

**Board Meeting Handout
Private Company Council
Endorsement of PCC Decisions
November 25, 2013**

Purpose of this Meeting

1. The purpose of this meeting is for the Board to consider for endorsement, the decisions reached by the Private Company Council (PCC) at its September 30 and October 1, 2013 meeting on PCC Issues No. 13-01B, “Accounting for Goodwill Subsequent to a Business Combination,” and No. 13-03A, “Accounting for Certain Receive-Variable, Pay-Fixed Interest Rate Swaps—Simplified Hedge Accounting Approach.”

PCC Issue No. 13-01B, “Accounting for Goodwill Subsequent to a Business Combination”

2. The PCC voted to finalize the proposed accounting alternative for private companies within U.S. Generally Accepted Accounting Principles (GAAP) related to the accounting for goodwill subsequent to a business combination. The alternative would be available upon election to entities that recognize goodwill in accordance with Topic 805, Business Combinations, except for public business entities, not-for-profit entities, and employee benefit plans.
3. The PCC decided that a private company (that elects the alternative within U.S. GAAP) should amortize goodwill over 10 years or less than 10 years if the entity can demonstrate that another useful life is more appropriate.
4. The PCC also decided that a private company could make an accounting policy decision to perform its impairment testing at the entity-level or the reporting-unit level. A private company would test goodwill for impairment only when a triggering event occurs that may reduce the fair value of an entity (or a reporting unit, if elected) below its carrying amount. In testing goodwill for impairment, a private company would continue to have the option to first assess qualitative factors to determine whether step one of the quantitative impairment test is necessary. If that

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qualitative test indicates that it is more likely than not that goodwill is impaired, step one of the goodwill impairment test, which requires that the entity (or the reporting unit, if elected) compare its fair value to its carrying amount, would be required.

5. The PCC further simplified the goodwill impairment test by eliminating step two of the impairment test. Under the accounting alternative, the goodwill impairment amount would represent the excess of the entity's (or the reporting unit's) carrying amount over its fair value as calculated in step one of the test. Goodwill would not be reduced below zero. Impairment charges would be allocated to individual amortizable units of goodwill pro-rata using their relative carrying amounts or could be allocated using another reasonable and rational approach.
6. The PCC decided not to prescribe any new disclosure requirements for goodwill and not to require a private company to present the tabular rollforward of goodwill that is currently required by U.S. GAAP. The alternative goodwill accounting guidance for private companies would be applied prospectively for goodwill existing as of the beginning of the period of adoption and for goodwill generated from business combinations entered into in the first annual period beginning after December 15, 2014, and interim and annual periods thereafter. Goodwill existing at the beginning of the period of adoption would be amortized prospectively over 10 years or less than 10 years if the entity can demonstrate that another useful life is more appropriate. Early adoption would be permitted.

Question for the Board

Question 1: Does the Board wish to endorse the final proposal of the PCC on Issue 13-01B?

PCC Issue No. 13-03A, “Accounting for Certain Receive-Variable, Pay-Fixed Interest Rate Swaps—Simplified Hedge Accounting Approach”

7. The PCC voted to finalize the simplified hedge accounting approach in accounting for certain interest rate swaps. The simplified hedge accounting approach would apply to all entities, except for public business entities, not-for-profit entities, employee benefit plans, and financial institutions. This approach would provide private companies with an alternative to account for interest rate swaps that are entered into for the purpose of economically converting variable-rate interest

payments into fixed-rate payments. The simplified hedge accounting approach is a practical expedient to qualify for cash flow hedge accounting under Topic 815, Derivatives and Hedging, and the approach assumes no ineffectiveness. Under this approach, the periodic income statement charge for interest would be similar to the amount that would result if the private company were to have entered into fixed-rate borrowing instead of variable-rate borrowing.

8. The PCC decided not to preclude forward-starting swaps from qualifying for the simplified hedge accounting approach. Accordingly, the criteria to qualify for this approach are as follows:
 - a. The variable rates on both the swap and the borrowing are based on the same index and reset period (for example, one-month London Interbank Offered Rate [LIBOR] versus three-month LIBOR).
 - b. The terms of the swap are typical (in other words, the swap is what is generally considered to be a "plain-vanilla" swap, even though that term is not defined), and there is no floor or cap on the variable interest rate of the swap unless the borrowing has a comparable floor or cap.
 - c. The repricing and settlement dates for the swap and the borrowing match or differ by no more than a few days.
 - d. The swap's fair value at inception (that is, at the time the derivative was executed to hedge the interest rate risk of the borrowing) is at or near zero.
 - e. The notional amount of the swap is equal to or less than the principal amount of the borrowing.
 - f. All interest payments on the variable-rate borrowing during the term of the interest rate swap (or the effective term of the interest rate swap underlying the forward starting swap) are designated as hedged.
9. Under the simplified hedge accounting approach, a private company would have the option to measure the designated swap at settlement value instead of fair value. The PCC clarified that the primary difference between settlement value and fair value is that nonperformance risk is not considered in determining settlement value.
10. The simplified hedge accounting approach would allow for hedge documentation to be completed up until the date on which the annual financial statements are available to be issued instead of requiring that the documentation be completed

concurrently at the inception of the hedge. Because Topic 815 permits election of hedge accounting on a swap-by-swap basis, a private company could elect to apply this approach to any swap, whether existing at the date of adoption or entered into on or after that date, provided it otherwise meets all of the requirements for applying this approach. In determining whether an existing swap otherwise would meet all of the requirements for applying this approach, the criterion that the swap's fair value at the time of the application of this approach is at or near zero does not need to be considered as long as the swap's fair value was at or near zero at the time the swap was entered into by the private company.

