

# FINANCIAL ACCOUNTING SERIES

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**FASB** ACCOUNTING STANDARDS UPDATE

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No. 2016-01  
January 2016

## Financial Instruments—Overall (Subtopic 825-10)

### Recognition and Measurement of Financial Assets and Financial Liabilities

An Amendment of the *FASB Accounting Standards Codification*®

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Financial Accounting Standards Board

The *FASB Accounting Standards Codification*<sup>®</sup> 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.

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# Summary

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

Before the global financial crisis that began in 2008, both the Financial Accounting Standards Board (FASB) and the International Accounting Standards Board (IASB) began a joint project to improve and to achieve convergence of their respective standards on the accounting for financial instruments. The global economic crisis further highlighted the need for improvement in the accounting models for financial instruments in today's complex economic environment. As a result, the main objective in developing this Update is enhancing the reporting model for financial instruments to provide users of financial statements with more decision-useful information.

The amendments in this Update address certain aspects of recognition, measurement, presentation, and disclosure of financial instruments. The Board also is addressing measurement of credit losses on financial assets in a separate project.

## Who Is Affected by the Amendments in This Update?

The amendments in this Update affect all entities that hold financial assets or owe financial liabilities.

## What Are the Main Provisions?

The amendments in this Update make targeted improvements to generally accepted accounting principles (GAAP) as follows:

1. Require equity investments (except those accounted for under the equity method of accounting or those that result in consolidation of the investee) to be measured at fair value with changes in fair value recognized in net income. However, an entity may choose to measure equity investments that do not have readily determinable fair values at cost minus impairment, if any, plus or minus changes resulting from observable price changes in orderly transactions for the identical or a similar investment of the same issuer.
2. Simplify the impairment assessment of equity investments without readily determinable fair values by requiring a qualitative assessment to identify impairment. When a qualitative assessment indicates that impairment exists, an entity is required to measure the investment at fair value.

3. Eliminate the requirement to disclose the fair value of financial instruments measured at amortized cost for entities that are not public business entities.
4. Eliminate the requirement for public business entities to disclose the method(s) and significant assumptions used to estimate the fair value that is required to be disclosed for financial instruments measured at amortized cost on the balance sheet.
5. Require public business entities to use the exit price notion when measuring the fair value of financial instruments for disclosure purposes.
6. Require an entity to present separately in other comprehensive income the portion of the total change in the fair value of a liability resulting from a change in the instrument-specific credit risk when the entity has elected to measure the liability at fair value in accordance with the fair value option for financial instruments.
7. Require separate presentation of financial assets and financial liabilities by measurement category and form of financial asset (that is, securities or loans and receivables) on the balance sheet or the accompanying notes to the financial statements.
8. Clarify that an entity should evaluate the need for a valuation allowance on a deferred tax asset related to available-for-sale securities in combination with the entity's other deferred tax assets.

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

The amendments in this Update supersede the guidance to classify equity securities with readily determinable fair values into different categories (that is, trading or available-for-sale) and require equity securities (including other ownership interests, such as partnerships, unincorporated joint ventures, and limited liability companies) to be measured at fair value with changes in the fair value recognized through net income. An entity's equity investments that are accounted for under the equity method of accounting or result in consolidation of an investee are not included within the scope of this Update. The amendments allow equity investments that do not have readily determinable fair values to be remeasured at fair value either upon the occurrence of an observable price change or upon identification of an impairment. The amendments also require enhanced disclosures about those investments. The amendments improve financial reporting by providing relevant information about an entity's equity investments and reducing the number of items that are recognized in other comprehensive income.

The amendments in this Update also simplify the impairment assessment of equity investments without readily determinable fair values by requiring assessment for impairment qualitatively at each reporting period. That impairment assessment is

similar to the qualitative assessment for long-lived assets, goodwill, and indefinite-lived intangible assets. Upon determining that impairment exists, an entity should calculate the fair value of that investment and recognize as an impairment in net income any amount by which the carrying value exceeds the fair value of the investment. This impairment assessment reduces the complexity of the other-than-temporary impairment guidance entities were required to follow before the issuance of this Update, thereby reducing cost for preparers of the financial statements.

The amendments in this Update exempt all entities that are not public business entities from disclosing fair value information for financial instruments measured at amortized cost. In addition, for public business entities, the amendments supersede the requirement to disclose the methods and significant assumptions used in calculating the fair value of financial instruments required to be disclosed for financial instruments measured at amortized cost on the balance sheet. Those changes to GAAP result in less cost for preparers in a way that balances the need to provide users of financial statements with information about the financial instruments.

The amendments in this Update require public business entities that are required to disclose fair value of financial instruments measured at amortized cost on the balance sheet to measure that fair value using the exit price notion consistent with Topic 820, Fair Value Measurement. This change to GAAP eliminates the entry price method previously used by some entities for disclosure purposes for some financial assets. Previously, GAAP permitted entities an option to measure fair value in two different ways. This change results in increased comparability between fair values of financial instruments held by different entities and provides users with more comparable information as compared with current practice.

The amendments in this Update require an entity to present separately in other comprehensive income the portion of the total change in the fair value of a liability resulting from a change in the instrument-specific credit risk when the entity has elected to measure the liability at fair value in accordance with the fair value option. That presentation addresses financial statement users' feedback that presenting the total change in fair value of a liability in net income reduced the decision usefulness of an entity's net income when it had a deterioration in its credit worthiness. This amendment excludes from net income gains or losses that the entity may not realize because those financial liabilities are not usually transferred or settled at their fair values before maturity.

The amendments in this Update require separate presentation of financial assets and financial liabilities by measurement category and form of financial asset (that is, securities or loans and receivables) on the balance sheet or in the accompanying notes to the financial statements. That presentation provides financial statement users with more decision-useful information about an entity's involvement in financial instruments.

The amendments in this Update reduce diversity in current practice by clarifying that an entity should evaluate the need for a valuation allowance on a deferred tax asset related to available-for-sale securities in combination with the entity's other deferred tax assets. The feedback received by the Board indicated that there is diversity in practice in that some entities evaluate the need for a valuation allowance on a deferred tax asset related to available-for-sale securities separately from their other deferred tax assets.

## When Will the Amendments Be Effective?

For public business entities, the amendments in this Update are effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. For all other entities including not-for-profit entities and employee benefit plans within the scope of Topics 960 through 965 on plan accounting, the amendments in this Update are effective for fiscal years beginning after December 15, 2018, and interim periods within fiscal years beginning after December 15, 2019. All entities that are not public business entities may adopt the amendments in this Update earlier as of the fiscal years beginning after December 15, 2017, including interim periods within those fiscal years.

Early application by public business entities to financial statements of fiscal years or interim periods that have not yet been issued or, by all other entities, that have not yet been made available for issuance of the following amendments in this Update are permitted as of the beginning of the fiscal year of adoption:

1. An entity should present separately in other comprehensive income the portion of the total change in the fair value of a liability resulting from a change in the instrument-specific credit risk if the entity has elected to measure the liability at fair value in accordance with the fair value option for financial instruments.
2. Entities that are not public business entities are not required to apply the fair value of financial instruments disclosure guidance in the General Subsection of Section 825-10-50.

Except for the early application guidance discussed above, early adoption of the amendments in this Update is not permitted.

An entity should apply the amendments by means of a cumulative-effect adjustment to the balance sheet as of the beginning of the fiscal year of adoption. The amendments related to equity securities without readily determinable fair values (including disclosure requirements) should be applied prospectively to equity investments that exist as of the date of adoption of the Update.

## How Do the Provisions Compare with International Financial Reporting Standards (IFRS)?

Although the FASB and the IASB worked jointly to improve the accounting for financial instruments and to achieve convergence on a single recognition and measurement model, the FASB decided to make only targeted improvements to GAAP and retain the current framework for accounting for financial instruments in GAAP. This decision was made after evaluating the potential costs and benefits of pursuing the changes that would result from complete convergence with IFRS 9, *Financial Instruments*. The FASB anticipated that additional standard setting would have been required to clarify the accounting model that was proposed by the Board in February 2013 and was similar to IFRS 9 in most aspects. The Board concluded that the cost and complexity introduced by that model are not justified by the benefits, particularly in light of the apparent limited change to the overall accounting outcomes in the classification and measurement model under IFRS 9 when compared with GAAP. Therefore, the Board decided to make targeted improvements to GAAP and to consider opportunities for convergence with IFRS.

Even though differences will exist between the guidance in GAAP and the guidance in IFRS related to the accounting for financial instruments, the amendments in this Update achieve convergence with IFRS in the following areas:

1. The amendment in this Update that requires an entity to present separately in other comprehensive income the portion of the total change in the fair value of a liability that results from a change in the instrument-specific credit risk for financial liabilities that the entity has elected to measure at fair value in accordance with the fair value option is the same as the guidance in IFRS 9 for those liabilities. However, the guidance on the type of liabilities that can be measured at fair value is different between GAAP and IFRS. In addition, the guidance in IFRS does not allow amounts recorded in other comprehensive income to be recycled to net income upon derecognition of the liability, whereas GAAP requires those amounts to be recycled to net income.
2. The amendment in this Update that requires most equity investments to be measured at fair value generally is consistent with the results of applying the guidance in IFRS 9. However, IFRS 9 allows an entity to make an irrevocable election at initial recognition to present subsequent changes in fair value in other comprehensive income (without recycling) for particular investments in equity instruments that otherwise are measured at fair value through profit or loss.
3. The amendment in this Update that clarifies that an entity should evaluate the need for a valuation allowance on a deferred tax asset related to available-for-sale securities in combination with the entity's other deferred tax assets is the same as the tentative decision that the IASB has reached on this issue when considering amendments to IAS 12, *Income Taxes*.



# Amendments to the *FASB Accounting Standards Codification*<sup>®</sup>

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## Introduction

1. The Accounting Standards Codification is amended as described in paragraphs 2–146. 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~~.

## Amendments to Master Glossary

2. Supersede the Master Glossary term *Equity Security* from Subtopics 320-10 and 958-320 as follows:

### **Equity Security (first definition)**

~~Any security representing an ownership interest in an entity (for example, common, preferred, or other capital stock) or the right to acquire (for example, warrants, rights, and call options) or dispose of (for example, put options) an ownership interest in an entity at fixed or determinable prices. The term equity security does not include any of the following:~~

- ~~a. Written equity options (because they represent obligations of the writer, not investments)~~
- ~~b. Cash settled options on equity securities or options on equity based indexes (because those instruments do not represent ownership interests in an entity)~~
- ~~c. Convertible debt or preferred stock that by its terms either must be redeemed by the issuing entity or is redeemable at the option of the investor.~~

3. Supersede the Master Glossary term *Readily Determinable Fair Value* from Subtopics 320-10, 958-320, and 958-325 as follows:

### **Readily Determinable Fair Value**

~~An equity security has a readily determinable fair value if it meets any of the following conditions:~~

- a. ~~The fair value of an equity security is readily determinable if sales prices or bid and ask quotations are currently available on a securities exchange registered with the U.S. Securities and Exchange Commission (SEC) or in the over the counter market, provided that those prices or quotations for the over the counter market are publicly reported by the National Association of Securities Dealers Automated Quotations systems or by the OTC Market Groups Inc. Restricted stock meets that definition if the restriction terminates within one year.~~
- b. ~~The fair value of an equity security traded only in a foreign market is readily determinable if that foreign market is of a breadth and scope comparable to one of the U.S. markets referred to above.~~
- c. ~~The fair value of an equity security that is an investment in a mutual fund or in a structure similar to a mutual fund (that is, a limited partnership or a venture capital entity) is readily determinable if the fair value per share (unit) is determined and published and is the basis for current transactions.~~

4. Supersede the following Master Glossary terms from Subtopic 825-10 as follows:

### **Conduit Debt Securities**

~~Certain limited obligation revenue bonds, certificates of participation, or similar debt instruments issued by a state or local governmental entity for the express purpose of providing financing for a specific third party (the conduit bond obligor) that is not a part of the state or local government's financial reporting entity. Although conduit debt securities bear the name of the governmental entity that issues them, the governmental entity often has no obligation for such debt beyond the resources provided by a lease or loan agreement with the third party on whose behalf the securities are issued. Further, the conduit bond obligor is responsible for any future financial reporting requirements.~~

### **Nonpublic Entity (fourth definition)**

An entity that does not meet any of the following conditions:

- a. ~~Its debt or equity securities trade in a public market either on a stock exchange (domestic or foreign) or in the over the counter market, including securities quoted only locally or regionally.~~
- b. ~~It is a conduit bond obligor for **conduit debt securities** that are traded in a public market (a domestic or foreign stock exchange or an over the counter market, including local or regional markets.~~
- c. ~~It files with a regulatory agency in preparation for the sale of any class of debt or equity securities in a public market.~~
- d. ~~It is controlled by an entity covered by the preceding criteria.~~

### **Publicly Traded Company (first definition)**

~~A publicly traded company includes any company whose securities trade in a public market on either of the following:~~

- ~~a. A stock exchange (domestic or foreign)~~
- ~~b. In the over the counter market (including securities quoted locally or regionally), or any company that is a conduit bond obligor for conduit debt securities that are traded in a public market (a domestic or foreign stock exchange or an over the counter market, including local or regional markets):~~

~~Additionally, when a company is required to file or furnish financial statements with the SEC or makes a filing with a regulatory agency in preparation for sale of its securities in a public market it is considered a publicly traded company for this purpose.~~

~~Conduit debt securities refers to certain limited obligation revenue bonds, certificates of participation, or similar debt instruments issued by a state or local governmental entity for the express purpose of providing financing for a specific third party (the conduit debt obligor) that is not a part of the of the state or local government's financial reporting entity. Although conduit debt securities bear the name of the governmental entity that issues them, the governmental entity often has no obligation for such debt beyond the resources provided by a lease or loan agreement with the third party on whose behalf the securities are issued. Further, the conduit bond obligor is responsible for any future financial reporting requirements.~~

5. Amend both definitions of the Master Glossary term *Equity Security*, with a link to transition paragraph 825-10-65-2, as follows:

### **Equity Security (first definition)**

Any security representing an ownership interest in an entity (for example, common, preferred, or other capital stock) or the right to acquire (for example, warrants, rights, forward purchase contracts, and call options) or dispose of (for example, put options and forward sale contracts) an ownership interest in an entity at fixed or determinable prices. The term equity security does not include any of the following:

- a. Written equity options (because they represent obligations of the writer, not investments)
- b. Cash-settled options on equity securities or options on equity-based indexes (because those instruments do not represent ownership interests in an entity)

- c. Convertible debt or preferred stock that by its terms either must be redeemed by the issuing entity or is redeemable at the option of the investor.

### **Equity Security (second definition)**

Any security representing an ownership interest in an entity (for example, common, preferred, or other capital stock) or the right to acquire (for example, warrants, rights, forward purchase contracts, and call options) or dispose of (for example, put options and forward sale contracts) an ownership interest in an entity at fixed or determinable prices. However, the term does not include convertible debt or preferred stock that by its terms either must be redeemed by the issuing entity or is redeemable at the option of the investor.

6. Add the Master Glossary term *Public Business Entity* to Subtopic 825-10 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 210-10

7. Amend paragraph 210-10-45-1, with a link to transition paragraph 825-10-65-2, as follows:

### Balance Sheet—Overall

### Other Presentation Matters

#### > Classification of Current Assets

**210-10-45-1 Current assets** generally include all of the following:

- a. Cash available for current operations and items that are **cash equivalents**
- b. Inventories of merchandise, raw materials, goods in process, finished goods, operating supplies, and ordinary maintenance material and parts
- c. Trade accounts, notes, and acceptances receivable
- d. Receivables from officers, employees, affiliates, and others, if collectible in the ordinary course of business within a year
- e. Installment or deferred accounts and notes receivable if they conform generally to normal trade practices and terms within the business
- f. Marketable securities representing the investment of cash available for current operations, ~~including investments in debt and equity securities classified as trading securities under Subtopic 320-10~~
- g. Prepaid expenses such as the following:
  1. Insurance
  2. Interest
  3. Rents
  4. Taxes
  5. Unused royalties
  6. Current paid advertising service not yet received
  7. Operating supplies.

## Amendments to Subtopic 220-10

8. Amend paragraphs 220-10-45-10A, 220-10-55-5, 220-10-55-7 through 55-8A, 220-10-55-9, 220-10-55-10A, 220-10-55-15 through 55-15C, 220-10-55-17C, 220-10-55-17E through 55-17F, and 220-10-55-19 through 55-20 and supersede

paragraphs 220-10-55-21 through 55-23 and their related heading, with a link to transition paragraph 825-10-65-2, as follows:

## **Comprehensive Income—Overall**

### **Other Presentation Matters**

#### **> > Items within Other Comprehensive Income**

**220-10-45-10A** Items of other comprehensive income include the following:

- a. Foreign currency translation adjustments (see paragraph 830-30-45-12)
- b. Gains and losses on foreign currency transactions that are designated as, and are effective as, economic hedges of a net investment in a foreign entity, commencing as of the designation date (see paragraph 830-20-35-3(a))
- c. Gains and losses on intra-entity foreign currency transactions that are of a long-term-investment nature (that is, settlement is not planned or anticipated in the foreseeable future), when the entities to the transaction are consolidated, combined, or accounted for by the equity method in the reporting entity's financial statements (see paragraph 830-20-35-3(b))
- d. Gains and losses (effective portion) on derivative instruments that are designated as, and qualify as, cash flow hedges (see paragraph 815-20-35-1(c))
- e. Unrealized holding gains and losses on available-for-sale debt securities (see paragraph 320-10-45-1)
- f. Unrealized holding gains and losses that result from a debt security being transferred into the available-for-sale category from the held-to-maturity category (see paragraph 320-10-35-10(c))
- g. Amounts recognized in other comprehensive income for debt securities classified as available-for-sale and held-to-maturity related to an other-than-temporary impairment recognized in accordance with Section 320-10-35 if a portion of the impairment was not recognized in earnings
- h. Subsequent decreases (if not an other-than-temporary impairment) or increases in the fair value of available-for-sale debt securities previously written down as impaired (see paragraph 320-10-35-18)
- i. Gains or losses associated with pension or other postretirement benefits (that are not recognized immediately as a component of net periodic benefit cost) (see paragraph 715-20-50-1(j))
- j. Prior service costs or credits associated with pension or other postretirement benefits (see paragraph 715-20-50-1(j))
- k. Transition assets or obligations associated with pension or other postretirement benefits (that are not recognized immediately as a component of net periodic benefit cost) (see paragraph 715-20-50-1(j)).

I. Changes in fair value attributable to instrument-specific credit risk of liabilities for which the fair value option is elected (see paragraph 825-10-45-5).

Additional classifications or additional items within current classifications may result from future accounting standards.

## **Implementation Guidance and Illustrations**

### **> Illustrations**

#### **> > Example 1: Presenting Comprehensive Income**

**220-10-55-5** Brackets are used to highlight certain basic totals that must be presented in financial statements to comply with the provisions of this Subtopic. This Subtopic requires not only presenting those certain basic totals but also reporting components of those aggregates. For example, among other items, it requires reporting information about unrealized gains and losses on available-for-sale debt securities, foreign currency items, gains or losses associated with pension or other postretirement benefits, prior service costs or credits associated with pension or other postretirement benefits, and transition assets or obligations associated with pension or other postretirement benefits.

#### **> > > Single Continuous Statement**

**220-10-55-7** The following illustrates the statement of comprehensive income for the year ended December 31, 201X, with other comprehensive income components shown net of tax effects.

**Entity XYZ**  
**Consolidated Statement of Comprehensive Income**  
**Year Ended December 31, 201X**

Revenues		\$ 140,000
Expenses		(65,700)
Other gains and losses		8,000
Gain on sale of securities		2,500
Income from operations before tax		<u>84,800</u>
Income tax expense		<u>(21,200)</u>
[Net income		<u>63,600 ]</u>
Less: net income attributable to the noncontrolling interest	\$ (12,720)	
Net income attributable to Entity XYZ shareholders	<u>50,880</u>	
Earnings per share		
Basic and diluted	0.46	
Other comprehensive income, net of tax:		
Foreign currency translation adjustments <sup>(a)</sup>		8,000
Unrealized gains on <u>debt</u> securities: <sup>(b)</sup>		
Unrealized holding gains arising during period	13,000	
Less: reclassification adjustment for gains included in net income	<u>(1,500)</u>	11,500
Defined benefit pension plans: <sup>(c)</sup>		
Prior service cost arising during period	(1,600)	
Net loss arising during period	(1,000)	
Less: amortization of prior service cost included in net periodic pension cost	<u>100</u>	<u>(2,500)</u>
[Other comprehensive income		<u>17,000 ]</u>
[Comprehensive income		<u>\$ 80,600 ]</u>
Less: comprehensive income attributable to the noncontrolling interest		<u>(16,120)</u>
Comprehensive income attributable to Entity XYZ shareholders		<u><u>\$ 64,480</u></u>

(a) It is assumed that there was no sale or liquidation of an investment in a foreign entity. Therefore, there is no reclassification adjustment for this period.

(b) This illustrates the gross display of amounts reclassified out of accumulated other comprehensive income. Alternatively, a net display can be used, with disclosure of the gross amounts (current-period gain and reclassification adjustment) in the notes to the financial statements.

(c) This illustrates the gross display of amounts reclassified out of accumulated other comprehensive income. Alternatively, a net display can be used, with disclosure of the gross amounts (prior service cost and net loss for the defined benefit pension plans less amortization of prior service cost) in the notes to the financial statements.

**220-10-55-8** Alternatively, components of other comprehensive income could be presented before tax with one amount shown for the aggregate income tax expense or benefit, as shown in the following single continuous statement of comprehensive income.

**Entity XYZ**  
**Consolidated Statement of Comprehensive Income**  
**Year Ended December 31, 201X**

Revenues		\$ 140,000
Expenses		(65,700)
Other gains and losses		8,000
Gain on sale of securities		2,500
Income from operations before tax		<u>84,800</u>
Income tax expense		<u>(21,200)</u>
<b>[Net income</b>		<b>63,600 ]</b>
Less: net income attributable to the noncontrolling interest	<u>\$ (12,720)</u>	
Net income attributable to Entity XYZ shareholders	<u>50,880</u>	
Earnings per share		
Basic and diluted	0.46	
Other comprehensive income, before tax		
Foreign currency translation adjustments <sup>(a)</sup>		10,666
Unrealized gains on <del>debt</del> securities: <sup>(b)</sup>		
Unrealized holding gains arising during period	17,333	
Less: reclassification adjustment for gains included in net income	<u>(2,000)</u>	15,333
Defined benefit pension plans: <sup>(c)</sup>		
Prior service cost arising during period	(2,133)	
Net loss arising during period	(1,333)	
Less: amortization of prior service cost included in net periodic pension cost	<u>133</u>	<u>(3,333)</u>
Other comprehensive income, before tax		22,666
[Income tax expense related to items of other comprehensive income		<u>(5,666) ]</u>
[Other comprehensive income, net of tax		<u>17,000 ]</u>
[Comprehensive income		80,600 ]
Less: comprehensive income attributable to the noncontrolling interest		<u>(16,120)</u>
Comprehensive income attributable to Entity XYZ shareholders		<u>\$ 64,480</u>

- (a) It is assumed that there was no sale or liquidation of an investment in a foreign entity. Therefore, there is no reclassification adjustment for this period.
- (b) This illustrates the gross display of amounts reclassified out of accumulated other comprehensive income. Alternatively, a net display can be used, with disclosure of the gross amounts (current-period gain and reclassification adjustment) in the notes to the financial statements.
- (c) This illustrates the gross display of amounts reclassified out of accumulated other comprehensive income. Alternatively, a net display can be used, with disclosure of the gross amounts (prior service cost and net loss for the defined benefit pension plans less amortization of prior service cost) in the notes to the financial statements.

**> > > Required Disclosure of Related Tax Effects Allocated to Each Component of Other Comprehensive Income**

**220-10-55-8A** The following table illustrates disclosure of the tax effects allocated to each component of other comprehensive income in the notes to financial statements for the year ended December 31, 201X.

**Entity XYZ**  
**Notes to Financial Statements**  
**Year Ended December 31, 201X**

	<b>Before-Tax Amount</b>	<b>Tax (Expense) or Benefit</b>	<b>Net-of-Tax Amount</b>
Foreign currency translation adjustments	\$ 10,666	\$ (2,666)	\$ 8,000
Unrealized gains on <u>debt</u> securities:			
Unrealized holding gains arising during period	17,333	(4,333)	13,000
Less: reclassification adjustment for gains realized in net income	(2,000)	500	(1,500)
Net unrealized gains	15,333	(3,833)	11,500
Defined benefit pension plans:			
Prior service cost from plan amendment during period	(2,133)	533	(1,600)
Less: amortization of prior service cost included in net periodic pension cost	133	(33)	100
Net prior service cost arising during period	(2,000)	500	(1,500)
Net loss arising during period	(1,333)	333	(1,000)
Defined benefit pension plans, net	(3,333)	833	(2,500)
Other comprehensive income	\$ 22,666	\$ (5,666)	\$ 17,000

**> > Two-Statement Approach**

**220-10-55-9** The following illustrates the statements of net income and other comprehensive income for the year ended December 31, 201X, with other comprehensive income components presented net of tax effects.

**Entity XYZ**  
**Consolidated Statement of Income**  
**Year Ended December 31, 201X**

Revenues	\$ 140,000
Expenses	(65,700)
Other gains and losses	8,000
Gain on sale of securities	2,500
Income from operations before tax	84,800
Income tax expense	(21,200)
<b>[Net income</b>	<b>63,600 ]</b>

**Entity XYZ**  
**Statement of Consolidated Comprehensive Income**  
**Year Ended December 31, 201X**

Net income		\$ 63,600
Other comprehensive income, net of tax:		
Foreign currency translation adjustments <sup>(a)</sup>		8,000
Unrealized gains on <u>debt</u> securities: <sup>(b)</sup>		
Unrealized holding gains arising during period	\$ 13,000	
Less: reclassification adjustment for gains included in net income	(1,500)	11,500
Defined benefit pension plans: <sup>(c)</sup>		
Prior service cost arising during period	(1,600)	
Net loss arising during period	(1,000)	
Less: amortization of prior service cost included in net periodic pension cost	100	(2,500)
[Other comprehensive income		17,000 ]
[ Comprehensive income		80,600 ]
Less: comprehensive income attributable to the noncontrolling interest		(16,120)
Comprehensive income attributable to Entity XYZ shareholders		<u>\$ 64,480</u>

(a) It is assumed that there was no sale or liquidation of an investment in a foreign entity. Therefore, there is no reclassification adjustment for this period.

(b) This illustrates the gross display of amounts reclassified out of accumulated other comprehensive income. Alternatively, a net display can be used, with disclosure of the gross amounts (current-period gain and reclassification adjustment) in the notes to the financial statements.

(c) This illustrates the gross display of amounts reclassified out of accumulated other comprehensive income. Alternatively, a net display can be used, with disclosure of the gross amounts (prior service cost and net loss for the defined benefit pension plans less amortization of prior service cost) in the notes to the financial statements.

**> > Example 2: Presenting Accumulated Other Comprehensive Income**

**> > > Statement of Financial Position**

**220-10-55-10A** The following table illustrates the presentation of accumulated other comprehensive income in the statement of financial position, as discussed in paragraph 220-10-45-14.

**Entity XYZ**  
**Consolidated Statement of Financial Position**  
**December 31, 201X**

Assets:

Cash	\$ 150,000
Accounts receivable	175,000
Available-for-sale <u>debt</u> securities	112,000
Plant and equipment	985,000
Total assets	\$ 1,422,000

Liabilities:

Accounts payable	\$ 112,500
Accrued liabilities	78,233
Liability for pension benefits	130,667
Notes payable	318,500
Total liabilities	\$ 639,900

Equity:

Common stock	\$ 200,000
Paid-in capital	400,000
Retained earnings	111,680
[ Accumulated other comprehensive income	32,000 ]
Total Entity XYZ shareholders' equity	743,680
Noncontrolling interest	38,420
Total equity	782,100
Total liabilities and equity	\$ 1,422,000

**> > > Disclosure of Changes in Accumulated Other Comprehensive Income Balances**

**220-10-55-15** The following table illustrates the disclosure of changes in the balances of each component of accumulated other comprehensive income, as required by paragraph 220-10-45-14A. The amounts in this illustration correspond to the amounts in the Example in paragraph 220-10-55-17E and demonstrate the relationship between the requirements in paragraph 220-10-45-14A and the requirements in paragraph 220-10-45-17B for this entity.

**Entity XYZ**  
**Notes to Financial Statements**  
**Changes in Accumulated Other Comprehensive Income by Component <sup>(a)</sup>**  
**For the Period Ended December 31, 201X**

	<b>Gains and Losses on Cash Flow Hedges</b>	<b>Unrealized Gains and Losses on Available-for- Sale <u>Debt</u> Securities</b>	<b>Defined Benefit Pension Items</b>	<b>Foreign Currency Items</b>	<b>Total</b>
Beginning balance	\$ (1,200)	\$ 1,000	\$ (8,800)	\$ 1,300	\$ (7,700)
Other comprehensive income before reclassifications	3,000	2,500	(3,000)	1,000	3,500
Amounts reclassified from accumulated other comprehensive income	(750)	(1,500)	4,500	-	2,250
Net current-period other comprehensive income	2,250	1,000	1,500	1,000	5,750
Ending balance	\$ 1,050	\$ 2,000	\$ (7,300)	\$ 2,300	\$ (1,950)

(a) All amounts are net of tax. Amounts in parentheses indicate debits.

**220-10-55-15A** The following table illustrates the disclosure of changes in the balances of each component of accumulated other comprehensive income, as required by paragraph 220-10-45-14A. The amounts in this illustration correspond to the amounts in the Example in paragraph 220-10-55-17F.

**Entity ABC**  
**Notes to Financial Statements**  
**Changes in Accumulated Other Comprehensive Income by Component <sup>(a)</sup>**  
**For the Period Ended December 31, 201X**

	<b>Gains and Losses on Cash Flow Hedges</b>	<b>Unrealized Gains and Losses on Available-for- Sale <u>Debt</u> Securities</b>	<b>Total</b>
Beginning balance	\$ (5,000)	\$ 8,000	\$ 3,000
Other comprehensive income before reclassifications	7,000	8,000	15,000
Amounts reclassified from accumulated other comprehensive income	(2,250)	(3,000)	(5,250)
Net current-period other comprehensive income	4,750	5,000	9,750
Ending balance	\$ (250)	\$ 13,000	\$ 12,750

(a) All amounts are net of tax. Amounts in parentheses indicate debits.

**220-10-55-15B** The presentation of unrealized gains and losses on available-for-sale debt securities illustrated in paragraphs 220-10-55-15 through 55-15A is aggregated for simplicity and, therefore, does not necessarily comply with all of the disclosures that may be required in Topic 320 (for example, disclosures about other-than-temporary-impairments in paragraph 320-10-45-9A).

**220-10-55-15C** For life insurers, amounts reclassified out of accumulated other comprehensive income exclude changes in unrealized gains and losses on available-for-sale debt securities associated with direct adjustments made to deferred acquisition costs, certain intangible assets, and policy liabilities necessary to reflect these balances as if such unrealized gains and losses were realized.

**> > > Disclosure of Amounts Reclassified Out of Accumulated Other Comprehensive Income**

**220-10-55-17C** A life insurer may make adjustments to unrealized gains and losses on available-for-sale debt securities for the effect on relevant assets and liabilities (as specified in paragraph 320-10-S99-2 for public entities) as if the unrealized gains and losses had been realized. In such cases, the life insurer should cross-reference to the related notes.

**220-10-55-17E** The following illustrates a disclosure in a tabular format of significant amounts reclassified out of each component of accumulated other comprehensive income, as required by paragraph 220-10-45-17B. The amounts used in this Example correspond to those in the Example in paragraph 220-10-55-15.

Entity XYZ  
Notes to Financial Statements  
Reclassifications Out of Accumulated Other Comprehensive Income <sup>(a)</sup>  
For the Period Ended December 31, 201X

Details about Accumulated Other Comprehensive Income Components	Amount Reclassified from Accumulated Other Comprehensive Income	Affected Line Item in the Statement Where Net Income Is Presented
Gains and losses on cash flow hedges		
Interest rate contracts	\$ 1,000	Interest income/(expense)
Credit derivatives	(500)	Other income/(expense)
Foreign exchange contracts	2,500	Sales/revenue
Commodity contracts	(2,000)	Cost of sales
	1,000	Total before tax
	(250)	Tax (expense) or benefit
	<u>\$ 750</u>	Net of tax
Unrealized gains and losses on available-for-sale debt securities		
	\$ 2,300	Realized gain/(loss) on sale of securities
	(285)	Impairment expense
Insignificant items	(15)	
	2,000	Total before tax
	(500)	Tax (expense) or benefit
	<u>\$ 1,500</u>	Net of tax
Amortization of defined benefit pension items		
Prior-service costs	\$ (2,000) <sup>(b)</sup>	
Transition obligation	(2,500) <sup>(b)</sup>	
Actuarial gains/(losses)	(1,500) <sup>(b)</sup>	
	(6,000)	Total before tax
	1,500	Tax (expense) or benefit
	<u>\$ (4,500)</u>	Net of tax
Total reclassifications for the period	<u>\$ (2,250)</u>	Net of tax

(a) Amounts in parentheses indicate debits to profit/loss.

(b) These accumulated other comprehensive income components are included in the computation of net periodic pension cost (see pension footnote for additional details).

**220-10-55-17F** The following illustrates presentation of the effect on certain line items of net income of significant amounts reclassified out of each component of accumulated other comprehensive income, as required by paragraph 220-10-45-17A. The amounts in this Example agree with the amounts in the Example in paragraph 220-10-55-15A. This presentation should only be used if all significant reclassifications out of accumulated other comprehensive income are reclassified to net income in their entirety in the same reporting period.

**Entity ABC  
Statement of Income  
For the Period Ended December 31, 201X**

Revenues (includes \$4,000 accumulated other comprehensive income reclassifications for net gains on cash flow hedges)	\$ 122,500
Expenses (includes (\$1,000) accumulated other comprehensive income reclassifications for net losses on cash flow hedges)	(32,000)
Other gains and losses	5,000
Gain on sale of securities (includes \$4,000 accumulated other comprehensive income reclassifications for unrealized net gains on available-for-sale <u>debt securities</u> )	<u>4,000</u>
Income from operations before tax	99,500
Income tax expense (includes (\$1,750) income tax expense from reclassification items)	<u>(24,875)</u>
Net income	<u>\$ 74,625</u>

**> > Example 3: Determination and Presentation of Reclassification Adjustments**

**220-10-55-19** The following Case illustrates ~~Cases provide illustrations of~~ the calculation of reclassification adjustments for available-for-sale debt securities under paragraphs 320-10-50-1 through 50-5. ~~They are~~ It is intended as illustrations an illustration only; they do it does not represent an actual situation situations:

- a. Subparagraph superseded by Accounting Standards Update No. 2016-01, Available-for-sale equity securities (Case A)
- b. Available-for-sale debt securities (Case B).

**220-10-55-20** ~~Cases A and Case B involve~~ involves a nonpublic entity that follows the practice of recognizing all unrealized gains and losses on available-for-sale debt securities in other comprehensive income before recognizing them as realized gains and losses in net income. Therefore, the before-tax amount of the reclassification adjustment recognized in other comprehensive income is equal to, but opposite in sign from, the amount of the realized gain or loss recognized in net income.

**>>> Case A: Available-for-Sale Equity Securities**

**220-10-55-21 Paragraph superseded by Accounting Standards Update No. 2016-01.** The available-for-sale equity securities in this Case appreciate in fair value. On December 31, 1997, Entity purchased 1,000 shares of equity securities at \$10 per share, which it classified as available for sale. The fair value of the securities at December 31, 1998, and December 31, 1999, was \$12 and \$15, respectively. There were no dividends declared on the securities that were sold on December 31, 1999. A tax rate of 30 percent is assumed.

**220-10-55-22 Paragraph superseded by Accounting Standards Update No. 2016-01/2016-01.** The following table illustrates the calculation of holding gains.

**Calculation of Holding Gains**

	<u>Before Tax</u>	<u>Income Tax</u>	<u>Net of Tax</u>
Holding-gains-recognized-in-other-comprehensive-income:			
Year ended December 31, 1998	\$ 2,000	\$ 600	\$ 1,400
Year ended December 31, 1999	<u>3,000</u>	<u>900</u>	<u>2,100</u>
Total gain	<u>\$ 5,000</u>	<u>\$ 1,500</u>	<u>\$ 3,500</u>

**220-10-55-23 Paragraph superseded by Accounting Standards Update No. 2016-01.** The following table illustrates the amounts reported in net income and other comprehensive income for the years ended December 31, 1998, and December 31, 1999.

**Amounts Reported in Net Income  
and Other Comprehensive Income  
for the Years Ended December 31, 1998 and December 31, 1999**

	<u>1998</u>	<u>1999</u>
Net income:		
Gain on sale of securities		\$ 5,000
Income tax expense		<u>(1,500)</u>
Net gain realized in net income		<u>3,500</u>
Other comprehensive income:		
Holding gain arising during period, net of tax	\$ 1,400	2,100
Reclassification adjustment, net of tax	<u>—</u>	<u>(3,500)</u>
Net gain (loss) recognized in other comprehensive income	<u>1,400</u>	<u>(1,400)</u>
Total impact on comprehensive income	<u>\$ 1,400</u>	<u>\$ 2,100</u>

## Amendments to Subtopic 230-10

9. Amend paragraphs 230-10-45-11 through 45-13, 230-10-45-19, and 230-10-45-21, with a link to transition paragraph 825-10-65-2, as follows:

### Statement of Cash Flows—Overall

#### Other Presentation Matters

##### > Classification

##### > > Cash Flows from Investing Activities

**230-10-45-11** Cash flows from purchases, sales, and maturities of available-for-sale debt securities shall be classified as cash flows from **investing activities** and reported gross in the statement of cash flows.

**230-10-45-12** All of the following are cash inflows from investing activities:

- a. Receipts from collections or sales of loans made by the entity and of other entities' debt instruments (other than cash equivalents, certain debt instruments that are acquired specifically for resale as discussed in paragraph 230-10-45-21, and certain donated debt instruments received by not-for-profit entities (NFPs) as discussed in paragraph 230-10-45-21A)
- b. Receipts from sales of equity instruments of other entities (other than certain equity instruments carried in a trading account as described in paragraph ~~230-10-45-18~~230-10-45-19 and certain donated equity instruments received by NFPs as discussed in paragraph 230-10-45-21A) and from returns of investment in those instruments
- c. Receipts from sales of property, plant, and equipment and other productive assets
- d. Subparagraph not used
- e. Receipts from sales of loans that were not specifically acquired for resale. That is, if loans were acquired as investments, cash receipts from sales of those loans shall be classified as investing cash inflows regardless of a change in the purpose for holding those loans.

For purposes of this paragraph, receipts from disposing of loans, debt or equity instruments, or property, plant, and equipment include directly related proceeds of insurance settlements, such as the proceeds of insurance on a building that is damaged or destroyed.

**230-10-45-13** All of the following are cash outflows for investing activities:

- a. Disbursements for loans made by the entity and payments to acquire debt instruments of other entities (other than cash equivalents and certain debt instruments that are acquired specifically for resale as discussed in paragraph 230-10-45-21)
- b. Payments to acquire equity instruments of other entities (other than certain equity instruments carried in a trading account as described in ~~paragraphs~~ paragraph 230-10-45-18 through 45-19)
- c. Payments at the time of purchase or soon before or after purchase to acquire property, plant, and equipment and other productive assets, including interest capitalized as part of the cost of those assets. Generally, only advance payments, the down payment, or other amounts paid at the time of purchase or soon before or after purchase of property, plant, and equipment and other productive assets are investing cash outflows. However, incurring directly related debt to the seller is a financing transaction (see paragraphs 230-10-45-14 through 45-15), and subsequent payments of principal on that debt thus are financing cash outflows.

## > > Acquisitions and Sales of Certain Securities and Loans

**230-10-45-18** Banks, brokers and dealers in securities, and other entities may carry securities and other assets in a trading account. Characteristics of trading account activities are described in Topics 255 and 940.

**230-10-45-19** Cash receipts and cash payments resulting from purchases and sales of securities classified as trading debt securities accounted for in accordance with as discussed in Topic 320 and equity securities accounted for in accordance with Topic 321 shall be classified pursuant to this Topic based on the nature and purpose for which the securities were acquired.

**230-10-45-20** Cash receipts and cash payments resulting from purchases and sales of other securities and other assets shall be classified as operating cash flows if those assets are acquired specifically for resale and are carried at **fair value** in a trading account.

**230-10-45-21** Some loans are similar to debt securities in a trading account in that they are originated or purchased specifically for resale and are held for short periods of time. Cash receipts and cash payments resulting from acquisitions and sales of loans also shall be classified as operating cash flows if those loans are acquired specifically for resale and are carried at fair value or at the lower of cost or fair value. For example, mortgage loans held for sale are required to be reported at the lower of cost or fair value in accordance with Topic 948.

10. Amend paragraph 230-10-60-2 and its related heading and add paragraph 230-10-60-2A and its related heading, with a link to transition paragraph 825-10-65-2, as follows:

## Relationships

### > ~~Investments—Debt and Equity Securities~~

**230-10-60-2** For guidance on classification and reporting in the statement of cash flows of cash flows from available-for-sale, held-to-maturity, and trading debt securities, see Topic 320.

### > Investments—Equity Securities

**230-10-60-2A** For guidance on classification and reporting in the statement of cash flows of cash flows from equity securities, see Topic 321 on investments—equity securities.

## Amendments to Subtopic 270-10

11. Amend paragraph 270-10-50-1, with a link to transition paragraph 825-10-65-2, as follows:

## Interim Reporting—Overall

### Disclosure

#### > **Disclosure of Summarized Interim Financial Data by Publicly Traded Companies**

**270-10-50-1** Many **publicly traded companies** report summarized financial information at periodic interim dates in considerably less detail than that provided in annual financial statements. While this information provides more timely information than would result if complete financial statements were issued at the end of each interim period, the timeliness of presentation may be partially offset by a reduction in detail in the information provided. As a result, certain guides as to minimum disclosure are desirable. (It should be recognized that the minimum disclosures of summarized interim financial data required of publicly traded companies do not constitute a fair presentation of financial position and results of operations in conformity with generally accepted accounting principles [GAAP]). If publicly traded companies report summarized financial information at interim dates (including reports on fourth quarters), the following data should be reported, as a minimum:

- a. Sales or gross revenues, provision for income taxes, net income, and comprehensive income
- b. Basic and diluted earnings per share data for each period presented, determined in accordance with the provisions of Topic 260
- c. Seasonal revenue, costs or expenses (see paragraph 270-10-45-11)
- d. Significant changes in estimates or provisions for income taxes (see paragraphs 740-270-30-2, 740-270-30-6, and 740-270-30-8)
- e. Disposal of a component of an entity and unusual or infrequently occurring items (see paragraphs 270-10-45-11A and 270-10-50-5)
- f. Contingent items (see paragraph 270-10-50-6)
- g. Changes in accounting principles or estimates (see paragraphs 270-10-45-12 through 45-16)
- h. Significant changes in financial position (see paragraph 270-10-50-4)
- i. All of the following information about reportable operating segments determined according to the provisions of Topic 280, including provisions related to restatement of segment information in previously issued financial statements:
  - 1. Revenues from external customers
  - 2. Intersegment revenues
  - 3. A measure of segment profit or loss
  - 4. Total assets for which there has been a material change from the amount disclosed in the last annual report
  - 5. A description of differences from the last annual report in the basis of segmentation or in the measurement of segment profit or loss
  - 6. A reconciliation of the total of the reportable segments' measures of profit or loss to the entity's consolidated income before income taxes and discontinued operations. However, if, for example, an entity allocates items such as income taxes to segments, the entity may choose to reconcile the total of the segments' measures of profit or loss to consolidated income after those items. Significant reconciling items shall be separately identified and described in that reconciliation.
- j. All of the following information about defined benefit pension plans and other defined benefit postretirement benefit plans, disclosed for all periods presented pursuant to the provisions of Subtopic 715-20:
  - 1. The amount of net periodic benefit cost recognized, for each period for which a statement of income is presented, showing separately the service cost component, the interest cost component, the expected return on plan assets for the period, the gain or loss component, the prior service cost or credit component, the transition asset or obligation component, and the gain or loss recognized due to a settlement or curtailment
  - 2. The total amount of the employer's contributions paid, and expected to be paid, during the current fiscal year, if significantly different from amounts previously disclosed pursuant to paragraph 715-20-50-1.

Estimated contributions may be presented in the aggregate combining all of the following:

- i. Contributions required by funding regulations or laws
  - ii. Discretionary contributions
  - iii. Noncash contributions.
- k. The information about the use of fair value to measure assets and liabilities recognized in the statement of financial position pursuant to Section 820-10-50
  - l. The information about derivative instruments as required by Sections 815-10-50, 815-20-50, 815-25-50, 815-30-50, and 815-35-50
  - m. The information about ~~fair value of~~ financial instruments as required by Section 825-10-50
  - n. The information about certain investments in debt and equity securities as required by Sections 320-10-50, ~~321-10-50~~, and 942-320-50
  - o. The information about other-than-temporary impairments as required by Sections 320-10-50, 325-20-50, and 958-320-50 and impairments as required by Section 321-10-50
  - p. All of the following information about the credit quality of **financing receivables** and the allowance for credit losses determined in accordance with the provisions of Topic 310:
    1. Nonaccrual and past due financing receivables (see paragraphs 310-10-50-5A through 50-7B)
    2. Allowance for credit losses related to financing receivables (see paragraphs 310-10-50-11A through 50-11C)
    3. Impaired loans (see paragraphs 310-10-50-14A through 50-15)
    4. Credit-quality information related to financing receivables (see paragraphs 310-10-50-27 through 50-30)
    5. Modifications of financing receivables (see paragraphs 310-10-50-31 through 50-34).
  - q. The gross information and net information required by paragraphs 210-20-50-1 through 50-6.
  - r. The information about changes in accumulated other comprehensive income required by paragraphs 220-10-45-14A and 220-10-45-17 through 45-17B.
  - s. The carrying amount of foreclosed residential real estate property as required by the last sentence of paragraph 310-10-50-11 and the amount of loans in the process of foreclosure as required by paragraph 310-10-50-35.

If summarized financial data are regularly reported on a quarterly basis, the foregoing information with respect to the current quarter and the current year-to-date or the last 12 months to date should be furnished together with comparable data for the preceding year.

