FINANCIAL ACCOUNTING SERIES

FASB ACCOUNTING STANDARDS UPDATE

No. 2016-03
March 2016

Intangibles—Goodwill and Other (Topic 350)
Business Combinations (Topic 805)
Consolidation (Topic 810)
Derivatives and Hedging (Topic 815)

Effective Date and Transition Guidance

a consensus of the Private Company Council

An Amendment of the *FASB Accounting Standards Codification*®

Financial Accounting Standards Board

The *FASB Accounting Standards Codification*® is the source of authoritative generally accepted accounting principles (GAAP) recognized by the FASB to be applied by nongovernmental entities. An Accounting Standards Update is not authoritative; rather, it is a document that communicates how the Accounting Standards Codification is being amended. It also provides other information to help a user of GAAP understand how and why GAAP is changing and when the changes will be effective.

For additional copies of this Accounting Standards Update and information on applicable prices and discount rates contact:

Order Department
Financial Accounting Standards Board
401 Merritt 7
PO Box 5116
Norwalk, CT 06856-5116

Please ask for our Product Code No. ASU2016-03.

FINANCIAL ACCOUNTING SERIES (ISSN 0885-9051) is published monthly with the exception of January and October by the Financial Accounting Foundation, 401 Merritt 7, PO Box 5116, Norwalk, CT 06856-5116. Periodicals postage paid at Norwalk, CT and at additional mailing offices. The full subscription rate is $255 per year. POSTMASTER: Send address changes to Financial Accounting Standards Board, 401 Merritt 7, PO Box 5116, Norwalk, CT 06856-5116. | **No. 427**

Accounting Standards Update

No. 2016-03
March 2016

Intangibles—Goodwill and Other (Topic 350)
Business Combinations (Topic 805)
Consolidation (Topic 810)
Derivatives and Hedging (Topic 815)

Effective Date and Transition Guidance

a consensus of the Private Company Council

An Amendment of the *FASB Accounting Standards Codification*®

Financial Accounting Standards Board

Accounting Standards Update 2016-03

Intangibles—Goodwill and Other (Topic 350)
Business Combinations (Topic 805)
Consolidation (Topic 810)
Derivatives and Hedging (Topic 815)

Effective Date and Transition Guidance

March 2016

CONTENTS

Page
Numbers

Summary

Why Is the FASB Issuing This Accounting Standards Update (Update)?

The Private Company Council (PCC) added this issue to its agenda in response to concerns raised by private company stakeholders about the required assessment of preferability when electing a private company accounting alternative for the first time after its effective date. Those stakeholders were concerned about scenarios in which it may be suboptimal for a private company to elect a private company accounting alternative by its effective date because of the facts and circumstances of that company or because that company is unaware of that private company accounting alternative until after its effective date.

The PCC also added this issue to its agenda to address concerns raised by private company stakeholders about transition guidance in Accounting Standards Updates No. 2014-02, *Intangibles—Goodwill and Other (Topic 350): Accounting for Goodwill,* and No. 2014-03, *Derivatives and Hedging (Topic 815): Accounting for Certain Receive-Variable, Pay-Fixed Interest Rate Swaps—Simplified Hedge Accounting Approach*. Those stakeholders were concerned that a private company that voluntarily elects the accounting alternatives provided in Update 2014-02 or Update 2014-03 after their effective dates would not benefit from the favorable transition provisions provided in those Updates.

Who Is Affected by the Amendments in This Update?

The amendments in this Update could affect all private companies within the scope of Update 2014-02; Update 2014-03; Update 2014-07, *Consolidation (Topic 810): Applying Variable Interest Entities Guidance to Common Control Leasing Arrangements;* or Update 2014-18, *Business Combinations (Topic 805): Accounting for Identifiable Intangible Assets in a Business Combination*.

What Are the Main Provisions?

The amendments in this Update make the guidance in Updates 2014-02, 2014-03, 2014-07, and 2014-18 effective immediately by removing their effective dates. The amendments also include transition provisions that provide that private companies are able to forgo a preferability assessment the first time they elect the accounting alternatives within the scope of this Update. Any subsequent change to an accounting policy election requires justification that the change is preferable under Topic 250, Accounting Changes and Error Corrections.

The amendments in this Update also extend the transition guidance in Updates 2014-02, 2014-03, 2014-07, and 2014-18 indefinitely. While this Update extends transition guidance for Updates 2014-07 and 2014-18, there is no intention to change how transition is applied for those two Updates.

How Do the Main Provisions Differ from Current Generally Accepted Accounting Principles (GAAP) and Why Are They an Improvement?

Preferability

Currently, if an entity elects to adopt an accounting alternative after its effective date, it must assess whether the accounting alternative is preferable in accordance with Topic 250. The amendments remove the effective date from the accounting alternatives within the scope of this Update. The amendments also include transition provisions that allow private companies to forgo a preferability assessment the first time they elect the accounting alternatives within the scope of this Update. Forgoing an initial preferability assessment allows private companies to adopt a private company accounting alternative within the scope of this Update when those companies experience a change in circumstances or management's strategic plan. It also allows private companies that were unaware of an accounting alternative to adopt the alternative without having to bear the cost of justifying preferability.

