FINANCIAL ACCOUNTING SERIES

FASB ACCOUNTING STANDARDS UPDATE

No. 2015-03
April 2015

Interest—Imputation of Interest (Subtopic 835-30)

Simplifying the Presentation of Debt Issuance Costs

An Amendment of the *FASB Accounting Standards Codification*®

Financial Accounting Standards Board

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Summary

Why Is the FASB Issuing This Accounting Standards Update (Update) and What Are the Main Provisions?

The Board is issuing this Update as part of its initiative to reduce complexity in accounting standards (the Simplification Initiative). The objective of the Simplification Initiative is to identify, evaluate, and improve areas of generally accepted accounting principles (GAAP) for which cost and complexity can be reduced while maintaining or improving the usefulness of the information provided to users of financial statements.

The Board received feedback that having different balance sheet presentation requirements for debt issuance costs and debt discount and premium creates unnecessary complexity. Recognizing debt issuance costs as a deferred charge (that is, an asset) also is different from the guidance in International Financial Reporting Standards (IFRS), which requires that transaction costs be deducted from the carrying value of the financial liability and not recorded as separate assets. Additionally, the requirement to recognize debt issuance costs as deferred charges conflicts with the guidance in FASB Concepts Statement No. 6, *Elements of Financial Statements*, which states that debt issuance costs are similar to debt discounts and in effect reduce the proceeds of borrowing, thereby increasing the effective interest rate. Concepts Statement 6 further states that debt issuance costs cannot be an asset because they provide no future economic benefit.

To simplify presentation of debt issuance costs, the amendments in this Update require that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. The recognition and measurement guidance for debt issuance costs are not affected by the amendments in this Update.

What Are the Transition Requirements and When Will the Amendments Be Effective?

For public business entities, the amendments in this Update are effective for financial statements issued for fiscal years beginning after December 15, 2015, and interim periods within those fiscal years.

For all other entities, the amendments in this Update are effective for financial statements issued for fiscal years beginning after December 15, 2015, and interim periods within fiscal years beginning after December 15, 2016.

Early adoption of the amendments in this Update is permitted for financial statements that have not been previously issued.

An entity should apply the new guidance on a retrospective basis, wherein the balance sheet of each individual period presented should be adjusted to reflect the period-specific effects of applying the new guidance. Upon transition, an entity is required to comply with the applicable disclosures for a change in an accounting principle. These disclosures include the nature of and reason for the change in accounting principle, the transition method, a description of the prior-period information that has been retrospectively adjusted, and the effect of the change on the financial statement line items (that is, debt issuance cost asset and the debt liability).

Amendments to the *FASB Accounting Standards Codification*®

Introduction

1. The Accounting Standards Codification is amended as described in paragraphs 2–5. 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 <u>underlined</u>, and deleted text is ~~struck out~~.

Amendments to Master Glossary

2. Add the Master Glossary term *Public Business Entity* to Subtopic 835-30 as follows:

Public Business Entity

A public business entity is a business entity meeting any one of the criteria below. Neither a not-for-profit entity nor an employee benefit plan is a business entity.

a. It is required by the U.S. Securities and Exchange Commission (SEC) to file or furnish financial statements, or does file or furnish financial statements (including voluntary filers), with the SEC (including other entities whose financial statements or financial information are required to be or are included in a filing).
b. It is required by the Securities Exchange Act of 1934 (the Act), as amended, or rules or regulations promulgated under the Act, to file or furnish financial statements with a regulatory agency other than the SEC.
c. It is required to file or furnish financial statements with a foreign or domestic regulatory agency in preparation for the sale of or for purposes of issuing securities that are not subject to contractual restrictions on transfer.
d. It has issued, or is a conduit bond obligor for, securities that are traded, listed, or quoted on an exchange or an over-the-counter market.
e. It has one or more securities that are not subject to contractual restrictions on transfer, and it is required by law, contract, or regulation to prepare U.S. GAAP financial statements (including footnotes) and make them publicly available on a periodic basis (for example, interim or annual periods). An entity must meet both of these conditions to meet this criterion.

An entity may meet the definition of a public business entity solely because its financial statements or financial information is included in another entity's filing with the SEC. In that case, the entity is only a public business entity for purposes of financial statements that are filed or furnished with the SEC.

Amendments to Subtopic 835-30

3. Amend paragraphs 835-30-45-1 through 45-1A, 835-30-45-3 through 45-4, and 835-30-55-8, with a link to transition paragraph 835-30-65-1, as follows:

Interest—Imputation of Interest

Other Presentation Matters

835-30-45-1 The guidance in this Section does not apply to the amortization of premium and discount of assets and liabilities that are reported at fair value and the debt issuance costs of liabilities that are reported at fair value.