## Amendments to Subtopic 310-10

12. Amend paragraphs 310-10-45-11 and 310-10-50-26, with a link to transition paragraph 825-10-65-2, as follows:

### Receivables—Overall

#### Other Presentation Matters

##### > Cash Flows

**310-10-45-11** Paragraph 230-10-45-11 states that cash flows from purchases, sales, and maturities of available-for-sale debt securities shall be classified as cash flows from investing activities and reported gross in the statement of cash flows. Paragraph 230-10-45-21 states that some loans are similar to debt securities in a trading account in that they are originated or purchased specifically for resale and are held for short periods of time.

#### Disclosure

##### > Fair Value Disclosures

**310-10-50-26** Section 825-10-50 provides guidance on the required disclosure of fair values of certain assets and liabilities. Paragraph ~~825-10-50-88~~825-10-50-14 explains that, for trade receivables and payables, no disclosure is required under that Subtopic if the trade receivable or payable is due in one year or less~~carrying amount approximates fair value.~~

## Amendments to Topic 320

13. Amend the title of Topic 320 and add the General Note as follows:

**General Note on Investments—Debt and Equity Securities:** Upon the effective date of Accounting Standards Update No. 2016-01, the title of this Topic will change to Investments—Debt Securities.

### Investments—Debt and Equity Securities

#### Overview and Background

14. Amend paragraphs 320-10-05-1 through 05-2, with a link to transition paragraph 825-10-65-2, as follows:

**320-10-05-1** The Codification contains several Topics for investments due to the differing accounting treatment for various forms of investment. The Topics include:

- a. Topic 320, Investments—Debt and Equity Securities
- aa. Topic 321, Investments—Equity Securities
- b. Topic 323, Investments—Equity Method and Joint Ventures
- c. Topic 325, Investments—Other.

**320-10-05-2** This Subtopic addresses the accounting and reporting for all investments in **debt securities**, both of the following:

- a. Subparagraph superseded by Accounting Standards Update No. 2016-01, Investments in **equity securities that have readily determinable fair values**
- b. Subparagraph superseded by Accounting Standards Update No. 2016-01, All investments in **debt securities**.

15. Amend paragraphs 320-10-15-1 through 15-5 and 320-10-15-7 and add paragraph 320-10-15-7A, with a link to transition paragraph 825-10-65-2, as follows:

## Scope and Scope Exceptions

### > Overall Guidance

**320-10-15-1** The Scope Section of the Overall Subtopic establishes the pervasive scope for the Investments—Debt and Equity Securities Topic.

### > Entities

**320-10-15-2** The guidance in the Investments—Debt and Equity Securities Topic applies to all entities, including the following entities that are not deemed to belong to specialized industries for purposes of this Topic:

- a. Cooperatives and mutual entities (such as credit unions and mutual insurance entities)
- b. Trusts that do not report substantially all of their **debt securities securities** at fair value.

**320-10-15-3** The guidance in this Topic does not apply to the following entities:

- a. Entities in certain specialized industries. Entities whose specialized accounting practices include accounting for substantially all investments in **debt securities and equity securities** at fair value, with changes in value recognized in earnings (income) or in the change in net assets. Examples of those entities are:

1. Brokers and dealers in securities (Topic 940)
2. Defined benefit pension and other postretirement plans (Topics 960, 962, and 965)
3. Investment companies (Topic 946).

**320-10-15-4** Paragraphs 320-10-35-17 through 35-34 provide guidance on identifying and accounting for impairment of certain securities and identifies the scope application of that guidance to not-for-profit entities (NFPs). No other part of this Topic applies to NFPs. Subtopic 958-320 establishes standards for investments in debt ~~and equity~~ securities by NFPs.

### > Instruments

**320-10-15-5** The guidance in the Investments—~~Debt and Equity~~ Securities Topic establishes standards of financial accounting and reporting for all investments in debt securities, including those resulting from the securitization of other financial instruments, both of the following:

- a. Subparagraph superseded by Accounting Standards Update No. 2016-01. Investments in equity securities that have **readily determinable fair values**
- b. Subparagraph superseded by Accounting Standards Update No. 2016-01. All investments in debt securities, including debt instruments that have been securitized.

**320-10-15-6** The guidance in this Topic applies to all loans that meet the definition of a security.

**320-10-15-7** The guidance in this Topic does not apply to any of the following:

- a. Derivative instruments that are subject to the requirements of Topic 815, including those that have been separated from a host contract as required by Section 815-15-25. If an investment would otherwise be in the scope of this Topic and it has within it an embedded derivative that is required by that Section to be separated, the host instrument (as described in that Section) remains within the scope of this Topic.
- b. Subparagraph superseded by Accounting Standards Update No. 2016-01. Equity securities accounted for under the cost method in accordance with Subtopic 325-20, except with respect to the impairment guidance in Section 320-10-35.
- c. Subparagraph superseded by Accounting Standards Update No. 2016-01. Equity securities that, absent the election of the fair value option under paragraph 825-10-25-1, would be required to be accounted for under the equity method.

- d. Investments in consolidated subsidiaries.

320-10-15-7A Paragraph 815-10-15-141 explains that the guidance in the Certain Contracts on Debt and Equity Securities Subsections applies to those forward contracts and purchased options that are not derivative instruments subject to Topic 815 but that involve the acquisition of securities that will be accounted for under Subtopic 320-10.

16. Amend paragraphs 320-10-25-1 through 25-2 and their related heading, with a link to transition paragraph 825-10-65-1, as follows:

## Recognition

### > Classification of Investment Debt Securities

**320-10-25-1** At acquisition, an entity shall classify **debt securities and equity securities** into one of the following three categories:

- a. **Trading securities.** If a **security** is acquired with the intent of selling it within hours or days, the security shall be classified as **trading**. However, at acquisition an entity is not precluded from classifying as trading a security it plans to hold for a longer period. Classification of a security as trading shall not be precluded simply because the entity does not intend to sell it in the near term.
- b. **Available-for-sale securities.** Investments in debt securities ~~and equity securities that have readily determinable fair values~~ not classified as trading securities or as held-to-maturity securities shall be classified as available-for-sale securities.
- c. **Held-to-maturity securities.** Investments in debt securities shall be classified as held-to-maturity only if the reporting entity has the positive intent and ability to hold those securities to maturity.

**320-10-25-2** At acquisition, an investor shall document the classification of debt ~~and equity~~ securities.

17. Supersede paragraphs 320-10-30-1 through 30-4 and their related headings, with a link to transition paragraph 825-10-65-2, as follows:

## Initial Measurement

**320-10-30-1** Paragraph superseded by Accounting Standards Update No. 2016-01. ~~The fair value of restricted stock shall be measured initially based on the quoted price of an otherwise identical unrestricted security of the same issuer,~~

adjusted for the effect of the restriction, in accordance with the provisions of Topic 820.

**> Equity Securities Previously Accounted for Under the Cost Method or the Equity Method**

~~320-10-30-2 Paragraph superseded by Accounting Standards Update No. 2016-01. The following guidance discusses two specific situations involving the determination of the initial carrying amount of equity securities when there is a change in circumstances surrounding those existing securities.~~

**>> Cost Method Equity Securities Subsequently Become Marketable**

~~320-10-30-3 Paragraph superseded by Accounting Standards Update No. 2016-01. If a previously nonmarketable equity security becomes marketable (for example, due to a change in circumstances, it now has a fair value that is readily determinable), the cost basis of the nonmarketable security (reduced by any other than temporary impairment that has been recognized) shall become the basis of the security. If a change in marketability provides evidence that an other than temporary impairment has occurred, a write down shall be recorded before applying the guidance in this Subtopic, and the loss shall be classified consistently with other write downs of similar investments. (This presumes that the nonmarketable security had not been accounted for under the equity method.)~~

**>> Equity Method Is No Longer Appropriate**

~~320-10-30-4 Paragraph superseded by Accounting Standards Update No. 2016-01. If it is determined that a marketable equity security should no longer be accounted for under the equity method (for example, due to a decrease in the level of ownership), the security's initial basis shall be the previous carrying amount of the investment. Paragraph 323-10-35-36 states that the earnings or losses that relate to the stock retained shall remain as a part of the carrying amount of the investment and that the investment account shall not be adjusted retroactively. Subsequently, the security shall be accounted for pursuant to paragraph 320-10-35-4. [Content amended and moved to paragraph 321-10-30-1]~~

18. Amend paragraphs 320-10-35-1, 320-10-35-3 through 35-5, 320-10-35-17, 320-10-35-20, and 320-10-35-24 and supersede paragraphs 320-10-35-2, 320-10-35-25 through 35-29, 320-10-35-32A through 35-33 and their related heading, and 320-10-35-34 and its related heading, with a link to transition paragraph 825-10-65-2, as follows:

## Subsequent Measurement

**320-10-35-1** Investments in **debt securities** and ~~equity securities~~ shall be measured subsequently as follows:

- a. **Trading securities.** Investments in debt securities that are classified as **trading** and ~~equity securities that have readily determinable fair values that are classified as trading~~ shall be measured subsequently at **fair value** in the statement of financial position. Unrealized **holding gains and losses** for trading securities shall be included in earnings.
- b. **Available-for-sale securities.** Investments in debt securities that are classified as available for sale and ~~equity securities that have readily determinable fair values that are classified as available for sale~~ shall be measured subsequently at fair value in the statement of financial position. Unrealized holding gains and losses for available-for-sale securities (including those classified as current assets) shall be excluded from earnings and reported in other comprehensive income until realized except as indicated in the following sentence. All or a portion of the unrealized holding gain and loss of an available-for-sale security that is designated as being hedged in a fair value hedge shall be recognized in earnings during the period of the hedge, pursuant to paragraphs 815-25-35-1 through 35-4.
- c. **Held-to-maturity securities.** Investments in debt securities classified as held to maturity shall be measured subsequently at amortized cost in the statement of financial position. A transaction gain or loss on a held-to-maturity foreign-currency-denominated ~~{remove glossary link}~~**debt security**~~{remove glossary link}~~ shall be accounted for pursuant to Subtopic 830-20.

**320-10-35-2** Paragraph superseded by Accounting Standards Update No. 2016-01. ~~The fair value of restricted stock shall be measured subsequently based on the quoted price of an otherwise identical unrestricted **security** of the same issuer, adjusted for the effect of the restriction, in accordance with the provisions of Topic 820.~~

**320-10-35-3** Paragraphs 323-10-35-23 through 35-26 identify circumstances in which an entity must adjust the basis of its ~~investment~~ investments in debt and ~~equity~~ securities of an equity method investee for the amount of an equity method loss based on the investment's ~~its~~ seniority. For investments accounted for in accordance with this Subtopic, the adjusted basis resulting from the application of paragraphs 323-10-35-23 through 35-26 becomes the debt security's basis from which subsequent changes in fair value are measured.

**320-10-35-4** Dividend and interest income, including amortization of the premium and discount arising at acquisition, for all three categories of investments in debt securities shall be included in earnings.

#### > **Reassessment of Classification**

**320-10-35-5** At each reporting date, the appropriateness of the classification of an entity's investments in debt and ~~equity~~ securities shall be reassessed. For example, if an entity no longer has the ability to hold debt securities to maturity, their continued classification as held-to-maturity would not be appropriate.

#### > **Impairment of Individual Available-for-Sale and Held-to-Maturity Debt Securities**

##### > > **Scope of Impairment Guidance**

**320-10-35-17** The guidance that follows on impairment of individual available-for-sale and held-to-maturity debt securities applies for investments in all of the following:

- a. ~~Debt and equity securities that are within the scope of this Subtopic, with the following clarification clarifications:~~
  1. ~~Subparagraph superseded by Accounting Standards Update No. 2016-01. As indicated in paragraph 944-325-35-1, insurance entities are required to report equity securities at fair value even if they do not meet the scope criteria in paragraph 320-10-15-5. Therefore, the following guidance would apply to all equity securities held by insurance entities.~~
  2. ~~Subparagraph superseded by Accounting Standards Update No. 2016-01. Entities shall not look through the form of their investment to the nature of the securities held by an investee. For example, an investment in shares of a mutual fund that invests primarily in debt securities would be assessed for impairment as an **equity security** under Section 320-10-35.~~
  3. A bifurcated host instrument under Subtopic 815-15 would be evaluated for other-than-temporary impairment in accordance with the guidance in Section 320-10-35 if the bifurcated host instrument meets the scope of this guidance.
- b. ~~Debt and equity securities that are within the scope of Subtopic 958-320 and that are held by an entity that reports a performance indicator as defined in paragraphs 954-225-45-4 through 45-7~~
- c. ~~Subparagraph superseded by Accounting Standards Update No. 2016-01. Equity securities that are not subject to the scope of this Topic and Subtopic 958-320 and not accounted for under the equity method pursuant to Topic 323 and related interpretations (referred to as cost-method investments).~~

Throughout this Section, the term *earnings* shall be read as *performance indicator*, and *other comprehensive income* shall be read as *outside the performance indicator* for debt securities that are within the scope of Subtopic 958-320.

## >> Steps for Identifying and Accounting for Impairment

### >>> Step 1: Determine Whether an Investment Is Impaired

**320-10-35-20** Impairment shall be assessed at the individual security level (referred to as an investment). Individual security level means the level and method of aggregation used by the reporting entity to measure realized and unrealized gains and losses on its debt and equity securities. (For example, equity debt securities of an issuer bearing the same Committee on Uniform Security Identification Procedures [CUSIP] number that were purchased in separate trade lots may be aggregated by a reporting entity on an average cost basis if that corresponds to the basis used to measure realized and unrealized gains and losses for the debt securities of the issuer.)

**320-10-35-24** ~~For investments other than cost method investments (see paragraph 320-10-15-7(b)), if~~ if the fair value of the investment is less than its cost, proceed to Step 2.

**320-10-35-25** Paragraph superseded by Accounting Standards Update No. 2016-01. Because the fair value of cost method investments is not readily determinable, the evaluation of whether an investment is impaired shall be determined as follows:

- ~~a. If an entity has estimated the fair value of a cost method investment (for example, for disclosure under Section 825-10-50), that estimate shall be used to determine if the investment is impaired for the reporting periods in which the entity estimates fair value. If the fair value of the investment is less than its cost, proceed to Step 2.~~
- ~~b. For reporting periods in which an entity has not estimated the fair value of a cost method investment, the entity shall evaluate whether an event or change in circumstances has occurred in that period that may have a significant adverse effect on the fair value of the investment (an impairment indicator).~~

**320-10-35-26** Paragraph superseded by Accounting Standards Update No. 2016-01. For example, an entity may not estimate the fair value of a cost method investment during a reporting period for Section 825-10-50 disclosure for any of the following reasons:

- ~~a. Paragraph not used.~~
- ~~b. The entity determined that, in accordance with paragraphs 825-10-50-17 through 50-19, it is not practicable to estimate the fair value of the investment.~~

- c. ~~The entity is exempt under paragraph 825-10-50-3 from providing the disclosure for annual reporting periods.~~
- d. ~~The entity is exempt under paragraph 825-10-50-2A from providing the disclosure for interim reporting periods.~~

**320-10-35-27** ~~Paragraph superseded by Accounting Standards Update No. 2016-01. Impairment indicators include, but are not limited to the following:~~

- a. ~~A significant deterioration in the earnings performance, credit rating, asset quality, or business prospects of the investee~~
- b. ~~A significant adverse change in the regulatory, economic, or technological environment of the investee~~
- c. ~~A significant adverse change in the general market condition of either the geographic area or the industry in which the investee operates~~
- d. ~~A bona fide offer to purchase (whether solicited or unsolicited), an offer by the investee to sell, or a completed auction process for the same or similar security for an amount less than the cost of the investment~~
- e. ~~Factors that raise significant concerns about the investee's ability to continue as a going concern, such as negative cash flows from operations, working capital deficiencies, or noncompliance with statutory capital requirements or debt covenants.~~

**320-10-35-28** ~~Paragraph superseded by Accounting Standards Update No. 2016-01. In addition, if an investment was previously tested for impairment under Step 2 and the entity concluded that the investment was not other than temporarily impaired, the entity shall continue to evaluate whether the investment is impaired (that is, shall estimate the fair value of the investment) in each subsequent reporting period until either of the following occurs:~~

- a. ~~The investment experiences a recovery of fair value up to (or beyond) its cost.~~
- b. ~~The entity recognizes an other than temporary impairment loss.~~

**320-10-35-29** ~~Paragraph superseded by Accounting Standards Update No. 2016-01. If an impairment indicator is present, the entity shall estimate the fair value of the investment. If the fair value of the investment is less than its cost, proceed to Step 2.~~

### **>>>> Equity Securities**

**320-10-35-32A** ~~Paragraph superseded by Accounting Standards Update No. 2016-01. For equity securities, an entity shall apply guidance that is pertinent to the determination of whether an impairment is other than temporary, such as Sections 323-10-35 and 325-40-35.~~

~~320-10-35-33 Paragraph superseded by Accounting Standards Update No. 2016-01. In applying that guidance, questions sometimes arise about whether an entity shall recognize an other than temporary impairment only when it intends to sell a specifically identified available for sale equity security at a loss shortly after the balance sheet date. When an entity has decided to sell an impaired available for sale security and the entity does not expect the fair value of the security to fully recover before the expected time of sale, the security shall be deemed other than temporarily impaired in the period in which the decision to sell is made, not in the period in which the sale occurs. However, an entity shall recognize an impairment loss when the impairment is deemed other than temporary even if a decision to sell has not been made.~~

### > > > Recognition of an Other-Than-Temporary Impairment

#### ~~> > > > Equity Securities—If the Impairment Is Other Than Temporary, Recognize an Impairment Loss Equal to the Difference between the Investment’s Cost Basis and Its Fair Value~~

~~320-10-35-34 Paragraph superseded by Accounting Standards Update No. 2016-01. If it is determined in Step 2 that the impairment is other than temporary, then an impairment loss shall be recognized in earnings equal to the entire difference between the investment’s cost and its fair value at the balance sheet date of the reporting period for which the assessment is made. The measurement of the impairment shall not include partial recoveries after the balance sheet date. The fair value of the investment would then become the new amortized cost basis of the investment and shall not be adjusted for subsequent recoveries in fair value.~~

19. Amend paragraph 320-10-45-1 and supersede paragraphs 320-10-45-3 through 45-6 and their related heading, with a link to transition paragraph 825-10-65-2, as follows:

## Other Presentation Matters

### > Balance Sheet Classification

**320-10-45-1** An entity shall report its investments in **available-for-sale securities** and **trading securities** separately from similar assets that are subsequently measured using another measurement attribute on the face of the statement of financial position. To accomplish that, an entity shall do either of the following:

- a. Present the aggregate of those **fair value** and non-fair-value amounts in the same line item and parenthetically disclose the amount of fair value included in the aggregate amount
- b. Present two separate line items to display the fair value and non-fair-value carrying amounts.

Entities also shall refer to the guidance in paragraph 825-10-45-1A on disaggregation of financial assets and financial liabilities by measurement category and form of financial asset (that is, securities or loans and receivables).

**320-10-45-2** An entity that presents a classified statement of financial position shall report individual held-to-maturity securities, individual available-for-sale securities, and individual trading securities as either current or noncurrent, as appropriate, under the guidance of Section 210-10-45.

**>> Presentation of Deferred Tax Assets Relating to Losses on Available-for-Sale Securities**

~~**320-10-45-3** Paragraph superseded by Accounting Standards Update No. 2016-01. An entity that recognizes a deferred tax asset relating only to a net unrealized loss on available for sale securities may at the same time conclude that it is more likely than not that some or all of that deferred tax asset will not be realized. In that circumstance, the entity shall report the offsetting entry to the valuation allowance in the component of other comprehensive income classified as unrealized gains and losses on certain investments in **debt securities and equity securities** because the valuation allowance is directly related to the unrealized holding loss on the available for sale securities. The entity shall also report the offsetting entry to the valuation allowance in the component of other comprehensive income classified as unrealized gains and losses on certain investments in debt and equity securities if the entity concludes on the need for a valuation allowance in a later interim period of the same fiscal year in which the deferred tax asset is initially recognized. [Content amended and moved to paragraph 740-20-45-15]~~

~~**320-10-45-4** Paragraph superseded by Accounting Standards Update No. 2016-01. An entity that does not need to recognize a valuation allowance at the same time that it establishes a deferred tax asset relating to a net unrealized loss on available for sale securities may, in a subsequent fiscal year, conclude that it is more likely than not that some or all of that deferred tax asset will not be realized. In that circumstance, if an entity initially decided that no valuation allowance was required at the time the unrealized loss was recognized but in a subsequent fiscal year decides that it is more likely than not that the deferred tax asset will not be realized, a valuation allowance shall be recognized. The entity shall include the offsetting entry as an item in determining income from continuing operations. The offsetting entry shall not be included in other comprehensive income. [Content moved to paragraph 740-20-45-16]~~

~~**320-10-45-5** Paragraph superseded by Accounting Standards Update No. 2016-01. An entity that recognizes a deferred tax asset relating to a net unrealized loss on available for sale securities may, at the same time, conclude that a valuation allowance is warranted and in a subsequent fiscal year makes a change in judgment about the level of future years' taxable income such that all or a portion~~

of that valuation allowance is no longer warranted. In that circumstance, the entity shall include any reversals in the valuation allowance due to such a change in judgment in subsequent fiscal years as an item in determining income from continuing operations, even though initial recognition of the valuation allowance affected the component of other comprehensive income classified as unrealized gains and losses on certain investments in debt and equity securities. If, rather than a change in judgment about future years' taxable income, the entity generates taxable income in the current year (subsequent to the year the related deferred tax asset was recognized) that can use the benefit of the deferred tax asset, the elimination (or reduction) of the valuation allowance is allocated to that taxable income. Paragraph 740-10-45-20 provides additional information. **[Content amended and moved to paragraph 740-20-45-17]**

~~320-10-45-6 Paragraph superseded by Accounting Standards Update No. 2016-01. An entity that has recognized a deferred tax asset relating to other deductible temporary differences in a previous fiscal year may at the same time have concluded that no valuation allowance was warranted. If in the current year an entity recognizes a deferred tax asset relating to a net unrealized loss on available-for-sale securities that arose in the current year and at the same time concludes that a valuation allowance is warranted, management shall determine the extent to which the valuation allowance is directly related to the unrealized loss and the other deductible temporary differences, such as an accrual for other postemployment benefits. The entity shall report the offsetting entry to the valuation allowance in the component of other comprehensive income classified as unrealized gains and losses on certain investments in debt and equity securities only to the extent the valuation allowance is directly related to the unrealized loss on the available-for-sale securities that arose in the current year. **[Content amended and moved to paragraph 740-20-45-18]**~~

20. Amend paragraphs 320-10-50-1 and 320-10-50-6(a) and supersede paragraph 320-10-50-4, with a link to transition paragraph 826-10-65-2, as follows:

## Disclosure

**320-10-50-1** This Section provides disclosure guidance ~~for on information about~~ **debt securities** that is required to be **securities** held at the end of the periods presented in the financial statements.

### > Securities Classified as Available for Sale

~~320-10-50-4 Paragraph superseded by Accounting Standards Update No. 2016-01. Investments in mutual funds that invest only in U.S. government **debt securities** may be shown separately rather than grouped with other **equity**~~

~~securities in the disclosures by major security type required by paragraph 942-320-50-2.~~ **[Content amended and moved to paragraph 942-320-50-2A]**

### > Impairment of Securities

**320-10-50-6** For all investments in an unrealized loss position, including those that fall within the scope of Subtopic 325-40, for which other-than-temporary impairments have not been recognized in earnings (including investments for which a portion of an other-than-temporary impairment has been recognized in other comprehensive income), an entity shall disclose all of the following in its interim and annual financial statements:

- a. As of each date for which a statement of financial position is presented, quantitative information, aggregated by category of investment—each major security type that the entity discloses in accordance with this Subtopic ~~and cost method investments~~—in tabular form:
  1. The aggregate related fair value of investments with unrealized losses
  2. The aggregate amount of unrealized losses (that is, the amount by which amortized cost basis exceeds fair value).

21. Amend paragraphs 320-10-55-1 through 55-2, the heading preceding 320-10-55-6, 320-10-55-9, and 320-10-55-22 through 55-23 and supersede paragraphs 320-10-55-4 through 55-5 and 320-10-55-7 and their related headings, with a link to transition paragraph 825-10-65-2, as follows:

## Implementation Guidance and Illustrations

### > Implementation Guidance

#### > > Scope Application to Certain Instruments and Transactions

**320-10-55-1** This implementation guidance discusses the scope application of this Topic to the following instruments and transactions.

- a. Certain debt securities
- b. ~~Subparagraph superseded by Accounting Standards Update No. 2016-01, Convertible preferred stock~~
- c. ~~Subparagraph superseded by Accounting Standards Update No. 2016-01, Call options on equity securities~~
- d. Short sales of debt securities.

## > > > Certain Debt Instruments

**320-10-55-2** All of the following debt instruments are within the scope of this Topic if they meet the definition of a **debt security**:

- a. Loans restructured as securities. For example, any loan that was restructured in a troubled debt restructuring involving a modification of terms would be subject to the provisions of this Topic if the debt instrument meets the definition of a **security**. See paragraph 310-40-40-8A for additional information.
- b. Beneficial interests in securitized financial assets that are in equity form but that meet the definition of a debt security. For example, some beneficial interests issued in the form of equity represent solely a right to receive a stream of future cash flows to be collected under preset terms and conditions (that is, a creditor relationship), while others, according to the terms of the special-purpose entity, must be redeemed by the issuing entity or must be redeemable at the option of the investor. Consequently, those beneficial interests would be within the scope of both this Topic and Subtopic 325-40 since they are required to be accounted for as debt securities.
- c. Certificates of deposit (CDs) or guaranteed investment contracts. For example, certain negotiable jumbo CDs and guaranteed investment contracts might meet the definition of security, which was modeled after the definition provided in the Uniform Commercial Code.
- d. Redeemable convertible preferred stock. For example, convertible preferred stock that has mandatory redemption provisions or is redeemable at the option of the investor is considered a debt security and this Topic would apply, ~~regardless of whether it has a readily determinable fair value.~~

**320-10-55-3** Even if a loan could readily be converted into a security, the loan is not a debt security until it has been securitized. An example of unsecuritized loans is unsecuritized mortgage loans. However, after mortgage loans are converted to mortgage-backed securities, they are subject to the guidance in this Topic.

## >>> ~~Convertible Preferred Stock~~

**320-10-55-4** ~~Paragraph superseded by Accounting Standards Update No. 2016-01. If convertible preferred stock is not redeemable, it is considered an **equity security** and, therefore, this Topic would apply only if the preferred stock has a readily determinable fair value. [Content amended and moved to paragraph 321-10-55-2]~~

### **>>> Call Options on Equity Securities**

~~320-10-55-5 Paragraph superseded by Accounting Standards Update No. 2016-01. An option to buy an equity security that does not meet the definition of a derivative instrument and has a readily determinable fair value is within the scope of this Topic. An investment in an option on securities should be accounted for under the requirements of Subtopic 815-10 if the option meets the definition of a derivative instrument, including the criteria for net settlement in paragraph 815-10-15-83(c). This paragraph applies to those forward contracts and options that are not derivative instruments subject to Subtopic 815-10 but that involve the acquisition of securities that will be accounted for under this Topic. Other types of rights to acquire or dispose of ownership interests in an entity (for example, options and warrants) that do not have readily determinable fair values will generally meet the definition of a derivative instrument and be accounted for under the requirements of Subtopic 815-10. If those interests fail to meet the definition of a derivative instrument, there is no existing authoritative literature that addresses the accounting for these interests. [Content amended and moved to paragraph 321-10-55-3]~~

### **>>> Short Sales of Debt Securities**

**320-10-55-6** Sales of securities that the seller does not own at the time of sale are obligations to deliver securities, not investments. Short sale obligations are addressed in the guidance for certain industries (see paragraph 940-320-35-1 with respect to broker-dealers and paragraph 942-405-25-1 with respect to depository institutions). For guidance on evaluating whether a short sale transaction involves a derivative instrument, see paragraph 815-10-55-57.

### **>> Scope Application by Noncontrolling Shareholders**

~~320-10-55-7 Paragraph superseded by Accounting Standards Update No. 2016-01. Paragraph 970-323-25-10 explains that an investment in a corporate subsidiary that is a real estate venture shall be accounted for by the investor-parent using the principles applicable to investments in subsidiaries rather than those applicable to investments in corporate joint ventures. That is, that paragraph requires that noncontrolling shareholders in such a real estate venture shall account for their investment using the principles applicable to investments in common stock set forth in Topic 323 or this Topic as applicable. [Content amended and moved to paragraph 321-10-55-5]~~

## > > Scope Application: No Look-Through Permitted

**320-10-55-8** An entity should not look through the form of its investment to the nature of the securities held by an investee to determine whether the scope of this Topic applies.

**320-10-55-9** For example, an entity invests in a limited partnership interest (or a venture capital entity) that meets the definition of an equity security ~~but does not have a readily determinable fair value~~. However, substantially all of the partnership's assets consist of investments in debt securities ~~or equity securities that have readily determinable fair values~~. It is not appropriate to look through the form of an investment to determine whether this Topic applies. In the specific situation described in this paragraph, the investment would be considered an equity security ~~that does not have a readily determinable fair value~~. So, this Topic would not apply to that type of investment. (Topic 321 and Subtopic 323-30 ~~provides~~ provide guidance on the accounting for limited partnership investments.) Another example of an investment that is considered an equity security is an investment in a mutual fund that invests only in U.S. government debt securities.

## > Illustrations

### > > Example 3: Disclosures About Investments in an Unrealized Loss Position that Are Not Other-Than-Temporarily Impaired

**320-10-55-22** This Example illustrates the guidance in Section 320-10-50 with a table followed by illustrative narrative disclosures. The following table shows the gross unrealized losses and fair value of Entity A's investments with unrealized losses that are not deemed to be other-than-temporarily impaired (in millions), aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position at December 31, 20X3. This Example illustrates the application of paragraphs 320-10-50-6 through 50-8 and, in doing so, describes the investor's rationale for not recognizing all unrealized losses presented in the table as other-than-temporary impairments. In the application of paragraph 320-10-50-6(b), the investor shall provide meaningful disclosure about individually significant unrealized losses. To facilitate the narrative disclosures and for simplicity, this Example presents only the quantitative information as of the date of the latest statement of financial position. However, pursuant to paragraphs 320-10-50-6 through 50-8, that information is required as of each date for which a statement of financial position is presented, except in the period of initial application of the other-than-temporary impairment guidance in this Subtopic.

Description of Securities	Less Than 12 Months		Less Than 12 Months		Less Than 12 Months	
	Fair	Unrealized	Fair	Unrealized	Fair	Unrealized
	Value	Losses	Value	Losses	Value	Losses
U.S. Treasury obligations and direct obligations of U.S. government agencies	\$ 172	\$ 2	\$ 58	\$ 1	\$ 230	\$ 3
Federal agency mortgage-backed securities	367	5	18	1	385	6
Corporate bonds	150	7	-	-	150	7
Marketable equity securities	44	8	-	-	44	8
Investments in equity securities carried at cost	20	1	-	-	20	1
<b>Total</b>	<b>\$ 753</b>	<b>\$ 23</b>	<b>\$ 76</b>	<b>\$ 2</b>	<b>\$ 820</b>	<b>\$ 25</b>
<b>Total</b>	<b>\$ 689</b>	<b>\$ 14</b>	<b>\$ 76</b>	<b>\$ 2</b>	<b>\$ 765</b>	<b>\$ 16</b>

**320-10-55-23** Following are illustrative narrative disclosures that would follow the illustrative table.

U.S. Treasury obligations. The unrealized losses on Entity A's investments in U.S. Treasury obligations and direct obligations of U.S. government agencies were caused by interest rate increases. The contractual terms of those investments do not permit the issuer to settle the securities at a price less than the amortized cost bases of the investments. Because Entity A does not intend to sell the investments and it is not more likely than not that Entity A will be required to sell the investments before recovery of their amortized cost bases, which may be maturity, Entity A does not consider those investments to be other-than-temporarily impaired at December 31, 20X3.

Federal agency mortgage-backed securities. The unrealized losses on Entity A's investment in federal agency mortgage-backed securities were caused by interest rate increases. Entity A purchased those investments at a discount relative to their face amount, and the contractual cash flows of those investments are guaranteed by an agency of the U.S. government. Accordingly, it is expected that the securities would not be settled at a price less than the amortized cost bases of Entity A's investments. Because the decline in fair value is attributable to changes in interest rates and not credit quality, and because Entity A does not intend to sell the investments and it is not more likely than not that Entity A will be required to sell the investments before recovery of their amortized cost bases, which may be maturity, Entity A does not consider those investments to be other-than-temporarily impaired at December 31, 20X3.

Corporate bonds. Entity A's unrealized loss on investments in corporate bonds relates to a \$150 investment in Entity B's Series C Debentures. Entity B is a manufacturer. The unrealized loss was primarily caused by a recent decrease in profitability and near-term profit forecasts by industry analysts resulting from intense competitive pricing pressure in the manufacturing industry and a recent sector downgrade by several industry analysts. The contractual terms of those investments do not permit Entity B to settle the security at a price less than the amortized cost basis of the investment. While Entity B's credit rating has decreased from A to BBB (Standard & Poor's), Entity A currently does not

expect Entity B to settle the debentures at a price less than the amortized cost basis of the investment (that is, Entity A expects to recover the entire amortized cost basis of the security). Because Entity A does not intend to sell the investment and it is not more likely than not that Entity A will be required to sell the investment before recovery of its amortized cost basis, which may be maturity, it does not consider the investment in Entity B's debentures to be other-than-temporarily impaired at December 31, 20X3.

~~Marketable equity securities. Entity A's investments in marketable equity securities consist primarily of investments in common stock of entities in the consumer tools and appliances industry (\$17 of the total fair value and \$2 of the total unrealized losses in common stock investments) and the air courier industry (\$27 of the total fair value and \$6 of the total unrealized losses in common stock investments). Within Entity A's portfolio of common stocks in the consumer tools and appliances industry (all of which are in an unrealized loss position), approximately 26 percent of the total fair value and 21 percent of Entity A's total unrealized losses are in Entity C. The remaining fair value and unrealized losses are distributed in six entities. The severity of the impairment (fair value is approximately 5 percent to 12 percent less than cost) and the duration of the impairment (less than 3 months) correlate with the weak 20X3 year end sales experienced within the consumer tools and appliance industry, as reflected in lower customer transactions and lower-than-expected performance in traditional gift categories like hardware and power tools. Entity A evaluated the near-term prospects of the issuer in relation to the severity and duration of the impairment. Based on that evaluation and Entity A's ability and intent to hold those investments for a reasonable period of time sufficient for a forecasted recovery of fair value, Entity A does not consider those investments to be other than temporarily impaired at December 31, 20X3.~~

~~Entity A's portfolio of common stocks in the air courier industry consists of investments in 4 entities, 3 of which (or 78 percent of the total fair value of the investments in the air courier industry) are in an unrealized loss position. The air courier industry and Entity A's investees are susceptible to changes in the U.S. economy and the industries of their customers. A substantial number of their principal customers are in the automotive, personal computer, electronics, telecommunications, and related industries, and their businesses have been adversely affected by the slowdown of the U.S. economy, particularly during the second half of 20X3 when Entity A's investments became impaired. In addition, the credit ratings of nearly all entities in the portfolio have decreased from A to BBB (S&P or equivalent designation). The severity of the impairments in relation to the carrying amounts of the individual investments (fair value is approximately 17 percent to 23 percent less than cost) is consistent with those market developments. The Entity A evaluated the near-term prospects of the issuers in relation to the severity and duration of the impairment. Based on that evaluation and Entity A's ability and intent to hold those investments for a reasonable period of time sufficient for a~~

forecasted recovery of fair value, Entity A does not consider those investments to be other than temporarily impaired at December 31, 20X3.

Investments in equity securities carried at cost. The aggregate cost of Entity A's cost method investments totaled \$45 at December 31, 20X3. Investments with an aggregate cost of \$10 were not evaluated for impairment because Entity A did not estimate the fair value of those investments in accordance with paragraphs 825-10-50-16 through 50-19 and Entity A did not identify any events or changes in circumstances that may have had a significant adverse effect on the fair value of those investments. Of the remaining \$35 of investments, Entity A estimated that the fair value exceeded the cost of investments (that is, the investments were not impaired) with an aggregate cost of \$14.

The remaining \$21 of cost method investments consists of 1 investment in a privately owned entity in the consumer tools and appliance industry. That investment was evaluated for impairment because of an adverse change in the market condition of entities in the consumer tools and appliance industry. As a result of that evaluation, Entity A identified an unrealized loss of \$1. The severity of the impairment (fair value is approximately 5 percent less than cost) and the duration of the impairment (less than 3 months) correlate with the weak 20X3 year end sales experienced within the consumer tools and appliance industry, as reflected by lower customer transactions and lower than expected performance in traditional gift categories like hardware and power tools. Based on Entity A's evaluation of the near term prospects of the investee and Entity A's ability and intent to hold the investment for a reasonable period of time sufficient for a forecasted recovery of fair value, Entity A does not consider that investment to be other than temporarily impaired at December 31, 20X3.

## Addition of Topic 321

22. Add Topic 321, Investments—Equity Securities, with a link to transition paragraph 825-10-65-2, as follows:

**[For ease of readability, the new Subtopic is not underlined.]**

### **Investments—Equity Securities—Overall**

#### **Overview and Background**

##### **General**

**321-10-05-1** The Codification contains several Topics for investments because of the differing accounting treatment for various forms of investment. The Topics include:

- a. Topic 320, Investments—Debt Securities
- b. Topic 321, Investments—Equity Securities
- c. Topic 323, Investments—Equity Method and Joint Ventures
- d. Topic 325, Investments—Other.

**321-10-05-2** This topic addresses the accounting and reporting for investments in **equity securities**.

## Scope and Scope Exceptions

### General

#### > Overall Guidance

**321-10-15-1** The Scope Section of the Overall Subtopic establishes the scope for the Investments—Equity Securities Topic.

#### > Entities

**321-10-15-2** The guidance in the Investments—Equity Securities Topic applies to all entities, including the following entities that are not deemed to be specialized industries for purposes of this Topic:

- a. Cooperatives and mutual entities (such as credit unions and mutual insurance entities)
- b. Trusts that do not report substantially all of their **securities** at **fair value**.

**321-10-15-3** The guidance in this Topic does not apply to entities in certain specialized industries whose specialized accounting practices include accounting for substantially all investments at fair value, with changes in value recognized in earnings (income) or in the change in net assets. Examples of those entities are:

- a. Brokers and dealers in securities (Topic 940)
- b. Defined benefit pension and other postretirement plans (Topics 960, 962, and 965)
- c. Investment companies (Topic 946).

#### > Instruments

**321-10-15-4** The guidance in the Investments—Equity Securities Topic establishes standards of financial accounting and reporting for investments in **equity securities** and other ownership interests in an entity, including investments in partnerships, unincorporated joint ventures, and limited liability companies as if those other ownership interests are equity securities.

**321-10-15-5** The guidance in this Topic does not apply to any of the following:

- a. Derivative instruments that are subject to the requirements of Topic 815, including those that have been separated from a host contract as required by Section 815-15-25. If an investment otherwise would be in the scope of this Topic and it has within it an embedded derivative that is required by that Section to be separated, the host instrument (as described in that Section) remains within the scope of this Topic.
- b. Investments accounted for under the equity method (Topic 323).
- c. Investments in consolidated subsidiaries.
- d. An exchange membership that has the characteristics specified in paragraph 940-340-25-1(b) for an ownership interest in the exchange.
- e. Federal Home Loan Bank and Federal Reserve Bank Stock.

**321-10-15-6** Paragraph 815-10-15-141 explains that the guidance in the Certain Contracts on Debt and Equity Securities Subsections applies to those forward contracts and purchased options that are not derivative instruments subject to Topic 815 but that involve the acquisition of securities that will be accounted for under Topic 321.

## **Glossary**

### **Equity Security (first definition)**

Any security representing an ownership interest in an entity (for example, common, preferred, or other capital stock) or the right to acquire (for example, warrants, rights, forward purchase contracts, and call options) or dispose of (for example, put options and forward sale contracts) an ownership interest in an entity at fixed or determinable prices. The term equity security does not include any of the following:

- a. Written equity options (because they represent obligations of the writer, not investments)
- b. Cash-settled options on equity securities or options on equity-based indexes (because those instruments do not represent ownership interests in an entity)
- c. Convertible debt or preferred stock that by its terms either must be redeemed by the issuing entity or is redeemable at the option of the investor.

### **Fair Value (second definition)**

The price that would be received to sell an asset or paid to transfer a liability in an **orderly transaction** between **market participants** at the measurement date.

### **Holding Gain or Loss**

The net change in fair value of a security. The holding gain or loss does not include dividend or interest income recognized but not yet received or write-downs for impairment.

### **Market Participants**

Buyers and sellers in the principal (or most advantageous) market for the asset or liability that have all of the following characteristics:

- a. They are independent of each other, that is, they are not **related parties**, although the price in a related-party transaction may be used as an input to a fair value measurement if the reporting entity has evidence that the transaction was entered into at market terms
- b. They are knowledgeable, having a reasonable understanding about the asset or liability and the transaction using all available information, including information that might be obtained through due diligence efforts that are usual and customary
- c. They are able to enter into a transaction for the asset or liability
- d. They are willing to enter into a transaction for the asset or liability, that is, they are motivated but not forced or otherwise compelled to do so.

### **Orderly Transaction**

A transaction that assumes exposure to the market for a period before the measurement date to allow for marketing activities that are usual and customary for transactions involving such assets or liabilities; it is not a forced transaction (for example, a forced liquidation or distress sale).

### **Readily Determinable Fair Value**

An equity security has a readily determinable fair value if it meets any of the following conditions:

- a. The fair value of an equity security is readily determinable if sales prices or bid-and-asked quotations are currently available on a securities exchange registered with the U.S. Securities and Exchange Commission (SEC) or in the over-the-counter market, provided that those prices or quotations for the over-the-counter market are publicly reported by the

National Association of Securities Dealers Automated Quotations systems or by OTC Markets Group Inc. Restricted stock meets that definition if the restriction terminates within one year.

- b. The fair value of an equity security traded only in a foreign market is readily determinable if that foreign market is of a breadth and scope comparable to one of the U.S. markets referred to above.
- c. The fair value of an equity security that is an investment in a mutual fund or in a structure similar to a mutual fund (that is, a limited partnership or a venture capital entity) is readily determinable if the fair value per share (unit) is determined and published and is the basis for current transactions.

## **Related Parties**

Related parties include:

- a. Affiliates of the entity
- b. Entities for which investments in their equity securities would be required, absent the election of the fair value option under the Fair Value Option Subsection of Section 825-10-15, to be accounted for by the equity method by the investing entity
- c. Trusts for the benefit of employees, such as pension and profit-sharing trusts that are managed by or under the trusteeship of management
- d. Principal owners of the entity and members of their immediate families
- e. Management of the entity and members of their immediate families
- f. Other parties with which the entity may deal if one party controls or can significantly influence the management or operating policies of the other to an extent that one of the transacting parties might be prevented from fully pursuing its own separate interests
- g. Other parties that can significantly influence the management or operating policies of the transacting parties or that have an ownership interest in one of the transacting parties and can significantly influence the other to an extent that one or more of the transacting parties might be prevented from fully pursuing its own separate interests.

## **Security (second definition)**

A share, participation, or other interest in property or in an entity of the issuer or an obligation of the issuer that has all of the following characteristics:

- a. It is either represented by an instrument issued in bearer or registered form or, if not represented by an instrument, is registered in books maintained to record transfers by or on behalf of the issuer.
- b. It is of a type commonly dealt in on securities exchanges or markets or, when represented by an instrument, is commonly recognized in any area in which it is issued or dealt in as a medium for investment.

- c. It either is one of a class or series or by its terms is divisible into a class or series of shares, participations, interests, or obligations.

## Initial Measurement

### General

#### > Equity Securities Previously Accounted for Under the ~~Cost Method or the Equity Method~~

##### > > Equity Method Is No Longer Appropriate

**321-10-30-1** If it is determined that a marketable ~~an~~ **{add glossary link}** equity security **{add glossary link}** ~~should~~ no longer qualifies to be accounted for under the equity method (for example, due to a decrease in the level of ownership), the security's initial basis shall be the previous carrying amount of the investment. Paragraph 323-10-35-36 states that the earnings or losses that relate to the stock retained by the investor and that were previously accrued shall remain as a part of the carrying amount of the investment and that the investment account shall not be adjusted retroactively. Subsequently, the security shall be accounted for pursuant to paragraph 321-10-35-1. **[Content amended as shown and moved from paragraph 320-10-30-4]**

## Subsequent Measurement

### General

**321-10-35-1** Except as provided in paragraph 321-10-35-2, investments in **equity securities** shall be measured subsequently at **fair value** in the statement of financial position. Unrealized **holding gains and losses** for equity securities shall be included in earnings.

#### > Equity Securities without Readily Determinable Fair Values

**321-10-35-2** An entity may elect to measure an equity security without a **readily determinable fair value** that does not qualify for the practical expedient to estimate fair value in accordance with paragraph 820-10-35-59 at its cost minus impairment, if any, plus or minus changes resulting from observable price changes in **orderly transactions** for the identical or a similar investment of the same issuer. An election to measure an equity security in accordance with this paragraph shall be made for each investment separately. Once an entity elects to measure an equity security in accordance with this paragraph, the entity shall continue to apply the measurement guidance in this paragraph until the investment does not qualify

to be measured in accordance with this paragraph (for example, if the investment has a readily determinable fair value or becomes eligible for the practical expedient to estimate fair value in accordance with paragraph 820-10-35-59). The entity shall reassess at each reporting period whether the equity investment without a readily determinable fair value qualifies to be measured in accordance with this paragraph.

### **> > Impairment of Equity Securities without Readily Determinable Fair Values**

**321-10-35-3** An equity security without a readily determinable fair value that does not qualify for the practical expedient to estimate fair value in accordance with paragraph 820-10-35-59 and is measured in accordance with paragraph 321-10-35-2 shall be written down to its fair value if a qualitative assessment indicates that the investment is impaired and the fair value of the investment is less than its carrying value, as determined using the guidance in paragraph 321-10-35-2. At each reporting period, an entity that holds an equity security shall make a qualitative assessment considering impairment indicators to evaluate whether the investment is impaired. Impairment indicators that an entity considers include, but are not limited to, the following:

- a. A significant deterioration in the earnings performance, credit rating, asset quality, or business prospects of the investee
- b. A significant adverse change in the regulatory, economic, or technological environment of the investee
- c. A significant adverse change in the general market condition of either the geographical area or the industry in which the investee operates
- d. A bona fide offer to purchase, an offer by the investee to sell, or a completed auction process for the same or similar investment for an amount less than the carrying amount of that investment
- e. Factors that raise significant concerns about the investee's ability to continue as a going concern, such as negative cash flows from operations, working capital deficiencies, or noncompliance with statutory capital requirements or debt covenants.