11. The current disclosures for a swap recognized in the entity's financial statements would continue to apply under this approach. In providing those disclosures, the amounts recorded at settlement value would be substituted for fair value wherever applicable, and amounts disclosed at settlement value would be disclosed separately from amounts disclosed at fair value. For the purposes of applying the scope exception in paragraph 825-10-50-3, a swap accounted for under the simplified hedge accounting approach would not be considered to be an instrument that is accounted for as a derivative instrument under Topic 815.
12. The simplified hedge accounting approach will be effective for the first annual period beginning after December 15, 2014, and interim and annual periods thereafter, with early adoption permitted. Private companies would be allowed to apply either the modified retrospective approach or the full retrospective approach upon adoption of the simplified hedge accounting approach.

Question for the Board

Question 2: Does the Board wish to endorse the final proposal of the PCC on Issue 13-03A?

**Board Meeting Handout
PCC Issue 13-01B
Consideration of PCC Alternative for
Public Business Entities and Not-for-Profits
November 25, 2013**

Purpose of this Meeting

1. The Board has a standing agenda project to consider whether any alternative proposed by the PCC should be extended to public business entities and/or not-for-profits (NFPs). The purpose of this meeting is to assist the Board in determining whether the proposed PCC alternative on the subsequent accounting for goodwill or another alternative should be applied to public business entities and/or NFPs.

Background

2. At its October 1, 2013 meeting, the PCC voted to finalize an accounting alternative for private companies for the subsequent measurement of goodwill. Under the PCC alternative, a reporting entity could elect to amortize goodwill over a 10-year period or elect to amortize goodwill over less than 10 years if the entity can demonstrate another useful life is more appropriate. The impairment test also would be simplified (that is, a private company could perform the impairment test at the entity level and the quantitative goodwill impairment test would be a one-step test).

Summary of Current Outreach Activities and Research

3. For public business entities and NFPs, the staff reviewed relevant comment letter responses, studied bases for conclusions, and performed outreach with preparers, users, accounting firms, the FASB Investors Advisory Committee, the FASB Not-for-Profit Advisory Committee, and the FASB Small Business Advisory Committee.

Views for Board Consideration

4. If the Board decides to pursue a potential change to the accounting for goodwill for public companies and NFPs, the staff believes that it would be appropriate to consider the PCC alternative model and some other alternatives. The staff has identified the following four views for the Board's consideration:
 - a. View A: Extension of the PCC alternative
 - b. View B: Amortization of goodwill over its useful life, not to exceed a specified number of years (an APB 17-like approach)
 - c. View C: Direct write-off
 - d. View D: Simplified impairment test without amortization.

Questions for the Board

1. Should the PCC proposal apply to public business entities and/or NFPs (View A)? If not, is there another view described in this memo that should apply to public business entities and/or NFPs?
2. If a view is selected, should the view be required for all public business entities and/or NFPs or should it be an accounting policy election?
3. If a view is selected, how should public business entities and/or NFPs transition from current U.S. GAAP to the proposed change?
4. If a view is selected other than the PCC alternative, how should that view interact with the PCC alternative?

Indefinite-lived Intangible Assets

5. If the Board moves forward with a project for public companies and NFPs related to goodwill, the staff believes the Board also should consider whether to include indefinite-lived intangible assets within the scope of the project (or at least perform pre-agenda research concurrently with the Board's goodwill project).

Question for the Board

- If the Board decides to pursue a change to subsequent measurement of goodwill for public companies and NFPs, does the Board want to include indefinite-lived intangible assets in the scope of that project?

**Board Meeting Handout
PCC Issue 13-03A
Consideration of PCC Alternative for
Public Business Entities and Not-for-Profits
November 25, 2013**

Purpose of this Meeting

1. The Board has a standing agenda project to consider whether any alternative proposed by the PCC should be extended to public business entities and/or not-for-profits (NFPs). The purpose of this meeting is to assist the Board in determining whether the scope of the simplified hedge accounting approach should be extended to public business entities and/or NFPs.

Background

2. At its September 30 and October 1, 2013 meeting, the PCC voted to finalize PCC Issue No. 13-03A, “Accounting for Certain Receive-Variable, Pay-Fixed Interest Rate Swaps—Simplified Hedge Accounting Approach.” The simplified hedge accounting approach is a practical expedient to obtain cash flow hedge accounting under Topic 815, Derivatives and Hedging, and the approach assumes no ineffectiveness. Under this approach, the periodic income statement charge for interest would be similar to the amount that would result if the entity were to have entered into a fixed-rate borrowing instead of a variable-rate borrowing.
3. The simplified hedge accounting approach would apply to all entities, except for public business entities, not-for-profit entities (NFPs), employee benefit plans (EBPs), and financial institutions.

Summary of Current Outreach Activities and Research

4. The staff conducted research and outreach to assess the applicability of the simplified hedge accounting approach to public business entities and/or NFPs.
5. The staff considered feedback related to the impact on convergence and the broader FASB hedge accounting project.

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6. NFPs within the scope of Topic 954, Health Care Entities, may benefit from using the simplified hedge accounting approach.
7. NFPs outside the scope of Topic 954 would not benefit from using the simplified hedge accounting approach as those entities do not present a Performance Indicator.

Question for the Board

1. Does the Board want to extend the simplified hedge accounting approach or elements of the simplified hedge accounting approach to public business entities and/or NFPs?
2. If the Board wants to extend the scope of the simplified hedge accounting approach, how should public business entities and/or NFPs transition from current U.S. GAAP to the proposed change?