835-30-45-1A The **discount** or **premium** resulting from the determination of present value in cash or noncash transactions is not an asset or liability separable from the note that gives rise to it. Therefore, the discount or premium shall be reported in the balance sheet as a direct deduction from or addition to the face amount of the note. Similarly, debt issuance costs related to a note shall be reported in the balance sheet as a direct deduction from the face amount of that note. The discount, premium, or debt issuance costs~~It~~ shall not be classified as a deferred charge or deferred credit.

835-30-45-2 The description of the note shall include the effective interest rate. The face amount shall also be disclosed in the financial statements or in the notes to the statements.

835-30-45-3 Amortization of discount or premium shall be reported as interest expense in the case of liabilities or as interest income in the case of assets. Amortization of debt issuance costs also shall be reported as interest expense.~~Issue costs shall be reported in the balance sheet as deferred charges.~~

835-30-45-4 See Example 2 (paragraph 835-30-55-8) for illustrations of balance sheet presentation of a discount and debt issuance costs on a note.

Implementation Guidance and Illustrations

> Illustrations

> > Example 2: Balance Sheet Presentation of Discounted Notes

835-30-55-8 This Example is an illustration of the guidance in paragraphs 835-30-45-1 through 45-3 related to the balance sheet presentation of notes that are discounted.

	~~December 31~~	
	~~1970~~	~~1969~~
~~Presentation 1—Discount presented in caption~~		
~~NOTE RECEIVABLE FROM SALE OF PROPERTY:~~		
~~$1,000,000 face amount, noninterest bearing, due December 31, 1975 (less unamortized discount based on imputed interest rate of 8%—1970, $320,000; 1969, $370,000)~~	~~$ 680,000~~	~~$ 630,000~~
~~Presentation 2—Discount presented separately~~		
~~NOTE RECEIVABLE FROM SALE OF PROPERTY:~~		
~~Noninterest bearing note due December 31, 1975~~	~~$ 1,000,000~~	~~$ 1,000,000~~
~~Less unamortized discount based on imputed interest rate of 8%~~	~~320,000~~	~~370,000~~
~~Note receivable less unamortized discount~~	~~$ 680,000~~	~~$ 630,000~~
~~Presentation 3—Several notes involved~~		
~~LONG-TERM DEBT (Note 1):~~		
~~Principal amount~~	~~$ 24,000,000~~	~~$ 24,000,000~~
~~Less unamortized discount~~	~~2,070,000~~	~~2,192,000~~
~~Long-term debt less unamortized discount~~	~~$ 21,930,000~~	~~$ 21,808,000~~

~~Note 1—Long-Term Debt~~

~~Long-term debt at December 31, 1970 consisted of the following:~~

	~~Principal~~	~~Unamortized Discount~~
~~6% subordinated debentures, due 1984 (discount is based on imputed interestrate of 7%)~~	~~$ 20,000,000~~	~~$ 1,750,000~~
~~6 1/2% bank loan, due 1973~~	~~3,000,000~~	
~~Noninterest bearing note issued in connection with acquisition of property, due 1975 (discount is based on imputed interest rate of 8%)~~	~~1,000,000~~	~~320,000~~
~~Total~~	~~$ 24,000,000~~	~~$ 2,070,000~~

[For ease of readability, the newly added table is not underlined.]

	December 31	
	20X2	**20X1**
Presentation 1—Discount presented in caption		
NOTE RECEIVABLE FROM SALE OF PROPERTY:		
$1,000,000 face amount, noninterest bearing, due December 31, 20X9 (less unamortized discount based on imputed interest rate of 8%—20X2, $320,000; 20X1, $370,000)	$ 680,000	$ 630,000
Presentation 2—Discount presented separately		
NOTE RECEIVABLE FROM SALE OF PROPERTY:		
Noninterest bearing note due December 31, 20X9	$ 1,000,000	$ 1,000,000
Less unamortized discount based on imputed interest rate of 8%	320,000	370,000
Note receivable less unamortized discount	$ 680,000	$ 630,000
Presentation 3—Several notes involved		
LONG-TERM DEBT (Note 1):		
Principal amount	$ 24,200,000	$ 24,200,000
Less unamortized discount and debt issuance costs	2,680,000	2,792,000
Long-term debt less unamortized discount and debt issuance costs	$ 21,520,000	$ 21,408,000

Note 1—Long-Term Debt
Long-term debt at December 31, 20X2, consisted of the following:

	Principal	**Unamortized Discount and Debt Issuance Costs**
6% subordinated debentures, due 20X9 (discount is based on imputed interest rate of 7%)	$ 20,000,000	$ 2,150,000
6 1/2% bank loan, due 20X7	3,000,000	120,000
Noninterest bearing note issued in connection with acquisition of property, due 20X9 (discount is based on imputed interest rate of 8%)	1,200,000	410,000
Total	$ 24,200,000	$ 2,680,000

4. Add paragraph 835-30-65-1 and its related heading as follows:

> Transition Related to Accounting Standards Update No. 2015-03, *Interest—Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs*

835-30-65-1 The following represents the transition and effective date information related to Accounting Standards Update No. 2015-03, *Interest—Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs:*

a. The pending content that links to this paragraph shall be effective as follows:
   1. For **public business entities**, for financial statements issued for fiscal years beginning after December 15, 2015, and interim periods within those fiscal years
   2. For all other entities, for financial statements issued for fiscal years beginning after December 15, 2015, and interim periods within fiscal years beginning after December 15, 2016.

b. Earlier application of the pending content that links to this paragraph is permitted for the financial statements that have not been previously issued.
c. An entity shall apply the pending content that links to this paragraph retrospectively to all prior periods presented.
d. An entity shall disclose in the first fiscal year after the entity's adoption date, and in the interim periods within the first fiscal year, the following:
    1. The nature of and reason for the change in accounting principle
    2. The transition method
    3. A description of the prior-period information that has been retrospectively adjusted
    4. The effect of the change on the financial statement line item (that is, the debt issuance cost asset and the debt liability).

5. Amend paragraph 835-30-00-1, by adding the following items to the table, as follows:

835-30-00-1 The following table identifies the changes made to this Subtopic.

Paragraph	**Action**	**Accounting Standards Update**	**Date**
Public Business Entity	Added	2015-03	04/07/2015
835-30-45-1	Amended	2015-03	04/07/2015
835-30-45-1A	Amended	2015-03	04/07/2015
835-30-45-3	Amended	2015-03	04/07/2015
835-30-45-4	Amended	2015-03	04/07/2015
835-30-55-8	Amended	2015-03	04/07/2015
835-30-65-1	Added	2015-03	04/07/2015

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 Board's considerations in reaching the conclusions in this Update. It includes reasons for accepting certain approaches and rejecting others. Individual Board members gave greater weight to some factors than to others.

BC2. The Board is issuing this Update as part of its initiative to reduce complexity in accounting standards (the Simplification Initiative). The objective of the Simplification Initiative is to identify, evaluate, and improve areas of generally accepted accounting principles for which cost and complexity can be reduced while maintaining or improving the usefulness of the information provided to users of the financial statements.

Background Information

BC3. At the August 13, 2014 Board meeting, the Board added to its agenda a project with the objective of simplifying the presentation of debt issuance costs. At that meeting, the Board tentatively decided to require that debt issuance costs be presented in the balance sheet as a direct deduction from the debt liability. On October 14, 2014, the Board issued proposed Accounting Standards Update, *Interest—Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Cost,* for public comment reflecting that decision. The Board received 28 comment letters addressing the questions included in the proposed Update. Overall, respondents supported presenting debt issuance costs as a direct deduction from the carrying amount of the debt liability.

Presentation

BC4. To simplify the presentation of debt issuance costs, the amendments in this Update require that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from that debt liability, consistent with the presentation of a debt discount. This presentation is consistent with the guidance in Concepts Statement 6, which states that debt issuance costs are similar to a debt discount and in effect reduce the proceeds of borrowing, thereby increasing the effective interest rate. Concepts Statement 6 further states that debt issuance costs are not assets because they provide no future economic benefit. This presentation also improves consistency with IFRS, which requires that transaction costs be deducted from the carrying value of the financial liability and not recorded as separate assets. The Board acknowledges that costs may be incurred before an associated debt liability is recorded in the financial statements (for example, the costs are incurred before the proceeds are received on a debt liability or costs incurred in association with undrawn line of credit). However, the Board did not consider providing explicit guidance in circumstances in which the proceeds have not yet been received because it observed that in practice entities defer issuance costs and apply them against the proceeds when they are received. For example, the accounting treatment for issuance costs associated with equity instruments is that the costs generally are deferred and charged against the gross proceeds of the offering (paragraph 340-10-S99-1).

BC5. The Board considered requiring that debt issuance costs be recognized as an expense in the period of borrowing, which is one of the options to account for those costs in Concepts Statement 6. The other option considered was to account for those costs as a valuation account presented as a deduction from the face amount of debt, which is the same as the guidance in the amendments in this Update. The Board rejected the alternative to expense debt issuance costs in the period of the borrowing. The Board concluded that this decision is consistent with the accounting treatment for issuance costs associated with equity instruments as noted in the preceding paragraph. Additionally, the Board concluded that accounting for debt issuance costs as an expense would be inconsistent with the guidance for recognition and measurement of debt discount or premium and loan origination costs and fees by a lender, which are all deferred and amortized using the interest method.