**321-10-35-4** If an equity security without a readily determinable fair value is impaired, an entity shall include an impairment loss in net income equal to the difference between the fair value of the investment and its carrying amount. That is, if the investment is deemed to be impaired after conducting the evaluation required by paragraph 321-10-35-3, the entity shall estimate the fair value of the investment to determine the amount of the impairment loss.

## > Investment in Equity Securities of an Equity Method Investee

**321-10-35-5** Paragraphs 323-10-35-23 through 35-26 identify circumstances in which an entity must adjust the basis of its investment in equity securities of an equity method investee for the amount of an equity method loss based on the investment's seniority. For investments accounted for in accordance with this Subtopic, the adjusted basis resulting from the application of paragraphs 323-10-35-23 through 35-26 becomes the equity security's basis from which subsequent changes in fair value are measured.

## > Dividend Income from Investments in Equity Securities

**321-10-35-6** Dividend income from investments in equity securities shall be included in earnings.

## Derecognition

### General

#### > Accounting for Sales of Securities

**321-10-40-1** Section 860-10-40 provides guidance on determining whether a transfer of **securities** shall be accounted for as a sale. With respect to **equity securities**, because all changes in an equity security's **fair value** are reported in earnings as they occur, the sale of an equity security does not necessarily give rise to a gain or loss. Generally, a debit to cash (or trade date receivable) is recorded for the sales proceeds, and a credit is recorded to remove the security at its fair value (or sales price). If the entity is not taxed on the changes in fair value, the deferred tax accounts would be adjusted. An entity that has not yet recorded the security's change in fair value to the point of sale (perhaps because fair value changes are recorded at the end of each day) will need to adjust this procedure.

## Other Presentation Matters

### General

#### > Cash Flow Presentation

**321-10-45-1** An entity shall classify cash flows from purchases and sales of **equity securities** on the basis of the nature and purpose for which it acquired the **securities**.

## > Statement of Financial Position

**321-10-45-2** An entity also shall refer to guidance in paragraph 825-10-45-1A on disaggregation of financial assets and financial liabilities by measurement category and form of financial asset (that is, securities or loans and receivables).

## Disclosure

### General

**321-10-50-1** This Section provides disclosure guidance on information about **equity securities** that is required to be presented in the financial statements.

**321-10-50-2** The disclosures in this Section are required for all interim and annual periods.

**321-10-50-3** An entity that applies the guidance in paragraph 321-10-35-2 for equity securities without **readily determinable fair values** shall disclose all of the following:

- a. The carrying amount of investments without readily determinable fair values
- b. The amount of impairments and downward adjustments, if any, both annual and cumulative
- c. The amount of upward adjustments, if any, both annual and cumulative
- d. As of the date of the most recent statement of financial position, additional information (in narrative form) that is sufficient to permit financial statement users to understand the quantitative disclosures and the information that the entity considered in reaching the carrying amounts and upward or downward adjustments resulting from observable price changes.

**321-10-50-4** For each period for which the results of operations are presented, an entity shall disclose the portion of unrealized gains and losses for the period that relates to equity securities still held at the reporting date. The portion of unrealized gains and losses for the period related to equity securities still held at the reporting date is calculated as follows.

Net gains and losses recognized during the period on equity securities	\$105
Less: Net gains and losses recognized during the period on equity securities sold during the period	(80)
Unrealized gains and losses recognized during the reporting period on equity securities still held at the reporting date	<u>\$ 25</u>

## Implementation Guidance and Illustrations

### General

#### > Implementation Guidance

#### >> Scope Application to Certain Instruments and Transactions

**321-10-55-1** The implementation guidance in paragraphs 321-10-55-2 through 55-4 discusses the scope application of this Topic to the following instruments and transactions.

- a. Convertible preferred stock
- b. Call options and forward contracts on equity securities
- c. Short sales of equity securities.

#### >>> Convertible Preferred Stock

**321-10-55-2** If convertible preferred stock is not redeemable, it is considered an **equity security** and, therefore, this Topic would apply ~~only if the preferred stock has a readily determinable fair value.~~ **[Content amended as shown and moved from paragraph 320-10-55-4]**

#### >>> Call Options and Forward Contracts on Equity Securities

**321-10-55-3** An option to buy an equity security that does not meet the definition of a derivative instrument ~~and has a readily determinable fair value~~ is within the scope of this Topic. An investment in an option on securities should be accounted for under the requirements of Subtopic 815-10 if the option meets the definition of a derivative instrument, including the criteria for net settlement in paragraph 815-10-15-83(c). ~~This paragraph Topic~~ applies to those forward contracts and options that are not derivative instruments subject to Subtopic 815-10 but that involve the acquisition of securities that will be accounted for under this Topic. ~~Other types of rights to acquire or dispose of ownership interests in an entity (for example, options and warrants) that do not have readily determinable fair values will generally meet~~

~~the definition of a derivative instrument and be accounted for under the requirements of Subtopic 815-10. If those interests fail to meet the definition of a derivative, there is no existing authoritative literature that addresses the accounting for those interests. [Content amended as shown and moved from paragraph 320-10-55-5]~~

### > > Short Sales of Equity Securities

**321-10-55-4** Sales of securities that the seller does not own at the time of sale are obligations to deliver securities, not investments. Short sale obligations are addressed in the guidance for certain industries (see paragraph 940-320-35-1 with respect to broker-dealers and paragraph 942-405-25-1 with respect to depository institutions). For guidance on evaluating whether a short sale transaction involves a derivative instrument, see paragraph 815-10-55-57.

### > > Scope Application by Noncontrolling Shareholders

**321-10-55-5** Paragraph 970-323-25-10 explains that an investment in a corporate subsidiary that is a real estate venture shall be accounted for by the investor-parent using the principles applicable to investments in subsidiaries rather than those applicable to investments in corporate joint ventures. That is, that paragraph requires that noncontrolling shareholders in such a real estate venture ~~should~~ **shall** account for their investment using the principles applicable to investments in common stock set forth in Topic 323 or this Topic as applicable. **[Content amended as shown and moved from paragraph 320-10-55-7]**

### > > Scope Application: No Look-Through Permitted

**321-10-55-6** An entity should not look through the form of its investment to the nature of the securities held by an investee to determine whether the scope of this Topic applies.

**321-10-55-7** For example, an entity invests in a limited partnership interest (or a venture capital entity) that meets the definition of an equity security. However, substantially all of the partnership's assets consist of investments in debt securities or equity securities. It is not appropriate to look through the form of an investment to determine whether this Topic applies. In the specific situation described in this paragraph, the investment would be considered an equity security. So, this Topic would apply to that type of investment. (Subtopic 323-30 provides guidance on the accounting for limited partnership investments.) Another example of an investment that is considered an equity security is an investment in a mutual fund that invests only in U.S. government debt securities.

### > > Equity Securities without Readily Determinable Fair Values

### > > > Identifying Observable Price Changes

**321-10-55-8** To identify observable price changes, an entity should consider relevant transactions that occurred on or before the balance sheet date that are known or can reasonably be known. To identify price changes that can reasonably be known, the entity should make a reasonable effort (that is without expending undue cost and effort) to identify any observable transactions that it may not be readily aware of. The entity need not conduct an exhaustive search for all observable price changes.

### > > > Identifying Similar Investment of Same Issuer

**321-10-55-9** To identify whether a security issued by the same issuer is similar to the equity security held by the entity, the entity should consider the different rights and obligations of the securities. Differences in rights and obligations could include characteristics such as voting rights, distributions rights and preferences, and conversion features. The entity should adjust the observable price of a similar security for the different rights and obligations to determine the amount that should be recorded as an upward or downward adjustment in the carrying value of the security measured in accordance with paragraph 321-10-35-2 to reflect the current fair value of the security.

## Amendments to Subtopic 323-10

23. Amend paragraphs 323-10-05-1 and 323-10-05-4, with a link to transition paragraph 825-10-65-2, as follows:

### Investments—Equity Method and Joint Ventures—Overall

#### Overview and Background

**323-10-05-1** The Codification contains several Topics for investments due to the differing accounting treatment for various forms of investments. The Topics include all of the following:

- a. Topic 320, Investments—Debt and Equity Securities
- aa. Topic 321, Investments—Equity Securities
- b. ~~This~~ Topic 323, Investments—Equity Method and Joint Ventures
- c. Topic 325, Investments—Other.

**323-10-05-2** The Investments—Equity Method and Joint Ventures Topic includes the following Subtopics:

- a. Overall

- b. Partnerships, Joint Ventures, and Limited Liability Entities
- c. Income Taxes.

**323-10-05-3** The Overall Subtopic addresses application of the equity method of accounting to investments within its scope.

**323-10-05-4** Investments held in stock of entities other than **subsidiaries**, namely **corporate joint ventures** and other noncontrolled entities usually are accounted for ~~by one of three methods—the cost method (addressed in Subtopic 325-20), the fair value method (addressed in Topic 320), in accordance with either the recognition and measurement guidance in Subtopic 321-10~~ or the equity method. This Subtopic provides guidance on application of the equity method. The equity method is an appropriate means of recognizing increases or decreases measured by generally accepted accounting principles (GAAP) in the economic resources underlying the investments. Furthermore, the equity method of accounting ~~more~~ closely meets the objectives of accrual accounting ~~than does the cost method~~ because the **investor** recognizes its share of the earnings and losses of the **investee** in the periods in which they are reflected in the accounts of the investee. The equity method also best enables investors in corporate joint ventures to reflect the underlying nature of their investment in those ventures.

24. Amend paragraphs 323-10-35-24 through 35-26 and 323-10-35-36 through 35-37, with a link to transition paragraph 825-10-65-2, as follows:

## Subsequent Measurement

### > > Investee Losses If the Investor Has Other Investments in the Investee

**323-10-35-23** The guidance in the following paragraph applies to situations in which both of the following conditions exist:

- a. An investor is not required to advance additional funds to an investee.
- b. Previous losses have reduced the common stock investment account to zero.

**323-10-35-24** In the circumstances described in the preceding paragraph, the investor shall continue to report its share of equity method losses in its statement of operations to the extent of and as an adjustment to the adjusted basis of the other investments in the investee. The order in which those equity method losses should be applied to the other investments shall follow the seniority of the other investments (that is, priority in liquidation). For each period, the adjusted basis of the other investments shall be adjusted for the equity method losses, then the investor shall apply ~~Subtopics 310-10 and Subtopic 310-10, 320-10, or 321-10~~ to the other investments, as applicable.

**323-10-35-25** The cost basis of the other investments is the original cost of those investments adjusted for the effects of other-than-temporary write-downs, unrealized holding gains and losses on debt securities classified as trading in accordance with Subtopic 320-10 or equity securities accounted for in accordance with Subtopic 321-10 and amortization of any discount or premium on debt securities or loans. The adjusted basis is the cost basis adjusted for the valuation allowance account recognized in accordance with Subtopic 310-10 for an investee loan and the cumulative equity method losses applied to the other investments. Equity method income subsequently recorded shall be applied to the adjusted basis of the other investments in reverse order of the application of the equity method losses (that is, equity method income is applied to the more senior securities investments first).

**323-10-35-26** If the investor has other investments in the investee (including, but not limited to, preferred stock, debt securities, and loans to the investee) that are within the ~~scopes of Subtopics 310-10 or~~ scope of Subtopic 310-10, 320-10, or 321-10, the investor should perform all of the following steps to determine the amount of equity method loss to report at the end of a period:

- a. Apply this Subtopic to determine the maximum amount of equity method losses.
- b. Determine whether the adjusted basis of the other investment(s) in the investee is positive, and do the following:
  1. If the adjusted basis is positive, the adjusted basis of the other investments shall be adjusted for the amount of the equity method loss based on the investment's its seniority. Paragraph 320-10-35-3 explains that, for investments accounted for in accordance with Subtopic 320-10, this adjusted basis becomes the debt security's basis from which subsequent changes in fair value are measured. Paragraph 321-10-35-5 explains that for investments accounted for in accordance with Subtopic 321-10, this adjusted basis becomes the equity security's basis from which subsequent changes in fair value are measured.
  2. If the adjusted basis reaches zero, equity method losses shall cease being reported; however, the investor shall continue to track the amount of unreported equity method losses for purposes of applying paragraph 323-10-35-20. If one of the other investments is sold at a time when its carrying value exceeds its adjusted basis, the difference between the cost basis of that other investment and its adjusted basis at the time of sale represents equity method losses that were originally applied to that other investment but effectively reversed upon its sale. Accordingly, that excess represents unreported equity method losses that shall continue to be tracked before future equity method income can be reported. Example 4 (see paragraph 323-10-55-30) illustrates the application of (b)(2).

- c. After applying this Subtopic, apply Subtopics ~~310-10~~ and 310-10, 320-10, and 321-10 to the adjusted basis of the other investments in the investee, as applicable.
- d. Apply appropriate generally accepted accounting principles (GAAP) to other investments that are not within the ~~scopes of Subtopics 310-10~~ or scope of Subtopic 310-10, 320-10, or 321-10.

Example 4 (see paragraph 323-10-55-30) illustrates the application of this guidance.

## > Change in Level of Ownership or Degree of Influence

### > > Decrease in Level of Ownership or Degree of Influence

**323-10-35-36** An investment in voting stock of an investee may fall below the level of ownership described in paragraph 323-10-15-3 from sale of a portion of an investment by the investor, sale of additional stock by an investee, or other transactions and the investor may thereby lose the ability to influence policy, as described in that paragraph. An investor shall discontinue accruing its share of the earnings or losses of the investee for an investment that no longer qualifies for the equity method. The earnings or losses that relate to the stock retained by the investor and that were previously accrued shall remain as a part of the carrying amount of the investment. The investment account shall not be adjusted retroactively under the conditions described in this paragraph. ~~However, paragraph 325-20-35-3 requires that dividends received by the investor in subsequent periods that exceed the investor's share of earnings for such periods be applied in reduction of the carrying amount of the investment (see paragraph 325-20-35-1).~~ Topic 321-10 addresses the accounting for investments in equity securities ~~with readily determinable fair values~~ that are not consolidated or accounted for under the equity method.

### > > > Other Comprehensive Income upon Discontinuation of the Equity Method

**323-10-35-37** Paragraph 323-10-35-39 provides guidance on how an investor shall account for its proportionate share of an investee's equity adjustments for other comprehensive income in all of the following circumstances:

- a. A loss of significant influence
- b. A loss of control that results in accounting for the investment in accordance with Topic 321 ~~the retention of a cost method investment~~
- c. Discontinuation of the equity method for an investment in a limited partnership because the conditions in paragraph 970-323-25-6 are met for accounting for the investment in accordance with Topic 321 ~~for applying the cost method.~~

25. Amend paragraph 323-10-55-30, with a link to transition paragraph 825-10-65-2, as follows:

## Implementation Guidance and Illustrations

### > Illustrations

#### > > Example 4: Investee Losses if the Investor Has Other Investments in Investee

**323-10-55-30** This Example illustrates the application of paragraph 323-10-35-24 to an investment involving all of the following circumstances:

- a. Investor owns 40 percent of the outstanding common stock of Investee.
- b. The common stock investment has been reduced to zero at the beginning of 20X1 because of previous losses.
- c. Investor also has done both of the following:
  1. Invested \$100 in redeemable preferred stock (that meets the definition of debt security and is classified as an available-for-sale debt security) of Investee (40 percent of the outstanding preferred stock of Investee)
  2. Extended \$100 in loans to Investee (which represent 40 percent of all loans extended to Investee).
- d. Investor is not obligated to provide any additional funding to Investee.

## Amendments to Subtopic 323-30

26. Amend paragraphs 323-30-35-3 through 35-4 and supersede paragraph 323-30-60-2 and its related heading, with a link to transition paragraph 825-10-65-2, as follows:

### Investments—Equity Method and Joint Ventures—Partnerships, Joint Ventures, and Limited Liability Entities

#### Subsequent Measurement

##### > Investment in a Limited Liability Company

**323-30-35-3** An investment in a limited liability company that maintains a specific ownership account for each investor—similar to a partnership capital account structure—shall be viewed as similar to an investment in a limited partnership for purposes of determining whether a noncontrolling investment in a limited liability company shall be accounted for ~~using the cost method~~ in accordance with the guidance in Topic 321 or the equity method.

## > Discontinuance of the Equity Method

**323-30-35-4** Paragraph 323-10-35-39 provides guidance on discontinuance of the equity method for a limited partnership because the conditions in paragraphs ~~paragraph 970-323-25-6 through 25-7~~ are met.

## Relationships

### > Investments—Debt and Equity Securities

**323-30-60-2** Paragraph superseded by Accounting Standards Update No. 2016-01. ~~For guidance on an investment in a limited partnership interest (or a venture capital entity) that meets the definition of an equity security but does not have a readily determinable fair value, see paragraphs 320-10-55-8 through 55-9.~~

## Amendments to Subtopic 323-740

27. Add paragraph 323-740-25-2A and amend paragraphs 323-740-25-6, 323-740-30-2, and 323-740-45-3, with a link to transition paragraph 825-10-65-2, as follows:

**[Note: Amendments to paragraphs 323-740-25-6, 323-740-30-2, and 323-740-45-3 are made to conform the guidance to Accounting Standards Update No. 2014-01, *Investments—Equity Method and Joint Ventures (Topic 323): Accounting for Investments in Qualified Affordable Housing Projects.*]**

## Investments—Equity Method and Joint Ventures—Income Taxes

### Recognition

#### Qualified Affordable Housing Project Investments

**323-740-25-2** For an investment in a qualified affordable housing project through a limited liability entity not accounted for using the proportional amortization method, the investment shall be accounted for in accordance with Subtopic 970-323. In accounting for such an investment under that Subtopic, the requirements in paragraphs 323-740-25-3 through 25-5 and paragraphs 323-740-50-1 through 50-2 of this Subsection that are not related to the proportional amortization method, shall be applied.

**323-740-25-2A** Accounting for an investment in a qualified affordable housing project using the cost method may be appropriate. In accounting for such an investment using the cost method, the requirements in paragraphs 323-740-25-3 through 25-5 and paragraphs 323-740-50-1 through 50-2 of this Subsection that are not related to the proportional amortization method shall be applied.

**323-740-25-6** Example 1 (see paragraph 323-740-55-2) illustrates the application of accounting guidance to a limited partnership investment in a qualified affordable housing project using the cost, equity, and proportional amortization-effective yield methods.

## **Initial Measurement**

### **Qualified Affordable Housing Project Investments**

**323-740-30-2** Example 1 (see paragraph 323-740-55-2) illustrates the application of accounting guidance to a limited partnership investment in a qualified affordable housing project using the cost, equity, and proportional amortization-effective yield methods.

## **Other Presentation Matters**

### **Qualified Affordable Housing Project Investments**

**323-740-45-3** Example 1 (see paragraph 323-740-55-2) illustrates the application of accounting guidance to a limited partnership investment in a qualified affordable housing project using the cost, equity, and proportional amortization-effective yield methods.

## **Amendments to Subtopic 325-10**

28. Amend paragraphs 325-10-05-1 through 05-2 and supersede paragraph 325-10-60-1 and its related heading, with a link to transition paragraph 825-10-65-2, as follows:

### **Investments—Other—Overall**

#### **Overview and Background**

**325-10-05-1** The Codification contains several Topics for investments due to the differing accounting treatment for various forms of investment. The Topics include:

- a. Topic 320, Investments—Debt and Equity Securities

- aa. Topic 321, Investments—Equity Securities
- b. Topic 323, Investments—Equity Method and Joint Ventures
- c. Topic 325, Investments—Other.

**325-10-05-2** The Investments—Other Topic includes the following Subtopics:

- a. Overall
- b. Subparagraph superseded by Accounting Standards Update No. 2016-01, Cost Method Investments
- c. Investments in Insurance Contracts
- d. Beneficial Interests in Securitized Financial Assets.

## Relationships

### > **Financial Services—Insurance**

**325-10-60-1** Paragraph superseded by Accounting Standards Update No. 2016-01. For guidance on accounting by insurance entities for investments in equity securities that are not addressed by Subtopics 320-10 or 958-320 because they do not have readily determinable fair values, see paragraph 944-325-30-1.

## Amendments to Subtopic 325-20

29. Supersede Subtopic 325-20, Investments—Other—Cost Method Investments, with a link to transition paragraph 825-10-65-2.

## Amendments to Subtopic 325-40

30. Amend paragraphs 325-40-15-6, 325-40-25-2, and 325-40-35-2, with a link to transition paragraph 825-10-65-2, as follows:

## **Investments—Other—Beneficial Interests in Securitized Financial Assets**

### **Scope and Scope Exceptions**

#### > **Instruments**

#### > > **Securitized Financial Assets in Equity Form**

**325-40-15-5** A beneficial interest in securitized financial assets that is in equity form may meet the definition of a **debt security**. For example, some beneficial interests issued in the form of equity represent solely a right to receive a stream of

future cash flows to be collected under preset terms and conditions (that is, a creditor relationship), while others, according to the terms of the special-purpose entity, must be redeemed by the issuing entity or must be redeemable at the option of the investor. Consequently, those beneficial interests would be within the scope of both this Subtopic and Topic 320 because they are required to be accounted for as debt securities under that Topic.

**325-40-15-6** Beneficial interests issued in the form of equity that do not meet the criteria in the preceding paragraph shall be accounted for under the applicable provisions of Subtopic 323-10, the applicable consolidation guidance (see, for example, Subtopic 810-10), or Subtopic ~~321-10~~320-10.

## Recognition

**325-40-25-2** The difference between the carrying amount and the fair value of a beneficial interest issued in the form of equity or classified as a trading debt security shall be recorded through earnings as a gain or a loss.

## Subsequent Measurement

### > Accretable Yield

**325-40-35-1** The holder shall recognize accretable yield as interest income over the life of the **beneficial interest** using the effective yield method. The holder of a beneficial interest shall continue to update, over the life of the beneficial interest, the expectation of cash flows to be collected.

**325-40-35-2** The method used for recognizing and measuring the amount of interest income on a beneficial interest shall not differ based on whether that beneficial interest is classified as held to maturity, available for sale, or trading debt security. The same amount of interest income shall be recognized each period regardless of whether the beneficial interest is classified as held to maturity, available for sale, or trading debt security.

## Amendments to Subtopic 360-20

31. Amend paragraph 360-20-15-10, with a link to transition paragraph 825-10-65-2, as follows:

### Property, Plant, and Equipment—Real Estate Sales

#### Scope and Scope Exceptions

**360-20-15-10** The guidance in this Subtopic does not apply to the following transactions and activities:

- a. The sale of only property improvements or integral equipment without a concurrent (or contemplated) sale of the underlying land, except for sales of property improvements or integral equipment with the concurrent lease (whether explicit or implicit in the transaction) of the underlying land to the buyer
- b. The sale of the stock or net assets of a subsidiary or a segment of a business if the assets of that subsidiary or that segment, as applicable, contain real estate, unless the transaction is, in substance, the sale of real estate
- c. Exchanges of real estate for other real estate (see Topic 845)
- d. The sale of securities that are accounted for in accordance with Topic 320 or Topic 321 (sales of such securities are addressed in Topic 860)
- e. Retail land sales
- f. Natural assets such as those that have been extracted from the land (for example, oil, gas, coal, and gold). Mineral interests in properties include fee ownership or a lease, concession, or other interest representing the right to extract oil or gas subject to such terms as may be imposed by the conveyance of that interest. Mineral interests in properties also include royalty interests, production payments payable in oil or gas, and other nonoperating mineral interests in properties operated by others. See Topic 932.

## Amendments to Subtopic 606-10

32. Amend paragraph 606-10-15-2, with a link to transition paragraph 825-10-65-2, as follows:

### Revenue from Contracts with Customers—Overall

#### Scope and Scope Exceptions

##### General

##### > Transactions

**606-10-15-2** An entity shall apply the guidance in this Topic to all **contracts with customers**, except the following:

- a. Lease contracts within the scope of Topic 840, Leases.
- b. Insurance contracts within the scope of Topic 944, Financial Services—Insurance.

- c. Financial instruments and other contractual rights or obligations within the scope of the following Topics:
  - 1. Topic 310, Receivables
  - 2. Topic 320, Investments—Debt and Equity Securities
  - 2a. Topic 321, Investments—Equity Securities
  - 3. Topic 323, Investments—Equity Method and Joint Ventures
  - 4. Topic 325, Investments—Other
  - 5. Topic 405, Liabilities
  - 6. Topic 470, Debt
  - 7. Topic 815, Derivatives and Hedging
  - 8. Topic 825, Financial Instruments
  - 9. Topic 860, Transfers and Servicing.
- d. Guarantees (other than product or service warranties) within the scope of Topic 460, Guarantees.
- e. Nonmonetary exchanges between entities in the same line of business to facilitate sales to customers or potential customers. For example, this Topic would not apply to a contract between two oil companies that agree to an exchange of oil to fulfill demand from their customers in different specified locations on a timely basis. Topic 845 on nonmonetary transactions may apply to nonmonetary exchanges that are not within the scope of this Topic.

## Amendments to Subtopic 710-10

33. Amend paragraph 710-10-25-18, with a link to transition paragraph 825-10-65-2, as follows:

### Compensation—General—Overall

#### Recognition

#### Deferred Compensation—Rabbi Trusts

##### > Plan D

**710-10-25-18** For Plan D, assets held by the rabbi trust shall be accounted for in accordance with generally accepted accounting principles (GAAP) for the particular asset (for example, if the diversified asset is ~~a marketable an~~ an equity security, that security would be accounted for in accordance with Subtopic ~~321-10320-40~~ 321-10320-40). The deferred compensation obligation shall be classified as a liability. At acquisition, debt securities held by the rabbi trust may be classified as trading.

## Amendments to Subtopic 715-70

34. Amend paragraph 715-70-55-6, with a link to transition paragraph 825-10-65-2, as follows:

### **Compensation—Retirement Benefits—Defined Contribution Plans**

#### **Implementation Guidance and Illustrations**

##### **> Implementation Guidance**

**715-70-55-6** The unallocated amount shall be treated as if it were part of the employer's investment portfolio and recorded as an asset until allocation to individual participants. For example, if the unallocated amount consists of ~~marketable~~ equity securities, the accounting as required by Subtopic ~~321-10-320-40~~ shall apply. If the employer is subject to specialized industry accounting rules, as indicated in paragraph 320-10-15-3 or paragraph 321-10-15-3, such specialized industry rules would apply. Income attributable to such securities, including dividends, interest, and realized gains and losses, should be reported in a manner consistent with the employer's reporting of similar items.

## Amendments to Subtopic 740-10

35. Amend paragraph 740-10-30-16, with a link to transition paragraph 825-10-65-2, as follows:

### **Income Taxes—Overall**

#### **Initial Measurement**

##### **> Establishment of a Valuation Allowance for Deferred Tax Assets**

**740-10-30-16** As established in paragraph 740-10-30-2(b), there is a basic requirement to reduce the measurement of deferred tax assets not expected to be realized. An entity shall evaluate the need for a valuation allowance on a deferred tax asset related to available-for-sale debt securities in combination with the entity's other deferred tax assets.

## Amendments to Subtopic 740-20

36. Add paragraphs 740-20-45-15 through 45-18 and their related heading and supersede paragraph 740-20-60-1 and its related heading, with a link to transition paragraph 825-10-65-2, as follows:

## **Income Taxes—Intraperiod Tax Allocation**

### **Other Presentation Matters**

#### **≥ >> Presentation of Deferred Tax Assets Relating to Losses on Available-for-Sale Debt Securities**

**740-20-45-15** An entity that recognizes a deferred tax asset relating ~~only~~ to a net unrealized loss on available-for-sale securities may at the same time conclude that it is more likely than not that some or all of that deferred tax asset will not be realized. In that circumstance, the entity shall report the offsetting entry to the valuation allowance in the component of other comprehensive income classified as unrealized gains and losses on certain investments in **debt securities and equity securities** because the valuation allowance is directly related to the unrealized holding loss on the available-for-sale securities. The entity shall also report the offsetting entry to the valuation allowance in the component of other comprehensive income classified as unrealized gains and losses on certain investments in ~~debt and equity securities~~ if the entity concludes on the need for a valuation allowance in a later interim period of the same fiscal year in which the deferred tax asset is initially recognized. **[Content amended as shown and moved from paragraph 320-10-45-3]**

**740-20-45-16** An entity that does not need to recognize a valuation allowance at the same time that it establishes a deferred tax asset relating to a net unrealized loss on available-for-sale securities may, in a subsequent fiscal year, conclude that it is more likely than not that some or all of that deferred tax asset will not be realized. In that circumstance, if an entity initially decided that no valuation allowance was required at the time the unrealized loss was recognized but in a subsequent fiscal year decides that it is more likely than not that the deferred tax asset will not be realized, a valuation allowance shall be recognized. The entity shall include the offsetting entry as an item in determining income from continuing operations. The offsetting entry shall not be included in other comprehensive income. **[Content moved from paragraph 320-10-45-4]**

**740-20-45-17** An entity that recognizes a deferred tax asset relating to a net unrealized loss on available-for-sale securities may, at the same time, conclude that a valuation allowance is warranted and in a subsequent fiscal year makes a change in judgment about the level of future years' taxable income such that all or a portion of that valuation allowance is no longer warranted. In that circumstance, the entity shall include any reversals in the valuation allowance due to such a

change in judgment in subsequent fiscal years as an item in determining income from continuing operations, even though initial recognition of the valuation allowance affected the component of other comprehensive income classified as unrealized gains and losses on certain investments in debt and equity securities. If, rather than a change in judgment about future years' taxable income, the entity generates taxable income in the current year (subsequent to the year the related deferred tax asset was recognized) that can use the benefit of the deferred tax asset, the elimination (or reduction) of the valuation allowance is allocated to that taxable income. Paragraph 740-10-45-20 provides additional information. **[Content amended as shown and moved from paragraph 320-10-45-5]**

**740-20-45-18** An entity that has recognized a deferred tax asset relating to other deductible temporary differences in a previous fiscal year may at the same time have concluded that no valuation allowance was warranted. If in the current year an entity recognizes a deferred tax asset relating to a net unrealized loss on available-for-sale securities that arose in the current year and at the same time concludes that a valuation allowance is warranted, management shall determine the extent to which the valuation allowance is directly related to the unrealized loss and the other deductible temporary differences, such as an accrual for other postemployment benefits. The entity shall report the offsetting entry to the valuation allowance in the component of other comprehensive income classified as unrealized gains and losses on certain investments in debt and equity securities only to the extent the valuation allowance is directly related to the unrealized loss on the available-for-sale securities that arose in the current year. **[Content amended as shown and moved from paragraph 320-10-45-6]**

## Relationships

### > ~~Investments—Debt and Equity Securities~~

**740-20-60-1** ~~Paragraph superseded by Accounting Standards Update No. 2016-01. For the required accounting for the offsetting entry to the valuation allowance for deferred tax assets when the valuation allowance is directly related to the unrealized holding loss on available for sale securities, see Section 320-10-45.~~

## Amendments to Subtopic 805-10

37. Amend paragraph 805-10-25-10, with a link to transition paragraph 825-10-65-2, as follows:

## Business Combinations—Overall

### Recognition

**805-10-25-10** In a business combination achieved in stages, the acquirer shall remeasure its previously held equity interest in the acquiree at its acquisition-date **fair value** and recognize the resulting gain or loss, if any, in earnings. In prior reporting periods, ~~with respect to its previously held equity method investment, the acquirer may have recognized amounts changes in the value of its equity interest in the acquiree in other comprehensive income in accordance with paragraph 323-10-35-18 (for example, because the investment was classified as available for sale).~~ If so, the amount that was recognized in other comprehensive income shall be reclassified and included in the calculation of gain or loss as of the acquisition date. If the business combination achieved in stages relates to a previously held equity method investment that is a **foreign entity**, the amount of accumulated other comprehensive income that is reclassified and included in the calculation of gain or loss shall include any foreign currency translation adjustment related to that previously held investment. For guidance on derecognizing foreign currency translation adjustments recorded in accumulated other comprehensive income, see Section 830-30-40.

### Amendments to Subtopic 815-10

38. Amend paragraph 815-10-05-4, with a link to transition paragraph 825-10-65-2, as follows:

## Derivatives and Hedging—Overall

### Overview and Background

**815-10-05-4** This Topic requires that an entity recognize derivative instruments, including certain derivative instruments embedded in other contracts, as assets or liabilities in the statement of financial position and measure them at **fair value**. If certain conditions are met, an entity may elect, under this Topic, to designate a derivative instrument in any one of the following ways:

- a. A hedge of the exposure to changes in the fair value of a recognized asset or liability, or of an unrecognized **firm commitment**, that are attributable to a particular risk (referred to as a **fair value hedge**)
- b. A hedge of the exposure to variability in the cash flows of a recognized asset or liability, or of a **forecasted transaction**, that is attributable to a particular risk (referred to as a **cash flow hedge**)
- c. A hedge of the foreign currency exposure of any one of the following:

1. An unrecognized firm commitment (a foreign currency fair value hedge)
2. An available-for-sale debt security (a foreign currency fair value hedge)
3. A forecasted transaction (a foreign currency cash flow hedge)
4. A net investment in a foreign operation.

39. Amend paragraphs 815-10-15-138 and 815-10-15-141 through 15-142, with a link to transition paragraph 825-10-65-2, as follows:

## Scope and Scope Exceptions

### General

**815-10-15-138** Paragraph 815-10-15-141 explains that the guidance in the Certain Contracts on Debt and Equity Securities Subsections applies to those warrants that are not derivative instruments subject to this Topic but that involve the acquisition of securities that will be accounted for under either Topic 320 or Topic 321. However, such warrants are not eligible to be hedging instruments.

### Certain Contracts on Debt and Equity Securities

#### > Overall Guidance

**815-10-15-140** The guidance in the Certain Contracts on Debt and Equity Securities Subsections applies to all entities, with specific instrument qualifications noted below.

#### > Instruments

**815-10-15-141** The guidance in the Certain Contracts on Debt and Equity Securities Subsections applies only to those forward contracts and purchased options having all of the following characteristics:

- a. The contract is entered into to purchase securities that will be accounted for under either Topic 320 or Topic 321.
- b. The contract's terms require physical settlement of the contract by delivery of the securities.
- c. The contract is not a **derivative instrument** otherwise subject to this Subtopic.
- d. The contract, if a purchased option, has no intrinsic value at acquisition.

**815-10-15-142** The guidance in the Certain Contracts on Debt and Equity Securities Subsections does not apply to contracts involving securities not within the scope of either Topic 320 or Topic 321.

40. Amend paragraph 815-10-25-17 and add paragraph 815-10-25-18, with a link to transition paragraph 825-10-65-2, as follows:

## Recognition

### Certain Contracts on Debt and Equity Securities

**815-10-25-17** Forward contracts and purchased options on debt securities within the scope of this Subsection (see the Certain Contracts on Debt and Equity Securities Subsection of Section 815-10-15) shall, at inception, be designated as held to maturity, available for sale, or **trading** in a manner consistent with the accounting prescribed by Topic 320 for ~~that category of debt~~ securities. Such forward and option contracts are not eligible to be hedging instruments.

**815-10-25-18** Forward contracts and purchased options on equity securities within the scope of this Subsection (see the Certain Contracts on Debt and Equity Securities Subsection of Section 815-10-15) shall, at inception, be recognized in a manner consistent with the accounting prescribed by Topic 321 for equity securities. Such forward and option contracts are not eligible to be hedging instruments.

41. Amend paragraph 815-10-30-5 and add paragraph 815-10-30-6, with a link to transition paragraph 825-10-65-2, as follows:

## Initial Measurement

### Certain Contracts on Debt and Equity Securities

**815-10-30-5** Forward contracts and purchased options on debt securities within the scope of this Subsection designated as held to maturity, available for sale, or **trading** shall be measured initially in a manner consistent with the accounting prescribed by Topic 320 for that category of securities.

**815-10-30-6** Forward contracts and purchased options on equity securities within the scope of this Subsection shall be measured initially in a manner consistent with the accounting prescribed by Topic 321.

42. Amend paragraph 815-10-35-5 and add paragraph 815-10-35-6, with a link to transition paragraph 825-10-65-2, as follows:

## Subsequent Measurement

### Certain Contracts on Debt and Equity Securities

**815-10-35-5** Forward contracts and purchased options on debt securities within the scope of this Subsection shall be measured subsequently according to their initial classification as follows:

- a. Held to maturity:
  1. Changes in the **fair value** of the forward contract or purchased option shall not be recognized unless a decline in the fair value of the underlying securities is other than temporary, in which case a loss shall be recognized in earnings.
  2. Debt securities purchased under a forward contract shall be recorded at the forward contract price at the settlement date.
  3. Debt securities purchased by exercising an option shall be recorded at the option strike price plus any remaining carrying amount for the option premium at the exercise date.
  4. If an option expires worthless and the same debt security is purchased in the market, the security shall be recorded at its market price plus any remaining carrying amount for the option premium.
  5. If an entity does not take delivery under the forward contract or purchase the same security in the market if the option expires worthless, the entity's intent to hold other debt securities to maturity will be called into question.
- b. Available for sale:
  1. Changes in the fair value of the forward contract or purchased option shall be recognized as part of the separate component of shareholders' equity under Topic 320 as they occur unless a decline in the fair value of the underlying securities is other than temporary.
  2. Debt securities ~~Securities~~ purchased under a forward contract shall be recorded at their fair values at the settlement date.
  3. Debt securities ~~Securities~~ purchased by exercising an option shall be recorded at the option strike price plus the fair value of the option at the exercise date.
  4. If the option expires worthless and the same debt security is purchased in the market, the security shall be recorded at its market price plus any remaining carrying amount for the option premium.
- c. **Trading:**
  1. Changes in the fair value of the forward contract or purchased option shall be recognized in earnings as they occur.
  2. Debt securities ~~Securities~~ purchased under a forward contract or by exercising an option shall be recorded at their fair values at the settlement date.

815-10-35-6 Changes in the fair value of forward contracts and purchased options on equity securities within the scope of this Subsection shall be recognized in earnings as they occur. Changes in observable price or impairment of forward contracts and purchased options on equity securities without readily determinable fair value within the scope of this Subsection measured in accordance with paragraph 321-10-35-2 shall be recognized in earnings as they occur. Equity securities within the scope of this Subsection purchased under a forward contract or by exercising an option shall be recorded at their fair values at the settlement date.

## Amendments to Subtopic 815-15

43. Amend paragraphs 815-15-15-6 and 815-15-25-5, with a link to transition paragraph 825-10-65-2, as follows:

### **Derivatives and Hedging—Embedded Derivatives**

#### **Scope and Scope Exceptions**

##### **> Instruments**

##### **> > Certain Foreign Currency Transactions**

**815-15-15-5** Unsettled foreign currency transactions, including **financial instruments**, shall not be considered to contain embedded foreign currency derivatives under this Subtopic if the transactions meet all of the following criteria:

- a. They are monetary items.
- b. They have their principal payments, interest payments, or both denominated in a foreign currency.
- c. They are subject to the requirement in Subtopic 830-20 to recognize any foreign currency transaction gain or loss in earnings.

**815-15-15-6** The same proscription applies to available-for-sale or **trading debt securities** that have cash flows denominated in a foreign currency.

## Recognition

### > Fair Value Election for Hybrid Financial Instruments

**815-15-25-5** The fair value election shall be supported by concurrent documentation or a preexisting documented policy for automatic election. That recognized hybrid financial instrument could be an asset or a liability and it could be acquired or issued by the entity. The fair value election is also available when a previously recognized **financial instrument** is subject to a **remeasurement event (new basis event)** and the separate recognition of an embedded derivative. The fair value election may be made instrument by instrument. For purposes of this paragraph, a remeasurement event (new basis event) is an event identified in generally accepted accounting principles, other than the recognition of an other-than-temporary impairment, or measurement of an impairment loss through earnings under Topic 321 on equity investments, that requires a financial instrument to be remeasured to its fair value at the time of the event but does not require that instrument to be reported at fair value on a continuous basis with the change in fair value recognized in earnings. Examples of remeasurement events are business combinations and significant modifications of debt as defined in Subtopic 470-50.

## Amendments to Subtopic 815-20

44. Amend paragraphs 815-20-25-28, 815-20-25-37, 815-20-25-43, and 815-20-25-71(b), with a link to transition paragraph 825-10-65-2, as follows:

## Derivatives and Hedging—Hedging—General

### Recognition

#### > Eligibility of Hedged Items and Transactions

#### > > Hedged Items and Transactions Involving Foreign Exchange Risk

**815-20-25-28** If the hedged item is denominated in a foreign currency, an entity may designate any of the following types of hedges of foreign currency exposure:

- a. A fair value hedge of an unrecognized firm commitment or a recognized asset or liability (including an available-for-sale debt security)
- b. A cash flow hedge of any of the following:
  1. A forecasted transaction
  2. An unrecognized firm commitment
  3. The forecasted functional-currency-equivalent cash flows associated with a recognized asset or liability

- 4. A forecasted intra-entity transaction.
- c. A hedge of a net investment in a foreign operation.

### >>> Items in Fair Value Hedges of Foreign Exchange Risk

**815-20-25-37** This paragraph identifies possible hedged items in fair value hedges of foreign exchange risk. If every applicable criterion is met, all of the following are eligible for designation as a hedged item in a fair value hedge of foreign exchange risk:

- a. Recognized asset or liability. A derivative instrument can be designated as hedging the changes in the fair value of a recognized asset or liability (or a specific portion thereof) for which a foreign currency transaction gain or loss is recognized in earnings under the provisions of paragraph 830-20-35-1. All recognized foreign-currency-denominated assets or liabilities for which a foreign currency transaction gain or loss is recorded in earnings shall qualify for the accounting specified in Subtopic 815-25 if all the fair value hedge criteria in this Section (including the conditions in paragraph 815-20-25-30[a] through [b]) are met.
- b. Available-for-sale debt security. A derivative instrument can be designated as hedging the changes in the fair value of an available-for-sale debt security (or a specific portion thereof) attributable to changes in foreign currency exchange rates. The designated hedging relationship qualifies for the accounting specified in Subtopic 815-25 if all the fair value hedge criteria in this Section (including the conditions in paragraph 815-20-25-30[a] through [b]) are met.
- c. ~~Subparagraph superseded by Accounting Standards Update No. 2016-01. Available for sale equity security. An available for sale equity security can be hedged for changes in the fair value attributable to changes in foreign currency exchange rates and qualify for the accounting specified in Subtopic 815-25 only if the fair value hedge criteria in this Section are met and both of the following conditions are satisfied:~~
  - 1. ~~The security is not traded on an exchange (or other established marketplace) on which trades are denominated in the investor's functional currency.~~
  - 2. ~~Dividends or other cash flows to holders of the security are all denominated in the same foreign currency as the currency expected to be received upon sale of the security.~~
- d. Unrecognized firm commitment. Paragraph 815-20-25-58 states that a derivative instrument or a nonderivative financial instrument that may give rise to a foreign currency transaction gain or loss under Topic 830 can be designated as hedging changes in the fair value of an unrecognized firm commitment, or a specific portion thereof, attributable to foreign currency exchange rates.

## > > Items Specifically Ineligible for Designation as a Hedged Item or Transaction

**815-20-25-43** Besides those hedged items and transactions that fail to meet the specified eligibility criteria, none of the following shall be designated as a hedged item or transaction in the respective hedges:

- a. Subparagraph not used
  1. Subparagraph not used
- b. With respect to both fair value hedges and cash flow hedges:
  1. An investment accounted for by the equity method in accordance with the requirements of Subtopic 323-10 or in accordance with the requirements of Topic 321
  2. A **noncontrolling interest** in one or more consolidated subsidiaries
  3. Transactions with stockholders as stockholders, such as either of the following:
    - i. Projected purchases of treasury stock
    - ii. Payments of dividends.
  4. Intra-entity transactions (except for foreign-currency-denominated forecasted intra-entity transactions) between entities included in consolidated financial statements
  5. The price of stock expected to be issued pursuant to a stock option plan for which recognized compensation expense is not based on changes in stock prices after the date of grant.
- c. With respect to fair value hedges only:
  1. If the entire asset or liability is an instrument with variable cash flows, an implicit fixed-to-variable swap (or similar instrument) perceived to be embedded in a host contract with fixed cash flows
  2. For a held-to-maturity debt security, the risk of changes in its fair value attributable to interest rate risk
  3. An asset or liability that is remeasured with the changes in fair value attributable to the hedged risk reported currently in earnings
  4. An equity investment in a consolidated subsidiary
  5. A firm commitment either to enter into a business combination or to acquire or dispose of a subsidiary, a noncontrolling interest, or an equity method investee
  6. An equity instrument issued by the entity and classified in stockholders' equity in the statement of financial position
  7. A component of an embedded derivative in a hybrid instrument—for example, embedded options in a **hybrid instrument** that are required to be considered a single forward contract under paragraph 815-10-25-10 cannot be designated as items hedged individually in a fair value hedge in which the hedging instrument is a separate, unrelated freestanding option.
- d. With respect to cash flow hedges only:
  1. Subparagraph not used

2. If variable cash flows of the forecasted transaction relate to a debt security that is classified as held-to-maturity under Topic 320, the risk of changes in its cash flows attributable to interest rate risk
3. In a cash flow hedge of a variable-rate financial asset or liability, either existing or forecasted, the risk of changes in its cash flows attributable to changes in the specifically identified benchmark interest rate if the cash flows of the hedged transaction are explicitly based on a different index, for example, based on a specific bank's prime rate, which cannot qualify as the benchmark rate. That is, the hedged risk cannot be designated as interest rate risk unless the cash flows of the hedged transaction are explicitly based on that same benchmark interest rate. However, the risk designated as being hedged could potentially be the risk of overall changes in the hedged cash flows related to the asset or liability, if the other criteria for a cash flow hedge have been met.

The restriction against hedging interest rate risk in item (d)(3) does not apply to a cash flow hedge of the forecasted issuance or forecasted purchase of fixed-rate debt.

### > > Instruments Specifically Ineligible for Designation as Hedging Instruments

**815-20-25-71** Besides those hedging instruments that fail to meet the specified eligibility criteria, none of the following shall be designated as a hedging instrument for the respective hedges:

- b. With respect to fair value hedges only:
  1. A nonderivative financial instrument as the hedging instrument in a fair value hedge of the foreign currency exposure of a recognized asset or liability.
  2. A nonderivative financial instrument as the hedging instrument in a fair value hedge of the foreign currency exposure of an available-for-sale debt security.

