



Centri's Focus On: SEC

SEC Staff Permits Delayed Adoption of ASC 606 And 842 for Certain Public Entities

Details

At the July 20th EITF meeting, the SEC Observer announced that the SEC staff will allow an entity that qualifies as a public business entity (PBE) solely because its financial statements or financial information is included in another entity's filing with the SEC to adopt ASU No. 2014-09 – *Revenue from Contracts with Customers (ASC 606)* and ASU No. 2016-02 – *Leases (ASC 842)* using the effective dates applicable to private entities.

Examples of PBE financial statements or financial information that may reflect the adoption of the standards above using private company effective dates include:

- Acquired entity's financial statements required to be filed under S-X 3-05;
- Equity method investees considered to be significant under S-X 3-09; and
- Equity method investees considered to be significant under S-X 4-08(g).

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Scope

PBE entities meeting the above criteria which chose to delay the adoption of ASC 606 and ASC 842 are required to adopt each as follows:

- Financial statements of an acquired business under S-X 3-05 – under this guidance, companies are required to file separate preacquisition historical financial statements when the acquisition of a significant business has occurred or is probable;
- Financial statements of an equity method investee under S-X 3-09 – under this guidance, companies are required to prepare separate annual financial statements of equity method investees if certain significance thresholds are met for any of the registrant’s fiscal years required to be presented in the filing using the investment and income significance tests; and
- Summarized financial information of an equity method investee under S-X 4-08(g) – this guidance applies to annual financial statements and requires summarized annual balance sheet and income statement information of equity method investees if certain significance thresholds are met using all three tests (the asset, investment, and income significance tests) described in S-X 1-02(w).

Such entities may still elect to adopt these standards using the public company effective dates.

Effective Date

PBE entities meeting the above criteria which chose to delay the adoption of ASC 606 are required to adopt ASC 606 and ASC 842 as follows:

- ASC 606 - Annual reporting periods beginning after December 15, 2018 and interim periods within annual periods beginning after December 15, 2019.
- ASC 842 - Annual reporting periods beginning after December 15, 2019 and interim periods within annual periods beginning after December 15, 2020.

Centri’s Insights

The impact of this announcement results in a clear determination by the SEC for the adoption of ASC 606 and ASC 842 by companies who would otherwise be subject to private company effective dates, had their financial statements or financial information not been included in another entity’s filing with the SEC. These PBEs may now elect to delay adoption of ASU No. 2014-09 – *Revenue from Contracts with Customers (ASC 606)* until 2019 and ASU No. 2016-02 – *Leases (ASC 842)* until 2020.

The announcement should signal to public registrants to plan along with significant equity method investees who meet the criteria to qualify for this extension in order to understand whether the investee will elect to adopt the accounting revisions early, and how the decision will impact the public registrant’s disclosures.

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