Transition Guidance

Currently, private companies may not apply the goodwill accounting alternative prospectively after the original effective date of Update 2014-02 because paragraph 250-10-45-5 requires entities to apply a change in accounting principle retrospectively, unless it is impracticable to do so. In general, retrospective application of an accounting alternative could be costly and diminish the relief provided by the alternative. The amendments in this Update remove the effective date of the alternative and provide transition provisions that permit private companies that voluntarily elect the goodwill accounting alternative provided in Update 2014-02 to apply the accounting alternative prospectively.

Currently, private companies may not upon initial election of the simplified hedge accounting approach after the original effective date of Update 2014-03 apply the simplified hedge accounting approach to *existing* swaps (transition exception). The amendments in this Update remove the effective date of that alternative and provide transition provisions that extend the transition guidance in Update 2014-03 indefinitely. The transition exception for Update 2014-03 extended by the amendments in this Update allows private companies to apply the simplified hedge accounting approach to existing swaps upon initial election of the simplified hedge accounting approach; however, the transition provisions do not apply to subsequent elections of the simplified hedge accounting approach.

When Will the Amendments Be Effective?

The amendments in this Update are effective immediately.

Amendments to the *FASB Accounting Standards Codification®*

Introduction

1. The Accounting Standards Codification is amended as described in paragraphs 2–17. In some cases, to put the change in context, not only are the amended paragraphs shown but also the preceding and following paragraphs. Terms from the Master Glossary are in **bold** type. Added text is underlined, and deleted text is ~~struck out~~.

2. The Board has decided to remove the effective dates from paragraphs 350-20-65-2, 805-20-65-2, 810-10-65-4, and 815-10-65-6, thereby making the guidance in the paragraphs listed in the following table effective upon issuance of this Update.

Subtopics 350-20 and 323-10	
Guidance related to transition paragraph 350-20-65-2	350-20-05-4 through 05-6
	350-20-15-4 through 15-5
	350-20-35-60
	350-20-35-62 through 35-82
	350-20-40-8 through 40-9
	350-20-45-4 through 45-7
	350-20-50-4 through 50-7
	350-20-55-26
	323-10-35-13
Subtopic 805-20	
Guidance related to transition paragraph 805-20-65-2	805-20-05-3 through 05-4
	805-20-15-2 through 15-4
	805-20-25-1
	805-20-25-29 through 25-33
Subtopics 810-10 and 840-10	
Guidance related to transition paragraph 810-10-65-4	810-10-15-17B through 15-17C
	810-10-25-48
	810-10-25-52
	810-10-25-54

Subtopics 810-10 and 840-10 (continued)	
Guidance related to transition paragraph 810-10-65-4	810-10-50-2AD through 50-2AF
	810-10-50-5A
	810-10-55-9
	810-10-55-87 through 55-89
	810-10-55-205AJ through 55-205AR
	840-10-60-4
Subtopics 815-10, 815-20, and 825-10	
Guidance related to transition paragraph 815-10-65-6	815-10-35-1A through 35-1C
	815-10-50-3
	815-20-25-119
	815-20-25-131B through 25-131E
	815-20-55-54
	815-20-55-79A through 55-79B
	825-10-50-3
	825-10-50-8

Amendments to Subtopic 350-20

3. Add paragraph 350-20-15-3A, with no link to a transition paragraph, as follows:

Intangibles—Goodwill and Other—Goodwill

Scope and Scope Exceptions

Accounting Alternative

350-20-15-3A Paragraphs 350-20-15-4 through 15-5, 350-20-35-62 through 35-82, 350-20-40-8 through 40-9, 350-20-45-4 through 45-7, 350-20-50-4 through 50-7, 350-20-55-26, and 323-10-35-13 provide guidance for an entity electing the accounting alternative in this Subtopic. See paragraph 350-20-65-2 for transition guidance on applying the accounting alternative in Subtopic 350-20.

4. Amend paragraph 350-20-65-2 as follows:

Transition and Open Effective Date Information

> Transition Related to Accounting Standards Update No. 2014-02, *Intangibles—Goodwill and Other (Topic 350): Accounting for Goodwill*

350-20-65-2 The following represents the transition ~~and effective date~~ information related to Accounting Standards Update No. 2014-02, *Intangibles—Goodwill and Other (Topic 350): Accounting for Goodwill*, referenced in paragraph 350-20-15-3A:

a. Upon adoption of the guidance in the Accounting Alternative Subsections of this Subtopic and the guidance in paragraph 323-10-35-13, that guidance ~~The pending content that links to this paragraph~~ shall be effective prospectively for new goodwill recognized after the adoption of that guidance. For existing goodwill, that guidance shall be effective as of the beginning of the first fiscal year in which the accounting alternative is adopted ~~in annual periods beginning after December 15, 2014, and interim periods within annual periods beginning after December 15, 2015~~.
b. Goodwill existing as of the beginning of the period of adoption shall be amortized prospectively on a straight-line basis over 10 years, or less than 10 years if an entity demonstrates that another useful life is more appropriate.
c. Subparagraph superseded by Accounting Standards Update No. 2016-03. ~~Early application is permitted for any annual or interim period for which an entity's financial statements have not yet been made available for issuance.~~
d. Upon adoption of the accounting alternative, an entity shall make an accounting policy election to test goodwill for impairment at either the entity level or the reporting unit level.
e. A private company that makes an accounting policy election to apply the guidance in the Accounting Alternative Subsections of this Subtopic for the first time need not justify that the use of the accounting alternative is preferable as described in paragraph 250-10-45-2.

