

## Heads Up

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## First Time Forgo, Second Time Assess

# FASB Changes the Effective Date and Transition Guidance in Certain Private-Company ASUs

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### Introduction

On March 7, 2016, the FASB issued [ASU 2016-03](#),<sup>1</sup> which gives private companies a one-time unconditional option to forgo a preferability assessment the first time they elect a private-company accounting alternative within the ASU's scope. It also eliminates the effective dates of private-company accounting alternatives that are within the ASU's scope and extends the transition guidance for such alternatives indefinitely.

The new guidance is effective immediately and affects all private companies within the scope of ASUs [2014-02](#),<sup>2</sup> [2014-03](#),<sup>3</sup> [2014-07](#),<sup>4</sup> and [2014-18](#).<sup>5</sup> While the new standard extends the transition guidance in ASUs 2014-07 and 2014-18, it does not change the manner in which such guidance is applied.

### Background and Key Provisions of the New Guidance

#### Preferability

Before the new guidance, if a private company elected an accounting alternative for the first time after the alternative's effective date, the company was required to perform a preferability assessment for the alternative in accordance with ASC 250.<sup>6</sup>

However, private-company stakeholders expressed concerns about scenarios in which (1) certain facts or circumstances made it suboptimal for a private company to elect an accounting alternative by its effective date or (2) a private company was unaware that an accounting alternative had been issued and was effective.

<sup>1</sup> FASB Accounting Standards Update No. 2016-03, *Effective Date and Transition Guidance*.

<sup>2</sup> FASB Accounting Standards Update No. 2014-02, *Accounting for Goodwill*.

<sup>3</sup> FASB Accounting Standards Update No. 2014-03, *Accounting for Certain Receive-Variable, Pay-Fixed Interest Rate Swaps — Simplified Hedge Accounting Approach*.

<sup>4</sup> FASB Accounting Standards Update No. 2014-07, *Applying Variable Interest Entities Guidance to Common Control Leasing Arrangements*.

<sup>5</sup> FASB Accounting Standards Update No. 2014-18, *Accounting for Identifiable Intangible Assets in a Business Combination*.

<sup>6</sup> FASB Accounting Standards Codification Topic 250, *Accounting Changes and Error Corrections*.

Accordingly, under the new guidance, a private company is no longer required to perform a preferability assessment in accordance with ASC 250 if the company elects, as its accounting policy, an accounting alternative for the first time after the alternative's effective date; however, the company would still be required to perform such assessment for any subsequent change to its accounting policy election in a manner consistent with all accounting policy changes under ASC 250.

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

Currently, private companies are not permitted to prospectively apply the accounting alternative in ASU 2014-02 regarding goodwill after the original effective date of ASU 2014-02 because ASC 250 requires them to apply a change in accounting principle retrospectively unless such application is impracticable. However, retrospective application of an accounting alternative could be costly and diminish the relief that ASU 2014-02 was intended to provide. Accordingly, the transition provisions in ASU 2016-03 require a private company that elects such accounting alternative after its effective date to apply that accounting alternative prospectively.

In addition, before the new guidance, private companies were 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. ASU 2016-03 extends 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**

ASU 2016-03 removes the effective dates of ASUs 2014-02, 2014-03, 2014-07, and 2014-18, thus making those ASUs effective immediately. In addition, since the new guidance does not change the transition provisions of those ASUs, the accounting alternatives under ASUs 2014-03 and 2014-07 must be applied as of the beginning of the first fiscal year in which the alternative is elected. The transition requirements for the accounting alternative under ASU 2014-02 are similar if the entity has existing goodwill; however, the alternative must be applied prospectively for new goodwill. ASU 2014-18 must be applied as of the first in-scope transaction in the fiscal year in which the alternative is elected.

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