45. Amend paragraph 815-20-35-1(b) with a link to transition paragraph 825-10-65-2, as follows:

### Subsequent Measurement

**815-20-35-1** Paragraph 815-10-35-2 states that the accounting for subsequent changes in the **fair value** (that is, gains or losses) of a **derivative instrument** depends on whether it has been designated and qualifies as part of a hedging relationship and, if so, on the reason for holding it. Specifically, subsequent gains and losses on derivative instruments shall be accounted for as follows:

- b. **Fair value hedge.** The gain or loss on a derivative instrument designated and qualifying as a fair value hedging instrument as well as the offsetting loss or gain on the hedged item attributable to the hedged risk shall be recognized currently in earnings in the same accounting period, as provided in paragraphs 815-25-35-1 through 35-6. The gain or loss on the hedging derivative or nonderivative instrument in a hedge of a foreign-currency-denominated **firm commitment** and the offsetting loss or gain on the hedged firm commitment shall be recognized currently in earnings in the same accounting period, as provided in paragraphs 815-20-25-58 through 25-59. The gain or loss on the hedging derivative instrument in a hedge of an available-for-sale debt security and the offsetting loss or gain on the hedged available-for-sale debt security shall be recognized currently in earnings in the same accounting period, ~~as provided in the next sentence. The change in fair value of a hedged available-for-sale equity security attributable to **foreign exchange risk** is reported in earnings pursuant to paragraph 815-25-35-6 and not in **other comprehensive income.**~~

46. Amend paragraph 815-20-55-117 and supersede paragraphs 815-20-55-118 through 55-122 and the heading preceding paragraph 815-20-55-123 and 815-20-55-187 through 55-192 and their related heading, with a link to transition paragraph 825-10-65-2, as follows:

## Implementation Guidance and Illustrations

### > Illustrations

#### > > Example 9: Definition of Hedged Item when Using a Zero-Cost Collar with Different Notional Amounts

**815-20-55-117** The following ~~Example illustrates~~ ~~Cases illustrate~~ the application of paragraph 815-20-25-10 to a currency collar, two collars:

- a. Subparagraph superseded by Accounting Standards Update No. 2016-01, Equity collar (Case A)
- b. Subparagraph superseded by Accounting Standards Update No. 2016-01, Currency collar (Case B).

#### >>> ~~Case A: Equity Collar~~

**815-20-55-118** Paragraph superseded by Accounting Standards Update No. 2016-01. ~~During January 1999, Entity A issued a \$100,000 debt instrument at a~~

fixed interest rate of 8 percent that contains an embedded combination of options. The combination of options comprises both of the following:

- a. ~~A purchased put option with a notional amount equal to 1,000 shares of XYZ stock and a strike price of \$100 per share. The purchased put option provides Entity A a return of \$1,000 for each dollar that the price of XYZ stock falls below \$100.~~
- b. ~~A written call option with a notional amount equal to 700 shares of XYZ stock and a strike price of \$120 per share. The written call option obligates Entity A to pay \$700 for each dollar that the price of XYZ stock increases above \$120.~~

**815-20-55-119** Paragraph superseded by Accounting Standards Update No. 2016-01. ~~Overall, the collar provides the investor with a potential gain equal to 70 percent of the share price of XYZ stock in excess of \$120 per share at maturity and exposes the investor to a potential loss in principal to the extent that the share price of XYZ stock is below \$100 per share at maturity. (For both options, the underlying is the same—XYZ stock.) Entity A also has 1,000 shares of XYZ stock classified as available for sale. The fair value of XYZ stock at the debt issuance date is \$100 per share. The debt issuance is intended to eliminate the risk of a decrease in the fair value in Entity A's investment in XYZ stock.~~

**815-20-55-120** Paragraph superseded by Accounting Standards Update No. 2016-01. ~~Pursuant to the guidance in paragraphs 815-20-25-89 through 25-90, the combination of options should be accounted for as a net purchased option. As a result, if Entity A chooses to use the combination of options as a hedging instrument, it is not required to comply with the provisions contained in paragraph 815-20-25-94 related to written options.~~

**815-20-55-121** Paragraph superseded by Accounting Standards Update No. 2016-01. ~~Entity A would like to designate the combination of options as a fair value hedge of its investment in XYZ stock. Entity A would specify in the hedge effectiveness documentation that the collar's time value would be excluded from the assessment of hedge effectiveness.~~

**815-20-55-122** Paragraph superseded by Accounting Standards Update No. 2016-01. ~~The hedging relationship involving the equity collar and the shares of XYZ stock owned by Entity A qualifies for fair value hedge accounting. In that case, the hedged risk is changes in the overall fair value of the hedged item. The hedged item is expressed as 100 percent of 1,000 shares of XYZ stock for price changes below \$100 per share and 70 percent of each of the same 1,000 shares of stock for price changes above \$120 per share. Fair value hedge accounting will be applied for those changes in the underlying (market price of XYZ stock) that cause changes in the collar's intrinsic value (that is, decreases below \$100 per share and increases above \$120 per share). Because the hedge's effectiveness is based on~~

~~changes in the collar's intrinsic value, hedge effectiveness must be assessed based on the actual price change of XYZ stock by comparing the change in intrinsic value of the collar to the change in fair value of the specified quantity of shares for those changes in the underlying.~~

### >>> **Case B: Currency Collar**

**815-20-55-123** Entity B forecasts that it will purchase inventory that will cost 100 million foreign currency (FC) units. Entity B's functional currency is the U.S. dollar (USD). To limit the variability in USD-equivalent cash flows associated with changes in the USD-FC exchange rate, Entity B constructs a currency collar as follows:

- a. A purchased call option providing Entity B the right to purchase FC 100 million at an exchange rate of USD 0.885 per FC 1.
- b. A written put option obligating Entity B to purchase FC 50 million at an exchange rate of USD 0.80 per FC 1.

**815-20-55-124** The purchased call option provides Entity B with protection when the USD-FC exchange rate increases above USD 0.885 per FC 1. The written put option partially offsets the cost of the purchased call option and obligates Entity B to give up some of the foreign currency gain related to the forecasted inventory purchase as the USD-FC exchange rate decreases below USD 0.80 per FC 1. (For both options, the underlying is the same—the USD-FC exchange rate.) Assuming that a net premium was not received for the combination of options and all the other criteria in paragraphs 815-20-25-89 through 25-90 have been met, if Entity B chooses to use the combination of options as a hedging instrument, it is not required to comply with the provisions contained in paragraph 815-20-25-94 related to written options.

**815-20-55-125** Entity B would like to designate the combination of options as a hedge of the variability in USD-equivalent cash flows of its forecasted purchase of inventory denominated in FC. Assume Entity B specifies in the hedge effectiveness documentation that the collar's time value would be excluded from the assessment of hedge effectiveness.

**815-20-55-126** The hedging relationship involving the currency collar designated as a hedge of the effect of fluctuations in the USD-FC exchange rate qualifies for cash flow hedge accounting. In that example, the hedged risk is the risk of changes in USD-equivalent cash flows attributable to foreign currency risk (specifically, the risk of fluctuations in the USD-FC exchange rate). The foreign currency collar is hedging the variability in USD-equivalent cash flows for 100 percent of the forecasted FC 100 million purchase price of inventory for USD-FC exchange rate movements above USD 0.885 per FC 1 and variability in USD-equivalent cash flows for 50 percent of the forecasted FC 100 million purchase price of inventory

for USD-FC exchange rate movements below USD 0.80 per FC 1. Cash flow hedge accounting will be applied for those changes in the underlying (the USD-FC exchange rate) that cause changes in the collar's intrinsic value (that is, changes below USD 0.80 per FC 1 and above USD 0.885 per FC 1). Because the hedge's effectiveness is based on changes in the collar's intrinsic value, hedge effectiveness must be assessed based on the actual exchange rate changes by comparing the change in intrinsic value of the collar to the change in the specified quantity of the forecasted transaction for those changes in the underlying.

**> > Example 21: Application of Collar-Based Hedging Relationships**

815-20-55-187 Paragraph superseded by Accounting Standards Update No. 2016-01. This Example illustrates the application of paragraph 815-20-25-95.

815-20-55-188 Paragraph superseded by Accounting Standards Update No. 2016-01. An entity enters into an equity price collar with an investment bank to hedge the fair value exposure of an equity security that it holds as an available-for-sale security. That collar is indexed to the price of the equity security held and consists of a purchased put with the strike price equal to \$40 per share (whereby the holder can put the equity security to the investment bank for \$40 per share) and a written call with the strike price equal to \$60 per share (whereby the investment bank can call the equity security from the holder for \$60 per share). The collar has the effect of insulating the equity security holder from any losses caused by equity price decreases below \$40 per share, but the holder must sacrifice any unrealized gains caused by equity price increases above \$60 per share. The hedged equity security has a fair value of \$50 per share at inception of the collar. If the underlying increases by 50 percent to \$75, the intrinsic value of the collar will decrease from zero to a loss of \$15 per share (\$75 — \$60). If the underlying decreases by 50 percent to \$25, the intrinsic value of the collar will increase from zero to a gain of \$15 per share (\$40 — \$25). Despite the symmetrical changes in the intrinsic value of the collar in response to an upward and a downward change in the equity index by the same percentage, the market views the likelihood that the underlying equity price will increase as greater than the likelihood that it will decrease. Accordingly, the investment bank is willing to pay a premium to the equity security holder.

815-20-55-189 Paragraph superseded by Accounting Standards Update No. 2016-01. The following table shows the calculation of the gain and loss for a market price move of 50 percent. The written option test in paragraph 815-20-25-94 requires consideration of all possible percentage favorable changes in the underlying (from 0 percent to 100 percent) and all possible percentage unfavorable changes in the underlying.

**Potential Gain and Loss on the Combination of the Hedged Item and the Net Written Option If the Market Moves Each Direction by the Same Percentage**

(The time values of the options were selected to emphasize importance of the Example.)

	<u>Inception</u>	<u>Price Move- up 50%</u>	<u>Price Move- down 50%</u>
Purchased put			
Intrinsic value	_____	_____	\$ _____ 15
Time value	\$ _____ 4	\$ _____ 2	\$ _____ 1
Fair value	<u>_____ 4</u>	<u>_____ 3</u>	<u>_____ 16</u>
Written call			
Intrinsic value	_____	_____ (15)	_____
Time value	_____ (6)	_____ (4)	_____ (4)
Fair value	<u>_____ (6)</u>	<u>_____ (19)</u>	<u>_____ (4)</u>
Equity security	<u>_____ 50</u>	<u>_____ 75</u>	<u>_____ 25</u>
Combined fair value	<u>\$ _____ 48</u>	<u>\$ _____ 58</u>	<u>\$ _____ 37</u>
		<u>Gain</u>	<u>Loss</u>
Change in fair value of combination from inception		\$ _____ 10	\$ _____ (11)
Percentage change in fair value of combination from inception		21%	-23%

**815-20-55-190** Paragraph superseded by Accounting Standards Update No. 2016-01. Pursuant to paragraph 815-20-25-88 and the guidance in paragraphs 815-20-25-89 through 25-90, the combination of options in the collar in this Example is a net written option from the equity security holder's perspective. Therefore, the written option test in paragraph 815-20-25-94 must be applied to determine whether the hedging relationship between the equity security and the collar qualifies for fair value hedge accounting.

**815-20-55-191** Paragraph superseded by Accounting Standards Update No. 2016-01. That test requires consideration of the potential gain and loss on the combined collar and equity security for all percentage changes in the equity index. Performance of that analysis demonstrates that the combination of the hedged item's price change and the net written option's intrinsic value change provides at least as much potential for gains as a result of a favorable change in their respective prices as exposure to losses from an unfavorable change in their respective prices.

**815-20-55-192** Paragraph superseded by Accounting Standards Update No. 2016-01. The calculations in the preceding table demonstrate that the example hedging relationship would fail the written option test in paragraph 815-20-25-94 if the time value were required to be considered. The amount of the gain and the

~~loss on the combination of the net written option (both time value and intrinsic value) and the equity security when the underlying equity price increases and decreases by the same percentage is not equivalent or symmetrical. That outcome is due to the fact that the purchased put and written call have different time values, and for a specific change in the underlying, the relative change in time value for each option will be different.~~

## Amendments to Subtopic 815-25

47. Amend paragraph 815-25-35-6, with a link to transition paragraph 825-10-65-2, as follows:

### Derivatives and Hedging—Fair Value Hedges

#### Subsequent Measurement

**815-25-35-6** If a hedged item is otherwise measured at fair value with changes in fair value reported in **other comprehensive income** (such as an available-for-sale debt security), the adjustment of the hedged item's carrying amount discussed in paragraph 815-25-35-1(b) shall be recognized in earnings rather than in other comprehensive income to offset the gain or loss on the hedging instrument.

48. Supersede paragraphs 815-25-55-18 through 55-22 and their related heading and amend paragraph 815-25-55-65, with a link to transition paragraph 825-10-65-2, as follows:

### Implementation Guidance and Illustrations

#### > Illustrations

#### >> **Example 4: Fair Value Hedge of Equity Securities with Options**

**815-25-55-18** ~~Paragraph superseded by Accounting Standards Update No. 2016-01. This Example illustrates the guidance in Sections 815-20-25, 815-20-35, and 815-25-35 for how an entity may assess hedge effectiveness and measure hedge ineffectiveness in a fair value hedge of equity securities with options. Assume that the hedge satisfied all of the criteria for hedge accounting at inception.~~

**815-25-55-19** ~~Paragraph superseded by Accounting Standards Update No. 2016-01. Entity D holds 10,000 shares of XYZ stock. It purchases put option contracts on 20,000 shares of XYZ stock with a strike price equal to the current price of the stock to hedge its exposure to changes in the fair value of its investment position attributable to changes in the price of XYZ stock. Entity D manages the position~~

using a delta-neutral strategy. That is, it monitors the option's delta—the ratio of changes in the option's price to changes in the price of XYZ stock. As the delta ratio changes, Entity D buys or sells put options so that the next change in the fair value of all of the options held can be expected to counterbalance the next change in the value of its investment in XYZ stock. For put options, the delta ratio moves closer to one as the share price of the stock falls and moves closer to zero as the share price rises. The delta ratio also changes as the exercise period decreases, as interest rates change, and as expected volatility changes. Entity D designates the put options as a fair value hedge of its investment in XYZ stock.

~~815-25-55-20 Paragraph superseded by Accounting Standards Update No. 2016-01. Because Entity D plans to change the number of options that it holds to the extent necessary to maintain a delta-neutral position, it may not automatically assume that the hedge will be highly effective at achieving offsetting changes in fair value. Also, because the delta-neutral hedging strategy is based on expected changes in the option's fair value, Entity D may not assess effectiveness based on changes in the option's intrinsic value. Instead, Entity D would estimate both of the following amounts:~~

- ~~a. The gain or loss on the option position that would result from various decreases or increases in the market price of XYZ stock~~
- ~~b. The loss or gain on its investment in XYZ stock for the same market price changes.~~

~~815-25-55-21 Paragraph superseded by Accounting Standards Update No. 2016-01. To assess the effectiveness of the hedge both at inception and on an ongoing basis, Entity D could compare the respective gains and losses from different market price changes. The ongoing assessment of effectiveness also must consider the actual changes in the fair value of the put options held and of the investment in XYZ stock during the hedge period.~~

~~815-25-55-22 Paragraph superseded by Accounting Standards Update No. 2016-01. Consistent with Entity D's method of assessing effectiveness, the hedge would be ineffective to the extent that the actual realized and unrealized gains or losses from changes in the fair value of the options held is greater or less than the change in value of the investment in XYZ stock. The underlying for the put option contracts is the market price of XYZ stock. Therefore, if Entity D continually monitors the delta ratio and adjusts the number of options held accordingly, the changes in the fair value of the options and of the hedged item may almost completely offset, resulting in only a small amount of ineffectiveness to be recognized in earnings.~~

**>> Example 10: Fair Value Hedge of a Firm Commitment Denominated in a Foreign Currency with a Forward to Purchase a Different Foreign Currency**

**815-25-55-62** This Example illustrates application of the guidance in Sections 815-20-25, 815-20-35, and 815-25-35 to a fair value hedge of a **firm commitment** to

purchase an asset for a price denominated in a foreign currency. In this Example, the hedging instrument and the firm commitment are denominated in different foreign currencies. Consequently, the hedge is not perfectly effective, and ineffectiveness is recognized immediately in earnings. (The entity in the Example could have designed a hedge with no ineffectiveness by using a hedging instrument denominated in the same foreign currency as the firm commitment with terms that match the appropriate terms in the firm commitment.) For simplicity, commissions and most other transaction costs, initial margin, and income taxes are ignored unless otherwise stated. Assume that there are no changes in creditworthiness that would alter the effectiveness of the hedging relationship.

**815-25-55-63** Entity MNO's functional currency is the U.S. dollar (USD). On February 3, 20X7, Entity MNO enters into a firm commitment to purchase a machine for delivery on May 1, 20X7. The price of the machine will be 270,000 Dutch guilders (NLG 270,000). Also on February 3, 20X7, Entity MNO enters into a forward contract to purchase 240,000 euros (EUR 240,000) on May 1, 20X7. Entity MNO will pay USD 0.6125 per EUR 1 (a total of USD 147,000), which is the current forward rate for an exchange on May 1, 20X7. Entity MNO designates the forward contract as a hedge of its risk of changes in the fair value of the firm commitment resulting from changes in the USD–NLG forward exchange rate.

**815-25-55-64** Entity MNO will assess effectiveness by comparing the overall changes in the fair value of the forward contract to the changes in fair value in USD of the firm commitment due to changes in USD–NLG forward exchange rates. Entity MNO expects the forward contract to be highly effective as a hedge because all of the following conditions exist:

- a. EUR 240,000 is approximately equal to NLG 270,000 at the May 1, 20X1, forward exchange rate in effect on February 3, 20X7.
- b. Settlement of the forward contract and the firm commitment will occur on the same date.
- c. In recent years, changes in the value in USD of EUR over three-month periods have been highly correlated with changes in the value in USD of NLG over those same periods.

**815-25-55-65** Ineffectiveness will result from the difference between changes in the USD equivalent of EUR 240,000 (the notional amount of the forward contract) and changes in the USD equivalent of NLG 270,000 (the amount to be paid for the machine). The difference between the **spot rate** and the forward exchange rate is not excluded from the hedging relationship because changes in the fair value of the firm commitment are being measured using forward exchange rates. If the hedged item were a foreign-currency-denominated available-for-sale debt security instead of a firm commitment, Topic 830 would have required its carrying value to be measured using the spot exchange rate. Therefore, the spot-forward difference would have been recognized immediately in earnings either because it

represented ineffectiveness or because it was excluded from the assessment of effectiveness.

## Amendments to Subtopic 820-10

49. Amend paragraphs 820-10-15-3 and 820-10-55-100, with a link to transition paragraph 825-10-65-2, as follows:

### Fair Value Measurement—Overall

#### Scope and Scope Exceptions

##### > Practicability Exceptions to This Topic

**820-10-15-3** The Fair Value Measurement Topic does not eliminate the practicability exceptions to fair value measurements within the scope of this Topic. Those practicability exceptions to fair value measurements in specified circumstances include, among others, those stated in the following:

- a. The use of a transaction price (an **entry price**) to measure fair value (an **exit price**) at initial recognition, including the following:
  1. Guarantees in accordance with Topic 460
  2. Subparagraph superseded by Accounting Standards Update No. 2009-16
- b. ~~Subparagraph superseded by Accounting Standards Update No. 2016-01. An exemption to the requirement to measure fair value if it is not practicable to do so, including the following:~~
  1. ~~Subparagraph superseded by Accounting Standards Update No. 2016-01. Financial instruments under Subtopic 825-10~~
  2. Subparagraph superseded by Accounting Standards Update No. 2009-16
- c. An exemption to the requirement to measure fair value if fair value is not reasonably determinable, such as all of the following:
  1. Nonmonetary assets in accordance with Topic 845 and Sections 605-20-25 and 605-20-50
  2. Asset retirement obligations in accordance with Subtopic 410-20 and Sections 440-10-50 and 440-10-55
  3. Restructuring obligations in accordance with Topic 420
  4. Participation rights in accordance with Subtopics 715-30 and 715-60.
- d. Subparagraph superseded by Accounting Standards Update No. 2015-10
- e. The use of particular measurement methods referred to in paragraph 805-20-30-10 that allow measurements other than fair value for specified assets acquired and liabilities assumed in a business combination.

- ee. Financial assets or financial liabilities of a consolidated variable interest entity that is a **collateralized financing entity** when the financial assets or financial liabilities are measured using the measurement alternative in paragraphs 810-10-30-10 through 30-15 and 810-10-35-6 through 35-8.
- f. An exemption to the requirement to measure fair value if fair value cannot be reasonably estimated, such as the following:
  - 1. Noncash consideration promised in a contract in accordance with the guidance in paragraphs 606-10-32-21 through 32-24.

## Implementation Guidance and Illustrations

### > Illustrations

#### > > Example 9: Fair Value Disclosures

##### > > > Case A: Disclosure—Assets Measured at Fair Value

**820-10-55-100** For assets and liabilities measured at fair value at the reporting date, this Topic requires quantitative disclosures about the fair value measurements for each class of assets and liabilities at the end of the reporting period. Sufficient information must be provided to permit reconciliation of the fair value of assets categorized within the fair value hierarchy to the amounts presented in the statement of financial position. A reporting entity might disclose the following for assets to comply with paragraph 820-10-50-2(a) through (b) and paragraph 820-10-50-2B.

(\$ in millions)

Fair Value Measurements at the End of the Reporting Period  
Using

Description	12/31/09	Quoted Prices in Active Markets for Identical Assets (Level 1)			Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Gains (Losses)
<b>Recurring fair value measurements</b>							
<b>Trading Equity securities <sup>(a)</sup></b>							
Equity securities—real estate industry	\$ 93	\$ 70	\$ 23				
Equity securities—oil and gas industry	45	45					
Equity securities—other	16	16					
Equity securities—financial services industry	150	150					
Equity securities—healthcare industry	110	110					
Equity securities—other	30	30					
Total equity trading securities	464	428	430	\$ 23			
<b>Available-for-sale debt securities</b>							
Residential mortgage-backed securities	\$ 149		\$ 24		\$ 125		
Commercial mortgage-backed securities	50				50		
Collateralized debt obligations	35				35		
U.S. Treasury securities	85	\$ 85					
Corporate bonds	93	9	84	93			
Total available-for-sale debt securities	\$ 412	\$ 94	\$ 85	\$ 108	\$ 117	\$ 210	
<b>Available-for-sale equity securities <sup>(a)</sup></b>							
Financial services industry	\$ 150	\$ 160					
Healthcare industry	110	110					
Other	16	16					
Total available-for-sale equity securities	\$ 276	\$ 276					
Total available-for-sale securities	\$ 687	\$ 369	\$ 108		\$ 210		
<b>Hedge fund investments</b>							
Equity long/short	\$ 55		\$ 55				
Global opportunities	35		35				
High-yield debt securities	90				\$ 90		
Hedge fund investments measured at net asset value <sup>(b)</sup>	30						
Total hedge fund investments	\$ 210		\$ 90		\$ 90		
<b>Other investments</b>							
Private equity fund investments <sup>(b)</sup>	\$ 25				\$ 25		
Direct venture capital: healthcare <sup>(a)</sup>	53				53		
Direct venture capital: energy <sup>(a)</sup>	32				32		
Other investments measured at net asset value <sup>(b)</sup>	45						
Total other investments	\$ 160	155				\$ 110	
<b>Derivatives</b>							
Interest rate contracts	57		\$ 57				
Foreign exchange contracts	43		43				
Credit contracts	38				38		
Commodity futures contracts	78	\$ 78					
Commodity forward contracts	20		20				
Total derivatives	\$ 236	\$ 78	\$ 120		\$ 38		
Total recurring fair value measurements	\$ 1,441	\$ 677	\$ 568	\$ 341	\$ 350	\$ 448	
<b>Nonrecurring fair value measurements</b>							
Long-lived assets held and used <sup>(c)</sup>	\$ 75		\$ 75			\$ (25)	
Goodwill <sup>(d)</sup>	30				\$ 30	(35)	
Long-lived assets held for sale <sup>(e)</sup>	26		26			(15)	
Total nonrecurring fair value measurements	\$ 131		\$ 101		\$ 30	\$ (75)	

- (a) On the basis of its analysis of the nature, characteristics, and risks of the securities, the reporting entity has determined that presenting them by industry is appropriate.
- (b) On the basis of its analysis of the nature, characteristics, and risks of the investments, the reporting entity has determined that presenting them as a single class is appropriate.
- (c) In accordance with Subtopic 360-10, long-lived assets held and used with a carrying amount of \$100 million were written down to their fair value of \$75 million, resulting in an impairment charge of \$25 million, which was included in earnings for the period.
- (d) In accordance with Subtopic 350-20, goodwill with a carrying amount of \$65 million was written down to its implied fair value of \$30 million, resulting in an impairment charge of \$35 million, which was included in earnings for the period.
- (e) In accordance with Subtopic 360-10, long-lived assets held for sale with a carrying amount of \$35 million were written down to their fair value of \$26 million, less costs to sell of \$6 million (or \$20 million), resulting in a loss of \$15 million, which was included in earnings for the period.
- (f) In accordance with Subtopic 820-10, certain investments that are measured at fair value using the net asset value per share (or its equivalent) practical expedient have not been classified in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the statement of financial position.
- (Note: For liabilities, a similar table should be presented.)

## Amendments to Subtopic 825-10

50. Amend paragraphs 825-10-05-3, with a link to transition paragraph 825-10-65-2, as follows:

### Financial Instruments—Overall

#### Overview and Background

**825-10-05-1** The Financial Instruments Topic provides guidance on matters related broadly to all **financial instruments**. This Topic includes the following Subtopics:

- a. Overall
- b. Registration Payment Arrangements.

**825-10-05-2** The Overall Subtopic presents guidance in the following Subsections:

- a. General
- b. Fair Value Option.

The General Subsections provide guidance on credit losses on financial instruments with off-balance-sheet credit risk and certain disclosures about financial instruments.

**825-10-05-3** The Codification contains various Topics, and in some cases individual Subtopics, that provide (but are not necessarily limited to) guidance on accounting for different financial instruments, including **financial assets**, **financial liabilities**, and equity. Those Topics and Subtopics include, among others, all of the following:

- a. Cash and Cash Equivalents
- b. Receivables
- c. Investments—Debt and Equity Securities
- ~~cc. Investments—Equity Securities~~
- d. Investments—Equity Method and Joint Ventures
- e. Liabilities
- f. Commitments
- g. Contingencies
- h. Guarantees
- i. Debt
- j. Distinguishing Liabilities from Equity
- k. Equity
- l. Derivatives and Hedging
- m. Leases

- n. Transfers and Servicing
- o. Each of the Financial Services industry Topics.

51. Amend paragraph 825-10-25-4, with a link to transition paragraph 825-10-65-2, as follows:

## Recognition

### Fair Value Option

#### > Overall Guidance

#### >> Election Dates

**825-10-25-4** An entity may choose to elect the fair value option for an eligible item only on the date that one of the following occurs:

- a. The entity first recognizes the eligible item.
- b. The entity enters into an eligible **firm commitment**.
- c. Financial assets that have been reported at fair value with unrealized gains and losses included in earnings because of specialized accounting principles cease to qualify for that specialized accounting (for example, a transfer of assets from a subsidiary subject to Subtopic 946-10 to another entity within the consolidated reporting entity not subject to that Subtopic).
- d. The accounting treatment for an investment in another entity changes because the investment becomes subject to the equity method of accounting, either of the following occurs:
  - 1. Subparagraph superseded by Accounting Standards Update No. 2016-01. The investment becomes subject to the equity method of accounting (for example, the investment may previously have been reported as a security accounted for under either Subtopic 320-10 or the fair value option in this Subtopic).
  - 2. Subparagraph superseded by Accounting Standards Update No. 2016-01. The investor ceases to consolidate a subsidiary or variable interest entity (VIE) but retains an interest (for example, because the investor no longer holds a majority voting interest but continues to hold some common stock).
- e. An event that requires an eligible item to be measured at fair value at the time of the event but does not require fair value measurement at each reporting date after that, excluding the recognition of impairment under lower-of-cost-or-market accounting or other-than-temporary impairment or accounting for equity securities in accordance with Topic 321.

**825-10-25-5** Some of the events that require remeasurement of eligible items at fair value, initial recognition of eligible items, or both, and thereby create an election date for the fair value option as discussed in paragraph 825-10-25-4(e) are:

- a. Business combinations, as defined in Subtopic 805-10
- b. Consolidation or deconsolidation of a subsidiary or VIE
- c. Significant modifications of debt, as defined in Subtopic 470-50.

52. Supersede paragraph 825-10-35-4 and the Subsection title, with a link to transition paragraph 825-10-65-2, and add the General Note as follows:

## Subsequent Measurement

**Note on Subsection Fair Value Option:** Upon the effective date of Accounting Standards Update No. 2016-01, the Subsection below, Fair Value Option, will be superseded.

### Fair Value Option

**825-10-35-4** Paragraph superseded by Accounting Standards Update No. 2016-01. ~~A business entity shall report unrealized gains and losses on items for which the fair value option has been elected in earnings (or another performance indicator if the business entity does not report earnings) at each subsequent reporting date. [Content moved to paragraph 825-10-45-4]~~

53. Supersede paragraph 825-10-45-1 and add paragraphs 825-10-45-1A through 45-1B and 825-10-45-4 through 45-7 and their related headings and Subsection titles, with a link to transition paragraph 825-10-65-2, as follows:

## Other Presentation Matters

### General

#### > Statement of Financial Position

#### > > Disaggregation of Financial Assets and Financial Liabilities by Measurement Category and Form of Financial Asset

**825-10-45-1A** An entity shall separately present **financial assets** and **financial liabilities** by measurement category and form of financial asset (that is, securities or loans and receivables) in the statement of financial position or the accompanying notes to the financial statements.

### Fair Value Option

## > Statement of Financial Position

~~825-10-45-1 Paragraph superseded by Accounting Standards Update No. 2016-01. Entities shall report assets and liabilities that are measured at **fair value** pursuant to the fair value option in this Subtopic in a manner that separates those reported fair values from the carrying amounts of similar assets and liabilities measured using another measurement attribute. [Content moved to paragraph 825-10-45-1B]~~

**825-10-45-1B** Entities shall report assets and liabilities that are measured at **fair value** pursuant to the fair value option in this Subtopic in a manner that separates those reported fair values from the carrying amounts of similar assets and liabilities measured using another measurement attribute. [Content moved from paragraph 825-10-45-1]

**825-10-45-2** To accomplish that, an entity shall either:

- a. Present the aggregate of fair value and non-fair-value amounts in the same line item in the statement of financial position and parenthetically disclose the amount measured at fair value included in the aggregate amount
- b. Present two separate line items to display the fair value and non-fair-value carrying amounts.

## > Statement of Cash Flows

**825-10-45-3** Entities shall classify cash receipts and cash payments related to items measured at fair value according to their nature and purpose as required by Topic 230.

## > Statement of Comprehensive Income

**825-10-45-4** A business entity shall report unrealized gains and losses on items for which the **fair value** option has been elected in earnings (or another performance indicator if the business entity does not report earnings) at each subsequent reporting date. [Content moved from paragraph 825-10-35-4]

## >> Financial Liabilities for Which Fair Value Option Is Elected

**825-10-45-5** If an entity has designated a financial liability under the fair value option in accordance with this Subtopic, the entity shall measure the financial liability at fair value with qualifying changes in fair value recognized in net income. The entity shall present separately in other comprehensive income the portion of the total change in the fair value of the liability that results from a change in the instrument-specific credit risk. The entity may consider the portion of the total

change in fair value that excludes the amount resulting from a change in a base market risk, such as a risk-free rate or a benchmark interest rate, to be the result of a change in instrument-specific credit risk. Alternatively, an entity may use another method that it considers to faithfully represent the portion of the total change in fair value resulting from a change in instrument-specific credit risk. The entity shall apply the method consistently to each financial liability from period to period.

**825-10-45-6** Upon derecognition of a financial liability designated under the fair value option in accordance with this Subtopic, an entity shall include in net income the cumulative amount of the gain or loss on the financial liability that resulted from changes in instrument-specific credit risk.

**825-10-45-7** The guidance in paragraph 825-10-45-5 does not apply to financial liabilities of a consolidated collateralized financing entity measured using the measurement alternative in paragraphs 810-10-30-10 through 30-15 and 810-10-35-6 through 35-8.

54. Amend paragraphs 825-10-50-2A, 825-10-50-8, 825-10-50-10, and 825-10-50-30 through 50-31 and supersede paragraphs 825-10-50-3 through 50-7, 825-10-50-14, and 825-10-50-16 through 50-19, with a link to transition paragraph 825-10-65-2, as follows:

## **Disclosure**

### **General**

**825-10-50-1** Paragraph 825-10-05-3 identifies various Topics within the Codification that address financial instruments matters. Those and other Topics in the Codification require disclosures about specific financial instruments. This Subsection addresses incremental disclosures about all of the following:

- a. **Fair value** of financial instruments
- b. Concentrations of credit risk of all financial instruments
- c. Market risk of all financial instruments.

### **> Applicability of This Subsection**

**825-10-50-2** This guidance discusses the applicability of the disclosure requirements in this Subsection to entities and transactions.

### **>> Entities**

**825-10-50-2A** ~~For interim reporting periods, the~~The disclosure guidance in this Subsection applies to **public business entities**, except for the disclosure guidance in paragraphs 825-10-50-20 through 50-23, which applies to all entities.

~~all entities but is optional for those entities that do not meet the definition of a **publicly traded company**. For interim reporting periods, the disclosure guidance in paragraphs 825-10-50-20 through 50-23 is optional for those entities that do not meet the definition of a public business entity.~~

~~**825-10-50-3** Paragraph superseded by Accounting Standards Update No. 2016-01. Except as noted in the following paragraph, for annual reporting periods, the disclosure guidance related to fair value of financial instruments in paragraphs 825-10-50-10 through 50-19 applies to all entities but is optional for an entity that meets all of the following criteria:~~

- ~~a. The entity is a **nonpublic entity**.~~
- ~~b. The entity's total assets are less than \$100 million on the date of the financial statements.~~
- ~~c. The entity has no instrument that, in whole or in part, is accounted for as a derivative instrument under Topic 815 other than commitments related to the origination of mortgage loans to be held for sale during the reporting period. For purposes of this disclosure guidance, a receive variable, pay-fixed interest rate swap for which the simplified hedge accounting approach (see Subtopic 815-20) is applied shall not be considered an instrument that is accounted for as a derivative instrument under Topic 815.~~

~~**825-10-50-3A** Paragraph superseded by Accounting Standards Update No. 2016-01. A nonpublic entity is not required to provide the disclosure in paragraph 825-10-50-10(d) for items disclosed at fair value but not measured at fair value in the statement of financial position.~~

~~**825-10-50-4** Paragraph superseded by Accounting Standards Update No. 2016-01. The criteria in paragraph 825-10-50-3 shall be applied to the most recent year presented in comparative financial statements to determine applicability of this Subsection.~~

~~**825-10-50-5** Paragraph superseded by Accounting Standards Update No. 2016-01. If disclosures are not required in the current period, the disclosures for previous years may be omitted if financial statements for those years are presented for comparative purposes.~~

~~**825-10-50-6** Paragraph superseded by Accounting Standards Update No. 2016-01. If disclosures are required in the current period, disclosures that have not been reported previously need not be included in financial statements that are presented for comparative purposes.~~

~~**825-10-50-7** Paragraph superseded by Accounting Standards Update No. 2016-01. The following table clarifies the requirements for disclosures if prior periods are presented in comparative financial statements.~~

If Disclosures for the Current Period Are:	And Disclosures for Prior Periods Were:	Then Disclosures for Prior Periods Presented in Comparative Statements Are:
Optional	Optional	Optional
Optional	Required	Optional
Required	Optional	Optional
Required	Required	Required

## > > Transactions

**825-10-50-8** In part, this Subsection requires disclosures about fair value for all financial instruments, whether recognized or not recognized in the statement of financial position, except that the disclosures about fair value prescribed in paragraphs 825-10-50-10 through 50-16 are not required for any of the following:

- a. Employers' and plans' obligations for pension benefits, other postretirement benefits including health care and life insurance benefits, postemployment benefits, employee stock option and stock purchase plans, and other forms of deferred compensation arrangements (see Topics 710, 712, 715, 718, and 960)
- b. Substantively extinguished debt subject to the disclosure requirements of Subtopic 405-20
- c. Insurance contracts, other than financial guarantees (including financial guarantee insurance contracts within the scope of Topic 944) and investment contracts, as discussed in Subtopic 944-20
- d. Lease contracts as defined in Topic 840 (a contingent obligation arising out of a cancelled lease and a guarantee of a third-party lease obligation are not lease contracts and are subject to the disclosure requirements in this Subsection)
- e. Warranty obligations (see Topic 450 and the Product Warranties Subsections of Topic 460)
- f. Unconditional purchase obligations as defined in paragraph 440-10-50-2
- g. Investments accounted for under the equity method in accordance with the requirements of Topic 323
- h. Noncontrolling interests and equity investments in consolidated subsidiaries (see Topic 810)
- i. Equity instruments issued by the entity and classified in stockholders' equity in the statement of financial position (see Topic 505)
- j. Receive-variable, pay-fixed interest rate swaps for which the simplified hedge accounting approach is applied (see Topic 815)
- k. **Fully benefit-responsive investment contracts** held by an employee benefit plan.

- l. Investments in equity securities accounted for under the measurement guidance for equity securities without readily determinable fair values (see Topic 321)
- m. Trade receivables and payables due in one year or less
- n. Deposit liabilities with no defined or contractual maturities.

**825-10-50-9** Generally accepted accounting principles (GAAP) require disclosure of or subsequent measurement at fair value for many classes of financial instruments. Those requirements are not superseded or modified by this Subsection.

### > Fair Value of Financial Instruments

**825-10-50-10** A reporting entity shall disclose either in the body of the financial statements or in the accompanying notes, the fair value of financial instruments and the level of the fair value hierarchy within which the fair value measurements are categorized in their entirety (Level 1, 2, or 3), all of the following:

- a. Subparagraph superseded by Accounting Standards Update No. 2016-01. Either in the body of the financial statements or in the accompanying notes, the fair value of financial instruments for which it is practicable to estimate that value
- b. Subparagraph superseded by Accounting Standards Update No. 2016-01. The method(s) and significant assumptions used to estimate the fair value of financial instruments consistent with the requirements of paragraph 820-10-50-2(bbb) except that a reporting entity is not required to provide the quantitative disclosures about significant unobservable inputs used in fair value measurements categorized within Level 3 of the fair value hierarchy required by that paragraph
- c. Subparagraph superseded by Accounting Standards Update No. 2016-01. A description of the changes in the method(s) and significant assumptions used to estimate the fair value of financial instruments, if any, during the period
- d. Subparagraph superseded by Accounting Standards Update No. 2016-01. The level of the fair value hierarchy within which the fair value measurements are categorized in their entirety (Level 1, 2, or 3).

For financial instruments recognized at fair value in the statement of financial position, the disclosure requirements of Topic 820 also apply.

**825-10-50-11** Fair value disclosed in the notes shall be presented together with the related carrying amount in a form that clarifies both of the following:

- a. Whether the fair value and carrying amount represent assets or liabilities
- b. How the carrying amounts relate to what is reported in the statement of financial position.

**825-10-50-12** If the fair value of financial instruments is disclosed in more than a single note, one of the notes shall include a summary table. The summary table shall contain the fair value and related carrying amounts and cross-references to the location(s) of the remaining disclosures required by this Section.

**825-10-50-13** This Subtopic does not prohibit an entity from disclosing separately the estimated fair value of any of its nonfinancial intangible and tangible assets and nonfinancial liabilities.

**825-10-50-14** ~~Paragraph superseded by Accounting Standards Update No. 2016-01. For trade receivables and payables, no disclosure is required under this Subtopic if the carrying amount approximates fair value.~~

**825-10-50-15** In disclosing the fair value of a **financial instrument**, an entity shall not net that fair value with the fair value of other financial instruments—even if those financial instruments are of the same class or are otherwise considered to be related (for example, by a risk management strategy)—except to the extent that the offsetting of carrying amounts in the statement of financial position is permitted under either of the following:

- a. The general principle in paragraph 210-20-45-1
- b. The exceptions for master netting arrangements in paragraph 815-10-45-5 and for amounts related to certain repurchase and reverse repurchase agreements in paragraphs 210-20-45-11 through 45-17.

**825-10-50-16** ~~Paragraph superseded by Accounting Standards Update No. 2016-01. If it is not practicable for an entity to estimate the fair value of a financial instrument or a class of financial instruments, both of the following shall be disclosed:~~

- a. ~~Information pertinent to estimating the fair value of that financial instrument or class of financial instruments (such as the carrying amount, effective interest rate, and maturity)~~
- b. ~~The reasons why it is not practicable to estimate fair value.~~

**825-10-50-17** ~~Paragraph superseded by Accounting Standards Update No. 2016-01. In the context of this Subtopic, practicable means that an estimate of fair value can be made without incurring excessive costs. It is a dynamic concept: what is practicable for one entity might not be for another; what is not practicable in one year might be in another. For example, it might not be practicable for an entity to estimate the fair value of a class of financial instruments for which a quoted market price is not available because it has not yet obtained or developed the valuation model necessary to estimate fair value, and the cost of obtaining an independent~~

valuation appears excessive considering the materiality of the instruments to the entity.

~~825-10-50-18 Paragraph superseded by Accounting Standards Update No. 2016-01. Practicability, that is, cost considerations, also may affect the required precision of the estimate. For example, while in many cases it might seem impracticable to estimate fair value on an individual instrument basis, it may be practicable for a class of financial instruments in a portfolio or on a portfolio basis. In those cases, the fair value of that class or of the portfolio shall be disclosed.~~

~~825-10-50-19 Paragraph superseded by Accounting Standards Update No. 2016-01. Finally, it might be practicable for an entity to estimate the fair value only of a subset of a class of financial instruments; the fair value of that subset shall be disclosed.~~

## Fair Value Option

### > Required Disclosures for Each Period for Which an Interim or Annual Income Statement Is Presented

**825-10-50-30** For each period for which an income statement is presented, entities shall disclose all of the following about items for which the fair value option has been elected:

- a. For each line item in the statement of financial position, the amounts of gains and losses from fair value changes included in earnings during the period and in which line in the income statement those gains and losses are reported. This Subtopic does not preclude an entity from meeting this requirement by disclosing amounts of gains and losses that include amounts of gains and losses for other items measured at fair value, such as items required to be measured at fair value.
- b. A description of how interest and dividends are measured and where they are reported in the income statement. This Subtopic does not address the methods used for recognizing and measuring the amount of dividend income, interest income, and interest expense for items for which the fair value option has been elected.
- c. For loans and other receivables held as assets, both of the following:
  1. The estimated amount of gains or losses included in earnings during the period attributable to changes in instrument-specific credit risk
  2. How the gains or losses attributable to changes in instrument-specific credit risk were determined.
- d. ~~For liabilities with fair values that have been significantly affected during the reporting period by changes in the instrument-specific credit risk, all of the following about the effects of the instrument-specific credit risk and changes in it:~~

1. ~~The estimated amount of change, during the period and cumulatively, of the fair value of the liability that is gains and losses from fair value changes included in earnings that are attributable to changes in the instrument-specific credit risk~~
2. ~~Subparagraph superseded by Accounting Standards Update No. 2016-01. Qualitative information about the reasons for those changes~~
3. How the gains and losses attributable to changes in instrument-specific credit risk were determined.
4. If a liability is settled during the period, the amount, if any, recognized in other comprehensive income that was recognized in net income at settlement.

### > Other Required Disclosures

**825-10-50-31** In annual periods only, an entity shall disclose the methods and significant assumptions used to estimate the fair value of items for which the fair value option has been elected. For required disclosures about the method(s) and significant assumptions used to estimate the fair value of financial instruments, see paragraph 820-10-50-2(bbb) except that an entity is not required to provide the quantitative disclosures about significant unobservable inputs used in fair value measurements categorized within Level 3 of the fair value hierarchy required by that paragraph 825-10-50-10(b). ~~Given the requirement in that paragraph, the disclosure requirement in this paragraph is essentially limited to instruments otherwise outside the scope of this Section (see paragraph 825-10-50-2) (for example, certain insurance contracts) for which the fair value option has been elected.~~

55. Supersede paragraphs 825-10-55-3 through 55-5 and their related headings and amend paragraphs 825-10-55-8, 825-10-55-10, and 825-10-55-12, with a link to transition paragraph 825-10-65-2, as follows:

## Implementation Guidance and Illustrations

### General

#### > Illustrations

#### >> **Example 1: Disclosure by a Financial Entity**

**825-10-55-3** Paragraph superseded by Accounting Standards Update No. 2016-01. ~~Bank A might disclose the following.~~

~~Note V: Disclosures about Fair Value of Financial Instruments~~

The following methods and assumptions were used to estimate the fair value of each class of financial instruments for which it is practicable to estimate that value:

~~Cash and short term investments. For those short term instruments, the carrying amount is a reasonable estimate of fair value.~~

~~Investment securities and trading account assets. For securities and derivative instruments held for trading purposes (which include bonds, interest rate futures, options, interest rate swaps, securities sold not owned, caps and floors, foreign currency contracts, and forward contracts) and marketable equity securities held for investment purposes, fair values are based on quoted market prices or dealer quotes. For other securities held as investments, fair value equals quoted market price, if available. If a quoted market price is not available, fair value is estimated using quoted market prices for similar securities.~~

~~Loan receivables. For certain homogeneous categories of loans, such as some residential mortgages, credit card receivables, and other consumer loans, fair value is estimated using the quoted market prices for securities backed by similar loans, adjusted for differences in loan characteristics. The fair value of other types of loans is estimated by discounting the future cash flows using the current rates at which similar loans would be made to borrowers with similar credit ratings and for the same remaining maturities.~~

~~Deposit liabilities. The fair value of demand deposits, savings accounts, and certain money market deposits is the amount payable on demand at the reporting date. The fair value of fixed maturity certificates of deposit is estimated using the rates currently offered for deposits of similar remaining maturities.~~

~~Long term debt. Rates currently available to the Bank for debt with similar terms and remaining maturities are used to estimate fair value of existing debt. Fair value of long term debt is based on quoted market prices or dealer quotes for the identical liability when traded as an asset in an active market. If a quoted market price is not available, an expected present value technique is used to estimate fair value.~~

~~The estimated fair values of the Bank's financial instruments are as follows.~~

	19X9		19X8	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
<b>Financial assets:</b>				
Cash and short-term investments	\$ XXX	\$ XXX	\$ XXX	\$ XXX
Trading account assets	XXX	XXX	XXX	XXX
Investment securities	XXX	XXX	XXX	XXX
Loans	XXX		XXX	
Less: allowance for loan losses	(XXX)		(XXX)	
Loans, net of allowance	XXX	XXX	XXX	XXX
<b>Financial liabilities:</b>				
Deposits	XXX	XXX	XXX	XXX
Securities sold not owned	XXX	XXX	XXX	XXX
Long-term debt	XXX	XXX	XXX	XXX
<b>Unrecognized financial instruments:<sup>(a)</sup></b>				
Commitments to extend credit	(XXX)	(XXX)	(XXX)	(XXX)
Standby letters of credit	(XXX)	(XXX)	(XXX)	(XXX)
Financial guarantees written	(XXX)	(XXX)	(XXX)	(XXX)

- a The amounts shown under carrying amount represent accruals or deferred income (fees) arising from those unrecognized financial instruments. Other derivative instruments entered into as trading activities are included in trading account assets or securities sold not owned.