Amendments to Subtopic 805-20

5. Add paragraph 805-20-15-1A, with no link to a transition paragraph, as follows:

Business Combinations—Identifiable Assets and Liabilities, and Any Noncontrolling Interest

Scope and Scope Exceptions

Accounting Alternative

805-20-15-1A Paragraphs 805-20-15-2 through 15-4 and 805-20-25-29 through 25-33 provide guidance for an entity electing the accounting alternative in this Subtopic. See paragraph 805-20-65-2 for transition guidance on applying the accounting alternative in this Subtopic.

6. Amend paragraph 805-20-65-2 as follows:

Transition and Open Effective Date Information

> Transition Related to Accounting Standards Update No. 2014-18, *Business Combinations (Topic 805): Accounting for Identifiable Intangible Assets in a Business Combination*

805-20-65-2 The following represents the transition ~~and effective date~~ information related to Accounting Standards Update No. 2014-18, *Business Combinations (Topic 805): Accounting for Identifiable Intangible Assets in a Business Combination*, referenced in paragraph 805-20-15-1A:

a. Upon adoption of the Accounting Alternative Subsections of this Subtopic, that guidance shall be effective prospectively to the first transaction that is identified in paragraph 805-20-15-2 after the adoption of the accounting alternative. ~~The decision to adopt pending content that links to this paragraph must be made upon the occurrence of the first transaction that is identified in paragraph 805-20-15-2 in fiscal years beginning after December 15, 2015, and the timing of that first transaction determines the effective date of the pending content. If the first transaction occurs in the first fiscal year beginning after December 15, 2015, the pending content that links to this paragraph will be effective for that fiscal year's annual financial reporting and all interim and annual periods thereafter. If the first transaction occurs in fiscal years beginning after December 15, 2016, the pending content that links to this paragraph will be effective in the interim period that includes the date of the transaction and subsequent interim and annual periods thereafter.~~
b. Customer-related intangible assets and noncompetition agreements that exist as of the beginning of the period of adoption shall continue to be subsequently measured in accordance with Topic 350 on intangibles—goodwill and other. That is, existing customer-related intangible assets and noncompetition agreements should not be subsumed into goodwill upon adoption of the Accounting Alternative Subsections of this Subtopic ~~pending content that links to this paragraph~~.
c. Subparagraph superseded by Accounting Standards Update No. 2016-03. ~~Early application is permitted for any interim and annual period before which an entity's **financial statements are available to be issued**~~.
d. A private company that makes an accounting policy election to apply the guidance in the Accounting Alternative Subsections of this Subtopic for

the first time need not justify that the use of the accounting alternative is preferable as described in paragraph 250-10-45-2.

Amendments to Subtopic 810-10

7. Supersede paragraph 810-10-15-17A and add paragraphs 810-10-15-17AA through 15-17AB, with no link to a transition paragraph, as follows:

Consolidation—Overall

Scope and Scope Exceptions

Variable Interest Entities

> Accounting Alternative

810-10-15-17A Paragraph superseded by Accounting Standards Update No. 2016-03. ~~A **legal entity** need not be evaluated by a **private company** under the guidance in the Variable Interest Entities Subsections if criteria (a) through (c) are met and, in applicable circumstances, criterion (d) is met:~~

~~a. The private company lessee (the reporting entity) and the lessor legal entity are under common control.~~
~~b. The private company lessee has a lease arrangement with the lessor legal entity.~~
~~c. Substantially all activities between the private company lessee and the lessor legal entity are related to leasing activities (including supporting leasing activities) between those two entities.~~
~~d. If the private company lessee explicitly guarantees or provides collateral for any obligation of the lessor legal entity related to the asset leased by the private company, then the principal amount of the obligation at inception of such guarantee or collateral arrangement does not exceed the value of the asset leased by the private company from the lessor legal entity.~~

~~See paragraph 810-10-55-9 and paragraphs 810-10-55-205A through 55-205I for implementation guidance.~~ **[Content amended and moved to paragraph 810-10-15-17AB]**

810-10-15-17AA Paragraphs 810-10-15-17AB through 15-17C, 810-10-50-2AD through 50-2AF, 810-10-55-9, and 810-10-55-205AJ through 55-205AR provide guidance for an entity electing the accounting alternative in this Subtopic. See paragraph 810-10-65-4 for transition guidance on applying the accounting alternative in this Subtopic.