BC6. The Board concluded that the new guidance is limited to simplifying the presentation of debt issuance costs. The recognition and measurement guidance for debt issuance costs is not affected by the amendments in this Update. For example, guidance for debt issuance costs in accounting for conversion options (paragraph 470-20-30-13) or the accounting for the third-party costs of exchange or modification of debt instruments (paragraph 470-50-40-18) is not affected by the amendments in this Update.

BC7. The Board concluded that the recognition and measurement guidance in other Codification Topics that require debt issuance costs to be accounted for differently from debt discount has a different underlying basis. The guidance in the amendments in this Update is limited to clarifying whether the debt issuance costs are the debtor's assets. The Board acknowledged that entities will continue to track debt issuance costs separately from debt discount considering the guidance in other Codification Topics.

Private Company Council Feedback

BC8. During the exposure process, a majority of the Private Company Council members and certain other respondents that focus on private companies stated that they disagree with the guidance in this Update. Those respondents asserted that, in their view, the face amount of borrowings is the most relevant amount for the users of private company financial statements. They stated that requiring the amount of borrowing to be presented net of the debt issuance costs could be misleading to users of private company financial statements and would be a significant change for private company preparers. The Private Company Council presented two alternatives for the Board to consider for private companies. The first alternative would be to retain current GAAP and the second would require debt issuance costs to be expensed. There were mixed views from Private Company Council members on the alternatives. Five Private Company Council members support the second alternative, whereas four Private Company Council members support the first alternative. One Private Company Council member supports the guidance in the Update.

BC9. The Board discussed the feedback received from private company stakeholders during its redeliberations and decided to issue the amendments in this Update for the following reasons:

a. Different guidance for public business entities and for private companies would not meet the objective of this project, which is to simplify GAAP.
b. Retaining current GAAP would contradict the guidance in Concepts Statement 6.
c. After considering the guidance in current GAAP that requires the face amount of the borrowing to be disclosed in the financial statements or in the notes to the statements, the Board decided that such disclosure provides users of private company financial statements with the relevant information about the borrowings.
d. Neither of the alternatives presented by the Private Company Council would always result in presentation of the debt liability at the face amount because any debt discount or premium would continue to be netted against the borrowings.

Effective Date and Transition

BC10. The Board decided that public business entities are required to apply the amendments in this Update for financial statements issued for fiscal years beginning after December 15, 2015, and interim periods within those fiscal years. For all other entities, the Board decided that the amendments should be applied for financial statements issued for fiscal years beginning after December 15, 2015, and interim periods within fiscal years beginning after December 15, 2016. The Board also decided to permit early adoption. While deciding on the effective date, the Board considered that the amendment to current GAAP only affects presentation in the financial statements. The Board also considered stakeholders' feedback on the Exposure Draft that indicated that the amendments will not require significant time or cost to implement.

BC11. The Board decided that the amendments in this Update should be applied retrospectively to all prior periods presented in the financial statements. The Board concluded that a retrospective transition enhances the interperiod comparability of the financial information. Additionally, an entity will not incur significant costs for adopting the amendments because the information on debt issuance costs already is available in the financial statements. In reaching the conclusion to require retrospective application, the Board also considered that because both debt issuance costs and debt discount are amortized using the effective interest method, there would be no effect on the income statement upon adoption of the amendments.

BC12. The Board decided that an entity should be required to provide the applicable disclosures for a change in an accounting principle upon transition. Those disclosures include the nature of and reason for the change in accounting principle, the transition method, a description of the prior-period information that has been retrospectively adjusted, and the effect of the change on the financial statement line items (that is, debt issuance cost asset and the debt liability).

Benefits and Costs

BC13. 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. Present and potential investors, creditors, donors, and other users of financial information benefit from improvements in financial reporting, while the costs to implement new guidance are borne primarily by present investors. The Board'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.

BC14. The Board does not anticipate that entities will incur significant costs as a result of the amendments in this Update. The Board anticipates that the amendments in this Update will reduce complexity by allowing consistent presentation of debt issuance costs and debt discount or premium.

Amendments to the XBRL Taxonomy

The amendments to the *FASB Accounting Standards Codification*® in this Accounting Standards Update require changes to the U.S. GAAP Financial Reporting Taxonomy (Taxonomy). Those changes, which will be incorporated into the proposed 2016 Taxonomy, are available for public comment through ASU Taxonomy Changes provided at www.fasb.org, and finalized as part of the annual release process starting in September 2015.