

AN ALERT FROM THE BDO NATIONAL ASSURANCE PRACTICE

BDO FLASH REPORT

FASB



► SUBJECT

FASB ENDORSES TWO PCC ALTERNATIVES

► SUMMARY

On November 25, 2013, the FASB endorsed the first two accounting alternatives for private entities.¹ These are intended to simplify the accounting for goodwill and make it easier to apply hedge accounting to certain “plain-vanilla” interest rate swaps. The Board has indicated private entities will be able (but not required) to adopt the new standards for December 31, 2013 financial statements. The FASB will also consider similar potential changes for public entities in the future.

► SCOPE, EFFECTIVE DATE AND TRANSITION

The new ASUs will apply to all entities, except not-for-profit entities, employee benefit plans and “public business entities,” which the Board is defining in a parallel project that will be finalized shortly. In addition, the simplified hedge accounting alternative will not be available to financial institutions. Both ASUs will be effective for fiscal years beginning after December 15, 2014 and interim and annual periods thereafter. Early adoption will be permitted as indicated above.

► MAIN PROVISIONS

This summary is based on our observation of the FASB’s public meeting. Once the final ASUs are issued, we will provide a more detailed discussion in a subsequent flash report.

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¹ The FASB meeting materials are available [here](#).

With respect to goodwill, entities will have the option of amortizing goodwill over 10 years, or a shorter period if it is more appropriate. Entities making the election would test goodwill for impairment only when a triggering event occurs, instead of annually. In that situation, entities would elect to perform the test either at an entity-wide basis or the reporting unit level. The amount of impairment, if any, would be determined by comparing the fair value of the entity (or reporting unit) to its carrying amount. That is, a hypothetical purchase-price allocation would not apply.

Under the simplified hedge accounting alternative, entities would be entitled to assume no ineffectiveness in a qualifying receive-variable, pay-fixed interest rate swap that is designated in a hedging relationship if certain specified criteria are met. That is, detailed hedge effectiveness testing would not be required. In addition, the hedge documentation may be prepared any time prior to issuing the financial statements, instead of contemporaneously at hedge inception. For example, if the simplified hedge accounting approach is applied to a qualifying interest rate swap entered into on January 1, 2013, the hedge could be adequately documented at any point prior to the annual financial statements being issued in 2014. Lastly, entities may record the swap on the balance sheet at its settlement value, which excludes nonperformance risk, rather than fair value.

Material discussed in this report is meant to provide general information and should not be acted on without professional advice tailored to your firm's individual needs.