810-10-15-17AB A **legal entity** need not be evaluated by a **private company** under the guidance in the Variable Interest Entities Subsections if criteria (a) through (c) are met and, in applicable circumstances, criterion (d) is met:

a. The private company lessee (the reporting entity) and the lessor legal entity are under common control.
b. The private company lessee has a lease arrangement with the lessor legal entity.
c. Substantially all activities between the private company lessee and the lessor legal entity are related to leasing activities (including supporting leasing activities) between those two entities.
d. If the private company lessee explicitly guarantees or provides collateral for any obligation of the lessor legal entity related to the asset leased by the private company, then the principal amount of the obligation at inception of such guarantee or collateral arrangement does not exceed the value of the asset leased by the private company from the lessor legal entity.

See paragraph 810-10-55-9 and paragraphs 810-10-55-205AJ through 55-205AR for implementation guidance. **[Content amended as shown and moved from paragraph 810-10-15-17A]**

8. Amend the following paragraphs by changing the references to paragraph 810-10-15-17A to paragraph 810-10-15-17AB, with no link to a transition paragraph:

a. 810-10-15-17B
b. 810-10-15-17C
c. 810-10-50-2AD
d. 810-10-55-9
e. 810-10-55-205AJ
f. 810-10-55-205AK
g. 810-10-55-205AL
h. 810-10-55-205AM
i. 810-10-55-205AN
j. 810-10-55-205AO
k. 810-10-55-205AP
l. 810-10-55-205AQ
m. 810-10-55-205AR.

9. Amend paragraph 810-10-65-4 as follows:

Transition and Open Effective Date Information

> Transition Related to Accounting Standards Update No. 2014-07, *Consolidation (Topic 810): Applying Variable Interest Entities Guidance to Common Control Leasing Arrangements*

810-10-65-4 The following represents the transition ~~and effective date~~ information related to Accounting Standards Update No. 2014-07, *Consolidation (Topic 810): Applying Variable Interest Entities Guidance to Common Control Leasing Arrangements*, referenced in paragraph 810-10-15-17AA:

a. Upon adoption of the accounting alternative, the guidance in the Variable Interest Entities Subsections of this Subtopic shall be applied retrospectively as of the beginning of the first fiscal year in which the accounting alternative is elected and to all periods presented. ~~The pending content that links to this paragraph shall be effective for the first annual period beginning after December 15, 2014, and interim periods within annual periods beginning after December 15, 2015.~~
b. Subparagraph superseded by Accounting Standards Update No. 2016-03. ~~Early application is permitted for any annual or interim period before which an entity's **financial statements are available to be issued**.~~
c. Subparagraph superseded by Accounting Standards Update No. 2016-03. ~~The pending content that links to this paragraph shall be applied retrospectively to all periods presented.~~
d. If a reporting entity deconsolidates a variable interest entity (VIE) as a result of the application of the accounting alternative guidance in the Variable Interest Entities Subsections of this Subtopic ~~pending content that links to this paragraph~~, the reporting entity shall initially measure any retained interest in the deconsolidated VIE at its carrying amount at the date the accounting alternative guidance ~~pending content that links to this paragraph~~ first applies. In this context, *carrying amount* refers to the amount at which any retained interest would have been carried in the reporting entity's financial statements if the accounting alternative guidance ~~pending content that links to this paragraph~~ had been effective when the reporting entity became involved with the VIE. Any difference between the net amount removed from the statement of financial position of the reporting entity and the amount of any retained interest in the deconsolidated VIE shall be recognized as a cumulative-effect adjustment to retained earnings. The amount of any cumulative-effect adjustment related to deconsolidation shall be disclosed separately.
e. An entity shall provide the disclosures in paragraphs 250-10-50-1 through 50-3 except for the disclosure in paragraph 250-10-50-1(b)(2) in the period the entity adopts the accounting alternative guidance in the Variable Interest Entities Subsections of this Subtopic~~pending content that links to this paragraph~~.
f. A private company that makes an accounting policy election to apply the accounting alternative guidance in the Variable Interest Entities Subsections of this Subtopic for the first time need not justify that the use of the accounting alternative is preferable as described in paragraph 250-10-45-2.

Amendments to Subtopic 815-10

10. Amend paragraph 815-10-65-6 as follows:

Derivatives and Hedging—Overall

Transition and Open Effective Date Information

> Transition Related to Accounting Standards Update No. 2014-03, *Derivatives and Hedging (Topic 815): Accounting for Certain Receive-Variable, Pay-Fixed Interest Rate Swaps—Simplified Hedge Accounting Approach*

