections of the simplified hedge accounting approach.

Impact on Other Transition Guidance

The amendments in the proposed ASU would make the guidance in ASU Nos. 2014-02, 2014-03, 2014-07, and 2014-18 immediately effective by removing their effective dates.

Effective Date and Transition

The amendments in this proposed ASU would be effective immediately, subject to the next steps described below.

Next Steps

Comments on the proposed ASU are due by November 16, 2015. Once the FASB and PCC consider feedback on the proposal, any changes will be subject to a final vote by the PCC before the final proposal is sent to the FASB for endorsement.

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