## >> Example 2: Disclosure by a Nonfinancial Entity

**825-10-55-4** Paragraph superseded by Accounting Standards Update No. 2016-01. In this Example, it is assumed that the carrying amounts of the short-term trade receivables and payables approximate their fair values. Entity B might disclose the following:

### Note X: Disclosures about Fair Value of Financial Instruments

The following methods and assumptions were used to estimate the fair value of each class of financial instruments for which it is practicable to estimate that value:

Cash and short-term investments. The carrying amount approximates fair value because of the short maturity of those instruments.

Long-term investments. The fair values of some investments are estimated based on quoted market prices for those or similar investments. For other investments for which there are no quoted market prices, a reasonable

~~estimate of fair value could not be made without incurring excessive costs. Additional information pertinent to the value of an unquoted investment is provided below.~~

~~Long-term debt. The fair value of the Entity's long-term debt is estimated based on the quoted market prices for the same or similar issues or on the current rates offered to the Entity for debt of the same remaining maturities.~~

~~Foreign currency contracts. The fair value of foreign currency contracts (used for hedging purposes) is estimated by obtaining quotes from brokers.~~

The estimated fair values of the Entity's financial instruments are as follows:

	19X9		19X8	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Cash and short-term investments	\$ XXX	\$ XXX	\$ XXX	\$ XXX
Long-term investments for which it is:				
Practicable to estimate fair value	XXX	XXX	XXX	XXX
Not practicable	XXX	—	XXX	—
Long-term debt	(XXX)	(XXX)	(XXX)	(XXX)
Foreign currency contracts	XXX	XXX	(XXX)	(XXX)

~~It was not practicable to estimate the fair value of an investment representing 12 percent of the issued common stock of an untraded company; that investment is carried at its original cost of \$XXX (19X8, \$XXX) in the statement of financial position. At year end, the total assets reported by the untraded company were \$XXX (19X8, \$XXX) and the common stockholders' equity was \$XXX (19X8, \$XXX), revenues were \$XXX (19X8, \$XXX), and net income was \$XXX (19X8, \$XXX).~~

### >> Example 3: Disclosure by a Small Nonfinancial Entity

~~825-10-55-5 Paragraph superseded by Accounting Standards Update No. 2016-01. Entity C, whose only financial instruments are cash, short-term trade receivables and payables for which their carrying amounts approximate fair values, and long-term debt, might disclose the following.~~

#### Note Z: Long-Term Debt

~~Based on the borrowing rates currently available to the Entity for bank loans with similar terms and average maturities, the fair value of long-term debt is \$XXX (19X8, \$XXX).~~

## Fair Value Option

### > Illustrations

#### >> Example 1: Fair Value Measurements and Changes in Fair Values Included in Current-Period Earnings

**825-10-55-6** The following Cases illustrate selected disclosure requirements for items reported at **fair value** under this Subtopic:

- a. The Fair Value Option Subsection of 825-10-50 disclosures with voluntary integration of the General Subsection of 825-10-50 disclosures (Case A)
- b. The Fair Value Option Subsection of 825-10-50 disclosures without voluntary integration of the General Subsection of 825-10-50 disclosures (Case B).

**825-10-55-7** Cases A and B represent suggested forms for presenting disclosure information. While the suggested forms of presentation illustrate selected required disclosures, the suggested forms of presentation are not mandated by this Subtopic. Aggregation of related fair value disclosures is encouraged but not required.

**825-10-55-8** The statement of financial position for Entity XYZ as of December 31, ~~20X12008~~, is provided to assist in understanding the illustrative fair value disclosures in Cases A and B.

(\$ in 000s)

Description	At December 31, 2008 20X1
<b>Assets</b>	
Cash and due from banks	\$ 38
Deposits with banks	22
Fed funds sold and securities purchased under resale agreements	134
Securities borrowed	75
Trading <u>debt</u> securities	115
<u>Debt securities</u> Securities available-for-sale	75
<u>Debt securities</u> Securities held-to-maturity	32
Loans and lease receivables (\$150 at fair value)	\$560
Allowance for loan and lease losses	<u>(10)</u>
Loans, net of allowance for loan and lease losses	550
Derivatives	60
<u>Private equity</u> <u>Equity</u> investments (\$75 at fair value)	125
Premises and equipment	10
Other assets	20
<b>Total assets</b>	<b><u>\$ 1,256</u></b>
<b>Liabilities</b>	
Non-interest-bearing deposits	\$ 143
Interest-bearing deposits	412
Fed funds purchased and securities sold under repurchase agreements	130
Accounts payable	110
Short-term borrowings	128
Long-term debt (\$60 at fair value)	200
<b>Total liabilities</b>	<b><u>1,123</u></b>
<b>Shareholders' equity</b>	
Common stock (authorized 5,000,000 shares; issued 3,550,000 shares)	4
Capital surplus	88
Retained earnings	42
Accumulated other comprehensive income (loss)	<u>(1)</u>
<b>Total shareholders' equity</b>	<b><u>133</u></b>
<b>Total liabilities and shareholders' equity</b>	<b><u>\$ 1,256</u></b>

## > > Case A: Disclosures with Voluntary Integration

**825-10-55-9** The objective is to provide information about all of the following:

- a. Assets and liabilities measured at fair value on a recurring basis (as required by Subtopic 820-10)
- b. Changes in fair values of assets and liabilities for which the fair value option has been elected in a manner that relates to the statement of financial position (as required by this Subtopic)

- c. Fair value estimates and corresponding carrying amounts for major categories of assets and liabilities that include items measured at fair value on a recurring basis (in accordance with the General Subsection of 825-10-50).

**825-10-55-10** The following table represents the fair value tabular disclosure required by paragraph 820-10-50-2(b), supplemented to do both of the following:

- a. Provide information about where in the income statement changes in fair values of assets and liabilities reported at fair value are included in earnings
- b. Voluntarily integrate selected disclosures required annually by the General Subsection of 825-10-50.

Disclosures required by paragraphs 825-10-50-28(c) and 825-10-50-30(a) are illustrated in the narrative disclosure that follows the table.

(\$ in 000s)

Description	Total Carrying Amount in Statement of Financial Position	Fair Value Measurements at December 31, 2021, Using		Changes in Fair Values for the 12-Month Period Ended December 31, 2021, for Items Measured at Fair Value Pursuant to Election of the Fair Value Option									
		Fair Value Estimate	Assets or Liabilities Measured at Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Trading Gains and Losses	Other Gains and Losses	Interest Income on Loans	Interest Expense on Long-Term Debt	Total Changes in Fair Values Included in Current-Period Earnings	Total Changes in Fair Values Included in Other Comprehensive Income	
													12/31/21
Trading <del>debt</del> securities	\$ 115	\$ 115	\$ 115	\$ 105	\$ 10		\$ 10 <sup>(*)</sup>					\$ 10	
Available-for-sale <del>debt</del> securities	75	75	75	75									
Loans, net	400	412	150	-	100	\$ 50		\$ (3)	\$ 10				7
Derivatives	60	60	60	25	15	20	\$ 10						5
Private equity <del>Equity</del> investments	125	136	125	50	25	50		(18)					(18)
Long-term debt	(200)	(206)	(60)	(90)	(40)	(20)		13		\$ (4)			9
													5
													4

(\*) Represents ~~includes~~ investments that would otherwise be accounted for under the equity method of accounting.

Loans are included in loans and lease receivables in the statement of financial position. As of December 31, 2021, approximately \$160,000 of lease receivables are included in loans and lease receivables in the statement of financial position and are not eligible for the fair value option.

(a) This column discloses carrying amount information required annually by this Subtopic only for major categories of assets and liabilities that include items measured at fair value.

(b) This column discloses fair value estimates required annually by this Subtopic only for major categories of assets and liabilities that include items measured at fair value. This Subtopic requires an entity to disclose fair value estimates and related carrying amounts for all financial instruments within the scope of this Subtopic. Paragraph 825-10-50-12 requires that if an entity discloses the fair value of financial instruments in more than a single note, one of the notes include a summary table (not presented in this Example).

(c) This Subtopic does not require disclosure of the amounts in the Trading Gains and Losses column nor does it preclude disclosure of these amounts. These amounts are shown for completeness.

**825-10-55-11** An entity might provide either of the following additional disclosures required by paragraph 825-10-50-28(a) through (b) after the following table:

- a. Management's reasons for electing a fair value option for each eligible item or group of similar eligible items
- b. If the fair value option is elected for some but not all eligible items within a group of similar eligible items, both of the following:
1. A description of those similar items and the reasons for partial election
  2. Information to enable users to understand how the group of similar items relates to individual line items on the statement of financial position.

## >>> Case B: Disclosures Without Voluntary Integration

**825-10-55-12** The following table illustrates an alternative presentation illustration that does not integrate disclosures required annually by this Subtopic or the additional gain and loss amounts voluntarily displayed in the table in Case A. The following table represents the fair value hierarchy table set forth in Topic 820, supplemented to provide information about where in the income statement changes in fair values of assets and liabilities for which the fair value option has been elected are included in earnings. Disclosures required by paragraphs 825-10-50-28(c) and 825-10-50-30(a) are illustrated in the narrative disclosure that follows the table.

(\$ in 000s)

Description	Fair Value Measurements at December 31, 20X12008, Using				Changes in Fair Values for the 12-Month Period Ended December 31, 20X12008, for Items Measured at Fair Value Pursuant to Election of the Fair Value Option				
	Fair Value Measurements 12/31/20X1 12/31/08	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Other Gains and Losses	Interest Income on Loans	Interest Expense on Long-Term Debt	Total Changes in Fair Values Included in Current-Period Earnings	Total Changes in Fair Values Included in Other Comprehensive Income
Trading debt securities	\$ 115	\$ 105	\$ 10						
Available-for-sale debt securities	75	75							
Loans	150	-	100	\$ 50	\$ 3	\$ 10		\$ 7	
Derivatives	60	25	15	20					
Private equity investments*	75	50	25	50	(18)			(18)	
Long-term debt	(60)	(39)	(40)	(20)	13		(4)	9	4

(\*) Represents investments that would otherwise be accounted for under the equity method of accounting.

Loans are included in loans and lease receivables in the statement of financial position. As of December 31, 20X12008, approximately \$160,000 of lease receivables are included in loans and lease receivables in the statement of financial position and are not eligible for the fair value option.

**825-10-55-13** An entity might provide either of the following additional disclosures required by paragraph 825-10-50-28(a) through (b) after the table:

- a. Management's reasons for electing a fair value option for each eligible item or group of similar eligible items
- b. If the fair value option is elected for some but not all eligible items within a group of similar eligible items, both of the following:
  1. A description of those similar items and the reasons for partial election
  2. Information to enable users to understand how the group of similar items relates to individual line items on the statement of financial position.

## Amendments to Subtopic 835-10

56. Amend paragraph 835-10-60-5 and its related heading and add paragraph 835-10-60-6A and its related heading, with a link to transition paragraph 825-10-65-2, as follows:

## Interest—Overall

### Relationships

#### > Investments—~~Debt and~~ Equity Securities

**835-10-60-5** For guidance on recognition of interest income on investments in debt securities, see paragraph 320-10-35-4.

**835-10-60-6** For guidance on recognition of interest income on structured notes, see paragraph 320-10-35-38.

#### > Investments—Equity Securities

**835-10-60-6A** For guidance on recognition of dividend income on investments in equity securities, see paragraph 321-10-35-6.

## Amendments to Subtopic 845-10

57. Amend paragraph 845-10-30-26, with a link to transition paragraph 825-10-65-2, as follows:

## Nonmonetary Transactions—Overall

### Initial Measurement

#### Exchanges of a Nonfinancial Asset for a Noncontrolling Ownership Interest

**845-10-30-26** If the fair value of the asset or assets given up (or of the ownership interest received if that asset's fair value is more readily determinable) is greater than their carrying value, then either of the following should take place:

- a. A gain in the amount of that difference shall be recognized if the entity accounts for the ownership interest received using Topic 321 ~~the cost method~~.
- b. A partial gain shall be recognized if the entity accounts for the ownership interest received using the equity method in Topic 323.

The partial gain shall be calculated as the amount described in (a) less the portion of that gain represented by the economic interest (which may be different from the voting interest) retained. For example, if Entity A exchanges an asset with a carrying value of \$1,000 and a fair value of \$2,000 for a 30 percent economic

interest in Entity B, Entity A shall recognize a gain of \$700  $[(\$2,000 - \$1,000) \times 70\%]$ . Thus, the amount recorded for the ownership interest received is partially based on its fair value at the exchange date and partially based on the carryover amount of the asset(s) surrendered.

## Amendments to Subtopic 860-10

58. Amend paragraph 860-10-55-77, with a link to transition paragraph 825-10-65-2, as follows:

### Transfers and Servicing—Overall

#### Implementation Guidance and Illustrations

##### > Implementation Guidance

##### > > Classification of Transferred Debt Securities

**860-10-55-77** If the transferred financial assets were not securities subject to the guidance in Topic 320 before the transfer that was accounted for as a sale but the beneficial interests were issued in the form of debt securities ~~or in the form of equity securities that have readily determinable fair values~~, then the transferor would have the opportunity to decide the appropriate classification of the beneficial interests received as proceeds from the sale.

## Amendments to Subtopic 940-340

59. Amend paragraph 940-340-35-1, with a link to transition paragraph 825-10-65-2, as follows:

### Financial Services—Brokers and Dealers—Other Assets and Deferred Costs

#### Subsequent Measurement

##### > Exchange Memberships

**940-340-35-1** An exchange membership recognized under paragraph 940-340-25-1 as an ownership interest in the exchange shall be measured subsequently at cost less impairment. Impairment shall be measured in accordance with paragraphs 321-10-35-3 through 35-4 ~~or at a lesser amount if there is an other-than-temporary impairment in value.~~

## Amendments to Subtopic 942-320

60. Add paragraph 942-320-50-2A, with a link to transition paragraph 825-10-65-2, as follows:

### **Financial Services—Depository and Lending—Investments—Debt and Equity Securities**

#### **Disclosure**

**942-320-50-2A** Investments in mutual funds that invest only in U.S. government ~~{remove glossary link}~~debt securities~~{remove glossary link}~~ may be shown separately rather than grouped with other ~~{remove glossary link}~~equity securities~~{remove glossary link}~~ in the disclosures by major security type required by paragraph 942-320-50-2. **[Content amended as shown and moved from paragraph 320-10-50-4]**

## Amendments to Subtopic 942-325

61. Amend paragraphs 942-325-05-1 through 05-2, 942-325-35-1, and 942-325-45-1 and add paragraphs 942-325-25-4, 942-325-30-1, and 942-325-35-5 and their related headings, with a link to transition paragraph 825-10-65-2, as follows:

### **Financial Services—Depository and Lending—Investments—Other**

#### **Overview and Background**

**942-325-05-1** This Subtopic provides recognition and measurement guidance concerning Federal Home Loan Bank or Federal Reserve Bank stock, National Credit Union Share Insurance Fund deposits and premiums, ~~and~~ regular-way securities, and exchange memberships.

**942-325-05-2** Although Federal Home Loan Bank (or Federal Reserve Bank) stock is an equity interest in a Federal Home Loan Bank (or Federal Reserve Bank), it does not have a readily determinable fair value ~~for purposes of Topic 320~~ because its ownership is restricted and it lacks a market. Federal Home Loan Bank (or Federal Reserve Bank) stock can be sold back only at its par value of \$100 per share and only to the Federal Home Loan Banks (or Federal Reserve Banks) or to another member institution. In addition, the equity ownership rights represented by Federal Home Loan Bank stock are more limited than would be the case for a

public company, because of the oversight role exercised by regulators in the process of budgeting and approving dividends.

## **Recognition**

### **> Exchange Memberships**

**942-325-25-4** Section 940-340-25 provides guidance for recognition of exchange memberships.

## **Initial Measurement**

### **General**

#### **> Exchange Memberships**

**942-325-30-1** Section 940-340-30 provides guidance for initial measurement of exchange memberships.

## **Subsequent Measurement**

### **> Federal Home Loan Bank or Federal Reserve Bank Stock**

**942-325-35-1** Federal Home Loan Bank and Federal Reserve Bank stock shall be carried at cost and evaluated for impairment in accordance with paragraph 942-325-35-3.

#### **> Exchange Memberships**

**942-325-35-5** Section 940-340-35 provides guidance for subsequent measurement of exchange memberships.

## **Other Presentation Matters**

### **> Federal Home Loan Bank or Federal Reserve Bank Stock**

**942-325-45-1** Investments in Federal Home Loan Bank or Federal Reserve Bank stock shall not be shown with securities accounted for under Topic 321320.

## Amendments to Subtopic 942-470

62. Amend paragraph 942-470-50-1, with a link to transition paragraph 825-10-65-2, as follows:

### **Financial Services—Depository and Lending—Debt**

#### **Disclosure**

##### **> Fair Value of Deposit Liabilities**

**942-470-50-1** In estimating the fair value of deposit liabilities, a financial entity shall not take into account the value of its long-term relationships with depositors, commonly known as core deposit intangibles, which are separate intangible assets, not financial instruments. ~~For deposit liabilities with no defined maturities, the fair value to be disclosed under paragraphs 825-10-50-13 and 825-10-60-1 is the amount payable on demand at the reporting date.~~

## Amendments to Subtopic 942-825

63. Amend paragraph 942-825-50-2, with a link to transition paragraph 825-10-65-2, as follows:

### **Financial Services—Depository and Lending—Financial Instruments**

#### **Disclosure**

**942-825-50-2** Examples of activities and financial instruments with off-balance-sheet credit risk include obligations for loans sold with recourse (with or without a floating-interest-rate provision), fixed-rate and variable-rate loan commitments, financial guarantees, note issuance facilities at floating rates, and letters of credit. An entity (guarantor) may “lend” its creditworthiness to another party (borrower) for a fee, thereby enhancing that other party’s ability to borrow funds. The guarantor may provide a general guarantee of repayment of the borrower’s obligation or may pledge specific assets that may be claimed by the creditor in the event of the borrower’s default. A loan guarantee typically involves two sets of fees: an initial fee due at the consummation of the transaction and a continuing (annual) fee due over the term of the guarantee. A guarantor is required to disclose and account for a financial guarantee under Topic 606 on revenue from contracts with customers. ~~See paragraph 825-10-55-3 regarding disclosures about fair value of financial instruments.~~

## Amendments to Subtopic 944-10

64. Amend paragraph 944-10-05-1, with a link to transition paragraph 825-10-65-2, as follows:

### **Financial Services—Insurance—Overall**

#### **Overview and Background**

**944-10-05-1** The Financial Services—Insurance Topic provides guidance on financial accounting and reporting by insurance entities. The Financial Services—Insurance Topic includes the following Subtopics:

- a. Overall
- b. Insurance Activities
- c. Acquisition Costs
- d. Claim Costs and Liabilities for Future Policy Benefits
- e. Policyholder Dividends
- f. Premium Deficiency and Loss Recognition
- g. Separate Accounts
- h. Balance Sheet
- i. Income Statement
- j. Notes to Financial Statements
- k. Receivables
- l. Subparagraph superseded by Accounting Standards Update No. 2016-01, Investments—Debt and Equity Securities
- m. Subparagraph superseded by Accounting Standards Update No. 2016-01, Investments—Other
- n. Other Assets and Deferred Costs
- o. Property, Plant, and Equipment
- p. Liabilities
- q. Debt
- r. Equity
- s. Revenue Recognition
- t. Other Expenses
- u. Income Taxes
- v. Business Combinations
- w. Derivatives and Hedging
- x. Financial Instruments.

## Amendments to Subtopic 944-80

65. Amend paragraphs 944-80-25-9 through 25-11, 944-80-55-8 through 55-9, 944-80-55-11, and 944-80-55-16, with a link to transition paragraph 825-10-65-2, as follows:

### Financial Services—Insurance—Separate Accounts

#### Recognition

**944-80-25-9** If the conditions in the preceding paragraph are met, the assets of the separate account underlying the insurance entity's proportionate interest in the separate account shall be accounted for in a manner consistent with the accounting for similar assets held by the general account that the insurance entity may be required to sell. For example:

- a. For a debt or equity security with an unrealized loss, the loss shall be accounted for as an other than temporary impairment under the guidance in Subtopic 320-10 and recognized immediately in the statement of operations as a realized loss.
- b. The guidance in Subtopic 360-10 shall be followed for both real estate that is held for sale and real estate that is not held for sale. For real estate that does not meet that Subtopic's held-for-sale criteria, the impairment test shall be performed solely using undiscounted cash flows assuming immediate disposition.

**944-80-25-10** The guidance in paragraphs 944-80-25-6 through 25-9 shall be applied also if either of the following conditions exists:

- a. An insurance entity's interest in the separate account represents 20 percent or greater of the separate account interest.
- b. The underlying investments are other than those that meet the definition of any of the following:
  1. Securities under Subtopic 320-10 or 321-10
  2. Subparagraph superseded by Accounting Standards Update No. 2016-01, Securities under paragraph 944-325-35-4
  3. Cash and cash equivalents.

**944-80-25-11** ~~Paragraph 944-320-15-2 states that the~~ An insurance entity may report its portion of the separate account value as an investment in equity securities under Subtopic ~~321-10~~ 320-10 if both of the following conditions are met:

- a. The insurance entity's proportionate interest in the separate account is less than 20 percent of the separate account.
- b. All of the underlying investments of the separate account meet the definition of any of the following:

1. Securities under Subtopic 320-10 or 321-10
2. ~~Subparagraph superseded by Accounting Standards Update No. 2016-01. Securities under paragraph 944-325-35-4~~
3. Cash and cash equivalents.

## Implementation Guidance and Illustrations

### > Illustrations

#### > > Example 2: Proportionate Interest in a Separate Account

**944-80-55-8** The assets of Subaccount XYZ follow.

Investment	Separate Account at Fair Value	Separate Account at General Account Value <sup>(a)</sup>	Insurer's Interest	Proportionate Interest
Debt securities	\$ 400	\$ 400	10%	\$ 40
Equity securities	300	300	10%	30
Mortgage loans	250	200	10%	20
Real estate	130	100	10%	10
Total assets	<u>\$ 1,080</u>	<u>\$ 1,000</u>	10%	<u>\$ 100</u>

- (a) Underlying investments valued in a manner similar to any other general account asset as prescribed in Subtopics 944-310, 944-325, and 944-360.

**944-80-55-9** Balances presented in the insurer's statement of financial condition follow.

Assets:	Debt securities <sup>(a)</sup>	40
	Equity securities <sup>(a), (b)</sup>	30
	Mortgage loans	20
	Real estate	10
	Total investments	<u>100</u>
	Separate account—Assets	<u>\$ 972</u> <sup>(c)</sup>
Liabilities:	Separate account—Liabilities	<u>\$ 972</u>

- (a) Debt and equity securities need to be designated as either trading or available-for-sale.
- (b) If Subaccount XYZ separate account held an investment in a mutual fund, a typical situation would be that the insurance entity's investment would represent less than a 20 percent ownership and the interest would be reported as an equity security under Topic 320321.
- (c) Separate account assets at fair value of \$1,080 x 90% (contract holders' proportionate interest).

**944-80-55-11** The XYZ separate account's balances for net investment income and gains and losses follow.

	XYZ Separate Account Total	Insurer's Interest	Apportioned Values	General Account Classification
Net investment income	\$ 65	10%	6.5	Revenue
Realized gains and losses	20	10%	2.0	Revenue
Unrealized gains and losses:				Revenue or other <sup>(a)</sup> comprehensive income
Debt securities	8	10%	0.8	Revenue or other <sup>(a)</sup> comprehensive income
Equity securities	25	10%	2.5	Revenue or other <sup>(a)</sup> comprehensive income
Mortgage loans	5	10%	0.5	Not recognized <sup>(b)</sup>
Real estate	2	10%	0.2	Not recognized <sup>(b)</sup>
Total net investment income and gains and losses	<u>\$ 125</u>		<u>12.5</u>	

- (a) Unrealized gains shall be included in revenue or other comprehensive income depending on security classification as trading or available for sale. Unrealized losses result in other than temporary impairments, as noted in paragraph 944-80-25-9(a), and shall be recognized immediately.
- (b) Unrealized gains are not recognized. Cumulative unrealized losses may result in recognition of an other-than-temporary impairment.

**944-80-55-16** The accounting for the seed money change for the quarter follows.

Amount due to proportionate interest in revenue	2.3
Gain recognition on dilution of interest	4.2 (a)

- (a) Fair value of separate account less general account value of separate account multiplied by dilution,  $(\$1,090 - \$1,007) \times 5\%$ . This is the gain on mortgage loans and real estate, assuming debt ~~and equity~~ securities have been classified as trading. If debt ~~and equity~~ securities had been classified as available for sale, the gain or loss on dilution would also be calculated using amortized cost of debt ~~and equity~~ securities.

## Amendments to Subtopic 944-320

66. Supersede Subtopic 944-320, Financial Services—Insurance—Investments—Debt and Equity Securities, with a link to transition paragraph 825-10-65-2. **[Paragraph 944-320-50-1 moved to paragraph 944-825-50-1A]**

## Amendments to Subtopic 944-325

67. Supersede Subtopic 944-325, Financial Services—Insurance—Investments—Other, with a link to transition paragraph 825-10-65-2.

## Amendments to Subtopic 944-360

68. Amend paragraph 944-360-40-2, with a link to transition paragraph 825-10-65-2, as follows:

### **Financial Services—Insurance—Property, Plant, and Equipment**

#### **Derecognition**

##### **> Real Estate Investments**

~~944-360-40-2 As stated in paragraph 944-325-40-1, realized~~ **944-360-40-2** Realized gains and losses (including those on sales of real estate investments) shall not be deferred, either directly or indirectly.

## Amendments to Subtopic 944-605

69. Amend paragraph 944-605-25-21, with a link to transition paragraph 825-10-65-2, as follows:

### **Financial Services—Insurance—Revenue Recognition**

#### **Recognition**

##### **Reinsurance Contracts**

###### **> > Distinguishing Prospective Provisions from Retroactive Provisions**

**944-605-25-21** If practicable, prospective and retroactive provisions included within a single contract shall be accounted for separately. The Reinsurance Contracts Subsections of this Subtopic do not require any specific method for allocating reinsurance premiums to the prospective and retroactive portions of a contract. However, separate accounting for the prospective and retroactive portions of a contract may take place only when an allocation is practicable. Practicability requires a reasonable basis for allocating the reinsurance premiums to the risks covered by the prospective and retroactive portions of the contract, considering all amounts paid or deemed to have been paid regardless of the timing of payment. If separate accounting for prospective and retroactive provisions included within a single contract is impracticable, the contract shall be accounted for as a retroactive contract provided the conditions for reinsurance accounting are met. Impracticable is used in the sense used in paragraph 825-10-50-17 to mean that the prospective and retroactive provisions cannot ~~can~~ be accounted for separately without incurring excessive costs. Practicability is a dynamic concept: what is practicable for one entity might not be for another; what is not practicable in one year might be in another.

## Amendments to Subtopic 944-825

70. Supersede paragraph 944-825-50-1 and add paragraphs 944-825-50-1A through 55-1B and the related heading and Subsection title, with a link to transition paragraph 825-10-65-2, as follows:

### **Financial Services—Insurance—Financial Instruments**

#### **Disclosure**

## General

### > Securities on Deposit

**944-825-50-1A** An entity shall disclose the **carrying amount** of securities deposited by insurance subsidiaries with state regulatory authorities. **[Content moved from paragraph 944-320-50-1]**

## **Reinsurance Contracts**

### **> Disclosures about Concentrations of Credit Risk**

**944-825-50-1** Paragraph superseded by Accounting Standards Update 2016-01. ~~Under the provisions of Section 825-10-50, a **ceding entity** should disclose concentrations of credit risk associated with both of the following:~~

- ~~a. **Reinsurance** receivables~~
- ~~b. **Prepaid reinsurance premiums**. **[Content moved to paragraph 944-825-50-1B]**~~

**944-825-50-1B** Under the provisions of Section 825-10-50, a **ceding entity** should disclose concentrations of credit risk associated with both of the following:

- a. **Reinsurance** receivables
- b. **Prepaid reinsurance premiums**. **[Content moved from paragraph 944-825-50-1]**

## Amendments to Subtopic 954-10

71. Amend paragraph 954-10-05-1, with a link to transition paragraph 825-10-65-2, as follows:

### **Health Care Entities—Overall**

#### **Overview and Background**

**954-10-05-1** The Health Care Entities Topic includes the following Subtopics relating specifically to entities in the health care industry:

- a. Overall
- b. Presentation of Financial Statements
- c. Balance Sheet
- d. Income Statement

- e. Segment Reporting
- f. Cash and Cash Equivalents
- g. Receivables
- h. Subparagraph superseded by Accounting Standards Update No. 2016-01, Investments—Debt and Equity Securities
- i. Investments—Other
- j. Other Assets and Deferred Costs
- k. Property, Plant, and Equipment
- l. Liabilities
- m. Subparagraph superseded by Accounting Standards Update No. 2014-09
- n. Commitments
- o. Contingencies
- p. Guarantees
- q. Debt
- r. Revenue Recognition—Charity Care and Related Fundraising Entities
- s. Other Expenses
- t. Income Taxes
- tt. Business Combinations (Mergers and Acquisitions)
- u. Consolidation
- v. Derivatives and Hedging
- w. Financial Instruments.

## Amendments to Subtopic 954-225

72. Amend paragraph 954-225-45-7 and add paragraphs 954-225-45-8 through 45-10 and 954-225-55-2 through 55-5 and the related headings, with a link to transition paragraph 825-10-65-2, as follows:

### Health Care Entities—Income Statement

#### Other Presentation Matters

**954-225-45-7** Health care entities shall report the following items separately from the performance indicator:

- a. Transactions with owners acting in that capacity.
- b. Equity transfers involving other entities that control the reporting entity, are controlled by the reporting entity, or are under common control with the reporting entity.
- c. Receipt of restricted **contributions**, including temporary restrictions, such as time or purpose, or permanent restrictions.
- d. Contributions of, and assets released from donor restrictions related to, long-lived assets.

- e. Items that are required to be reported in or reclassified from other comprehensive income, such as gains or losses, prior service costs or credits, and transition assets or obligations recognized in accordance with Topic 715, foreign currency translation adjustments, and the effective portion of the gain or loss on derivative instruments designated and qualifying as cash flow hedging instruments.
- f. Items that are required to be reported separately under specialized not-for-profit standards. These include the effect of discontinued operations, as discussed in paragraph 958-225-55-6.
- g. Unrealized gains and losses on investments on other than trading debt securities, in accordance with paragraph ~~954-225-45-8~~~~954-320-45-1(b)~~.
- h. Investment returns restricted by donors or by law.
- i. Investment losses that decrease unrestricted net assets if those losses reduce the assets of a donor-restricted endowment fund below the required level, as described in paragraph 958-205-45-22.
- j. Investment gains that increase unrestricted net assets if those gains restore the fair value of the assets of a donor-restricted endowment fund to the required level, as described in paragraph 958-205-45-22.
- k. An **inherent contribution** (see paragraph 958-805-25-31) that increases temporarily restricted or permanently restricted net assets, as described in paragraph 954-805-45-2.
- l. The portion of the total change in the fair value of the liability resulting from a change in the instrument-specific credit risk, in accordance with paragraph 825-10-45-5.

**954-225-45-8** Investment return (including realized and unrealized gains and losses) not restricted by donors or by law shall be classified as changes in unrestricted net assets as follows:

- a. Included in the **{remove glossary link}performance indicator{remove glossary link}** are:
  - 1. Dividend, interest, and other similar investment income
  - 2. Realized gains and losses
  - 3. Unrealized gains and losses on trading debt securities (trading securities are defined in Topic 320)
  - 4. Other than temporary impairment losses.
  - 5. Unrealized gains and losses and impairments on equity investments accounted for under Topic 321.
- b. Excluded from the performance indicator are unrealized gains and losses on debt securities, unless the debt security is a trading debt security, other than trading securities. **[Content amended as shown and moved from paragraph 954-320-45-1]**

**954-225-45-9** If gains and investment income that are limited to specific uses by donor-imposed restrictions are reported as increases in unrestricted net assets in

accordance with paragraph 958-225-45-6, classification of those gains and investment income should be consistent with the previous paragraph. **[Content moved from paragraph 954-320-45-2]**

**954-225-45-10** See paragraphs ~~958-225-45-19~~ through ~~45-20~~~~958-320-45-2~~ through ~~45-3~~ for additional guidance on reporting investment gains, losses, and income. **[Content amended as shown and moved from paragraph 954-320-45-3]**

## Implementation Guidance and Illustrations

### > Illustrations

#### > > Example 1: Other-than-Trading Debt Securities

**954-225-55-2** This Example illustrates the accounting treatment and financial statement presentation for other-than-trading debt securities of a not-for-profit health care entity. **[Content amended as shown and moved from paragraph 954-320-55-1]**

**954-225-55-3** Other-than-trading debt securities are purchased in Year 1 at a cost of \$100. At the end of Year 1, the fair value of the securities is \$300. In Year 2, the securities are sold for \$400. **[Content amended as shown and moved from paragraph 954-320-55-2]**

**954-225-55-4** The journal entries are as follows:

Entry at the end of Year 1 to adjust the recorded value of the securities to fair value.

<del>Valuation allowance</del> - <u>Investments</u>	\$	200	
Change in net unrealized gains and losses on investments			\$ 200

Entry at the end of Year 2 to record the sale of the securities.

Cash	\$	400	
Realized gain			\$ 300
Investments			100
Change in net unrealized gains and losses on investments		200	
<del>Valuation allowance</del> - <u>Investments</u>			200

**[Content amended as shown and moved from paragraph 954-320-55-3]**

**954-225-55-5** As discussed in paragraph ~~954-225-45-8~~~~954-320-45-1~~, unrealized gains and losses on debt securities (except for trading debt securities) ~~other than trading—securities~~ are reported in the statement of operations below the **performance indicator** and realized gains and losses are reported in the statement of operations above the performance indicator. **[Content amended as shown and moved from paragraph 954-320-55-4]**

## Amendments to Subtopic 954-320

73. Supersede Subtopic 954-320, Health Care Entities—Investments—Debt and Equity Securities, with a link to transition paragraph 825-10-65-2. **[Paragraphs 954-320-45-2 moved to paragraph 954-225-45-9, and paragraphs 954-320-45-1, 954-320-45-3, and 954-320-55-1 through 55-4 amended and moved to paragraphs 954-225-45-8, 954-225-45-10, and 954-225-55-2 through 55-5]**

## Amendments to Topic 954-805

74. Amend paragraph 954-805-25-1, with a link to transition paragraph 825-10-65-2, as follows:

### **Health Care Entities—Business Combinations**

#### **Recognition**

**954-805-25-1** When applying the guidance in paragraph 805-20-25-6, an **acquirer** that is a not-for-profit, business-oriented health care entity shall classify particular investments in debt securities as **trading securities** or other than trading securities.

## Amendments to Subtopic 958-10

75. Amend paragraph 958-10-05-2, with a link to transition paragraph 825-10-65-2, as follows:

### **Not-for-Profit Entities—Overall**

#### **Overview and Background**

**958-10-05-2** This Topic includes the following Subtopics:

- a. Overall
- b. Financially Interrelated Entities
- c. Split-Interest Agreements
- d. Presentation of Financial Statements
- e. Balance Sheet
- f. Income Statement
- g. Statement of Cash Flows
- h. Receivables
- i. Investments—~~Debt and Equity~~ Securities
- ii. Investments—Equity Securities
- j. Investments—Other
- k. Property, Plant, and Equipment
- l. Liabilities
- m. Contingencies
- n. Revenue Recognition—Contributions
- o. Compensation—Retirement Benefits
- p. Other Expenses
- pp. Business Combinations (Mergers and Acquisitions)
- q. Consolidation.

## Amendments to Subtopic 958-30

76. Amend paragraphs 958-30-25-2, 958-30-25-4, 958-30-35-4, and 958-30-35-11, with a link to transition paragraph 825-10-65-2, as follows:

### **Not-for-Profit Entities—Split-Interest Agreements**

#### **Recognition**

##### **> Revocable Agreements**

**958-30-25-2** Revocable split-interest agreements shall be accounted for as intentions to give. Assets received by a **not-for-profit entity** (NFP) acting as a **trustee** under a revocable **split-interest agreement** shall be recognized when received as assets and as a refundable advance. If those assets are investments, they shall be recognized in conformity with Section 958-320-25, 958-321-25, or 958-325-25, as appropriate. **Contribution** revenue for the assets received shall be recognized when the agreement becomes irrevocable or when the assets are distributed to the NFP for its unconditional use, whichever occurs first.

##### **> Irrevocable Agreements**

##### **> > Assets Held by an NFP**

**958-30-25-4** In the absence of **donor-imposed conditions**, an NFP shall recognize contribution revenue and related assets and liabilities when an irrevocable split-interest agreement naming it trustee or fiscal **agent** is executed. Assets received under those agreements shall be recorded when received. If those assets are investments, they shall be recognized in conformity with Section 958-320-25, 958-321-25, or 958-325-25, as appropriate. The contribution portion of the agreement (that is, the part that represents the unconditional transfer of assets in a voluntary nonreciprocal transaction) shall be recognized as revenue or gain (see paragraph 958-30-45-7).

## **Subsequent Measurement**

### **> Irrevocable Agreements**

#### **>> Assets Held by the NFP**

**958-30-35-4** Assets held by the NFP under irrevocable split-interest agreements as investments shall be subsequently measured in conformity with Section 958-320-35, 958-321-35, or 958-325-35.

### **> Revocable Agreements**

**958-30-35-11** Assets held by the NFP under revocable split-interest agreements as investments shall be subsequently measured in conformity with Section 958-325-35, 958-321-35, or 958-320-35.

## **Amendments to Subtopic 958-210**

77. Add paragraph 958-210-45-12 and its related heading, with a link to transition paragraph 825-10-65-2, as follows:

## **Not-for-Profit Entities—Balance Sheet**

### **Other Presentation Matters**

#### **> Presentation in a Statement of Financial Position**

**958-210-45-12** As illustrated in paragraph 958-205-55-7, cash and cash equivalents of permanent endowment funds held temporarily until suitable long-term investment opportunities are identified may be included in the classification long-term investments. Likewise, cash held temporarily by a custodian for investment purposes may be included as part of investments in a statement of financial position rather than as cash. **[Content moved from paragraph 958-320-45-10]**

## Amendments to Subtopic 958-225

78. Amend paragraph 958-225-45-8 and add paragraphs 958-225-45-18 through 45-26 and their related headings, with a link to transition paragraph 825-10-65-2, as follows:

### Not-for-Profit Entities—Income Statement

#### Other Presentation Matters

##### > Classification of Revenues, Expenses, Gains, and Losses

**958-225-45-8** A statement of activities shall report gains and losses recognized on investments and other assets (or liabilities) as increases or decreases in unrestricted net assets unless their use is temporarily or permanently restricted by explicit donor stipulations or by law. For example, net gains on investment assets, to the extent recognized in financial statements, are reported as increases in unrestricted net assets unless their use is restricted to a specified purpose or future period. See paragraphs 958-225-45-18 through 45-26~~Section 958-320-45~~ for additional guidance about reporting investment gains and losses, and paragraphs 958-205-45-13 through 45-27 for additional guidance about reporting gains and losses on endowment funds. See paragraph 958-310-45-3 for additional guidance about bad debt expenses and losses.

##### > Reporting Investment Gains, Losses, and Income

**958-225-45-18** Pursuant to paragraph 958-225-45-8, gains and losses on investments shall be reported in the statement of activities as increases or decreases in **unrestricted net assets** unless their use is temporarily or permanently restricted by explicit donor stipulations or by law. **[Content moved from paragraph 958-320-45-1]**

**958-225-45-19** Pursuant to paragraph 958-225-45-5, dividend, interest, and other investment income shall be reported in the period earned as increases in unrestricted net assets unless the use of the assets received is limited by donor-imposed restrictions. Donor-restricted investment income shall be reported as an increase in **temporarily restricted net assets** or **permanently restricted net assets**, depending on the type of restriction. **[Content moved from paragraph 958-320-45-2]**

**958-225-45-20** Gains and investment income that are limited to specific uses by donor-imposed restrictions may be reported as increases in unrestricted net assets if the restrictions are met in the same reporting period as the gains and income are

recognized, provided that the **not-for-profit entity** (NFP) has a similar policy for reporting **contributions** received (see paragraphs 958-605-45-3 through 45-5), reports consistently from period to period, and discloses its accounting policy. **[Content moved from paragraph 958-320-45-3]**

**958-225-45-21** Pursuant to paragraphs 958-225-45-14 and 958-225-50-1, investment revenues may be reported net of related expenses, such as custodial fees and investment advisory fees, provided that the amount of the expenses is disclosed either on the face of the statement of activities or in notes to financial statements. **[Content moved from paragraph 958-320-45-4]**

**958-225-45-22** Gains and losses on the investments of a **donor-restricted endowment fund** are classified in accordance with paragraphs 958-205-45-13 through 45-35. **[Content moved from paragraph 958-320-45-5]**

### **> Presentation in a Statement of Activities with an Operating Measure**

**958-225-45-23** Some NFPs, primarily health care entities, would like to compare their results to business entities in the same industry. An NFP with those comparability concerns may report in a manner similar to business entities by classifying debt securities as available for sale or held to maturity as described in paragraphs 320-10-25-1 through 25-6 and excluding the unrealized gains and losses on those securities (which are recognized in accordance with Subtopic 958-320) from an operating measure within the statement of activities. Not-for-profit, business-oriented health care entities, however, are required to exclude certain gains and losses from a performance measure (see paragraph ~~954-225-45-8954-320-45-4~~). **[Content amended as shown and moved from paragraph 958-320-45-6]**

**958-225-45-24** In general, amounts reported in an NFP's financial statements shall be based on the nature of the underlying transactions rather than on budgetary designations. **[Content moved from paragraph 958-320-45-7]**

**958-225-45-25** Amounts of investment return based on budgetary designations may be displayed because the necessary constraints are provided by the disclosures required by paragraph 958-320-50-1 and paragraphs 958-225-45-9 through 45-12 (including the requirement that an operating measure, if reported, must appear in a financial statement that, at a minimum, reports the change in unrestricted net assets for the period). **[Content moved from paragraph 958-320-45-8]**

**958-225-45-26** Some NFPs, in managing their endowment funds, use a **spending-rate** or **total return** policy. Those policies consider total investment return—investment income (interest, dividends, rents, and so forth) plus net realized and unrealized gains (or minus net losses). Typically, spending-rate or total return

policies emphasize the use of prudence and a rational and systematic formula to determine the portion of cumulative investment return that can be used to support operations of the current period and the protection of endowment gifts from a loss of purchasing power as a consideration in determining the formula to be used. Example 1 (see paragraph 958-320-55-4) illustrates a statement of activities and example disclosures of an NFP that uses a spending-rate policy to include only a portion of its investment return in its operating measure. **[Content moved from paragraph 958-320-45-9]**

## Amendments to Subtopic 958-320

79. Amend the title of Subtopic 958-320 and add the General Note as follows:

### **Not-for-Profit Entities—Investments—Debt and Equity Securities**

**General Note on Not-for-Profit Entities—Investments—Debt and Equity Securities:** Upon the effective date of Accounting Standards Update No. 2016-01, the title of this Subtopic will change to Not-for-Profit Entities—Investments—Debt Securities.

80. Amend paragraphs 958-320-05-1 through 05-2, 958-320-15-1A through 15-4, 958-320-15-6 through 15-7, 958-320-25-1, 958-320-30-1, 958-320-35-1, and the heading preceding paragraph 958-320-60-1 and supersede paragraphs 958-320-25-2, 958-320-35-2, 958-320-45-1 through 45-10 and their related headings, and 958-320-55-3, with a link to transition paragraph 825-10-65-2, as follows:

## **Overview and Background**

**958-320-05-1** The Not-for-Profit Entities Topic contains several Subtopics for investments held by **not-for-profit entities** (NFPs) because the guidance differs by form of the investment. The Subtopics are:

- a. Financially Interrelated Entities
- b. Investments—Debt and Equity Securities
- bb. Investments—Equity Securities**
- c. Investments—Other
- d. Consolidation.

**958-320-05-2** This Subtopic establishes standards of financial accounting and reporting for ~~investments in equity securities with readily determinable fair values~~ and for all investments in debt securities held by NFPs. It also establishes ~~display~~ and disclosure requirements for those and most other investments held by NFPs.

## Scope and Scope Exceptions

### > Overall Guidance

**958-320-15-1** This Subtopic follows the same Scope and Scope Exceptions as outlined in the Overall Subtopic, see Section 958-10-15, with specific exceptions noted below.

### > Health Care Entities

**958-320-15-1A** The application of this Subtopic by not-for-profit, business-oriented health care entities, as described in paragraph 954-10-05-2(b), is subject to additional guidance in Subtopic 954-225-954-320.

### > Instruments

**958-320-15-2** The measurement standards found in Section 958-320-35 apply to all investments in debt securities, including mortgage-backed securities, the following types of investments:

- a. Subparagraph superseded by Accounting Standards Update No. 2016-01. Investments in equity securities that have readily determinable fair values as described in paragraph 958-320-25-2
- b. Subparagraph superseded by Accounting Standards Update No. 2016-01. All investments in debt securities, including mortgage backed securities.