815-10-65-6 The following represents the transition ~~and effective date~~ information related to Accounting Standards Update No. 2014-03, *Derivatives and Hedging (Topic 815): Accounting for Certain Receive-Variable, Pay-Fixed Interest Rate Swaps—Simplified Hedge Accounting Approach*, referenced in paragraph 815-20-25-131AA:

a. Subparagraph superseded by Accounting Standards Update No. 2016-03. ~~The pending content that links to this paragraph shall be effective for annual periods beginning after December 15, 2014, and interim periods within annual periods beginning after December 15, 2015.~~
b. Upon adoption of ~~The pending content that links to this paragraph related to~~ the simplified hedge accounting approach in this Subtopic and adoption of the guidance in paragraphs 825-10-50-3 and 825-10-50-8, that guidance shall be applied as of the beginning of the first fiscal year in which the approach is elected and in either of the following ways:
    1. Using a modified retrospective approach in which corresponding adjustments shall be made to the assets, liabilities, and opening balance of accumulated other comprehensive income and retained earnings (or other appropriate components of equity) of the current period presented to reflect application of hedge accounting under this Topic from the date the receive-variable, pay-fixed interest rate swap was entered into (or acquired) by the entity.
    2. Using a full retrospective approach in which:
        i. The financial statements for each individual prior period presented shall be adjusted to reflect the period-specific effects of applying hedge accounting under this Topic from the date the receive-variable, pay-fixed interest rate swap was entered into (or acquired) by the entity.
        ii. Corresponding adjustments shall be made to the assets, liabilities, and opening balance of accumulated other comprehensive income and retained earnings (or other

appropriate components of equity) of the earliest period presented to reflect application of hedge accounting under this Topic from the date the receive-variable, pay-fixed interest rate swap was entered into (or acquired) by the entity.

c. The simplified hedge accounting approach may be elected for any qualifying receive-variable, pay-fixed interest rate swap, whether existing at the date of its adoption ~~of the pending content that links to this paragraph~~ or entered into after that date. The election to apply the simplified hedge accounting approach to an existing swap shall be made upon its adoption ~~of the pending content that links to this paragraph~~ and can be applied only to existing swaps the first time the election is made. After the initial election is made to apply the simplified hedge accounting approach to existing swaps, no further retrospective applications to existing swaps (full or modified) are permitted. In determining whether an existing swap meets all of the conditions in paragraph 815-20-25-131D to qualify for applying the simplified hedge accounting approach, the condition that the swap's fair value at the time of application of this approach is at or near zero need not be considered. Instead, as long as the swap's fair value was at or near zero at the time the swap was entered into (or acquired) by the entity, the entity may apply the simplified hedge accounting approach. For an existing swap, the documentation required by paragraph 815-20-25-3 to qualify for hedge accounting must be completed in the period of adoption by the date on which the first annual **financial statements are available to be issued** rather than concurrently at hedge inception.

d. Subparagraph superseded by Accounting Standards Update No. 2016-03. ~~Early application of the pending content that links to this paragraph is permitted for any annual or interim period for which the entity's financial statements have not yet been made available for issuance.~~

e. An entity shall provide the required disclosures in paragraphs 250-10-50-1 through 50-3 in the period that the entity adopts the simplified hedge accounting approach in this Subtopic~~pending content that links to this paragraph~~.

f. A private company that makes an accounting policy election to apply the simplified hedge accounting approach for the first time need not justify that the use of that approach is preferable as described in paragraph 250-10-45-2.

Amendments to Subtopic 815-20

11. Supersede paragraph 815-20-25-131A and add paragraphs 815-20-25-131AA through 25-131AB, with no link to a transition paragraph, as follows:

Derivatives and Hedging—Hedging—General

Recognition

> > > > Assuming No Hedge Ineffectiveness in a Cash Flow Hedge of a Variable-Rate Borrowing with a Receive-Variable, Pay-Fixed Interest Rate Swap Recorded under the Simplified Hedge Accounting Approach

815-20-25-131A Paragraph superseded by Accounting Standards Update No. 2016-03. ~~The conditions for the simplified hedge accounting approach determine which cash flow hedging relationships qualify for a simplified version of hedge accounting. If all of the conditions in paragraphs 815-20-25-131B and 815- 20-25-131D are met, an entity may assume that there is no ineffectiveness in a cash flow hedging relationship involving a variable-rate borrowing and a receive-variable, pay-fixed interest rate swap.~~ **[Content moved to paragraph 815-20-25-131AB]**

815-20-25-131AA Paragraphs 815-10-35-1A through 35-1C, 815-10-50-3, 815-20-25-119, 815-20-25-131AB through 25-131E, 815-20-55-79A through 55-79B, 825-10-50-3, and 825-10-50-8 provide guidance for an entity electing the simplified hedge accounting approach. See paragraph 815-10-65-6 for transition guidance on applying the simplified hedge accounting approach.

815-20-25-131AB The conditions for the simplified hedge accounting approach determine which cash flow hedging relationships qualify for a simplified version of hedge accounting. If all of the conditions in paragraphs 815-20-25-131B and 815-20-25-131D are met, an entity may assume that there is no ineffectiveness in a cash flow hedging relationship involving a variable-rate borrowing and a receive-variable, pay-fixed interest rate swap. **[Content moved from 815-20-25-131A]**

12. Amend the following paragraphs by changing references to paragraph 815-20-25-131A to paragraph 815-20-25-131AB:

a. 815-10-35-1A
b. 815-10-50-3.

13. Amend paragraph 350-20-00-1, by adding the following items to the table, as follows:

350-20-00-1 The following table identifies the changes made to this Subtopic.

