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FASB and PCC Propose to Eliminate Effective Dates for Private Company Alternatives

The FASB recently proposed to eliminate the effective dates for four private company accounting alternatives developed by the Private Company Council (PCC).[1] The proposal would allow a private company to elect the alternatives at any time without assessing preferability. The comment period ends November 16, 2015.

Key Facts

The proposal would allow private companies to elect:

- An unconditional, one-time decision to adopt any of the four private company accounting alternatives at any time without assessing whether they are preferable, which U.S. GAAP otherwise requires;[2] and
- To apply the specialized transition allowed by the simplified hedge accounting and goodwill amortization alternatives regardless of when they are elected.

Key Impacts

- Eliminating the need to assess preferability and providing specialized transition gives private companies greater flexibility as they decide whether they should adopt the alternative and when adoption should occur.
- This flexibility may further challenge financial statements users when comparing private company financial results to other public and private companies.

Contents

[1] Proposed Accounting Standards Update, Effective Date and Transition Guidance, a proposal of the Private Company Council, and FASB ASC Topic 250, Accounting Changes and Error Corrections, both available at www.fasb.org.

[2] FASB Accounting Standards Update No. 2014-02, Accounting for Goodwill; FASB Accounting Standards Update No. 2014-03, Accounting for Certain Receive-Variable, Pay-Fixed Interest Rate Swaps – Simplified Hedge Accounting Approach; FASB Accounting Standards Update No. ASU 2014-07, Applying Variable Interest Entities Guidance to Common Control Leasing Arrangements; and FASB Accounting Standards Update No. 2014-18, Accounting for Identifiable Intangible Assets in a Business Combination; all available at www.fasb.org.

Background

The PCC added this issue to its agenda in response to stakeholders expressing concern that some private companies may not be electing available accounting alternatives at their effective dates because either: (a) the facts and circumstances of the business make electing the alternative suboptimal, or (b) the private company is unaware of the alternative.

Under current U.S. GAAP, adopting any new accounting principle (private company alternative or otherwise) for the first time after its effective date requires companies to justify that the new principle is preferable. Further, current guidance generally requires retrospective application of the new accounting principle when voluntarily adopted. Stakeholders were concerned that the preferability assessment and retrospective application would be significant disincentives for private companies to adopt accounting alternatives after their effective dates.

The Proposal

The proposal would apply only to the PCC's four private company accounting alternatives. It would not apply to other private company alternatives contained in other FASB standards (e.g., the option to omit the tax-rate reconciliation disclosure).

Specialized transition provisions for adopting the goodwill amortization and simplified hedge accounting alternatives also are included. Under current accounting change guidance, a private company electing the goodwill amortization alternative for the first time after its effective date would be required to apply the standard retrospectively. The PCC concluded that this could be costly and diminish the relief that the alternative intended to provide. To address this concern, the proposal would require prospective application of the goodwill alternative upon adoption, regardless of when adoption occurs.

Additionally, a private company electing the simplified hedge accounting approach for the first time after its effective date generally would be unable to apply it to existing swaps. Typically, these contracts would not have a fair value at or near zero after inception and thus would not meet all the criteria required to apply the PCC alternative (absent specialized transition). Because this inability would limit the benefit of the alternative, the proposal would allow a private company to elect the simplified hedge accounting approach for existing swaps upon the adoption of the alternative if the specialized transition criteria are met, regardless of when adoption occurs.

However, private companies have only one chance, at initial adoption, to elect the simplified approach to existing swap contracts. If the private company does not apply the simplified approach to existing swaps at adoption and only applies it for newly executed contracts, it would be precluded from later applying the approach to those existing swaps.

Specialized transition was not considered necessary for the common control leasing alternative or the identifiable intangible asset alternative. The transition to either of those alternatives would be the same regardless of the effective date. Common control leasing uses retrospective transition and the identifiable intangible assets alternative is applied to the first business combination occurring at, or after, adoption.

Effective Date and Disclosures

The proposed ASU would be effective immediately upon issuance. While the proposal does not require incremental disclosures, private companies would still need to follow current U.S. GAAP disclosure requirements for changes in accounting principles.

Contact us: This is a publication of KPMG's Department of Professional Practice 212-909-5600

Contributing authors: Paul H. Munter and Angela B. Storm

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