**958-320-15-3** The reporting standards found in paragraphs 958-225-45-18 through 45-26 Sections 958-320-45 and Section 958-320-50 apply to all investments held by **not-for-profit entities** (NFPs), except those described in the following paragraph.

**958-320-15-4** The guidance in this Subtopic does not apply to any of the following:

- a. An investment in equity securities that is accounted for under the equity method in accordance with paragraph 958-810-15-4 or in accordance with Subtopic 958-321.
- b. An investment in a subsidiary that is consolidated in accordance with paragraph 958-810-15-4 or 958-810-25-2 through 25-4.
- c. An investment in a derivative instrument that is subject to the requirements of Topic 815. That is, an investment in an option on securities shall be accounted for under the requirements of Subtopic 815-10 if the option meets the definition of a derivative instrument, including the criteria for net settlement in paragraph 815-10-15-99. ~~However, if an option to buy an equity security does not meet the definition of a derivative~~

~~instrument and has a readily determinable fair value, it would be within the scope of this Subtopic.~~

- d. Short sales of securities (sales of securities that the seller does not own at the time of sale), because they are obligations to deliver securities, not investments. Short sale obligations are addressed in the guidance for certain industries (see paragraph 940-320-35-1 with respect to broker-dealers and paragraph 942-405-35-1 with respect to depository institutions). For guidance on evaluating whether a short sale transaction involves a derivative instrument, see paragraph 815-10-55-57.
- e. Investments held by a **financially interrelated entity**. See Subtopic 958-20 for reporting interests in the **net assets** of a financially interrelated entity.

**958-320-15-5** If an investment would otherwise be in the scope of this Subtopic and it has within it an embedded derivative that is subject to the requirements of Topic 815, the host contract (as described in paragraph 815-15-05-1) remains within the scope of this Subtopic.

**958-320-15-6** When determining whether an instrument is within the scope of this Subtopic, an entity shall not look through the form of its investment to the nature of the securities held by an investee. For example, an entity invests in a limited partnership interest (or a venture capital entity) that meets the definition of an equity security ~~but does not have a readily determinable fair value. That is, it does not have a fair value per unit that is currently available on a securities exchange under paragraph 958-320-25-2(a) or a fair value per share (unit) that is determined and published and is the basis for current transactions under paragraph 958-320-25-2(e).~~ However, substantially all of the partnership's assets consist of investments in debt securities ~~or equity securities that have readily determinable fair values.~~ In the specific situation described, the investment would be considered an equity security ~~that does not have a readily determinable fair value, as defined in paragraph 958-320-25-2.~~

### > Other Considerations

**958-320-15-7** This Subtopic does not specify methods to be used for measuring the amount of ~~dividend and~~ interest income.

## Recognition

**958-320-25-1** Pursuant to paragraph 958-605-25-2, if ~~an equity security with readily determinable fair value or a debt security~~ is acquired by contribution, it shall be recognized as an asset and as a revenue or gain in the period received.

**958-320-25-2** Paragraph superseded by Accounting Standards Update No. 2016-01. ~~For purposes of this Subtopic, the fair value of an equity security is readily~~

determinable if any one of the following three criteria is met:

- a. ~~Sales prices or bid and asked quotations for the security are currently available on a securities exchange registered with the Securities and Exchange Commission (SEC) or in the over the counter market, provided that those prices or quotations for the over the counter market are publicly reported by the National Association of Securities Dealers Automated Quotations systems or by OTC Markets Group Inc. Restricted stock meets that definition if the restriction terminates within one year.~~
- b. ~~For an equity security traded only in a foreign market, that foreign market is of a breadth and scope comparable to one of the U.S. markets referred to in this paragraph.~~
- c. ~~For an investment in a mutual fund, the fair value per share (unit) is determined and published and is the basis for current transactions.~~

**958-320-25-3** If a **not-for-profit entity** (NFP) is holding an investment as an agent and has little or no discretion in determining how the investment income, unrealized gains and losses, and realized gains and losses resulting from that investment will be used, the investment's acquisition shall be reported as an agency transaction. That is, the NFP agent recognizes the acquisition as an asset and a liability rather than as a change in net assets.

## Initial Measurement

**958-320-30-1** ~~An equity security with readily determinable fair value or a debt security~~**A debt security** shall be initially measured at its acquisition cost (including ~~excluding~~ brokerage and other transaction fees) if it is purchased. It shall be initially measured at **fair value** if it is received as a **contribution** or through an **agency transaction**.

## Subsequent Measurement

**958-320-35-1** Investments in ~~equity securities with readily determinable fair values~~ and all All investments in **debt securities** shall be measured at **fair value** in the statement of financial position.

**958-320-35-2** Paragraph superseded by Accounting Standards Update No. 2016-01. ~~The fair value of restricted stock shall be measured based on the quoted price of an otherwise identical unrestricted security of the same issuer, adjusted for the effect of the restriction, in accordance with the provisions of Topic 820.~~

## > Investments Held As an Agent

**958-320-35-3** If a **not-for-profit entity** (NFP) is holding an investment as an **agent**

and has little or no discretion in determining how the investment income, unrealized gains and losses, and realized gains and losses resulting from that investment will be used, those investment activities shall be reported as **agency transactions** and, therefore, as changes in assets and liabilities, rather than as changes in **net assets**.

## Other Presentation Matters

### > Reporting Investment Gains, Losses, and Income

~~958-320-45-1 Paragraph superseded by Accounting Standards Update No. 2016-01. Pursuant to paragraph 958-225-45-8, gains and losses on investments shall be reported in the statement of activities as increases or decreases in **unrestricted net assets** unless their use is temporarily or permanently restricted by explicit donor stipulations or by law. [Content moved to paragraph 958-225-45-18]~~

~~958-320-45-2 Paragraph superseded by Accounting Standards Update No. 2016-01. Pursuant to paragraph 958-225-45-5, dividend, interest, and other investment income shall be reported in the period earned as increases in unrestricted net assets unless the use of the assets received is limited by donor imposed restrictions. Donor restricted investment income shall be reported as an increase in **temporarily restricted net assets** or **permanently restricted net assets**, depending on the type of restriction. [Content moved to paragraph 958-225-45-19]~~

~~958-320-45-3 Paragraph superseded by Accounting Standards Update No. 2016-01. Gains and investment income that are limited to specific uses by donor imposed restrictions may be reported as increases in unrestricted net assets if the restrictions are met in the same reporting period as the gains and income are recognized, provided that the **not-for-profit entity** (NFP) has a similar policy for reporting **contributions** received (see paragraphs 958-605-45-3 through 45-5), reports consistently from period to period, and discloses its accounting policy. [Content moved to paragraph 958-225-45-20]~~

~~958-320-45-4 Paragraph superseded by Accounting Standards Update No. 2016-01. Pursuant to paragraphs 958-225-45-14 and 958-225-50-1, investment revenues may be reported net of related expenses, such as custodial fees and investment advisory fees, provided that the amount of the expenses is disclosed either on the face of the statement of activities or in notes to financial statements. [Content moved to paragraph 958-225-45-21]~~

~~958-320-45-5 Paragraph superseded by Accounting Standards Update No. 2016-01. Gains and losses on the investments of a **donor restricted endowment fund** are classified in accordance with paragraphs 958-205-45-13 through 45-35. [Content moved to paragraph 958-225-45-22]~~

## > Presentation in a Statement of Activities with an Operating Measure

958-320-45-6 Paragraph superseded by Accounting Standards Update No. 2016-01. Some NFPs, primarily health care entities, would like to compare their results to business entities in the same industry. An NFP with these comparability concerns may report in a manner similar to business entities by classifying securities as available for sale or held to maturity as described in paragraphs 320-10-25-1 through 25-6 and excluding the unrealized gains and losses on those securities (which are recognized in accordance with Subtopic 958-320) from an operating measure within the statement of activities. Not for profit, business-oriented health care entities, however, are required to exclude certain gains and losses from a performance measure (see paragraph 954-320-45-1). **[Content amended and moved to paragraph 958-225-45-23]**

958-320-45-7 Paragraph superseded by Accounting Standards Update No. 2016-01. In general, amounts reported in an NFP's financial statements shall be based on the nature of the underlying transactions rather than on budgetary designations. **[Content moved to paragraph 958-225-45-24]**

958-320-45-8 Paragraph superseded by Accounting Standards Update No. 2016-01. Amounts of investment return based on budgetary designations may be displayed because the necessary constraints are provided by the disclosures required by paragraph 958-320-50-1 and paragraphs 958-225-45-9 through 45-12 (including the requirement that an operating measure, if reported, must appear in a financial statement that, at a minimum, reports the change in unrestricted net assets for the period). **[Content moved to paragraph 958-225-45-25]**

958-320-45-9 Paragraph superseded by Accounting Standards Update No. 2016-01. Some NFPs, in managing their endowment funds, use a **spending rate** or **total return** policy. Those policies consider total investment return—investment income (interest, dividends, rents, and so forth) plus net realized and unrealized gains (or minus net losses). Typically, spending rate or total return policies emphasize the use of prudence and a rational and systematic formula to determine the portion of cumulative investment return that can be used to support operations of the current period and the protection of endowment gifts from a loss of purchasing power as a consideration in determining the formula to be used. Example 1 (see paragraph 958-320-55-4) illustrates a statement of activities and example disclosures of an NFP that uses a spending rate policy to include only a portion of its investment return in its operating measure. **[Content moved to paragraph 958-225-45-26]**

## > Presentation in a Statement of Financial Position

958-320-45-10 Paragraph superseded by Accounting Standards Update No. 2016-01. As illustrated in paragraph 958-205-55-7, cash and cash equivalents of permanent endowment funds held temporarily until suitable long term investment

~~opportunities are identified may be included in the classification long-term investments. Likewise, cash held temporarily by a custodian for investment purposes may be included as part of investments in a statement of financial position rather than as cash. [Content moved to paragraph 958-210-45-12]~~

## Implementation Guidance and Illustrations

### > Implementation Guidance

~~958-320-55-3 Paragraph superseded by Accounting Standards Update No. 2016-01. The term **equity security** does not include any of the following securities:~~

- ~~a. Convertible debt~~
- ~~b. Preferred stock that by its terms either must be redeemed by the issuing entity or is redeemable at the option of the investor~~
- ~~c. Written equity options because they represent obligations of the writer, not investments~~
- ~~d. Cash settled options on equity securities or options on equity-based indexes, because those instruments do not represent ownership interests in an entity. [Content moved to paragraph 958-321-55-1]~~

## Relationships

### > Investments—~~Debt and Equity~~ Securities

**958-320-60-1** For debt securities restructured in a troubled debt restructuring, see paragraph 320-10-55-2(a).

## Addition of Subtopic 958-321

81. Add Subtopic 958-321, Not-for-Profit Entities—Investments—Equity Securities, with a link to transition paragraph 825-10-65-2, as follows:

**[For ease of readability, the new Subtopic is not underlined.]**

## Not-for-Profit Entities—Investments—Equity Securities

### Overview and Background

## General

**958-321-05-1** The Not-for-Profit Entities Topic contains several Subtopics for investments held by **not-for-profit entities** (NFPs) because the guidance differs by form of the investment. The Subtopics are:

- a. Financially Interrelated Entities
- b. Investments—Debt Securities
- c. Investments—Equity Securities
- d. Investments—Other
- e. Consolidation.

**958-321-05-2** This Subtopic establishes incremental standards of financial accounting and reporting for investments in **equity securities** held by NFPs. Topic 321 establishes standards of financial accounting and reporting for investments in equity securities and other ownership interests in an entity.

## Scope and Scope Exceptions

### General

#### > Overall Guidance

**958-321-15-1** This Subtopic follows the same Scope and Scope Exceptions as outlined in the Overall Subtopic; see Section 958-10-15, with specific exceptions noted below.

#### > Instruments

**958-321-15-2** The measurement guidance in Section 958-321-35 applies to all investments in **equity securities** and other ownership interests in an entity, including investments in partnerships, unincorporated joint ventures, and limited liability companies as if those other ownership interests are equity securities.

**958-321-15-3** The reporting guidance in Sections 958-225-45 and 958-320-50 applies to all investments held by **not-for-profit entities** (NFPs), except those described in paragraph 958-321-15-4.

**958-321-15-4** The guidance in this Subtopic does not apply to any of the following:

- a. An investment in equity securities that the investor accounts for under the equity method in accordance with paragraph 958-810-15-4.
- b. An investment in a subsidiary that the investor consolidates in accordance with paragraph 958-810-15-4 or 958-810-25-2 through 25-4.

- c. An investment in a derivative instrument that is subject to the requirements of Topic 815. That is, an investment in an option on securities shall be accounted for under the requirements of Subtopic 815-10 if the option meets the definition of a derivative instrument, including the criteria for net settlement in paragraph 815-10-15-99.
- d. Short sales of securities (sales of securities that the seller does not own at the time of sale), because they are obligations to deliver securities, not investments. Short-sale obligations are addressed in the guidance for certain industries (see paragraph 940-320-35-1 with respect to broker-dealers and paragraph 942-405-35-1 with respect to depository institutions). For guidance on evaluating whether a short-sale transaction involves a derivative instrument, see paragraph 815-10-55-57.
- e. Investments held by a **financially interrelated entity**. See Subtopic 958-20 for reporting interests in the **net assets** of a financially interrelated entity.

**958-321-15-5** If an investment otherwise would be in the scope of this Subtopic and it has within it an embedded derivative that is subject to the requirements of Topic 815, the host contract (as described in paragraph 815-15-05-1) remains within the scope of this Subtopic.

**958-321-15-6** In determining whether an instrument is within the scope of this Subtopic, an entity shall not look through the form of its investment to the nature of the securities held by an investee. For example, an entity invests in a limited partnership interest (or a venture capital entity) that meets the definition of an equity security. However, substantially all of the partnership's assets consist of investments in debt securities. In the specific situation described, the investment would be considered an equity security.

## > Other Considerations

**958-321-15-7** This Subtopic does not specify methods to be used for measuring the amount of dividend income.

## Glossary

### Equity Security (first definition)

Any security representing an ownership interest in an entity (for example, common, preferred, or other capital stock) or the right to acquire (for example, warrants, rights, forward purchase contracts, and call options) or dispose of (for example, put options and forward sale contracts) an ownership interest in an entity at fixed or determinable prices. The term equity security does not include any of the following:

- a. Written equity options (because they represent obligations of the writer, not investments)
- b. Cash-settled options on equity securities or options on equity-based indexes (because those instruments do not represent ownership interests in an entity)
- c. Convertible debt or preferred stock that by its terms either must be redeemed by the issuing entity or is redeemable at the option of the investor.

### **Financially Interrelated Entities**

A recipient entity and a specified beneficiary are financially interrelated entities if the relationship between them has both of the following characteristics:

- a. One of the entities has the ability to influence the operating and financial decisions of the other.
- b. One of the entities has an ongoing economic interest in the net assets of the other.

### **Net Assets**

The excess or deficiency of assets over liabilities of a not-for-profit entity (NFP), which is classified into three mutually exclusive classes according to the existence or absence of donor-imposed restrictions. See **unrestricted net assets**, **temporarily restricted net assets**, and **permanently restricted net assets**.

### **Not-for-Profit Entity**

An entity that possesses the following characteristics, in varying degrees, that distinguish it from a business entity:

- a. Contributions of significant amounts of resources from resource providers who do not expect commensurate or proportionate pecuniary return
- b. Operating purposes other than to provide goods or services at a profit
- c. Absence of ownership interests like those of business entities.

Entities that clearly fall outside this definition include the following:

- a. All investor-owned entities
- b. Entities that provide dividends, lower costs, or other economic benefits directly and proportionately to their owners, members, or participants, such as mutual insurance entities, credit unions, farm and rural electric cooperatives, and employee benefit plans.

### **Permanently Restricted Net Assets**

The part of the net assets of a not-for-profit entity (NFP) resulting from the following:

- a. Contributions and other inflows of assets whose use by the NFP is limited by donor-imposed stipulations that neither expire by passage of time nor can be fulfilled or otherwise removed by actions of the NFP
- b. Other asset enhancements and diminishments subject to the same kinds of stipulations
- c. Reclassifications from or to other classes of net assets as a consequence of donor-imposed stipulations.

### **Temporarily Restricted Net Assets**

The part of the net assets of a not-for-profit entity (NFP) resulting from the following:

- a. Contributions and other inflows of assets whose use by the NFP is limited by donor-imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions of the NFP pursuant to those stipulations
- b. Other asset enhancements and diminishments subject to the same kinds of stipulations
- c. Reclassification from or to other classes of net assets as a consequence of donor-imposed stipulations, their expiration by passage of time, or their fulfillment and removal by actions of the NFP pursuant to those stipulations.

### **Unrestricted Net Assets**

The part of net assets of a not-for-profit entity (NFP) that is neither permanently restricted nor temporarily restricted by donor-imposed stipulations. The only limits on the use of unrestricted net assets are the broad limits resulting from the following:

- a. The nature of the NFP
- b. The environment in which the NFP operates
- c. The purposes specified in the NFP's articles of incorporation or bylaws
- d. Limits resulting from contractual agreements with suppliers, creditors, and others entered into by the NFP in the course of its business.

Unrestricted net assets generally result from revenues from providing services, producing and delivering goods, receiving unrestricted contributions, and receiving dividends or interest from investing in income-producing assets, less expenses

incurred in providing services, producing and delivering goods, raising contributions, and performing administrative functions.

## Recognition

### General

**958-321-25-1** In accordance with paragraph 958-605-25-2, if an **equity security** is acquired by contribution, it shall be recognized as an asset and as a revenue or gain in the period received.

**958-321-25-2** If a **not-for-profit entity** (NFP) is holding an investment as an agent and has little or no discretion in determining how the investment income, unrealized gains and losses, and realized gains and losses resulting from that investment will be used, the investment's acquisition shall be reported as an agency transaction. That is, the NFP agent recognizes the acquisition as an asset and a liability rather than as a change in net assets.

## Initial Measurement

### General

**958-321-30-1** An **equity security** shall be initially measured at its acquisition cost (excluding brokerage and other transaction fees) if it is purchased. It shall be initially measured at fair value if it is received as a contribution or through an agency transaction.

## Subsequent Measurement

### General

**958-321-35-1** Topic 321 provides guidance in subsequent measurement of **equity securities**.

#### > Investments Held as an Agent

**958-321-35-2** If a **not-for-profit entity** (NFP) is holding an investment as an agent and has little or no discretion in determining how the investment income, unrealized gains and losses, and realized gains and losses resulting from that investment will be used, those investment activities shall be reported as agency transactions and, therefore, as changes in assets and liabilities, rather than as changes in net assets.

## Disclosure

### General

**958-321-50-1** The disclosure guidance in Section 958-320-50 applies to investments in **equity securities** and investment return generated by equity securities held by **not-for-profit entities** (NFPs).

**958-321-50-2** The disclosure guidance in Section 321-10-50 applies to investments in equity securities held by NFPs.

## Implementation Guidance and Illustrations

### General

#### > Implementation Guidance

**958-321-55-1** The term **equity security** does not include any of the following securities:

- a. Convertible debt
- b. Preferred stock that by its terms either must be redeemed by the issuing entity or is redeemable at the option of the investor
- c. Written equity options because they represent obligations of the writer, not investments
- d. Cash-settled options on equity securities or options on equity-based indexes, because those instruments do not represent ownership interests in an entity. **[Content moved from paragraph 958-320-55-3]**

## Amendments to Subtopic 958-325

82. Amend paragraphs 958-325-05-1 through 05-2, 958-325-15-2 through 15-3, 958-325-45-1, and 958-325-50-2 and supersede paragraphs 958-325-35-8 through 35-13 and their related headings, and 958-325-50-3, with a link to transition paragraph 825-10-65-2, as follows:

## Not-for-Profit Entities—Investments—Other

### Overview and Background

**958-325-05-1** The Not-for-Profit Topic contains several ~~four~~ Subtopics for investments held by **not-for-profit entities** (NFPs), because the guidance differs by form of the investment. The Subtopics are:

- a. Financially Interrelated Entities
- b. Investments—Debt ~~and Equity~~ Securities
- bb. Investments—Equity Securities
- c. Investments—Other
- d. Consolidation.

**958-325-05-2** This Subtopic provides guidance for investments other than the following:

- a. Equity securities with ~~readily determinable fair value~~
- b. Debt securities
- c. Investments in derivative instruments, including embedded derivatives, that are subject to the requirements of Topic 815
- d. Investments in for-profit entities that are accounted for under the equity method
- e. Investments in for-profit consolidated subsidiaries
- f. Investments in not-for-profit consolidated subsidiaries
- g. Investments held for the NFP by a **financially interrelated entity**.

Thus, this Subtopic provides guidance for investments of the following types, among others, unless because of their characteristics they are included in the above list: investments in real estate, mortgage notes, venture capital funds, and partnership interests, oil and gas interests, ~~and equity securities that do not have a readily determinable fair value.~~

## Scope and Scope Exceptions

### > Instruments

**958-325-15-2** The guidance in this Subtopic applies to other investments held by **not-for-profit entities** (NFPs) of the following types, among others, unless because of their characteristics they are included in paragraph 958-325-15-3:

- a. Investments in real estate
- b. Mortgage notes that are not debt securities
- c. Subparagraph superseded by Accounting Standards Update No. 2016-01. Venture capital funds
- d. Subparagraph superseded by Accounting Standards Update No. 2016-01. Partnership interests
- e. Oil and gas interests
- f. Subparagraph superseded by Accounting Standards Update No. 2016-01. Equity securities that do not have a **readily determinable fair value**

~~and are not accounted for under the equity method pursuant to paragraph 958-810-15-4 (referred to as cost method investments).~~

**958-325-15-3** The guidance in this Subtopic does not apply to the following investments:

- a. ~~Equity securities with readily determinable fair values~~, which are subject to the requirements of Subtopic ~~958-321-958-320~~
- b. ~~All debt~~ Debt securities, which are subject to the requirements of Subtopic 958-320
- c. Derivative instruments, including embedded derivatives, that are subject to the requirements of Topic 815
- d. Investments in for-profit entities that are accounted for using the equity method in accordance with paragraph 958-810-15-4
- e. Investments in for-profit subsidiaries that are consolidated in accordance with paragraph 958-810-15-4
- f. Interests in NFPs that are consolidated in accordance with paragraph 958-810-25-2, 958-810-25-3, or 958-810-25-4
- g. Interests in investments held for the NFP by a financially interrelated entity, which are subject to the requirements of Subtopic 958-20.

## Subsequent Measurement

### > All Not-for-Profit Entities

#### >> ~~Equity Securities Accounted for Under the Cost Method~~

~~**958-325-35-8** Paragraph superseded by Accounting Standards Update No. 2016-01. This guidance is applicable for investments (referred to as cost method investments) in equity securities that both:~~

- a. ~~Are not subject to the scope of Topic 320 and Subtopic 958-320 (that is, the equity securities do not have readily determinable fair values)~~
- b. ~~Are not accounted for under the equity method pursuant to paragraph 958-810-15-4.~~

~~**958-325-35-9** Paragraph superseded by Accounting Standards Update No. 2016-01. If equity securities are reported at cost, as indicated in the preceding paragraph, the NFP shall apply the following steps to determine if an impairment loss must be recognized:~~

#### >>> ~~Step 1: Determine Whether an Investment Is Impaired~~

~~**958-325-35-10** Paragraph superseded by Accounting Standards Update No. 2016-01. Impairment shall be assessed at the individual **security** level (referred to as an investment). Individual security level means the level and method of~~

aggregation used by the reporting entity to measure realized and unrealized gains and losses on its debt and equity securities. (For example, equity securities of an issuer bearing the same Committee on Uniform Securities Identification Procedures [CUSIP] number that were purchased in separate trade lots may be aggregated by a reporting entity on an average cost basis if that corresponds to the basis used to measure realized and unrealized gains and losses for the securities of the issuer.) An investment is impaired if the fair value of the investment is less than its cost.

~~958-325-35-11 Paragraph superseded by Accounting Standards Update No. 2016-01. Because the fair value of cost method investments is not readily determinable, the evaluation of whether an investment is impaired shall be determined in accordance with paragraph 320-10-35-25.~~

### >>> ~~Step 2: Evaluate Whether an Impairment Is Other Than Temporary~~

~~958-325-35-12 Paragraph superseded by Accounting Standards Update No. 2016-01. The determination of whether an impairment is other than temporary shall be made in accordance with the guidance beginning in paragraph 320-10-35-30.~~

### >>> ~~Step 3: Recognition of an Other Than Temporary Impairment~~

~~958-325-35-13 Paragraph superseded by Accounting Standards Update No. 2016-01. If it is determined in Step 2 that the impairment is other than temporary, an impairment loss shall be recognized in accordance with paragraph 320-10-35-34. That paragraph states that the fair value of the investment would then become the new amortized cost basis of the investment and shall not be adjusted for subsequent recoveries in fair value.~~

## Other Presentation Matters

**958-325-45-1** The reporting standards of Section ~~958-225-45~~~~958-320-45~~ apply to other investments and the investment return generated by other investments held by **not-for-profit entities** (NFPs).

## Disclosure

**958-325-50-2** For each period for which a statement of financial position is presented, an NFP shall disclose all of the following:

- a. The basis for determining the carrying amount for other investments
- b. The method(s) and significant assumptions used to estimate the fair values of investments other than financial instruments if those other investments are reported at **fair value**

- c. ~~Subparagraph superseded by Accounting Standards Update No. 2016-01. The information required by paragraph 320-10-50-6(a), if the NFP holds cost method investments that are in an unrealized loss position for which impairment losses have not been recognized~~
- d. ~~Subparagraph superseded by Accounting Standards Update No. 2016-01. The information required by paragraph 325-20-50-1. See Example 3 (paragraph 320-10-55-23).~~

~~**958-325-50-3** Paragraph superseded by Accounting Standards Update No. 2016-01. For guidance on disclosures about cost method investments that are in an unrealized loss position for which impairment losses have not been recognized, see paragraph 320-10-50-6(b). See Example 3 (paragraph 320-10-55-23) for an illustration of this guidance.~~

## Amendments to Subtopic 958-605

83. Amend paragraph 958-605-45-4, with a link to transition paragraph 825-10-65-2, as follows:

### **Not-for-Profit Entities—Revenue Recognition**

#### **Other Presentation Matters**

##### **Contributions Received**

**958-605-45-4** Restricted support increases **permanently restricted net assets** or **temporarily restricted net assets**. A restriction on an NFP's use of the assets contributed results either from a donor's explicit **stipulation** or from circumstances surrounding the receipt of the contribution that make clear the donor's implicit restriction on use. Contributions with donor-imposed restrictions shall be reported as restricted support; however, donor-restricted contributions whose restrictions are met in the same reporting period may be reported as unrestricted support provided that an NFP has a similar policy for reporting investment gains and income (see paragraph ~~958-225-45-20~~ ~~958-320-45-3~~), reports consistently from period to period, and discloses its accounting policy.

## Amendments to Subtopic 958-810

84. Amend paragraphs 958-810-15-4(e), 958-810-55-4, 958-810-55-21, and 958-810-55-24 through 55-25, with a link to transition paragraph 825-10-65-2, as follows:

## **Not-for-Profit Entities—Consolidation**

### **Scope and Scope Exceptions**

**958-810-15-4** Additional guidance for reporting relationships between NFPs and for-profit entities is located in the following locations in the Codification:

- e. An NFP may be required to report an investment described in (c) at fair value in conformity with paragraph ~~958-321-35-1~~~~958-320-35-1~~, or may be permitted to make an election in accordance with paragraph 825-10-25-1. In addition, NFPs other than those within the scope of Topic 954 may be permitted to report an investment described in (b), (c), or (d) at fair value in conformity with Section 958-325-35.

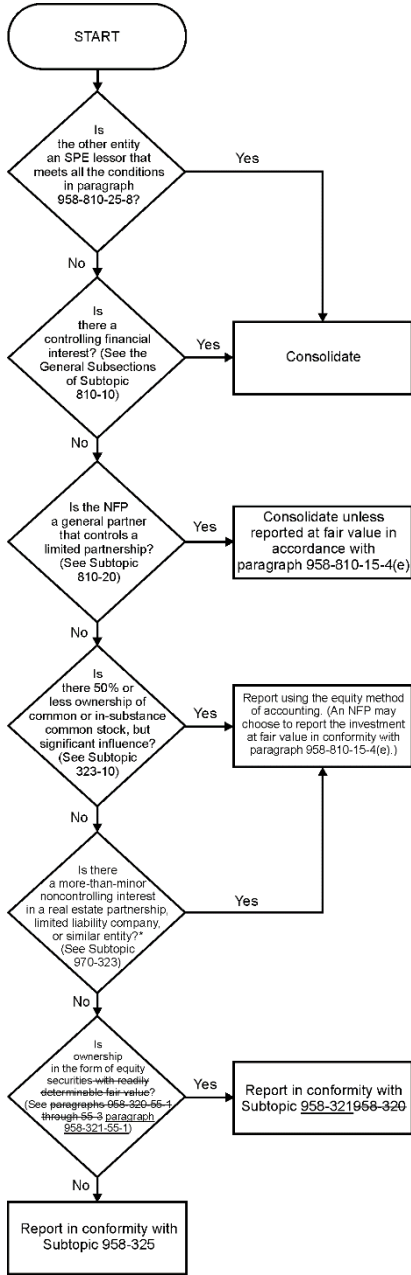
### **Implementation Guidance and Illustrations**

#### **> Implementation Guidance**

#### **> > Flowcharts**

#### **> > > Relationship with a For-Profit Entity**

**958-810-55-4** The following flowchart and related footnote indicate the order in which an NFP applies the guidance elsewhere in the Codification to determine the accounting for its relationship with a for-profit entity.



\*According to paragraph 323-30-35-3, a limited liability company that maintains a specific ownership account for each investor—similar to a partnership capital account structure—should be viewed as similar to an investment in a limited partnership for purposes of determining whether a noncontrolling investment in a limited liability company should be accounted for using the cost method in accordance with the guidance in Topic 321 or the equity method.

> **Illustrations**

> > **Example 1: Subsidiary with a Noncontrolling Interest**

**958-810-55-21** The following assumptions are applicable to 20X2:

- a. On January 1, 20X2, Hospital A sells 2,000 of its 10,000 shares in Subsidiary A to an unrelated entity for \$50,000 in cash, reducing its ownership interest from 100 percent to 80 percent. Immediately before the sale, Subsidiary A's equity was as follows.

	<b>Subsidiary A</b>
Common stock	\$ 25,000
Paid-in capital	50,000
Retained earnings	125,000
Accumulated other comprehensive income	5,000
Total equity	\$ 205,000

- b. The accumulated other comprehensive income balance of \$5,000 represents an unrealized gain on a portfolio of debt securities purchased by Subsidiary A for \$100,000, which it classifies as available-for-sale debt securities at the carrying amount of \$105,000 and are the only investment securities of the consolidated group.
- c. The sale of Subsidiary A's shares is accounted for as an equity transaction (within unrestricted net assets) in the consolidated financial statements of Hospital A, as follows:
  1. A noncontrolling interest is recognized in unrestricted net assets in the amount of \$41,000 ( $\$205,000 \times 20$  percent).
  2. Unrestricted net assets attributable to Hospital A are increased by \$9,000, calculated as the difference between the cash received (\$50,000) and the carrying amount of the noncontrolling interest (\$41,000).
  3. The top-level (consolidated) journal entry to record the sale of Subsidiary A's shares to the noncontrolling shareholder is as follows:

Cash	\$	50,000	
Unrestricted net assets (noncontrolling interest)			\$ 41,000
Unrestricted net assets (Hospital A)			9,000

- d. For the year ended December 31, 20X2, the amount of Subsidiary A's net income included in the consolidated financial statements is \$20,000, which included a net loss for discontinued operations of \$7,000.

### >>> Consolidated Statement of Operations and Other Changes in Unrestricted Net Assets

**958-810-55-24** The following consolidated statement of operations and other changes in unrestricted net assets illustrates how the requirements in paragraph 958-810-50-5(a) for disclosure of the amounts of a performance indicator of a health care entity for an excess of revenues over expenses from continuing operations and in paragraph 958-810-50-5(b) for discontinued operations might be presented on the face of a consolidated statement of operations and other changes in net assets.

Hospital A Consolidated Statement of Operations and Other Changes in Unrestricted Net Assets Year Ended December 31		
	20X3	20X2
Unrestricted revenues, gains, and other support:		
Net patient service revenue	\$ 390,000	\$ 355,000
Contributions	5,000	5,000
Net assets released from donors' restrictions used for operations	-	-
Total revenues, gains, and other support	395,000	360,000
Patient care and other operating expenses	366,000	337,000
Excess of revenues over expenses (from continuing operations)	29,000	23,000
Discontinued operations of Subsidiary A, net	-	(7,000)
Change in net unrealized gains and losses on other than trading <u>debt securities</u>	5,000	15,000
Sale of Subsidiary A shares to noncontrolling shareholders	-	50,000
Purchase of Subsidiary A shares from noncontrolling shareholders	(30,000)	-
Increase in unrestricted net assets	\$ 4,000	\$ 81,000

### >>> Notes to Consolidated Financial Statements: Changes in Consolidated Unrestricted Net Assets Attributable to the Parent's Controlling Financial Interest and to Noncontrolling Interests in Subsidiaries

**958-810-55-25** The following note depicts the changes in consolidated net assets attributable to the controlling financial interest of Hospital A (parent) and the noncontrolling interests. It illustrates the requirements in paragraph 958-810-50-4

that an NFP present a schedule that reconciles the beginning and the end of the period carrying amounts of the parent's controlling interest and the noncontrolling interests for each class of net assets for which a noncontrolling interest exists. This note also illustrates the disclosure requirements in paragraphs 958-810-50-5(a), 958-810-50-5(b), and 958-810-50-5(d) for the amounts of a performance indicator of a health care entity (which is equivalent to income from continuing operations), discontinued operations, and other changes in ownership interests in a subsidiary.

**Hospital A**  
**Notes to Consolidated Financial Statements**  
**Changes in Consolidated Unrestricted Net Assets Attributable to Hospital A and**  
**Transfers (to) from the Noncontrolling Interest**  
**Year Ended December 31**

	<u>Total</u>	<u>Controlling Interest</u>	<u>Noncontrolling Interest</u>
Balance January 1, 20X2	\$ 400,000	\$ 400,000	\$ -
Excess of revenues over expenses (from continuing operations)	23,000	17,600	5,400
Discontinued operations, net of tax	(7,000)	(5,600)	(1,400)
Change in net unrealized gains and losses on other than trading <u>debt</u> securities	15,000	12,000	3,000
Sale of Subsidiary A shares to noncontrolling shareholders	50,000	9,000	41,000
Change in net assets	<u>81,000</u>	<u>33,000</u>	<u>48,000</u>
Balance December 31, 20X2	<u>\$ 481,000</u>	<u>\$ 433,000</u>	<u>\$ 48,000</u>
Excess of revenues over expenses from continuing operations	29,000	27,500	1,500
Change in net unrealized gains and losses on other than trading <u>debt</u> securities	5,000	4,500	500
Purchase of Subsidiary A shares from noncontrolling shareholders	(30,000)	(6,000)	(24,000)
Change in net assets	<u>4,000</u>	<u>26,000</u>	<u>(22,000)</u>
Balance December 31, 20X3	<u>\$ 485,000</u>	<u>\$ 459,000</u>	<u>\$ 26,000</u>

## Amendments to Subtopic 970-323

85. Amend paragraphs 970-323-25-6, 970-323-25-8, and 970-323-25-11 and supersede paragraph 970-323-25-7, with a link to transition paragraph 825-10-65-2, as follows:

### **Real Estate—General—Investments—Equity Method and Joint Ventures**

#### **Recognition**

##### **> Limited Partnerships**

**970-323-25-5** For guidance on determining whether a general partner or a limited partner shall consolidate a **limited partnership** or apply the equity method of accounting to its interests in the limited partnership, see paragraph 970-810-25-3.

**970-323-25-6** The equity method of accounting for investments in general partnerships is generally appropriate for accounting by limited partners for their investments in limited partnerships. A limited partner's interest may be so minor that the limited partner may have virtually no influence over partnership operating and financial policies. Such a limited partner is, in substance, in the same position with respect to the investment as an investor that owns a minor common stock interest in a corporation, and, accordingly, the limited partner should account for its investment in accordance with Topic 321~~accounting for the investment using the cost method may be appropriate.~~

**970-323-25-7** ~~Paragraph superseded by Accounting Standards Update No. 2016-01. Under the cost method, income recognized by the investor is limited to distributions received, except that distributions that exceed the investor's share of earnings after the date of the investment are applied to reduce the carrying value of the investment.~~

**970-323-25-8** If the substance of the partnership arrangement is such that the general partners are not in control of the major operating and financial policies of the partnership, a limited partner may be in control. An example could be a limited partner holding over 50 percent of the limited partnership's **kick-out rights** through voting interest in accordance with paragraph 810-10-15-8A. A controlling limited partner shall be guided in accounting for its investment by the principles for investments in subsidiaries in Topic 810 on consolidation. Noncontrolling limited partners shall account for their investments by the equity method and shall be guided by the provisions of Topic 323, as discussed in the guidance beginning in paragraph 970-323-25-5, or by the guidance in Topic 321~~cost method, as discussed in the guidance beginning in paragraph 970-323-25-7, as appropriate.~~

## > Corporate Joint Ventures

**970-323-25-9** Topic 323 provides the standards for use of the equity method for **corporate joint ventures** and includes guidance for applying that method in the financial statements of the investor. That Topic applies to corporate joint ventures created to own or operate real estate projects.

**970-323-25-10** Accordingly, an investment in a corporate subsidiary that is a **real estate venture** shall be accounted for by the investor-parent using the principles applicable to investments in subsidiaries rather than those applicable to investments in corporate joint ventures.

**970-323-25-11** Noncontrolling shareholders in such a real estate venture shall account for their investment using the principles applicable to investments in common stock set forth in Topic ~~321320~~ or 323.

## Amendments to Subtopic 974-323

86. Amend paragraph 974-323-25-1, with a link to transition paragraph 825-10-65-2, as follows:

### **Real Estate—Real Estate Investment Trusts—Investments—Equity Method and Joint Ventures**

#### **Recognition**

##### **> Service Corporations**

**974-323-25-1** The existence of some or all of the following factors indicates that the **real estate investment trust** has the ability to exercise at least significant influence over the **service corporation** and that, accordingly, the real estate investment trust should either account for its investment under the equity method or should consolidate the investee not account for its investment in the service corporation using the cost method. **[Because the remainder of this paragraph is unchanged, it is not shown here.]**

## Amendments to Subtopic 978-810

87. Amend paragraph 978-810-25-4, with a link to transition paragraph 825-10-65-2, as follows:

### **Real Estate—Time-Sharing Activities—Consolidation**

#### **Recognition**

**978-810-25-4** In such cases, see the following guidance:

- a. The Variable Interest Entities Subsections of Subtopic 810-10 for guidance on whether special-purpose entities that represent VIEs should be consolidated
- b. Topic 810 for consolidation of entities that are not VIEs
- c. Subtopic 323-10 and Topic 321 ~~paragraphs 325-20-05-1 through 05-3 and 325-20-25-1 through 25-2~~ for the accounting when the investment is not required to be consolidated.

88. Add paragraph 825-10-65-2 and its related heading as follows:

## Transition and Open Effective Date Information

### > Transition Related to Accounting Standards Update No. 2016-01, *Financial Instruments—Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities*

825-10-65-2 The following represents the transition and effective date information related to Accounting Standards Update No. 2016-01, *Financial Instruments—Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities*:

- a. A public business entity shall apply the pending content that links to this paragraph for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2017. Except as indicated in (c), early application of the pending content that links to this paragraph by a public business entity is not permitted.
- b. All other entities shall apply the pending content that links to this paragraph for fiscal years beginning after December 15, 2018, and interim periods within fiscal years beginning after December 15, 2019. Early application of the pending content that links to this paragraph is permitted for all other entities as of the fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. Except as indicated in (b) through (d), earlier application of the pending content that links to this paragraph by all other entities is not permitted.
- c. All entities may adopt the presentation guidance in paragraphs 825-10-45-5 through 45-7 for financial statements of fiscal years or interim periods that have not yet been issued or that have not yet been made available for issuance.
- d. Entities that are not public business entities may elect not to disclose the information about fair value of financial instruments required by the General Subsection of Section 825-10-50 in financial statements of fiscal years or interim periods that have not yet been made available for issuance.
- e. An entity shall apply the pending content that links to this paragraph by means of a cumulative-effect adjustment to the statement of financial position as of the beginning of the fiscal year in which the pending content that links to this paragraph is applied. The pending content that links to this paragraph related to equity securities without **readily determinable fair values** (including disclosure requirements) shall be applied prospectively to all equity investments that exist as of the date of adoption of the pending content that links to this paragraph.
- f. An entity shall apply prospectively the pending content that links to this paragraph that requires the exit price notion in Topic 820 on fair value measurement to be used to measure **fair value** of financial instruments

for disclosure purposes. If because of measuring fair value of financial instruments in accordance with the guidance in Topic 820, the prior-year figures shown for comparative purposes will no longer be comparable, an entity shall make a disclosure to explain that fact. That disclosure is in conformity with the guidance in Subtopic 205-10 on presentation of financial statements that requires that any change in the manner of or basis for presenting corresponding items for two or more periods that affects comparability of financial statements shall be disclosed.

- g. An entity shall disclose the following, consistent with Subtopic 250-10, in the period that the entity adopts the pending content that links to this paragraph:
1. The nature of and reason for the change in accounting principle, including an explanation of the newly adopted accounting principle.
  2. The method of applying the change.
  3. The effect of the adoption on any line item in the statement of financial position, if material, as of the beginning of the fiscal year for which the pending content that links to this paragraph is applied. Presentation of the effect on financial statement subtotals is not required.
  4. The cumulative effect of the change on retained earnings or other components of equity in the statement of financial position as of the beginning of the fiscal year for which the pending content that links to this paragraph is applied.
  5. An entity that issues interim financial statements shall provide the disclosures in (1) through (4) in each interim financial statement of the fiscal year of change and the annual financial statement of the period of the change.