Paragraph	Action	Accounting Standards Update	Date
350-20-15-3A	Added	2016-03	03/07/2016
350-20-65-2	Amended	2016-03	03/07/2016

14. Amend paragraph 805-20-00-1, by adding the following items to the table, as follows:

805-20-00-1 The following table identifies the changes made to this Subtopic.

Paragraph	Action	Accounting Standards Update	Date
Financial Statements Are Available to Be Issued	Superseded	2016-03	03/07/2016
805-20-15-1A	Added	2016-03	03/07/2016
805-20-65-2	Amended	2016-03	03/07/2016

15. Amend paragraph 810-10-00-1, by adding the following items to the table, as follows:

810-10-00-1 The following table identifies the changes made to this Subtopic.

Paragraph	Action	Accounting Standards Update	Date
Financial Statements Are Available to Be Issued	Superseded	2016-03	03/07/2016
810-10-15-17A	Superseded	2016-03	03/07/2016
810-10-15-17AA	Added	2016-03	03/07/2016
810-10-15-17AB	Added	2016-03	03/07/2016
810-10-15-17B	Amended	2016-03	03/07/2016
810-10-15-17C	Amended	2016-03	03/07/2016
810-10-50-2AD	Amended	2016-03	03/07/2016
810-10-55-9	Amended	2016-03	03/07/2016
810-10-55-205AJ through 55-205AR	Amended	2016-03	03/07/2016
810-10-65-4	Amended	2016-03	03/07/2016

16. Amend paragraph 815-10-00-1, by adding the following items to the table, as follows:

815-10-00-1 The following table identifies the changes made to this Subtopic.

Paragraph	Action	Accounting Standards Update	Date
815-10-35-1A	Amended	2016-03	03/07/2016
815-10-50-3	Amended	2016-03	03/07/2016
815-10-65-6	Amended	2016-03	03/07/2016

17. Amend paragraph 815-20-00-1, by adding the following items to the table, as follows:

815-20-00-1 The following table identifies the changes made to this Subtopic.

Paragraph	Action	Accounting Standards Update	Date
815-20-25-131A	Superseded	2016-03	03/07/2016
815-20-25-131AA	Added	2016-03	03/07/2016
815-20-25-131AB	Added	2016-03	03/07/2016

The amendments in this Update were adopted by the unanimous vote of the seven members of the Financial Accounting Standards Board:

Russell G. Golden, *Chairman*
James L. Kroeker, *Vice Chairman*
Daryl E. Buck
Thomas J. Linsmeier
R. Harold Schroeder
Marc A. Siegel
Lawrence W. Smith

Background Information and Basis for Conclusions

Introduction

BC1. The following summarizes the PCC's considerations in reaching the conclusions in this Update. It includes the Board's basis for endorsing the PCC's conclusions when needed to supplement the PCC's considerations. It also includes reasons for accepting certain approaches and rejecting others. Individual PCC members and Board members gave greater weight to some factors than to others.

BC2. At its July 21, 2015 meeting, based on input received from private company stakeholders, the PCC added a project to its agenda and reached a consensus-for-exposure to provide private companies with an unconditional one-time election that would permit private companies to apply the private company accounting alternatives in Updates 2014-02, 2014-03, 2014-07, and 2014-18 after the alternatives' effective dates without having to assess the preferability of the newly adopted accounting alternatives. Any subsequent accounting policy election to apply a private company accounting alternative would require justification that the use of the alternative is preferable.

BC3. At that same meeting, the PCC added an additional project to its agenda and reached a consensus-for-exposure to extend the transition guidance provided in Updates 2014-02 on goodwill and 2014-03 on derivatives and hedging. The transition guidance in Update 2014-02 that would be extended allows private companies to apply the goodwill accounting alternative prospectively. The transition exception for Update 2014-03 that would be extended allows private companies to apply the simplified hedge accounting approach to existing swaps upon initial election of the simplified hedge accounting approach; however, the proposed transition provisions would not apply to subsequent elections of the simplified hedge accounting approach.

BC4. On August 31, 2015, the Board endorsed the decisions of the PCC and subsequently issued proposed Accounting Standards Update—*Intangibles—Goodwill and Other (Topic 350), Business Combinations (Topic 805), Consolidation (Topic 810), and Derivatives and Hedging (Topic 815): Effective Date and Transition Guidance* (the proposed Update). The comment period ended on November 16, 2015. The Board received 14 comment letters on the proposed Update. Respondents generally were supportive of the proposed Update; however, several respondents observed that it did not specify the reporting period in which the accounting alternatives within the scope of the proposed Update may first be adopted.

BC5. At its December 4, 2015 meeting, the PCC affirmed its consensus-for-exposure by reaching a consensus on the amendments in this Update. The PCC also reached a consensus to require that the accounting alternatives within the scope of this Update be adopted consistent with the transition provisions included in the original Updates to which those alternatives relate for the first year being applied. That is, the accounting alternative provided by Update 2014-02 must be applied as of the beginning of the first fiscal year in which the alternative is elected for existing goodwill and must be applied prospectively for new goodwill. The accounting alternatives provided by Updates 2014-03 and 2014-07 also must be applied as of the beginning of the first fiscal year in which each alternative is elected, and the accounting alternative provided by Update 2014-18 must be applied as of the first in-scope transaction in the fiscal year in which the alternative is elected. On December 16, 2015, the Board endorsed the consensus resulting in issuance of this Update.

Scope

BC6. The PCC and the Board decided that the scope of this Update should be consistent with the scopes of the Updates to which the amendments relate. That is, the scope of this Update includes all private companies within the scope of Update 2014-02, 2014-03, 2014-07, or 2014-18.

Background Information

Preferability

BC7. Topic 250 requires that an accounting principle adopted for the preparation of financial statements be applied consistently when accounting for similar events and transactions. However, an entity may change an accounting principle (that is, adopt a “voluntary change”) if it justifies the use of an allowable alternative accounting principle on the basis that it is preferable.

BC8. There is little authoritative guidance for evaluating the reasonableness of a voluntary change in accounting principle. As a result, diversity exists in how to assess preferability. Some private company stakeholders were concerned that private companies could incur undue cost and complexity in justifying the preferability of a decision to elect a private company accounting alternative after its effective date.

BC9. At the July 21, 2015 PCC meeting, the PCC and the Board discussed four alternatives to address private company stakeholders’ concerns about the assessment of preferability:

a. Grant private companies an unconditional one-time election to apply the private company accounting alternatives within Updates 2014-02, 2014-

03, 2014-07, and 2014-18 that would permit private companies to forgo an initial preferability assessment the first time they adopt each alternative.

b. Grant private companies an unconditional one-time election to apply any private company accounting alternative available under GAAP that would permit private companies to forgo an initial preferability assessment the first time they adopt each alternative.
c. Provide additional authoritative guidance by amending Topic 250 to state that a change in business circumstances could indicate that the election of a private company accounting alternative after its effective date constitutes an improvement in financial reporting. In addition, Topic 250 would be amended to include an example of a change in business circumstances that would render adoption of a private company accounting alternative as preferable.
d. Eliminate the requirement for private companies to assess preferability in all cases.

BC10. PCC members generally supported an unconditional one-time election to apply the private company accounting alternatives in Updates 2014-02, 2014-03, 2014-07, and 2014-18 because they believe it would permit private companies to adopt a private company accounting alternative after its effective date when private companies experience a change in their managements' strategic plan or their circumstances. Some PCC members also believe that an unconditional one-time election would allow private companies that were unaware of an accounting alternative to apply the alternative without having to bear the cost of justifying preferability.

BC11. Some PCC and Board members questioned whether the unconditional one-time election should be extended to accounting alternatives developed by the Board using the *Private Company Decision-Making Framework: A Guide for Evaluating Financial Accounting and Reporting for Private Companies* (the Guide). The primary purpose of the Guide is to assist the Board and the PCC in determining whether and in what circumstances to provide accounting alternatives for private companies reporting under GAAP. Some PCC and Board members were concerned that granting an unconditional, one-time election to adopt the private company accounting alternatives within the scope of this Update only would result in different transition guidance for those private company alternatives and other private company alternatives developed by the Board using the Guide. The PCC recommended that the Board consider whether any current and future private company alternatives developed by the Board using the Guide should receive the same treatment as the alternatives within the scope of this Update.

BC12. In response to the PCC and Board members' concerns, the FASB staff sought to identify all private company recognition and measurement alternatives that were developed under the Guide since it was issued in December 2013. The staff's research indicated that various disclosure alternatives have been developed under the Guide, but the staff did not identify any recognition or measurement alternatives. However, the staff did identify three recognition and measurement alternatives that are being considered in projects that the Board currently is deliberating. The Board did not make any decisions about whether the one-time election should be extended to the accounting alternatives in those projects. However, the Board agreed that the one-time election should be considered as it continues to deliberate those projects.

BC13. PCC and Board members generally agreed that providing additional guidance in Topic 250 would not, on its own, sufficiently address the challenges that private companies face. However, the PCC believes that additional guidance on assessing the preferability of a private company accounting alternative could be helpful in certain situations. The PCC recommended that the Board consider whether additional guidance in Topic 250 to help private companies assess preferability is warranted. The PCC and the Board unanimously rejected the final alternative (that is, the alternative that would have eliminated the requirement for private companies to assess preferability in all cases) because they concluded that it would result in less useful information for users of private company financial statements.

Transition Guidance

BC14. Transition guidance under existing private company accounting alternatives within the scope of this Update is available only if private companies elect the accounting alternatives on or before the effective dates in the related Updates. Paragraph 250-10-45-5 requires private companies that voluntarily elect an accounting alternative after its effective date (considered to be a change in accounting principle) to apply the accounting alternative retrospectively, unless it is impracticable to do so. In general, retrospective application of a private company accounting alternative could be costly and diminish the relief provided by the accounting alternative.