## Amendments to Status Sections

89. Amend paragraph 210-10-00-1, by adding the following item to the table, as follows:

**210-10-00-1** The following table identifies the changes made to this Subtopic.

<b>Paragraph</b>	<b>Action</b>	<b>Accounting Standards Update</b>	<b>Date</b>
210-10-45-1	Amended	2016-01	01/05/2016

90. Amend paragraph 220-10-00-1, by adding the following items to the table, as follows:

**220-10-00-1** The following table identifies the changes made to this Subtopic.

<b>Paragraph</b>	<b>Action</b>	<b>Accounting Standards Update</b>	<b>Date</b>
220-10-45-10A	Amended	2016-01	01/05/2016
220-10-55-5	Amended	2016-01	01/05/2016
220-10-55-7 through 55-8A	Amended	2016-01	01/05/2016
220-10-55-9	Amended	2016-01	01/05/2016
220-10-55-10A	Amended	2016-01	01/05/2016
220-10-55-15 through 55-15C	Amended	2016-01	01/05/2016
220-10-55-17C	Amended	2016-01	01/05/2016
220-10-55-17E	Amended	2016-01	01/05/2016
220-10-55-17F	Amended	2016-01	01/05/2016
220-10-55-19	Amended	2016-01	01/05/2016
220-10-55-20	Amended	2016-01	01/05/2016
220-10-55-21 through 55-23	Superseded	2016-01	01/05/2016

91. Amend paragraph 230-10-00-1, by adding the following items to the table, as follows:

**230-10-00-1** The following table identifies the changes made to this Subtopic.

<b>Paragraph</b>	<b>Action</b>	<b>Accounting Standards Update</b>	<b>Date</b>
230-10-45-11 through 45-13	Amended	2016-01	01/05/2016
230-10-45-19	Amended	2016-01	01/05/2016
230-10-45-21	Amended	2016-01	01/05/2016
230-10-60-2	Amended	2016-01	01/05/2016
230-10-60-2A	Added	2016-01	01/05/2016

92. Amend paragraph 270-10-00-1, by adding the following item to the table, as follows:

**270-10-00-1** The following table identifies the changes made to this Subtopic.

<b>Paragraph</b>	<b>Action</b>	<b>Accounting Standards Update</b>	<b>Date</b>
270-10-50-1	Amended	2016-01	01/05/2016

93. Amend paragraph 310-10-00-1, by adding the following items to the table, as follows:

**310-10-00-1** The following table identifies the changes made to this Subtopic.

<b>Paragraph</b>	<b>Action</b>	<b>Accounting Standards Update</b>	<b>Date</b>
310-10-45-11	Amended	2016-01	01/05/2016
310-10-50-26	Amended	2016-01	01/05/2016

94. Amend paragraph 320-10-00-1, by adding the following items to the table, as follows:

**320-10-00-1** The following table identifies the changes made to this Subtopic.

<b>Paragraph</b>	<b>Action</b>	<b>Accounting Standards Update</b>	<b>Date</b>
<b>Equity Security</b> (1st def.)	Superseded	2016-01	01/05/2016
<b>Readily Determinable Fair Value</b>	Superseded	2016-01	01/05/2016
320-10-05-1	Amended	2016-01	01/05/2016
320-10-05-2	Amended	2016-01	01/05/2016
320-10-15-1 through 15-5	Amended	2016-01	01/05/2016
320-10-15-7	Amended	2016-01	01/05/2016
320-10-15-7A	Added	2016-01	01/05/2016
320-10-25-1	Amended	2016-01	01/05/2016
320-10-25-2	Amended	2016-01	01/05/2016
320-10-30-1 through 30-4	Superseded	2016-01	01/05/2016
320-10-35-1	Amended	2016-01	01/05/2016
320-10-35-2	Superseded	2016-01	01/05/2016
320-10-35-3 through 35-5	Amended	2016-01	01/05/2016
320-10-35-17	Amended	2016-01	01/05/2016
320-10-35-20	Amended	2016-01	01/05/2016
320-10-35-24	Amended	2016-01	01/05/2016
320-10-35-25 through 35-29	Superseded	2016-01	01/05/2016

320-10-35-32A	Superseded	2016-01	01/05/2016
320-10-35-33	Superseded	2016-01	01/05/2016
320-10-35-34	Superseded	2016-01	01/05/2016
320-10-45-1	Amended	2016-01	01/05/2016
320-10-45-3 through 45-6	Superseded	2016-01	01/05/2016
320-10-50-1	Amended	2016-01	01/05/2016
320-10-50-4	Superseded	2016-01	01/05/2016
320-10-50-6	Amended	2016-01	01/05/2016
320-10-55-1	Amended	2016-01	01/05/2016
320-10-55-2	Amended	2016-01	01/05/2016
320-10-55-4	Superseded	2016-01	01/05/2016
320-10-55-5	Superseded	2016-01	01/05/2016
320-10-55-6	Amended	2016-01	01/05/2016
320-10-55-7	Superseded	2016-01	01/05/2016
320-10-55-9	Amended	2016-01	01/05/2016
320-10-55-22	Amended	2016-01	01/05/2016
320-10-55-23	Amended	2016-01	01/05/2016

95. Add paragraph 321-10-00-1 as follows:

**321-10-00-1** The following table identifies the changes made to this Subtopic.

<b>Paragraph</b>	<b>Action</b>	<b>Accounting Standards Update</b>	<b>Date</b>
<b>Equity Security</b> (1 <sup>st</sup> def.)	Added	2016-01	01/05/2016
<b>Fair Value</b> (2 <sup>nd</sup> def.)	Added	2016-01	01/05/2016
<b>Holding Gain or Loss</b>	Added	2016-01	01/05/2016
<b>Market Participants</b>	Added	2016-01	01/05/2016
<b>Orderly Transaction</b>	Added	2016-01	01/05/2016
<b>Readily Determinable Fair Value</b>	Added	2016-01	01/05/2016
<b>Related Parties</b>	Added	2016-01	01/05/2016
<b>Security</b> (2 <sup>nd</sup> def.)	Added	2016-01	01/05/2016
321-10-05-1	Added	2016-01	01/05/2016
321-10-05-2	Added	2016-01	01/05/2016

321-10-15-1 through 15-6	Added	2016-01	01/05/2016
321-10-30-1	Added	2016-01	01/05/2016
321-10-35-1 through 35-6	Added	2016-01	01/05/2016
321-10-40-1	Added	2016-01	01/05/2016
321-10-45-1	Added	2016-01	01/05/2016
321-10-45-2	Added	2016-01	01/05/2016
321-10-50-1 through 50-4	Added	2016-01	01/05/2016
321-10-55-1 through 55-9	Added	2016-01	01/05/2016

96. Amend paragraph 323-10-00-1, by adding the following items to the table, as follows:

**323-10-00-1** The following table identifies the changes made to this Subtopic.

<b>Paragraph</b>	<b>Action</b>	<b>Accounting Standards Update</b>	<b>Date</b>
323-10-05-1	Amended	2016-01	01/05/2016
323-10-05-4	Amended	2016-01	01/05/2016
323-10-35-24 through 35-26	Amended	2016-01	01/05/2016
323-10-35-36	Amended	2016-01	01/05/2016
323-10-35-37	Amended	2016-01	01/05/2016
323-10-55-30	Amended	2016-01	01/05/2016

97. Amend paragraph 323-30-00-1 as follows:

**323-30-00-1** The following table identifies the changes made to this Subtopic. ~~No updates have been made to this Subtopic.~~

<b>Paragraph</b>	<b>Action</b>	<b>Accounting Standards Update</b>	<b>Date</b>
323-30-35-3	Amended	2016-01	01/05/2016
323-30-35-4	Amended	2016-01	01/05/2016
323-30-60-2	Superseded	2016-01	01/05/2016

98. Amend paragraph 323-740-00-1, by adding the following items to the table, as follows:

**323-740-00-1** The following table identifies the changes made to this Subtopic.

<b>Paragraph</b>	<b>Action</b>	<b>Accounting Standards Update</b>	<b>Date</b>
323-740-25-2A	Added	2016-01	01/05/2016
323-740-25-6	Amended	2016-01	01/05/2016
323-740-30-2	Amended	2016-01	01/05/2016
323-740-45-3	Amended	2016-01	01/05/2016

99. Add paragraph 325-10-00-1 as follows:

**325-10-00-1** The following table identifies the changes made to this Subtopic.

<b>Paragraph</b>	<b>Action</b>	<b>Accounting Standards Update</b>	<b>Date</b>
325-10-05-1	Amended	2016-01	01/05/2016
325-10-05-2	Amended	2016-01	01/05/2016
325-10-60-1	Superseded	2016-01	01/05/2016

100. Amend paragraph 325-20-00-1, by adding the following items to the table, as follows:

**325-20-00-1** The following table identifies the changes made to this Subtopic.

<b>Paragraph</b>	<b>Action</b>	<b>Accounting Standards Update</b>	<b>Date</b>
<b>Publicly Traded Company</b>	Superseded	2016-01	01/05/2016
325-20-05-1 through 05-3	Superseded	2016-01	01/05/2016
325-20-15-1	Superseded	2016-01	01/05/2016
325-20-15-2	Superseded	2016-01	01/05/2016
325-20-25-1	Superseded	2016-01	01/05/2016
325-20-25-2	Superseded	2016-01	01/05/2016
325-20-30-1 through 30-6	Superseded	2016-01	01/05/2016
325-20-35-1 through 35-6	Superseded	2016-01	01/05/2016

325-20-50-1	Superseded	2016-01	01/05/2016
325-20-60-1	Superseded	2016-01	01/05/2016

101. Amend paragraph 325-40-00-1, by adding the following items to the table, as follows:

**325-40-00-1** The following table identifies the changes made to this Subtopic.

Paragraph	Action	Accounting Standards Update	Date
325-40-15-6	Amended	2016-01	01/05/2016
325-40-25-2	Amended	2016-01	01/05/2016
325-40-35-2	Amended	2016-01	01/05/2016

102. Amend paragraph 360-20-00-1, by adding the following item to the table, as follows:

**360-20-00-1** The following table identifies the changes made to this Subtopic.

Paragraph	Action	Accounting Standards Update	Date
360-20-15-10	Amended	2016-01	01/05/2016

103. Amend paragraph 606-10-00-1, by adding the following items to the table, as follows:

**606-10-00-1** The following table identifies the changes made to this Subtopic.

Paragraph	Action	Accounting Standards Update	Date
606-10-15-2	Amended	2016-01	01/05/2016

104. Amend paragraph 710-10-00-1 as follows:

**710-10-00-1** The following table identifies the changes made to this Subtopic. ~~No updates have been made to this subtopic.~~

<b>Paragraph</b>	<b>Action</b>	<b>Accounting Standards Update</b>	<b>Date</b>
710-10-25-18	Amended	2016-01	01/05/2016

105. Amend paragraph 715-60-00-1, by adding the following item to the table, as follows:

**715-60-00-1** The following table identifies the changes made to this Subtopic.

<b>Paragraph</b>	<b>Action</b>	<b>Accounting Standards Update</b>	<b>Date</b>
<b>Equity Security</b> (2 <sup>nd</sup> def.)	Amended	2016-01	01/05/2016

106. Amend paragraph 715-70-00-1, by adding the following item to the table, as follows:

**715-70-00-1** The following table identifies the changes made to this Subtopic.

<b>Paragraph</b>	<b>Action</b>	<b>Accounting Standards Update</b>	<b>Date</b>
715-70-55-6	Amended	2016-01	01/05/2016

107. Amend paragraph 740-10-00-1, by adding the following item to the table, as follows:

**740-10-00-1** The following table identifies the changes made to this Subtopic.

<b>Paragraph</b>	<b>Action</b>	<b>Accounting Standards Update</b>	<b>Date</b>
740-10-30-16	Amended	2016-01	01/05/2016

108. Amend paragraph 740-20-00-1, by adding the following items to the table, as follows:

**740-20-00-1** The following table identifies the changes made to this Subtopic.

<b>Paragraph</b>	<b>Action</b>	<b>Accounting Standards Update</b>	<b>Date</b>
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740-20-45-15 through 45-18	Added	2016-01	01/05/2016
740-20-60-1	Superseded	2016-01	01/05/2016

109. Amend paragraph 805-10-00-1, by adding the following item to the table, as follows:

**805-10-00-1** The following table identifies the changes made to this Subtopic.

<b>Paragraph</b>	<b>Action</b>	<b>Accounting Standards Update</b>	<b>Date</b>
805-10-25-10	Amended	2016-01	01/05/2016

110. 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.

<b>Paragraph</b>	<b>Action</b>	<b>Accounting Standards Update</b>	<b>Date</b>
815-10-05-4	Amended	2016-01	01/05/2016
815-10-15-138	Amended	2016-01	01/05/2016
815-10-15-141	Amended	2016-01	01/05/2016
815-10-15-142	Amended	2016-01	01/05/2016
815-10-25-17	Amended	2016-01	01/05/2016
815-10-25-18	Added	2016-01	01/05/2016
815-10-30-5	Amended	2016-01	01/05/2016
815-10-30-6	Added	2016-01	01/05/2016
815-10-35-5	Amended	2016-01	01/05/2016
815-10-35-6	Added	2016-01	01/05/2016

111. Amend paragraph 815-15-00-1, by adding the following items to the table, as follows:

**815-15-00-1** The following table identifies the changes made to this Subtopic.

<b>Paragraph</b>	<b>Action</b>	<b>Accounting Standards Update</b>	<b>Date</b>
815-15-15-6	Amended	2016-01	01/05/2016
815-15-25-5	Amended	2016-01	01/05/2016

112. 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.

<b>Paragraph</b>	<b>Action</b>	<b>Accounting Standards Update</b>	<b>Date</b>
815-20-25-28	Amended	2016-01	01/05/2016
815-20-25-37	Amended	2016-01	01/05/2016
815-20-25-43	Amended	2016-01	01/05/2016
815-20-25-71	Amended	2016-01	01/05/2016
815-20-35-1	Amended	2016-01	01/05/2016
815-20-55-117	Amended	2016-01	01/05/2016
815-20-55-118 through 55-122	Superseded	2016-01	01/05/2016
815-20-55-123	Amended	2016-01	01/05/2016
815-20-55-187 through 55-192	Superseded	2016-01	01/05/2016

113. Amend paragraph 815-25-00-1, by adding the following items to the table, as follows:

**815-25-00-1** The following table identifies the changes made to this Subtopic.

<b>Paragraph</b>	<b>Action</b>	<b>Accounting Standards Update</b>	<b>Date</b>
815-25-35-6	Amended	2016-01	01/05/2016
815-25-55-18 through 55-22	Superseded	2016-01	01/05/2016
815-25-55-65	Amended	2016-01	01/05/2016

114. Amend paragraph 820-10-00-1, by adding the following items to the table, as follows:

**820-10-00-1** The following table identifies the changes made to this Subtopic.

<b>Paragraph</b>	<b>Action</b>	<b>Accounting Standards Update</b>	<b>Date</b>
820-10-15-3	Amended	2016-01	01/05/2016
820-10-55-100	Amended	2016-01	01/05/2016

115. Amend paragraph 825-10-00-1, by adding the following items to the table, as follows:

**825-10-00-1** The following table identifies the changes made to this Subtopic.

<b>Paragraph</b>	<b>Action</b>	<b>Accounting Standards Update</b>	<b>Date</b>
<b>Conduit Debt Securities</b>	Superseded	2016-01	01/05/2016
<b>Nonpublic Entity</b> (4 <sup>th</sup> def.)	Superseded	2016-01	01/05/2016
<b>Publicly Traded Company</b> (1 <sup>st</sup> def.)	Superseded	2016-01	01/05/2016
<b>Public Business Entity</b> (1 <sup>st</sup> def.)	Added	2016-01	01/05/2016
825-10-05-3	Amended	2016-01	01/05/2016
825-10-25-4	Amended	2016-01	01/05/2016
825-10-35-4	Superseded	2016-01	01/05/2016
825-10-45-1	Superseded	2016-01	01/05/2016
825-10-45-1A	Added	2016-01	01/05/2016
825-10-45-1B	Added	2016-01	01/05/2016
825-10-45-4 through 45-7	Added	2016-01	01/05/2016
825-10-50-2A	Amended	2016-01	01/05/2016
825-10-50-3 through 50-7	Superseded	2016-01	01/05/2016
825-10-50-8	Amended	2016-01	01/05/2016
825-10-50-10	Amended	2016-01	01/05/2016
825-10-50-14	Superseded	2016-01	01/05/2016
825-10-50-16 through 50-19	Superseded	2016-01	01/05/2016
825-10-50-30	Amended	2016-01	01/05/2016
825-10-50-31	Amended	2016-01	01/05/2016
825-10-55-3 through 55-5	Superseded	2016-01	01/05/2016
825-10-55-8	Amended	2016-01	01/05/2016
825-10-55-10	Amended	2016-01	01/05/2016
825-10-55-12	Amended	2016-01	01/05/2016
825-10-65-2	Added	2016-01	01/05/2016

116. Amend paragraph 835-10-00-1, by adding the following items to the table, as follows:

**835-10-00-1** The following table identifies the changes made to this Subtopic.

<b>Paragraph</b>	<b>Action</b>	<b>Accounting Standards Update</b>	<b>Date</b>
835-10-60-5	Amended	2016-01	01/05/2016
835-10-60-6A	Added	2016-01	01/05/2016

117. Amend paragraph 845-10-00-1, by adding the following item to the table, as follows:

**845-10-00-1** The following table identifies the changes made to this Subtopic.

<b>Paragraph</b>	<b>Action</b>	<b>Accounting Standards Update</b>	<b>Date</b>
845-10-30-26	Amended	2016-01	01/05/2016

118. Amend paragraph 860-10-00-1, by adding the following item to the table, as follows:

**860-10-00-1** The following table identifies the changes made to this Subtopic.

<b>Paragraph</b>	<b>Action</b>	<b>Accounting Standards Update</b>	<b>Date</b>
860-10-55-77	Amended	2016-01	01/05/2016

119. Amend paragraph 940-340-00-1 as follows:

**940-340-00-1** The following table identifies the changes made to this Subtopic. ~~No updates have been made to this subtopic.~~

<b>Paragraph</b>	<b>Action</b>	<b>Accounting Standards Update</b>	<b>Date</b>
940-340-35-1	Amended	2016-01	01/05/2016

120. Amend paragraph 942-320-00-1 as follows:

**942-320-00-1** ~~The following table identifies the changes made to this Subtopic. No updates have been made to this subtopic.~~

<b>Paragraph</b>	<b>Action</b>	<b>Accounting Standards Update</b>	<b>Date</b>
942-320-50-2A	Added	2016-01	01/05/2016

121. Amend paragraph 942-325-00-1, by adding the following items to the table, as follows:

**942-325-00-1** The following table identifies the changes made to this Subtopic.

<b>Paragraph</b>	<b>Action</b>	<b>Accounting Standards Update</b>	<b>Date</b>
942-325-05-1	Amended	2016-01	01/05/2016
942-325-05-2	Amended	2016-01	01/05/2016
942-325-25-4	Added	2016-01	01/05/2016
942-325-30-1	Added	2016-01	01/05/2016
942-325-35-1	Amended	2016-01	01/05/2016
942-325-35-5	Added	2016-01	01/05/2016
942-325-45-1	Amended	2016-01	01/05/2016

122. Add paragraph 942-470-00-1 as follows:

**942-470-00-1** The following table identifies the changes made to this Subtopic.

<b>Paragraph</b>	<b>Action</b>	<b>Accounting Standards Update</b>	<b>Date</b>
942-470-50-1	Amended	2016-01	01/05/2016

123. Amend paragraph 942-825-00-1, by adding the following item to the table, as follows:

**942-825-00-1** The following table identifies the changes made to this Subtopic.

<b>Paragraph</b>	<b>Action</b>	<b>Accounting Standards Update</b>	<b>Date</b>
942-825-50-2	Amended	2016-01	01/05/2016

124. Amend paragraph 944-10-00-1, by adding the following item to the table, as follows:

**944-10-00-1** The following table identifies the changes made to this Subtopic.

<b>Paragraph</b>	<b>Action</b>	<b>Accounting Standards Update</b>	<b>Date</b>
944-10-05-1	Amended	2016-01	01/05/2016

125. Amend paragraph 944-80-00-1, by adding the following items to the table, as follows:

**944-80-00-1** The following table identifies the changes made to this Subtopic.

<b>Paragraph</b>	<b>Action</b>	<b>Accounting Standards Update</b>	<b>Date</b>
944-80-25-9 through 25-11	Amended	2016-01	01/05/2016
944-80-55-8	Amended	2016-01	01/05/2016
944-80-55-9	Amended	2016-01	01/05/2016
944-80-55-11	Amended	2016-01	01/05/2016
944-80-55-16	Amended	2016-01	01/05/2016

126. Amend paragraph 944-320-00-1, by adding the following items to the table, as follows:

**944-320-00-1** The following table identifies the changes made to this Subtopic.

<b>Paragraph</b>	<b>Action</b>	<b>Accounting Standards Update</b>	<b>Date</b>
<b>Carrying Amount</b>	Superseded	2016-01	01/05/2016
<b>Separate Account</b>	Superseded	2016-01	01/05/2016
944-320-05-1	Superseded	2016-01	01/05/2016
944-320-15-1	Superseded	2016-01	01/05/2016
944-320-15-2	Superseded	2016-01	01/05/2016
944-320-25-1	Superseded	2016-01	01/05/2016
944-320-50-1	Superseded	2016-01	01/05/2016
944-320-50-2	Superseded	2016-01	01/05/2016

127. Amend paragraph 944-325-00-1, by adding the following items to the table, as follows:

**944-325-00-1** The following table identifies the changes made to this Subtopic.

<b>Paragraph</b>	<b>Action</b>	<b>Accounting Standards Update</b>	<b>Date</b>
<b>Fair Value</b> (2 <sup>nd</sup> def.)	Superseded	2016-01	01/05/2016
<b>Market Participants</b>	Superseded	2016-01	01/05/2016
<b>Orderly Transaction</b>	Superseded	2016-01	01/05/2016
<b>Readily Determinable Fair Value</b>	Superseded	2016-01	01/05/2016
<b>Related Parties</b>	Superseded	2016-01	01/05/2016
944-325-05-1	Superseded	2016-01	01/05/2016
944-325-15-1	Superseded	2016-01	01/05/2016
944-325-30-1	Superseded	2016-01	01/05/2016
944-325-35-1 through 35-3	Superseded	2016-01	01/05/2016
944-325-40-1	Superseded	2016-01	01/05/2016
944-325-45-1 through 45-5	Superseded	2016-01	01/05/2016
944-325-50-1	Superseded	2016-01	01/05/2016

128. Add paragraph 944-360-00-1 as follows:

**944-360-00-1** The following table identifies the changes made to this Subtopic.

<b>Paragraph</b>	<b>Action</b>	<b>Accounting Standards Update</b>	<b>Date</b>
944-360-40-2	Amended	2016-01	01/05/2016

129. Amend paragraph 944-605-00-1, by adding the following item to the table, as follows:

**944-605-00-1** The following table identifies the changes made to this Subtopic.

<b>Paragraph</b>	<b>Action</b>	<b>Accounting Standards Update</b>	<b>Date</b>
944-605-25-21	Amended	2016-01	01/05/2016

130. Amend paragraph 944-825-00-1, by adding the following items to the table, as follows:

**944-825-00-1** The following table identifies the changes made to this Subtopic.

<b>Paragraph</b>	<b>Action</b>	<b>Accounting Standards Update</b>	<b>Date</b>
944-825-50-1	Superseded	2016-01	01/05/2016
944-825-50-1A	Added	2016-01	01/05/2016
944-825-50-1B	Added	2016-01	01/05/2016

131. Amend paragraph 954-10-00-1, by adding the following item to the table, as follows:

**954-10-00-1** The following table identifies the changes made to this Subtopic.

<b>Paragraph</b>	<b>Action</b>	<b>Accounting Standards Update</b>	<b>Date</b>
954-10-05-1	Amended	2016-01	01/05/2016

132. Amend paragraph 954-225-00-1, by adding the following items to the table, as follows:

**954-225-00-1** The following table identifies the changes made to this Subtopic.

<b>Paragraph</b>	<b>Action</b>	<b>Accounting Standards Update</b>	<b>Date</b>
954-225-45-7	Amended	2016-01	01/05/2016
954-225-45-8 through 45-10	Added	2016-01	01/05/2016

954-225-55-2 through 55-5	Added	2016-01	01/05/2016
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133. Amend paragraph 954-320-00-1, by adding the following items to the table, as follows:

**954-320-00-1** The following table identifies the changes made to this Subtopic.

<b>Paragraph</b>	<b>Action</b>	<b>Accounting Standards Update</b>	<b>Date</b>
<b>Performance Indicator</b>	Superseded	2016-01	01/05/2016
954-320-05-1	Superseded	2016-01	01/05/2016
954-320-15-1	Superseded	2016-01	01/05/2016
954-320-35-1	Superseded	2016-01	01/05/2016
954-320-45-1 through 45-3	Superseded	2016-01	01/05/2016
954-320-55-1 through 55-4	Superseded	2016-01	01/05/2016

134. Amend paragraph 954-805-00-1, by adding the following item to the table, as follows:

**954-805-00-1** The following table identifies the changes made to this Subtopic.

<b>Paragraph</b>	<b>Action</b>	<b>Accounting Standards Update</b>	<b>Date</b>
954-805-25-1	Amended	2016-01	01/05/2016

135. Amend paragraph 958-10-00-1, by adding the following item to the table, as follows:

**958-10-00-1** The following table identifies the changes made to this Subtopic.

<b>Paragraph</b>	<b>Action</b>	<b>Accounting Standards Update</b>	<b>Date</b>
958-10-05-2	Amended	2016-01	01/05/2016

136. Amend paragraph 958-30-00-1, by adding the following items to the table, as follows:

**958-30-00-1** The following table identifies the changes made to this Subtopic.

<b>Paragraph</b>	<b>Action</b>	<b>Accounting Standards Update</b>	<b>Date</b>
958-30-25-2	Amended	2016-01	01/05/2016
958-30-25-4	Amended	2016-01	01/05/2016
958-30-35-4	Amended	2016-01	01/05/2016
958-30-35-11	Amended	2016-01	01/05/2016

137. Amend paragraph 958-210-00-1, by adding the following item to the table, as follows:

**958-210-00-1** The following table identifies the changes made to this Subtopic.

<b>Paragraph</b>	<b>Action</b>	<b>Accounting Standards Update</b>	<b>Date</b>
958-210-45-12	Added	2016-01	01/05/2016

138. Amend paragraph 958-225-00-1, by adding the following items to the table, as follows:

**958-225-00-1** The following table identifies the changes made to this Subtopic.

<b>Paragraph</b>	<b>Action</b>	<b>Accounting Standards Update</b>	<b>Date</b>
958-225-48-8	Amended	2016-01	01/05/2016
958-225-45-18 through 45-26	Added	2016-01	01/05/2016

139. Amend paragraph 958-320-00-1, by adding the following items to the table, as follows:

**958-320-00-1** The following table identifies the changes made to this Subtopic.

<b>Paragraph</b>	<b>Action</b>	<b>Accounting Standards Update</b>	<b>Date</b>
<b>Debt Security</b>	Added	2016-01	01/05/2016
<b>Equity Security</b> (1 <sup>st</sup> def.)	Superseded	2016-01	01/05/2016
<b>Readily Determinable Fair Value</b>	Superseded	2016-01	01/05/2016
958-320-05-1	Amended	2016-01	01/05/2016
958-320-05-2	Amended	2016-01	01/05/2016
958-320-15-1A through 15-4	Amended	2016-01	01/05/2016
958-320-15-6	Amended	2016-01	01/05/2016
958-320-15-7	Amended	2016-01	01/05/2016
958-320-25-1	Amended	2016-01	01/05/2016
958-320-25-2	Superseded	2016-01	01/05/2016
958-320-30-1	Amended	2016-01	01/05/2016
958-320-35-1	Amended	2016-01	01/05/2016
958-320-35-2	Superseded	2016-01	01/05/2016
958-320-45-1 through 45-10	Superseded	2016-01	01/05/2016
958-320-55-3	Superseded	2016-01	01/05/2016
958-320-60-1	Amended	2016-01	01/05/2016

140. Add paragraph 958-321-00-1 as follows:

**958-321-00-1** The following table identifies the changes made to this Subtopic.

<b>Paragraph</b>	<b>Action</b>	<b>Accounting Standards Update</b>	<b>Date</b>
<b>Equity Security</b> (1 <sup>st</sup> def.)	Added	2016-01	01/05/2016
<b>Financially Interrelated Entities</b>	Added	2016-01	01/05/2016
<b>Net Assets</b>	Added	2016-01	01/05/2016
<b>Not-for-Profit Entity</b>	Added	2016-01	01/05/2016
<b>Permanently Restricted Net Assets</b>	Added	2016-01	01/05/2016

<b>Temporarily Restricted Net Assets</b>	Added	2016-01	01/05/2016
<b>Unrestricted Net Assets</b>	Added	2016-01	01/05/2016
958-321-05-1	Added	2016-01	01/05/2016
958-321-05-2	Added	2016-01	01/05/2016
958-321-15-1 through 15-7	Added	2016-01	01/05/2016
958-321-25-1	Added	2016-01	01/05/2016
958-321-25-2	Added	2016-01	01/05/2016
958-321-30-1	Added	2016-01	01/05/2016
958-321-35-1	Added	2016-01	01/05/2016
958-321-35-2	Added	2016-01	01/05/2016
958-321-50-1	Added	2016-01	01/05/2016
958-321-50-2	Added	2016-01	01/05/2016
958-321-55-1	Added	2016-01	01/05/2016

141. Amend paragraph 958-325-00-1, by adding the following items to the table, as follows:

**958-325-00-1** The following table identifies the changes made to this Subtopic.

<b>Paragraph</b>	<b>Action</b>	<b>Accounting Standards Update</b>	<b>Date</b>
<b>Readily Determinable Fair Value</b>	Superseded	2016-01	01/05/2016
958-325-05-1	Amended	2016-01	01/05/2016
958-325-05-2	Amended	2016-01	01/05/2016
958-325-15-2	Amended	2016-01	01/05/2016
958-325-15-3	Amended	2016-01	01/05/2016
958-325-35-8 through 35-13	Superseded	2016-01	01/05/2016
958-325-45-1	Amended	2016-01	01/05/2016
958-325-50-2	Amended	2016-01	01/05/2016
958-325-50-3	Superseded	2016-01	01/05/2016

142. Amend paragraph 958-605-00-1, by adding the following items to the table, as follows:

**958-605-00-1** The following table identifies the changes made to this Subtopic.

<b>Paragraph</b>	<b>Action</b>	<b>Accounting Standards Update</b>	<b>Date</b>
<b>Equity Security</b> (1 <sup>st</sup> def.)	Amended	2016-01	01/05/2016
958-605-45-4	Amended	2016-01	01/05/2016

143. Amend paragraph 958-810-00-1, by adding the following items to the table, as follows:

**958-810-00-1** The following table identifies the changes made to this Subtopic.

<b>Paragraph</b>	<b>Action</b>	<b>Accounting Standards Update</b>	<b>Date</b>
958-810-15-4	Amended	2016-01	01/05/2016
958-810-55-4	Amended	2016-01	01/05/2016
958-810-55-21	Amended	2016-01	01/05/2016
958-810-55-24	Amended	2016-01	01/05/2016
958-810-55-25	Amended	2016-01	01/05/2016

144. Amend paragraph 970-323-00-1, by adding the following items to the table, as follows:

**970-323-00-1** The following table identifies the changes made to this Subtopic.

<b>Paragraph</b>	<b>Action</b>	<b>Accounting Standards Update</b>	<b>Date</b>
970-323-25-6	Amended	2016-01	01/05/2016
970-323-25-7	Superseded	2016-01	01/05/2016
970-323-25-8	Amended	2016-01	01/05/2016
970-323-25-11	Amended	2016-01	01/05/2016

145. Add paragraph 974-323-00-1 as follows:

**974-323-00-1** The following table identifies the changes made to this Subtopic.

<b>Paragraph</b>	<b>Action</b>	<b>Accounting Standards Update</b>	<b>Date</b>
974-323-25-1	Amended	2016-01	01/05/2016

146. Amend paragraph 978-810-00-1, by adding the following item to the table, as follows:

**978-810-00-1** The following table identifies the changes made to this Subtopic.

<b>Paragraph</b>	<b>Action</b>	<b>Accounting Standards Update</b>	<b>Date</b>
978-810-25-4	Amended	2016-01	01/05/2016

*The amendments in this Update were adopted by the affirmative vote of four members of the Financial Accounting Standards Board. Messrs. Linsmeier, Schroeder, and Siegel dissented.*

Mr. Schroeder dissents from the issuance of this Update because he believes it does not meet the main objective of enhancing the reporting model for financial instruments. He believes that the Update largely maintains the status quo by retaining the complexities inherent in a mixed-measurement attribute model and by failing to provide users with decision-useful information (either in a timely manner or at all).

## Amortized Cost versus Fair Value

Mr. Schroeder believes that the current mixed-measurement attribute model places too much emphasis on amortized cost, an emphasis that is retained in this Update. Given investors' wide range of investment objectives and time horizons, Mr. Schroeder believes that individually neither amortized cost nor fair value can provide a single, standalone measure that always provides decision-useful information. Both convey useful information from different perspectives that he believes are best used together. For example, cost provides a known starting or entry point from which to assess subsequent performance. Fair value provides current information about the value of a financial instrument that facilitates assessment of performance against known investment strategies and changing market conditions.

If limited to one measurement attribute, Mr. Schroeder prefers to use fair value because it better meets the objective of financial reporting, namely, to assess the prospects of future net cash flows to an entity. He also believes that changes in fair value of individual financial assets and liabilities can be more important to an investor's understanding of changes in relevant risks over time. However, Mr. Schroeder believes that GAAP would be significantly improved by requiring side-by-side presentation in statements of financial position and comprehensive income

of both *amortized cost (along with any impairment)* and *fair value*. Such a dual-column approach—with each column focused on a single measurement attribute—would provide greater transparency and improve investor consumption.

## Timing of Fair Value Disclosures

Mr. Schroeder asserts that the Update extends the amortized cost bias by permitting a public business entity to choose whether to present the fair values of financial instruments measured at amortized cost parenthetically on the face of the statement of financial position or in the notes to the financial statements.

The Board based its decision on the faulty belief that the location of the information does not determine its decision usefulness. In an environment in which timing can be ignored, there may be some theoretical merit to this view. However, there have been numerous academic studies demonstrating that location does matter. More important is that in the real world of quarterly earnings announcements that largely drive investment decisions for a vast majority of public business entities, the all-important “earnings release” precedes the more comprehensive full set of financial statements. Requiring disclosure on the face of the statement of financial position would more likely result in fair value information being provided as part of the earnings release. However, allowing a public business entity the option to include fair value information in the notes to the financial statements permits a delay. Any delay—often stretching to weeks—affects the decision usefulness of information.

## Bifurcation

Another aspect of Mr. Schroeder’s dissent is that the Update retains the cost and complexity resulting from the required bifurcation of embedded derivatives from hybrid financial instruments. While understanding the underlying concept, he believes that there is virtually no investor use of this bifurcated information. He believes that this is largely attributable to the fact that current disclosure requirements provide minimal understanding of the linkage between the specific hosts and the related bifurcated derivatives.

Mr. Schroeder believes that each host and its embedded derivatives were designed to work together. Therefore, without adequate disclosure that pairs one with the other, bifurcation provides little, if any, decision-useful information that could justify the inherent costs. His views were confirmed by feedback obtained during the development of this Update.

Without a cost-effective disclosure that tracks the linkage of hosts and embedded derivatives over time, Mr. Schroeder would prefer eliminating the cost and complexity of bifurcation by making fair value accounting mandatory for all hybrid financial instruments. He would have limited the fair value requirement to those hybrid financial instruments with substantive components that require bifurcation.

## Fair Value of Own Credit

The financial services industry holds the largest quantities of financial assets that are largely and directly funded by financial liabilities. Therefore, Mr. Schroeder believes that changes in fair value of liabilities often reflect market perceptions of changes in the fair value of assets held by the entity. Therefore, he disagrees with the statement in paragraph BC100 that “recognizing a gain due to a decrease in credit standing to be potentially misleading.” He sees the “gain” as a consequence of a related decline in asset values; the converse also is true. From this perspective, he believes that the use of other comprehensive income may mask the relationship between changes in fair value of financial assets and liabilities. In addition, the need to recycle those amounts from accumulated other comprehensive income through net income adds unnecessary complexity and contributes to investor confusion.

Mr. Schroeder does see this Update’s requirement to present separately changes in fair value because of instrument-specific credit risk within other comprehensive income as an improvement. While it will permit investors to make their own assessments of the economic consequences indicated by any such changes, he believes that it is a suboptimal solution. Mr. Schroeder believes that the ultimate solution is to require a single statement of comprehensive income and to eliminate recycling through net income from accumulated other comprehensive income.

## Improving Disclosures about Funding

This Update maintains the current criteria necessary to carry loans and debt securities at amortized cost. That is, for loans, an entity must have the “intent and ability to hold for the foreseeable future or until maturity or payoff.” And for debt securities, an entity must have the “positive intent and ability to hold those securities to maturity.” Application of this Update affects all entities, but it is important to note that a substantial portion of all financial assets is held within the financial services industry, most notably by depository institutions. For those institutions, meeting the “ability” criterion largely depends on being able to attract and retain lower-cost funding.

Although funding sources shift over time—in response to legislative, economic, and regulatory changes—deposits remain the dominant funding source. Furthermore, the most stable source of that funding is commonly referred to as “core deposits.” Far from being a theoretical concept, core deposits are the economic phenomenon that funds trillions of dollars of longer duration, higher yielding loans and debt securities with short duration, lower cost deposits.

However, in contrast to disclosures currently required for non-deposit “borrowed funds” (historically a lesser, though significant funding source for depository institutions), current standards require minimal core deposit disclosures.

Therefore, Mr. Schroeder disagrees with the decision not to provide needed disclosures.

As noted in paragraph BC138, the Board was swayed by “feedback received from preparers who said that the cost of providing that information would be significant and could result in disclosure of proprietary information.” Mr. Schroeder believes that those concerns are unwarranted and inconsistent with the facts. First, acquirers of depository institutions often have touted in meetings with investors the franchise value of a target’s deposit base as one of the primary reasons to make a whole-bank acquisition. The fair value of long-term relationships with depositors—embedded in the purchase price of an acquired entity—has long been required to be recognized under GAAP as an identifiable intangible asset. Second, citing similar franchise value, there has been an average of more than 80 standalone “branch acquisitions” per year during the last decade and substantially higher annual numbers in the 2 preceding decades. Therefore, Mr. Schroeder believes that this stream of whole-bank and branch acquisitions stretching over decades provides a readily verifiable source of observable inputs.

Given the importance of deposit funding, Mr. Schroeder’s preference is to record the fair value of core deposits as an intangible asset for two reasons. First, he believes that a core deposit intangible asset meets the definition of *assets* as defined in Concepts Statement No. 6, *Elements of Financial Statements*, regardless of whether the related deposits are purchased or gathered by current operations. Second, recognition of the intangible asset captures two decision-useful aspects of low-cost deposit funding—magnitude and duration. While current GAAP, as well as the amendments in this Update, do not permit the recognition of an internally generated intangible asset that reflects the value created from deposit gathering, he asserts that, at a minimum, disclosures are warranted. Specifically, he believes that the Board should have required two decision-useful data points—the balance of amounts considered to be “core deposits” and the implied weighted-average maturity period.

Messrs. Linsmeier and Siegel dissent from the issuance of this Accounting Standards Update because it fails to meet any of the three primary objectives set at the beginning of the project. Those objectives are to improve the decision usefulness of reported information, to reduce complexity in accounting for financial instruments, and to achieve convergence of GAAP and IFRS. The amendments in this Update primarily fail to improve decision usefulness by retaining guidance that generally determines at the date of initial recognition the measurement method and location of financial performance line items within either net income or other comprehensive income on the basis of management’s intended method for realizing value at that date (that is, either through cash collection/payment or through sales/settlement). Messrs. Linsmeier and Siegel believe that classifying and measuring on the basis of management’s present intentions about its method for realizing future value do not faithfully represent an entity’s financial

performance throughout the life of the instrument. They observe that those intentions can and do change after initial classification and measurement.

Financial instruments are exposed to several key risks, including duration risk, interest-rate risk, liquidity risk, and credit risk. Those risks can change significantly through economic cycles and make it rational for management to want to change methods of value realization if those changes would maximize the expected return on investment to the entity. In addition, because a market exists in which most financial instruments can be transferred, there are few economic constraints that limit management's ability to change value realization methods from cash collection/payment to sales/settlement (and vice versa). This increases the likelihood that management will want to change value realization methods. Therefore, Messrs. Linsmeier and Siegel believe that the classification and measurement model prescribed by the amendments in this Update generally fails to meet the objective of financial reporting. They believe that the model often will not provide resource providers with decision-useful information about the potential amounts, timing, and uncertainty of net cash inflows to the entity resulting from changes in value realization methods that management rationally should make through economic cycles to discharge its responsibility to be an efficient and effective steward over the entity's resources.

Messrs. Linsmeier and Siegel believe that the decision to retain existing classification and measurement guidance represents a significant lost opportunity to provide users with the information necessary to understand the potential risks in financial instruments that have caused significant issues in past economic crises. This concern is exacerbated further by the failure in this Update to require additional disclosures that provide users with a better understanding of the duration risk, interest-rate risk, and liquidity risk of financial instruments, which they believe have led to significant market uncertainty in past financial crises. Therefore, they believe that both fair value information and disclosures about these risks are critical inputs for users. Messrs. Linsmeier and Siegel believe that an entity's exposure to duration risk cannot be estimated without providing fair value information for all financial instruments. The amendments in this Update fail to require all entities to either measure or disclose fair value information for deposit liabilities with no defined or contractual maturities. Additionally, they also fail to require entities that are not public business entities to disclose fair value information for financial instruments that are not measured at fair value. Interest-rate risk is a form of duration risk that is especially important to understanding the economics of depository financial institutions, in part, because it affects a key metric of financial performance (that is, net interest income). Messrs. Linsmeier and Siegel believe that understanding interest-rate risk will become crucial to users as interest rates change in the future. They also believe that failing to provide additional information that permits comparison of interest-rate risk across depository financial institutions will introduce significant information asymmetries for users that could affect market efficiency. Furthermore, the amendments fail to require additional disclosures about the timing of realizations from available

financial assets and the timing of payments needed to settle existing financial liabilities, hindering users' understanding of liquidity needs at the balance sheet date. They believe that a lack of reliable information about potential liquidity issues has hindered users' abilities to identify entities in stress in past financial crises.

Messrs. Linsmeier and Siegel believe that the amendments in this Update fail to reduce complexity in accounting for financial instruments by retaining separate classification and measurement guidance for four different types of financial instruments—equity investments, debt securities, loans, and financial liabilities. In addition, the guidance for each type of instrument either requires or permits 3 different methods for measuring and/or presenting the income statement effects for each type of instrument that in sum lead to 12 different bases for measuring and reporting financial performance of financial instruments in financial statements. The complexity of the guidance is exacerbated further by retaining the requirement to bifurcate embedded derivatives. Furthermore, they believe that retaining a model that determines classification and measurement on the basis of management's initial intentions about the ultimate method of value realization retains complexity because it necessitates guidance about subsequent changes from initial intentions. Specifically, this Update retains the tainting guidance for held-to-maturity debt securities, which makes the model operationally challenging by requiring evaluations about whether any sale of a held-to-maturity security is for reasons permitted by the model. Additionally, it constrains management's ability to act rationally by limiting the ability to change methods of value realization to maximize returns or minimize losses as risks in the economic cycle change. Messrs. Linsmeier and Siegel believe that this complexity for preparers and auditors also extends to users because it hinders their ability to analyze and understand the aggregate potential risks and rewards from an entity's investments in financial instruments. As has been shown in past economic crises when users failed to understand the aggregate risks in financial instruments, market efficiency was affected, which prolonged the crisis and made economic recovery more difficult. Therefore, Messrs. Linsmeier and Siegel believe that failing to simplify the financial reporting for financial instruments is a significant lost opportunity to reduce complexity and improve the decision usefulness of reported information.

The amendments in this Update fail to converge with the international guidance on financial instruments issued by the IASB in IFRS 9. Ironically, before the two Boards decided to jointly deliberate classification and measurement of financial instruments, GAAP and IFRS guidance was quite similar. The joint and independent efforts of the two Boards on this project have resulted in little similarity in the guidance for measuring financial instruments and reporting financial performance in financial statements. While Messrs. Linsmeier and Siegel believe that classification and measurement outcomes that result from applying IFRS 9 and GAAP, as revised by the amendments in this Update, often will be similar, significant differences in the guidance could make it more challenging for preparers operating in both GAAP and IFRS jurisdictions by requiring them to apply two vastly different sets of guidance to justify those outcomes. Additionally, they

believe that the differences in guidance could make it more difficult for users to evaluate and compare financial results of GAAP and IFRS reporting entities to determine whether differences in reported outcomes are related to differences in economic circumstances or to differences in financial reporting requirements or their application.

Messrs. Linsmeier and Siegel would have been able to support two different classification and measurement approaches to better meet the initial objectives of this project. Under either approach, Messrs. Linsmeier and Siegel also would (1) require the additional disclosures discussed above to the extent that information is not already provided on the face of the financial statements and (2) permit trade receivables/payables due in one year or less to be measured at amortized cost. The first approach represents their proposed long-term solution for simplifying the accounting for financial instruments and providing the most decision-useful information about the risk and rewards inherent in financial instruments that management can rationally choose either to hold for collection/payment or to sell/settle depending on changing risks during economic cycles.

Under this first approach, all financial instruments would be measured at fair value with changes in fair value reported in comprehensive income. This approach would provide decision-useful information relating to duration risk and credit risk of financial instruments, and with the disclosures described above it also would provide insights about interest-rate risk and liquidity risk. Information about how management is realizing value from the instruments would be communicated by separately reporting realized and unrealized changes in the statement of financial performance. Realized changes related to cash flows, such as interest and dividend income, would continue to be reported within operating income, but unrealized changes in the fair value of the financial instruments would be reported outside operating income unless the instruments were being managed in expectation of sale or settlement. Other realized gains and losses arising from the sale or settlement of a financial instrument also would be reported outside operating income unless the instrument was being managed in expectation of sale or settlement. Under this approach, no amounts would be recycled from other comprehensive income to net income. This approach also would provide the following simplifications:

1. Criteria for when a given instrument would be measured with a specific attribute is no longer necessary.
2. Guidance about reclassifications and subsequent sales of financial assets is no longer necessary.
3. Bifurcating embedded derivatives or including a fair value hedge accounting model for financial instruments is no longer necessary.
4. A fair value option is no longer necessary.
5. An impairment model for financial instruments is no longer necessary.
6. Incentives to sell or settle financial instruments to achieve an income result are eliminated, which would make the development of a

comprehensive model for derecognition of financial instruments no longer confounded by concerns about the timing of income recognition.

Messrs. Linsmeier and Siegel recognize that measuring more financial instruments at fair value on the face of the balance sheet may increase the effort undertaken to develop fair value measurements and may create the need for more practical expedients for measuring fair value. However, they believe that those complexities are justified by the benefits from the other reductions in complexity in the model and the increase in users' abilities to understand the aggregate risk and rewards of financial instruments. They believe that such information would allow users to better distinguish entities that will and will not be severely affected by future financial crises and, therefore, aid in a more timely recovery. Finally, if either the original amortized cost of each financial instrument or management's view of an entity's credit losses is considered important to the usefulness of financial reports, that information could be required to be provided either parenthetically on the face of the statements or in the notes.

As an interim step should the first approach not be adopted, Messrs. Linsmeier and Siegel also could support a second approach. This second approach is a modification of the approach introduced by the IASB in IFRS 9 that is responsive to stakeholders' strongly held beliefs that certain financial assets should be measured at amortized cost. Messrs. Linsmeier and Siegel view this approach as simplifying the reporting for financial instruments by providing one model for measuring and reporting financial performance for all financial assets. This approach also would result in guidance that more closely aligns with IFRS 9. Because this approach classifies assets on the basis of the nature of a transaction which generates the asset, rather than on management's intentions about future value realization, they also believe that it is easier to implement and audit than the amendments in this Update.

Under this second approach, financial assets first would be recognized and measured based on the characteristics of the asset. Should the asset not meet the characteristics below, it would be classified based on the nature of the transaction that generated the asset. Financial liabilities would be measured at amortized cost unless the liability is a derivative or an entity will settle the liability at fair value before maturity and then it would be measured at fair value through net income.

Financial assets with the following characteristics would be measured at fair value through net income:

1. Assets for which the only way to exit the investment is to sell (for example, equity investments)
2. Assets that can be contractually prepaid or otherwise settled in such a way that the creditor (investor) would not recover substantially all of its initial investment
3. Assets with high cash flow variability (for example, derivatives).

Other financial assets would be classified and measured under this approach based on the nature of the transaction that generated the asset being classified. Similar to the model in this Update, financial assets generated for trading purposes would be measured at fair value with changes in value presented within net income. Classification and measurement at amortized cost would be available for financial assets generated by customer financing. Characteristics of customer financing include the following:

1. Provision of funding to meet the financing needs of the customer
2. Underwriting of the customer to assess the ability of the borrower to generate sufficient cash flows to meet the repayment obligations over time
3. Infrastructure within the organization to monitor the ongoing credit risk and negotiate a potential adjustment of the contractual cash flows with the counterparty in the event of a potential credit loss.

Financial assets not generated by trading or customer financing would be classified as investing and measured at fair value with realized gains and losses and credit losses presented within net income and unrealized gains and losses presented within other comprehensive income. This category therefore would include financial assets that, upon recognition, are available to be invested either for total return (by collecting contractual cash flows or selling the asset) or to manage interest-rate risk or liquidity risk (by holding or selling the asset).

Messrs. Linsmeier and Siegel believe that this second approach would provide investors with decision-useful information. Additionally, they believe that focusing on the nature of the transaction at initial recognition as opposed to management's intentions about the ultimate method of value realization represents a significant simplification to GAAP that would be easier to implement and audit. It also would eliminate the need for any guidance about reclassifications and detailed implementation examples about subsequent sales of assets measured at amortized cost (tainting) because once an asset is classified under this approach at recognition, sales always would be permitted out of each category.

*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

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## 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 guidance in this Update covers some aspects of the recognition, measurement, presentation, and disclosure of financial instruments in financial statements. This Update follows the issuance of two proposed Updates on recognition, measurement, presentation, and disclosure of financial instruments. The following background information discusses not only general background on the project on financial instruments, but also the provisions of the two proposed Updates and stakeholders' feedback on them. Following that, the basis for conclusions discusses the Board's rationale for the amendments this Update makes to the *FASB Accounting Standards Codification*<sup>®</sup>.