BC15. Under the transition guidance in Update 2014-02, private companies are required to apply the goodwill accounting alternative prospectively if adopted on or before the effective date. Prospective application permits private companies to amortize existing goodwill over a period of 10 years or less. After the effective date of Update 2014-02, private companies are required to apply the accounting change on a full retrospective basis, if not impracticable to do so. Full retrospective application would require private companies to recast all financial statement periods presented as if the accounting election had been made at the time of its first business combination, including having to undo all previously recorded goodwill impairments. Retrospective application also would require private companies to subsequently apply the amortization alternative, along with any impairment charges under the simplified impairment test, to each business combination. The challenges associated with retrospective application weighed heavily in the PCC and Board’s previous decision to provide prospective application of the guidance in Update 2014-02.

BC16. The transition guidance in Update 2014-03 permits private companies to apply the simplified hedge accounting approach to existing interest rate swaps (transition exception) that meet the criteria in paragraph 815-20-25-131D, excluding the condition that the swap's fair value at the application of the simplified hedge accounting approach be at or near zero. After the effective date of Update 2014-03, private companies are not permitted to apply the transition exception upon initial election of the simplified hedge accounting approach, thus effectively precluding its use for existing swaps, since the fair value of the swap is not likely to be at or near zero.

BC17. Some private company stakeholders questioned whether the benefits justified the costs and complexity of retrospectively applying Update 2014-02. Stakeholders expressed concern that the increase in cost and complexity may dissuade private companies from electing the accounting alternative.

BC18. PCC and Board members generally supported extending the transition guidance in Updates 2014-02 and 2014-03 because one of the overarching goals of those Updates was to provide an accounting alternative within GAAP that reduces cost and complexity without diminishing the quality of information provided to users of financial statements. Accordingly, the same transition relief should be granted the first time a private company alternative is adopted. Furthermore, the PCC and the Board believe that extending the transition guidance is consistent with the intent of the Guide.

BC19. PCC members strongly recommended that the transition exception for Update 2014-03 only be permitted the first time a private company applies the simplified hedge accounting approach. Private companies are restricted from applying the transition exception to subsequent elections of the simplified hedge accounting approach because it could undermine hedge accounting. In FASB Statement No. 133, *Accounting for Derivative Instruments and Hedging Activities*, the Board concluded that upfront designation of a hedge is critical; without it an entity could retroactively identify a hedge to achieve a desired accounting result. Hedge accounting is elective on a swap-by-swap basis, and PCC members questioned whether the preferability assessment would sufficiently prevent private companies from applying the transition exception under Update 2014-03 to manage earnings. The Board agreed with those recommendations and observations.

Effective Date

BC20. By deciding to (a) provide private companies with an unconditional one-time election of the accounting alternatives within the scope of this Update and (b) extend the transition guidance for Updates 2014-02 and 2014-03, the PCC and the Board essentially removed the effective dates for the accounting alternatives within the scope of this Update.

BC21. By removing the effective dates, the PCC and the Board also extended the transition guidance in Updates 2014-07 and 2014-18; however, private companies are subject to the same transition requirements regardless of when they elect to adopt those Updates. As such, removing the effective dates from those Updates should not change current practice.

Disclosure

BC22. Private companies adopting a new accounting principle are subject to the relevant disclosures in Topic 250 and Topic 235, Notes to Financial Statements. Furthermore, for private companies subject to audit, U.S. Auditing Standards—AICPA (Clarified) (AU-C) Section 708, *Consistency of Financial Statements,* paragraph .08, requires disclosure of a material change in accounting policy in an emphasis-of-matter paragraph in the auditor's report. Accordingly, the PCC and the Board decided that no additional disclosures should be required as a result of this Update.

Transition

BC23. The accounting alternatives within the scope of this Update should be adopted consistent with the transition provisions included in the original Updates to which those alternatives relate for the first year being applied. That is, the accounting alternative provided by Update 2014-02 must be applied as of the beginning of the first fiscal year in which the alternative is elected for existing goodwill and must be applied prospectively for new goodwill. The accounting alternatives provided by Updates 2014-03 and 2014-07 also must be applied as of the beginning of the first fiscal year in which each alternative is elected, and the accounting alternative provided by Update 2014-18 must be applied as of the first in-scope transaction in the fiscal year in which the alternative is elected.

Effect on User-Relevance and Cost under the Private Company Decision-Making Framework

BC24. The objective of financial reporting is to provide information that is useful to present and potential investors, creditors, donors, and other capital market participants in making rational investment, credit, and similar resource allocation decisions. However, the benefits of providing information for that purpose should justify the related costs. The Guide provides considerations for the Board and the PCC in making user-relevance and cost-benefit evaluations for private companies under the conceptual framework. The Guide is a tool to help the Board and the PCC identify differential informational needs of users of public company financial statements and users of private company financial statements and to identify opportunities to reduce the relatively greater cost and complexity of preparing financial statements for private companies in accordance with GAAP. The Board and the PCC's assessment of the costs and benefits of issuing new guidance is unavoidably more qualitative than quantitative because there is no method to objectively measure the costs to implement new guidance or to quantify the value of improved information in financial statements.

BC25. The PCC and the Board concluded that this Update provides necessary accommodations for the accounting resources and learning curve of private companies as described in the Guide, while continuing to provide decision-useful information to the users of private company financial statements.