## Background Information

### Why Was a Project on Financial Instruments Needed?

BC3. Since 2005, the FASB and the IASB have had a long-term objective to improve and simplify the reporting for financial instruments. In March 2006, the Boards clarified their intentions to jointly improve and bring about convergence of financial reporting standards by issuing a Memorandum of Understanding, *A Roadmap for Convergence between IFRSs and US GAAP—2006–2008*. As part of the Memorandum of Understanding, the Boards worked jointly on a research project to reduce the complexity of the accounting for financial instruments. This joint effort resulted in the IASB's issuance of the March 2008 Discussion Paper, *Reducing Complexity in Reporting Financial Instruments*, which the FASB also issued for public comment. That Discussion Paper reviewed the main causes of complexity in reporting financial instruments and possible intermediate and long-term approaches to improve financial reporting and reduce complexity. The Boards received 162 comment letters on the Discussion Paper. In the discussions leading to this Update, the FASB considered relevant recommendations about classification, measurement, presentation, and disclosure from those comment letters.

BC4. On multiple occasions, the Board also was asked to address numerous issues on hedge accounting. As a result, in January 2007, the Board directed the staff to research (a) issues that were impeding the application of hedge accounting and (b) potential approaches to accounting for hedging activities. On June 6, 2008, the Board issued the Exposure Draft, *Accounting for Hedging Activities*, to address the identified issues. The Board received 127 comment letters on the Exposure Draft and considered respondents' concerns in its deliberations on hedge accounting.

BC5. In October 2008, as part of a joint approach to dealing with the accounting and reporting issues arising from the global financial crisis, the FASB and the IASB established the Financial Crisis Advisory Group (FCAG), comprising senior leaders with broad international experience in financial markets. The FCAG was asked to consider how improvements in financial reporting could enhance investors' confidence in financial markets. The advisory group was asked to identify any accounting issues that require the Boards' urgent and immediate attention, as well as issues for longer term consideration.

BC6. The FASB and the IASB also held three roundtable meetings—one each in London, England (November 14, 2008), Norwalk, Connecticut, United States (November 25, 2008), and Tokyo, Japan (December 3, 2008). The purpose of the roundtables was both to:

- a. Receive input from a wide range of stakeholders, including users, preparers, and auditors of financial statements, regulators, and others
- b. Identify accounting issues to enhance investors' confidence in financial markets.

Participants in the roundtables emphasized the importance of both achieving convergence of GAAP and IFRS and allowing sufficient due process before revising existing guidance.

BC7. Participants also commented on the following specific issues:

- a. Credit losses
- b. Fair value option
- c. Fair value as a measurement attribute
- d. Clarification of the interaction between conflicting accounting standards
- e. Clarification about the reporting for investments in collateralized debt obligations.

BC8. In November 2008, the IASB added to its agenda a project on accounting for financial instruments, with the understanding that the FASB would soon consider adding a related project to its technical agenda. In December 2008, the FASB added that project. This Update is one result of that project.

BC9. The IASB conducted its deliberations on the project in three phases. Those phases and the proposed and final documents that have resulted to date, together with related FASB documents issued, are as follows:

- a. Phase 1: Classification and measurement—In November 2009, the IASB issued IFRS 9 for financial assets in time to allow, but not require, early adoption for 2009 calendar year-end financial statements. In October 2010, the IASB added to IFRS 9 the requirements for classification and measurement of financial liabilities, carrying forward most of the requirements from IAS 39, *Financial Instruments: Recognition and Measurement*, but changing some aspects of the fair value option to address the presentation of changes in the fair values of financial liabilities related to changes in a liability's credit risk. In November 2013, the IASB amended IFRS 9 to permit an entity to early adopt the guidance on presentation of changes in fair value of financial liabilities related to changes in a liability's credit risk. In July 2014, the IASB made limited amendments to the guidance in IFRS 9 relating to the classification and measurement of financial assets. Those amendments clarified the application guidance for classification and measurement of financial assets and introduced a fair value through other comprehensive income measurement category for certain debt instruments.

In May 2010, the FASB issued a comprehensive proposed Accounting Standards Update, *Accounting for Financial Instruments and Revisions to the Accounting for Derivatives and Hedging Activities—Financial Instruments (Topic 825) and Derivatives and Hedging (Topic 815)*. After considering the input received, in February 2013, the FASB issued a revised proposed Accounting Standards Update, *Financial Instruments—Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities*. At that time the FASB decided to postpone further consideration of revisions to the accounting for derivative instruments and hedging activities. In February 2015, the FASB issued a proposed Accounting Standards Update, *Derivatives and Hedging (Topic 815): Disclosures about Hybrid Financial Instruments with Bifurcated Embedded Derivatives*.

- b. Phase 2: Impairment—The IASB issued an Exposure Draft, *Financial Instruments: Amortised Cost and Impairment*, in November 2009. Subsequently, the IASB considered impairment issues jointly with the FASB and in January 2011 proposed a common solution for impairment of financial assets in its Supplementary Document, *Accounting for Financial Instruments and Revisions to the Accounting for Derivative Instruments and Hedging Activities—Impairment*. However, the two Boards were unable to decide on a joint impairment model. In March 2013, the IASB issued an Exposure Draft, *Financial Instruments: Expected Credit Losses*, and, in July 2014, issued final guidance on impairment by adding to IFRS 9 the impairment requirements relating to financial assets and commitments to extend credit. The FASB's 2010 proposed Update, which would have required measurement of most financial assets and financial liabilities at fair value, would have affected

recognition of the credit impairment of a receivable. As discussed in paragraphs BC28 and BC29, the FASB did not finalize the amendments in the 2010 proposed Update. The FASB exposed a revised proposed Accounting Standards Update, *Financial Instruments—Credit Losses (Subtopic 825-15)*, in December 2012. The FASB is working toward issuing a final Update on measurement of credit losses in 2016.

- c. Phase 3: Hedge accounting—In December 2010, the IASB issued an Exposure Draft, *Hedge Accounting*. In September 2012, the IASB issued a review draft of Chapter 6 of IFRS 9 on general requirements for hedge accounting; it issued the final guidance in November 2013, which was incorporated in IFRS 9 in July 2014. The IASB also has a separate ongoing project related to macro hedging and issued a Discussion Paper, *Accounting for Dynamic Risk Management: a Portfolio Revaluation Approach to Macro Hedging*, in April 2014. The FASB's May 2010 proposed Update included proposed amendments to hedge accounting. In the fourth quarter of 2014, the FASB decided to consider targeted improvements to the current hedge accounting model. The FASB is working toward issuing a proposed Update on accounting for hedging activities in 2016.

## Classification and Measurement Guidance in the 2010 and the 2013 Proposed Updates

BC10. In both the 2010 and the 2013 proposed Updates (as well as in at least some aspects of present practice), how an entity measures financial instruments and where in the statement of comprehensive income changes in the fair values of financial assets subsequently measured at fair value are presented depend on how the entity classifies the instruments. Classification and subsequent measurement are inextricably linked, and subsequent measurement was a key issue in the guidance in both proposed Updates. The provisions of those proposed Updates and stakeholders' feedback on them are discussed in paragraphs BC24–BC40.

### *Measurement Attributes Considered*

BC11. Early in its deliberations that led to issuance of the 2010 proposed Update, the Board considered the following three measurement attributes:

- a. Fair value: defined as an exit price in Topic 820
- b. Another remeasurement method: referred to as current value
- c. Amortized cost.

The discussion in paragraphs BC12–BC23 describes the three measurement attributes that the Board considered and their perceived advantages and disadvantages.

## Fair value

BC12. In developing the 2010 proposed Update, the Board considered two variations of a fair value measurement basis—one in which all changes in fair value would be recognized in net income in the period in which the change occurs and one in which qualifying changes in fair value would be recognized in other comprehensive income in the period in which the change occurs. The proposed guidance included both variations as did the guidance in the 2013 proposed Update. Because the changes this Update makes to key measurement and recognition requirements are limited to equity investments an entity holds, both variations of a fair value measurement basis will continue to be used for measuring debt securities. The following paragraphs discuss the perceived advantages and disadvantages of fair value as a measurement attribute for financial instruments, regardless of how the changes in fair value during a period are reported in comprehensive income.

BC13. Supporters of fair value contend that fair value reflects the underlying economics better than amortized cost even for financial instruments for which an entity's business strategy does not involve trading or selling the financial instruments. Fair value enhances relevance and comparability and provides a better starting point for understanding and analyzing credit risks, interest rate risks, duration mismatches, sustainability of net interest margins, and liquidity risks by reflecting changes in risks in the period in which they occur and foreshadowing the opportunity gain or loss that will be realized in future earnings from holding rather than selling the financial instruments. Some view fair value as an essential tool in proper risk management of financial institutions and as an early-warning system for problems that are developing at financial institutions and across the financial system. They also consider fair value information to be useful because events and circumstances beyond management's control may create a need to sell a financial instrument. Therefore, even if management has no plans to sell the financial instrument, it may be helpful to users of financial statements to know the potential effects of those events and circumstances on net income even if management does not consider them to be probable.

BC14. Most stakeholders agree that fair value is a more relevant measure than amortized cost for financial instruments that are part of a trading portfolio or that otherwise are held for sale. Views differ, however, about using fair value for financial instruments that are held for collection or payment of contractual cash flows. For those types of financial instruments, critics of fair value (including investors, preparers, auditors, and others) argue that it does not adequately reflect the business strategy or the way in which management realizes the value of its financial assets by holding them for collection of cash flows. Critics also charge that the volatility in financial statements that results from fair value measurement of those financial instruments can be misleading. They also see issues about operability and auditability, particularly in estimating fair values for nontraded and illiquid items, and about the effects of changes in instrument-specific credit risk on

the measurement of financial liabilities. Fair value measurement has long been highly controversial, and knowledgeable people have different and strongly held views about fair value as the principal or the only measurement attribute for financial instruments.

## Current value

BC15. Because the Board's consideration of the current value measurement method was largely limited to the deliberations preceding the 2010 proposed Update, that attribute is discussed in less detail than the fair value and amortized cost measurement methods.

BC16. The current value method uses a discounted cash flows technique to calculate the present value of expected future cash flows for a financial instrument. This method approximates entry price and excludes from the measurement other sometimes unidentifiable factors, such as illiquidity risk and market factors that sometimes exist in exit prices in dislocated markets.

BC17. Paragraph 25 of FASB Concepts Statement No. 7, *Using Cash Flow Information and Present Value in Accounting Measurements*, states that the only objective of using a present value technique in accounting measurements is to estimate fair value. However, when Concepts Statement 7 was written, fair value was not defined as an exit price as it now is defined in Topic 820, Fair Value Measurement. The purpose of considering current value as a potential measurement attribute for at least some financial instruments was to determine whether present value determined by the process in that Concepts Statement would provide decision-useful information for some financial instruments in certain situations.

BC18. The majority of the input the Board received from users, preparers, auditors, and others about the potential operability and usefulness of a current value measurement method was that current value was not sufficiently defined, resulting in widespread confusion about what it was meant to represent. Overall, there was little support for its use as an alternative to either fair value or amortized cost. The Board agreed with those stakeholders that current value is not a well-developed or feasible alternative measurement attribute. Thus, the Board decided to consider only amortized cost and fair value as potential measurement attributes for financial instruments.

## Amortized cost

BC19. Under current GAAP, the primary types of financial instruments accounted for at amortized cost are loans not held for sale, other receivables, debt securities classified as held to maturity under Topic 320, Investments—Debt Securities, an entity's own issued debt, and other liabilities.

BC20. Many stakeholders favor the use of amortized cost for an instrument that an entity intends to hold and realize its benefits through collection of contractual cash flows. For those instruments, amortized cost accounting recognizes interest income as the primary earnings of the entity; it recognizes changes in fair value of an instrument in net income only when the entity realizes it. For example, an entity whose business strategy is to earn a spread on returns of financial assets and financial liabilities is concerned about maximizing the interest margin through the collection of interest income and payment of interest expense while minimizing credit losses. Realizing changes in fair value is not the goal of that business strategy.

BC21. Some stakeholders also note that an entity sometimes may be contractually prohibited from transferring a financial asset or liability, such as a note receivable, to another party at its fair value and may be restricted to realizing its benefits by collecting the contractual cash flows.

BC22. Many contend that reporting changes in fair value in the statement of comprehensive income that an entity has no intention to and may never realize is misleading. They note that using amortized cost avoids much of that reported temporary fluctuations in income.

BC23. Stakeholders who do not support measurement of financial instruments at their amortized cost summarize the primary perceived disadvantages of amortized cost as follows:

- a. Amortized cost reflects a historical transaction price that is irrelevant for current investment decisions. For example, amortized cost does not reflect current market conditions, such as interest rates and market prices. Some argue that an entity that relies entirely on amortized cost measures may not fully understand the risks inherent in its financial instruments and, therefore, may miss certain current opportunities.
- b. Under amortized cost, an entity can change its intention and recognize in net income changes in value of the financial instrument. Some view the use of amortized cost as delaying the recognition of economic gains and losses. An entity could sell assets that are performing favorably and hold underperforming assets to meet short-term market expectations.
- c. The use of amortized cost relies on complex impairment models. Estimating impairment losses and using valuation accounts are complicated and subjective and could create opportunities to smooth reported income.

- d. "Tainting" rules may be necessary if some instruments are measured at amortized cost and others are measured at fair value, with management's intentions used to determine which measurement basis should be used for a particular instrument.

### *The 2010 Proposed Update*

BC24. On May 26, 2010, the Board issued a proposed Update on accounting for financial instruments and revisions to the accounting for derivative instruments and hedging activities. That proposed Update would have established fair value as the primary measurement attribute for financial instruments. For financial instruments for which an entity's business strategy is to hold for collection or payment of contractual cash flows, the proposed Update would have required a reconciliation from amortized cost to fair value on the balance sheet. Amortized cost measurement would have been used only on an exception basis for a few financial instruments.

BC25. The Board undertook extensive outreach to obtain feedback on the guidance in that proposed Update from all stakeholders, including users, preparers, auditors, and regulators. Stakeholders provided feedback through the following channels:

- a. Public comment letters
- b. Investor questionnaires
- c. In-person meetings and conference calls with investors and other users of financial statements
- d. Field visits and conference calls with preparers
- e. Public roundtable meetings.

BC26. The comment period for the 2010 proposed Update ended on September 30, 2010. The Board received 2,814 comment letters. The investor questionnaires allowed users of financial statements to provide feedback on the guidance in the proposed Update. The Board received completed questionnaires from 28 investors. The Board and the staff also received feedback from more than 120 investors and other users of financial statements employed by more than 60 firms through in-person meetings and conference calls with individual investors and groups of investors representing a variety of perspectives.

BC27. In addition, the Board and staff completed eight field visits with various entities to discuss the operability and the benefits and costs of the guidance in the 2010 proposed Update. Field visit participants included banking institutions of various asset sizes, nonfinancial entities, and an insurance company. The Board also received feedback on the 2010 proposed Update in 5 public roundtable meetings with more than 65 participants, including users, preparers, regulators, auditors, and others representing various perspectives.

## Nature of stakeholders' feedback on the 2010 proposed Update

BC28. Few stakeholders, including users, on the 2010 proposed Update supported measurement of virtually all financial instruments at fair value. For example many stakeholders commented on the difficulty and inherent subjectivity of determining fair value for financial instruments that do not trade in active markets. In addition, many preparers as well as users of financial information were concerned that the resulting volatility in reported comprehensive income would not appropriately reflect the way in which an entity manages its financial instruments and, thus, would not be an improvement to financial reporting.

BC29. Most stakeholders who provided input favored a mixed measurement attribute model and supported retaining more extensive use of amortized cost measurement for most loans, core deposits, and most financial liabilities. The Board redeliberated the guidance in the 2010 proposed Update in light of the feedback received and developed a measurement model that would result in amortized cost measurement for some financial assets and most financial liabilities for which the 2010 proposed Update would have required fair value measurement.

## Convergence efforts to reduce key differences between the May 2010 proposed Update and IFRS 9

BC30. During its redeliberations on the guidance in the 2010 proposed Update, the FASB reached tentative decisions on most of the issues, some of which differed from the IASB's decisions on the same issues as reflected in IFRS 9. In January 2012, the FASB and the IASB discussed their respective decisions and jointly redeliberated selected aspects of the FASB's tentative decisions on their respective classification and measurement models. The Boards discussed differences between their decisions on several key issues, including, among others, the contractual cash flow characteristics of a financial instrument and the need and basis for bifurcation of financial instruments.

BC31. The Boards discussed each issue and jointly considered changes, if any, to their separate models that they would propose in any resulting Exposure Drafts. Those discussions took place in joint FASB-IASB Board meetings from February 2012 through July 2012. The Boards acknowledged the different starting points for their respective classification and measurement models. Nevertheless, they achieved better convergence on the issues included in those discussions.

## *The 2013 Proposed Update*

BC32. On February 14, 2013, the Board issued a revised proposed Update on recognition and measurement of financial assets and financial liabilities. That was followed on April 12, 2013, by proposed consequential amendments to the

Codification that would result from the February 2013 proposed Update. The comment period for both proposed Updates ended on May 15, 2013.

BC33. Similar to its efforts undertaken to obtain feedback on the guidance in the May 2010 proposed Update, the Board undertook extensive outreach to obtain feedback from all stakeholders on the guidance in the February 2013 proposed Update. The Board received 150 comment letters on the February 2013 proposed Update and 15 comment letters on the April 2013 proposed Update.<sup>1</sup> In addition, the staff and the Board conducted outreach meetings with more than 40 stakeholders, which included preparers (primarily in the financial services industry), auditors, government agencies, and users of the financial statements to seek feedback on the February 2013 proposed Update.

BC34. In general, responses from stakeholders about the guidance in the 2013 proposed Update were more favorable than responses to the 2010 proposed Update. Most respondents agreed with the overall approach in the proposed Update that would result in measuring many financial assets and most financial liabilities at amortized cost. However, many respondents noted the complexity of the proposed guidance, and some suggested changes to particular aspects. Some respondents also asked for more implementation guidance on how to apply the proposed guidance to various types of instruments.

## Key provisions of the 2013 proposed Update

BC35. The guidance in the 2013 proposed Update would have linked the measurement of an entity's financial assets to the manner in which the entity expects to benefit from the related cash flows. The measurement of financial liabilities also would have taken into account whether the entity expects to pay the contractual cash flows or to settle the liability at its fair value.

BC36. Upon recognition, an entity would have classified each financial asset into the appropriate subsequent measurement category on the basis of both of the following:

- a. The contractual cash flow characteristics of the asset
- b. The entity's business model for managing the asset.

BC37. A financial asset would have satisfied the contractual cash flow characteristics criterion if the contractual terms of the financial asset gave rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. Only a financial asset that satisfied the contractual cash flow criterion would have qualified for subsequent measurement at other than fair value.

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<sup>1</sup>Respondents to the February 2013 proposed Update also included feedback on the April 2013 proposed Update. References to the 2013 proposed Update in the remainder of this basis for conclusions include both the February 2013 and the April 2013 proposed Updates.

BC38. An entity would have classified a financial asset that met the cash flow characteristics criterion into one of the following three categories depending on how the entity manages the asset together with other financial assets within a distinct business model:

- a. The asset is held and managed within a business model that has the objective of holding the assets to collect contractual cash flows.
- b. The asset is held and managed within a business model that has the objective of both:
  1. Holding financial assets to collect contractual cash flows
  2. Selling financial assets. (That is, when it acquires and initially recognizes the asset, the entity has not yet determined whether it will hold the asset to collect contractual cash flows or sell the asset.)
- c. The asset does not qualify for either (a) or (b).

Only assets that qualified for category (a) above would have been measured at amortized cost. Assets in both category (b) and category (c) would have been measured at fair value, with the difference being where in the statement of comprehensive income changes in the asset's fair value are presented. Qualifying changes in the fair value of assets in category (b) would have been presented in other comprehensive income in the period of the change. All changes in the fair value of assets in category (c) would have been presented in net income in the period of the change.

BC39. An entity would have measured its financial liabilities at amortized cost unless the entity's business strategy at the incurrence of the liability was to subsequently transact at fair value or if the liability resulted from a short sale. An entity would have measured its nonrecourse financial liabilities on the same basis as the assets that would be used to settle them.

BC40. The proposed amendments would have eliminated the bifurcation requirements of Topic 815-15 for embedded derivatives in hybrid financial assets. However, the bifurcation requirements for embedded derivatives in hybrid financial liabilities would have been retained.

## Convergence Efforts to Reduce Key Differences between This Update and IFRS 9

BC41. In September 2013, the FASB and the IASB began joint redeliberations on the characteristics of the instrument and the business model criteria in the FASB's 2013 proposed Update and the IASB's proposed limited amendments to IFRS 9 issued in March 2013, taking into account the feedback received on those documents. After reaching tentative decisions with the IASB on how to respond to the input received on those criteria, the FASB separately considered whether to retain the two proposed criteria in the form resulting from the joint deliberations. The FASB decided not to include in this Update either the cash flow characteristics or the business model criteria either in their original form or in the form resulting

from joint deliberations with the IASB. That decision is further discussed in paragraphs BC42–BC49.

## Why Did the Board Decide Not to Adopt Key Provisions of the 2013 Proposed Update?

BC42. After considering feedback from stakeholders on the guidance in the 2013 proposed Update and potential revisions to that guidance that the two Boards jointly deliberated, the Board concluded that the proposed changes to GAAP for financial instruments would not pass a reasonable cost-benefit test. Thus, the Board decided to retain the main provisions of GAAP for financial instruments as set forth in the Codification. The following paragraphs explain the Board's main considerations in reaching that decision. Following that discussion, the reasons for the amendments in this Update on the accounting guidance for financial instruments are included.

### *Lack of a Clear Decrease in Complexity of the Guidance on Accounting for Financial Instruments*

BC43. The Board noted that the accounting guidance for subsequent measurement of financial assets in GAAP is complex and that reducing the complexity of accounting guidance on financial instruments was one objective of the project that resulted in this Update. But the Board agreed with stakeholders that the proposed guidance also was complex, and, in its redeliberations, the Board was unable to identify alternatives to the proposed criteria that would have achieved improvements in financial reporting with less complexity. The redeliberations to the 2013 proposals by both Boards would have added complexity to GAAP.

BC44. After reconsidering the proposed criteria for determining how to subsequently measure the specified categories of financial assets and the identified alternatives, the Board concluded that adopting the proposals might achieve little more than to replace the known complexity of current accounting for financial instruments with an unknown amount and type of complexity of amended guidance. Entities understand and have learned over time to deal with the complexity in current GAAP on financial instruments. The precise effect of the complexity in the proposed guidance and how entities would interpret and apply it could not be known with any certainty until entities had actually applied the new guidance in preparing their financial statements. But the comments of stakeholders and the Board's further consideration of the proposed guidance indicated that a significant amount of future standard setting likely would be needed to achieve a reasonable degree of consistent interpretation and application.

## *Lack of a Significant Increase in the Usefulness of the Financial Information Provided*

BC45. An increase in the cost of accounting for a particular type of asset or liability may well be justified by a resulting increase in the usefulness of the financial reporting information provided to investors, creditors, and others for making investment and credit decisions. However, the benefits would not have justified the costs in terms of the guidance that was included in the 2013 proposed Update. The information about financial instruments provided in an entity's financial statements in accordance with the proposed amendments would have been much the same as the information that results from applying the current guidance on accounting for financial instruments. That is, the 2013 proposed Update probably would have resulted in financial reporting for many financial instruments that was similar to those resulting from current GAAP because current GAAP largely is based on a value realization or business model concept.

## *Different Guidance for Financial Assets and Financial Liabilities*

BC46. One goal of the project that resulted in this Update was to apply the same accounting guidance for different types of financial assets, such as investments in loans, debt securities, and equity securities. The guidance in the 2013 proposed Update would have partially achieved that goal by applying the same guidance to investments in loans and debt securities, although different guidance would have applied to investments in equity securities. However, that increase in consistency of accounting guidance for financial assets would have come at the expense of a decrease in the consistency of the guidance for financial assets and financial liabilities.

BC47. The Board concluded that decreasing the complexity of the accounting guidance for financial instruments while increasing the usefulness of the financial reporting that results can only be achieved if consistent guidance is applied to both financial assets and financial liabilities. As explained in the summary of the guidance in the 2013 proposed Update (paragraphs BC35–BC40), the proposed classification criteria for determining subsequent measurement would have applied only to financial assets. Essentially the same guidance as in current GAAP would have continued to apply to financial liabilities. Moreover, as explained in paragraph BC40, the 2013 proposed Update would have eliminated for hybrid financial assets the bifurcation requirements of Subtopic 815-15, but those bifurcation requirements would have continued to apply to hybrid financial liabilities. In other words, the 2013 proposed Update would have added another inconsistency in accounting for financial assets and financial liabilities to those that already exist.

BC48. The Board considered whether the accounting for loans and securities should continue to have separate models or whether another singular approach, an alternative to the 2013 proposal, could be applied to both loans and securities. However, the Board could not reach a consensus on whether a singular approach should be based solely on a value realization concept or business model concept. In addition, the Board could not reach a consensus on what type of limitations, if any, should be placed on the transferability of loans and securities within the measurement categories.

BC49. In summary, because of the deficiencies stakeholders and the Board identified with the main aspects of the amendments in the 2013 proposed Update, the Board decided not to proceed with developing that guidance. Instead, the Board decided to retain the main recognition and measurement guidance for financial assets and financial liabilities in current GAAP.

## Basis for Conclusions

BC50. The amendments in this Update improve the recognition and measurement guidance for financial instruments. The improvements made and the reasons for them are discussed in paragraphs BC77–BC94 of this basis for conclusions. The Update also improves the presentation of financial instruments in an entity’s financial statements, together with related note disclosures, which is discussed in paragraphs BC95–BC142.

## Benefits and Costs

BC51. Paragraph OB2 of FASB Concepts Statement No. 8, *Conceptual Framework for Financial Reporting, Chapter 1, The Objective of General Purpose Financial Reporting, and Chapter 3, Qualitative Characteristics of Useful Financial Information*, states the following:

The objective of general purpose financial reporting is to provide financial information about the reporting entity that is useful to existing and potential investors, lenders, and other creditors in making decisions about providing resources to the entity. Those decisions involve buying, selling, or holding equity and debt instruments and providing or settling loans and other forms of credit. [Footnote reference omitted.]

BC52. A new standard should provide information that is useful in making business and economic decisions, and the benefits should justify the costs. Providing useful information means producing economically “neutral” information that permits users to make their own decisions based on the financial information. Neutral information faithfully reports the economics of a transaction, regardless of any perceived positive or negative effect of reporting that information.

BC53. The Board understands that cost is a pervasive constraint on the information that financial reporting can provide; the benefits of providing information that helps to achieve that objective 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 the entity and, by extension, present investors. The Board's assessment of the costs and benefits likely to result from issuing a new standard is unavoidably more qualitative than quantitative. Neither objective measurement of the costs to implement new guidance nor quantification of the value of improved information in financial statements is possible.

BC54. Throughout its deliberations that led to this Update, the Board considered whether the expected improvement in the usefulness of the information—improvements in its relevance and the extent to which it faithfully represents what it purports to represent—justifies the costs that stakeholders are likely to incur to prepare and use that information. The Board concluded that the guidance in this Update will improve financial reporting about an entity's financial assets and financial liabilities, by establishing improved accounting for equity investments held and by improving disclosures about financial instruments. This Update also improves reporting about the fair value of financial liabilities under the fair value option by reporting in other comprehensive income changes in fair value due to changes in instrument-specific credit risk. The Board also decided that the expected improvement in financial reporting will justify the expected cost. The reasons for the Board's decisions on benefits and costs, including the expected effect on the complexity of financial reporting, are discussed in the following paragraphs.

### *Gathering Information about Benefits and Costs*

BC55. The FASB's *Rules of Procedure* states the following:

The mission of the FASB is to establish and improve standards of financial accounting and reporting that foster financial reporting by nongovernmental entities that provides decision-useful information to investors and other users of financial reports.

In fulfilling that mission, the Board follows certain precepts, including issuing standards only when the expected benefits of the resulting information justify the expected costs. The Board strives to determine that a standard will fill a significant need and that the costs imposed to meet that standard, as compared with other alternatives, are justified in relation to the overall benefits of the resulting information.

BC56. As part of its due process that led to this Update, the Board conducted extensive outreach activities with investors, creditors, regulators, and other users, as well as preparers and auditors, of financial statements to obtain information about specific deficiencies in the accounting guidance for financial instruments. For example, paragraphs BC25–BC27 describe the outreach activities, including the comment letters received, on the 2010 proposed Update on the classification and measurement phase of the project. The Board and its staff conducted similar, less extensive outreach activities on the 2013 proposed Update. They decided that less extensive outreach was needed for that proposed Update, largely because the guidance in it was closer to that already in GAAP.

BC57. The Board’s outreach activities, for example, field visits with preparers of financial statements (paragraphs BC26 and BC27), also included varying amounts of discussion about the potential costs and feasibility of implementing the Board’s proposals for improving the accounting for financial instruments and using that information to make investment decisions.

### *Expected Benefits of the Amended Guidance*

BC58. The Board concluded that the following provisions will increase the decision usefulness of information provided about an entity’s exposure to financial instruments:

- a. Measure equity investments at fair value through net income, thereby eliminating the presentation of changes in the fair value of an equity investment in other comprehensive income.
- b. Measure equity investments without readily determinable fair values by recognizing in net income any observable price changes, both upward and downward, in the period in which the change occurs, increasing the frequency of remeasurement of those investments to fair value.
- c. Simplify the impairment method for equity investments without readily determinable fair values, which also provides for more timely recognition of any impairment.
- d. Present in other comprehensive income, rather than in net income, changes in the fair value of a liability that are attributable to changes in instrument-specific credit risk for liabilities for which an entity elects the fair value option.
- e. Require public business entities to report all fair value disclosures based on an exit price; eliminating the ability to use an entry price for certain fair value disclosures.

BC59. The Board concluded that the following provisions will reduce the cost and complexity in preparing information provided about an entity’s exposure to financial instruments:

- a. Exempt entities other than public business entities from the requirement to disclose fair value information about financial instruments not measured at fair value.
- b. Exempt public business entities from disclosing methods and assumptions used to estimate the fair value of financial instruments that are not measured at fair value; however, an entity is required to present either parenthetically on the face of the statement of financial position or in the notes to financial statements the fair value of those financial instruments.
- c. Clarify that an entity should assess a valuation allowance on deferred tax assets related to debt securities that are classified as available-for-sale in combination with the entity's other deferred tax assets.

BC60. The Board concluded that the amendments to GAAP in this Update will provide more decision-useful information to users of financial statements and also will result in a decrease in costs and complexity for preparers of financial statements. Below is a summary of the more significant benefits that are discussed in further detail throughout the basis for conclusions.

BC61. The Board concluded that fair value with changes in the fair value presented in net income is a more relevant measurement attribute for equity investments and, thus, a benefit for users. That is because the total realizable value of most of those investments primarily could be realized ultimately by selling the equity instruments. This contrasts with debt instruments for which value can be realized through collection of interest and principal. Preparers will experience decreased costs and complexity because the challenging impairment model for equity investments without readily determinable fair values is modified to a simpler process. In addition, reporting more timely information on the observable changes in fair value for those equity investments that were previously accounted for under the cost method will benefit both preparers and users.

BC62. Preparers and users often cite the challenges of reporting in net income the change in fair value of a liability, measured under the fair value option that is attributable to changes in instrument-specific credit risk. Preparers often have to disclose the amount of fair value change related to instrument-specific credit risk in separate investor packages, in response to the fact that users often remove those amounts from net income because, to them, the amounts do not provide decision-useful information. The amendments in this Update will end that practice because those changes in fair value will now be reported in other comprehensive income and preparers and users can assess the entity's financial performance without creating another non-GAAP reporting adjustment.

BC63. The Board concluded that both users and preparers will benefit from other changes this Update makes to the disclosure requirements in GAAP. For example, this Update eliminates for entities other than public business entities the requirement to disclose the fair values of financial assets and financial liabilities measured in the financial statements at amortized cost. Those amendments will

reduce the overall costs and complexity in the external reporting process for those entities. Most users of the financial statements of entities that are not public business entities generally should not be significantly affected by the elimination of those disclosures. The Board understands that most users of the financial statements of those entities do not use the secondary measure of financial instruments (that is, fair value) but, rather, rely on the primary measure for their analyses. If, in a particular situation, some users are interested in obtaining the secondary measure of financial instruments (that is, fair value information), they generally have greater access to the management of those entities to enable them to obtain the fair value information that they need.

BC64. Preparers of public business entities that must continue to provide the fair value disclosures that are eliminated for other entities also will experience decreased costs of their reporting process with minimal impact to users of those disclosures. More specifically, preparers no longer will have to disclose the methods and assumptions used to estimate the fair value of financial instruments that are not measured at fair value in the financial statements. However, users will continue to benefit because, in addition to disclosing the fair values of financial instruments whose primary measure is not fair value, an entity will continue to disclose the category of the fair value hierarchy within which the disclosed fair values fit. The Board understands that the fair value hierarchy information is more important to users than the more detailed information about the methods and assumptions used in estimating the disclosed fair values.

BC65. In addition, the amendments in this Update eliminate an entity's ability to estimate the disclosed fair values of financial assets and financial liabilities on the basis of entry prices, rather than exit prices, as the Board understands that some entities had done under previous GAAP. Accordingly, users of the financial statements of public business entities will now be able to review all of the entities' fair value disclosures, relying on the fact that the fair values are measured on a consistent basis.

BC66. The Board concluded that reducing the diversity in applying the deferred tax asset guidance to available-for-sale debt securities will benefit the entire reporting system because users, preparers, and auditors no longer will have comparability concerns among reporting entities.

### *Expected Costs of Implementation, Including Effects on Complexity*

BC67. The Board expects that the direct costs of applying the amendments in this Update are likely to be minimal and may even decrease for certain entities. For example, the guidance in this Update does not change GAAP for most classification and measurement decisions, such as initial and subsequent measurement of loans, debt securities, and financial liabilities. Thus, most entities likely will need to make few, if any, system changes in preparing to comply with

the amendments at their effective date. Most of the changes in this Update require the same information, but some changes will revise the geography of that information on the financial statements. For example, all changes in the fair value of equity securities will be included in net income, rather than some (on securities classified as trading) in net income and others (on securities classified as available for sale) in other comprehensive income. That change in geography will require a change in the system for preparing the financial statements but will not change the underlying accounting system for recording an entity's transactions and other events that affect the entity's financial instruments. Many entities will incur initial costs to educate employees about how to comply with the new requirement for investments in equity securities, as well as to explain the effects of that change on an entity's financial statements to analysts who follow the entity and other users of its financial statements.

BC68. For most entities, the Board expects that the ongoing costs of compliance are unlikely to be higher than the costs of complying with the guidance that existed before the issuance of this Update. As noted earlier, many of the changes to the disclosures will result in either their elimination or a reduction in requirements, which should result in a decrease of costs to preparers. However, public business entities will continue to be required to disclose all fair values using an exit price, thereby eliminating the ability to use an entry price for certain fair value disclosures. The Board understands there is diversity among reporting entities on whether the exit price or entry price is used. Reporting entities that use an entry price will incur additional costs to their reporting systems, but the benefits of using an exit price consistently in the fair value disclosure requirements, which will reduce the lack of comparability among reporting entities, justify the costs.

BC69. Financial reporting complexity also contributes to the cost to prepare, audit, and use financial reporting information. Throughout its deliberations, the Board considered the potential effects on complexity in financial reporting about financial instruments. In addition, after reaching tentative decisions on all of those issues, the Board and its staff conducted an analysis of the cumulative effect of the resulting guidance on the complexity of financial reporting about financial instruments. The Board discussed that analysis in a public Board meeting before issuing this Update.

BC70. The Board's view of how the guidance in this Update would affect the complexity of financial reporting is discussed in the following paragraphs in the context of the specific features of accounting guidance that often result in complexity.

## Different accounting for economically similar transactions or events

BC71. The amendments in this Update continue the use of a mixed-attribute measurement model for financial assets and financial liabilities. As explained primarily in paragraphs BC28–BC29, the main reason for the continuance of a mixed-attribute measurement model is the Board’s agreement with users and other stakeholders who noted in their feedback on the 2010 proposed Update that amortized cost would provide more relevant information about some financial instruments, while fair value would provide more relevant information about others. Some users stated that they need both amortized cost and fair value information, especially for loans. But they generally favored amortized cost as the primary attribute, used in the financial statements, with fair value information disclosed in the notes. Reactions from stakeholders to the guidance in the 2013 proposed Update, which also would have continued use of a mixed-attribute model, albeit different in some aspects from the model in GAAP, reinforced the Board’s views about the appropriateness of a mixed-attribute measurement model for financial instruments.

## Excessive or overly prescriptive presentation or disclosure requirements

BC72. The amendments in this Update require an entity to disclose on the balance sheet or in the notes to the financial statements all financial assets and financial liabilities grouped by measurement category and form of financial asset (that is, securities and loans, including other receivables). For example, financial assets measured at fair value through net income are presented separately from assets measured at fair value through other comprehensive income.

BC73. The Board also sought to reduce the complexity and costs for public business entities that are required to disclose information about fair values of instruments measured at amortized cost. An entity is required to disclose only the level of the fair value hierarchy within which the fair value information falls. The Board acknowledges that not all of its decisions may reduce costs. For example, requiring all fair values to be disclosed using an exit price may require some public business entities that were previously using an entry price to incur costs for adopting the amendments in this Update. However, the Board believes the improvement in comparability of this information justifies those costs.

## Differential reporting for entities that are not public business entities

BC74. Different reporting requirements for entities that are not public business entities compared with the reporting requirements for public business entities sometimes are necessary to reduce the cost of application because of the perceived benefits of the reported information. Although those differences

potentially benefit users, preparers, or both, they also can increase the cost of application if they make the overall guidance more difficult to understand.

BC75. As mentioned in paragraph BC63, the amendments in this Update result in different guidance for entities that are not public business entities because the requirement to disclose the fair values of financial instruments measured at amortized cost applies only to public business entities. The Board concluded that the differential requirement for fair value disclosures is appropriate for the reasons related to the general needs of users of the financial statements of entities other than public business entities, as discussed in paragraph BC63. That differential reporting requirement will decrease the costs and complexity of financial reporting by entities that are not public business entities. The Board recognizes, however, that not requiring an entity other than a public business entity to disclose the fair values of its financial instruments measured at amortized cost (as well as other differential reporting requirements in GAAP) may increase users' costs of understanding and analyzing the financial statements. As mentioned in paragraph BC63, however, users of the financial statements of entities that are not public business entities often have sufficient access to the management of such an entity to allow them to obtain desired information that is not required by GAAP.

## Differences between GAAP and IFRS

BC76. Because the Board decided to retain the main provisions of GAAP, the amendments in this Update do not reduce differences between GAAP and IFRS. The provisions of IFRS 9, even after the IASB's limited amendments to it in 2014, are closer to the guidance in the FASB's 2013 proposed Update than to GAAP. The discussion in paragraphs BC42–BC49 explains why the FASB decided not to proceed with amending GAAP as proposed in the 2013 proposed Update. In summary, the Board concluded that proceeding with the 2013 proposed changes would have resulted in accounting requirements for financial instruments that would have been more complex and, thus, more costly to apply than the provisions of GAAP, without a corresponding increase in the usefulness of the resulting information. The Board concluded that leaving the existing differences between GAAP and IFRS in place is necessary to avoid increasing the complexity of GAAP.

## Improvements to Recognition and Measurement Guidance

### *Investments in Equity Securities*

BC77. The amendments in this Update require that an entity measure investments in equity securities, at fair value, with changes in fair value included in net income in the period of the change except for those in consolidated subsidiaries and those that qualify for use of the equity method of accounting.

BC78. The guidance on accounting for investments in equity securities in the 2013 proposed Update was the same as in this Update. In proposing accounting for investments in equity securities, the Board noted that an entity classifies debt securities as available for sale if it may sell the debt securities before their maturity but also may hold the debt securities to their maturity. Equity securities have no maturity, and the primary way to realize their total value (beyond periodic dividends) is to sell them, although, as explained in paragraph BC81, some entities may be able to realize value from certain strategic investments that do not qualify for the equity method of accounting by means other than selling them or collecting dividends.

BC79. In commenting on the proposed guidance on investments in equity securities in the 2013 proposed Update, many stakeholders favored allowing an entity's investment strategy and its plan on how to realize value from an equity security to determine whether the changes in the fair value of the investment should be presented in net income or in other comprehensive income.

BC80. Stakeholders' suggestions differed on exactly which types of investments in equity securities should qualify for reporting fair value changes in other comprehensive income. Some asked that an exception for reporting value changes in net income be made for particular types of equity securities, and others would provide an exception for entities in particular industries.

BC81. Some stakeholders favored an exception to report in other comprehensive income the changes in the fair value of what they termed *strategic investments*. *Strategic investments* is a relatively broad term that describes investments in equity securities that the reporting entity holds primarily for reasons other than to realize short-term gains from changes in the fair value of the investment. For example, an entity may hold some equity investments for long-term investment purposes or to maintain or enhance the investor's relationship with the investee. Some stakeholders argued that reporting changes in the fair value of those strategic investments in net income does not reflect their intended timing or means of realizing the fair value of those investments.

BC82. The Board concluded that providing an exception from reporting in net income the changes in fair value of strategic investments or some other class of investment would have added complexity to the accounting requirements. In reaching that conclusion, the FASB noted that as part of the IASB's deliberations that resulted in IFRS 9, the IASB also considered developing a principle to identify a class of investments in equity securities for which changes in fair value should be reported in other comprehensive income rather than in net income (profit or loss, in the IASB's terminology). In particular, the IASB considered developing a definition of *strategic investment*, perhaps supported by a list of indicators. The IASB decided that it would be difficult, if not impossible, to develop a robust principle that would clearly identify investments in equity securities that are different enough from other investments to justify a different means of reporting changes in their fair values. The IASB also noted that a list of indicators to support

a principle could not be sufficiently comprehensive to deal with all possible situations and factors. When those lists of indicators were tried in the past, they were rule-based, rather than principle-based, approaches even though they initially may have been intended as aides to implementing a principle-based standard. Therefore, the IASB concluded that such an approach would add complexity to financial reporting without necessarily increasing the usefulness of information to users of financial statements. The FASB agreed with that conclusion.

### *Fair Value Measurement for Investments in Equity Securities without Readily Determinable Fair Values*

BC83. Under previous GAAP, an investment in equity securities that did not have a readily determinable fair value and that was not accounted for by the equity method was measured at cost, less any impairment that was determined to be other than temporary. The 2013 proposed Update would have required an entity to measure that equity investment at its cost minus impairment, if any, plus or minus changes resulting from observable price increases or decreases in orderly transactions for the identical investment or a similar investment of the same issuer.

BC84. Most stakeholders who commented on this issue agreed with providing relief for investments without readily determinable fair values by requiring those investments to be measured at the observable price. Most also agreed with the proposed method because it would reduce the complexity, would increase operability, and would be an improvement over the cost method. Stakeholders' views were mixed, however, on the details of the proposed changes to recognizing and measuring impairment of equity securities without readily determinable fair values.

### *Impairment of Equity Securities without Readily Determinable Fair Values and Equity Method Investments*

BC85. Previous GAAP required cost method investments to be assessed for impairment on the basis of whether the carrying amount is higher than the fair value of the investment. However, impairment is not recognized unless it is determined to be other than temporary even if the carrying amount is higher. Thus, deciding whether to recognize impairment and, if so, how much impairment to recognize is a two-step process.

BC86. The 2013 proposed Update would have replaced that two-step test for recognizing impairment of investments in equity securities that do not have readily determinable fair values with a one-step test. The investing entity would first consider impairment indicators to determine if it is more likely than not that the fair value of the investment is less than its carrying amount. If so, an entity would recognize an impairment loss equal to the difference between fair value and

carrying amount. That is, the entity also would not assess whether the impairment is other than temporary.

BC87. The 2013 proposed Update would have changed various aspects of application of accounting for an investment in equity securities by the equity method of accounting. For example, the one-step impairment test in that proposed Update would have applied to investments accounted for by the equity method. In light of the decision to retain main aspects of GAAP on accounting for financial instruments, the Board decided not to adopt the proposed changes to the equity method of accounting, including the impairment test applied to an equity method investment. Thus, GAAP as set forth in Topic 323, Investments—Equity Method and Joint Ventures, continues to apply to investments accounted for by the equity method.

BC88. Stakeholders' views were mixed on the impairment test for investments in equity securities without readily determinable fair values. Some agreed with the discussion in the basis for conclusions of the 2013 proposed Update that the one-step method would reduce subjectivity and improve comparability and representational faithfulness of financial statements, while reducing the burden on preparers by eliminating the need to forecast whether equities will recover value. It also would help avoid debates between auditors and preparers about what constitutes evidentiary documentation about what might happen in the future. Others favored retaining the two-step model in present practice, noting that the one-step method would require an entity to determine fair value if an investment was impaired and, thus, would retain some of the complexity of the two-step model. Some also stated that future reversals of impairment losses should be permitted if the one-step method were required.

BC89. The Board decided to retain in this Update the one-step test in the 2013 proposed Update for recognizing impairment of equity securities without readily determinable fair values. The Board continues to consider the one-step method to be simpler and likely to result in more decision-useful information for users of financial statements than the current two-step method. The Board also notes that the one-step method permits subsequent reversals of impairment losses in certain situations. The method of determining the carrying amount of an investment in equity securities without readily determinable fair values includes observable price increases. Thus, if the price of an equity security without a readily determinable fair value (or a similar security of the same issuer) increases, the entity in effect would "reverse" the previously recognized impairment to the extent of the subsequent observable price increase.

### *Deferred Tax Assets*

BC90. The amendments in this Update require an entity to evaluate the need for a valuation allowance for a deferred tax asset related to the change in fair value (unrealized losses) of debt instruments recognized in other comprehensive income in combination with the entity's other deferred tax assets. That method of

evaluating the need for a valuation allowance for a deferred tax asset related to unrealized losses on debt securities recognized in other comprehensive income is the same as in the 2010 proposed Update. For ease of discussion, the remainder of this discussion refers to that method as the “2010 Approach.”

## Guidance in the 2013 proposed Update on determining the need for a valuation allowance on a deferred tax asset

BC91. Feedback on the guidance in the 2010 proposed Update on determining the need for a valuation allowance on unrealized losses on debt securities recognized in other comprehensive income was largely negative, with only a few respondents supporting the approach. The guidance in the 2013 proposed Update, in contrast, would have required an entity to evaluate the need for a valuation allowance for a deferred tax asset related to unrealized losses on debt instruments recognized in other comprehensive income separately from other deferred tax assets, which might have resulted in providing no valuation allowance. The Board decided that a valuation allowance may be unnecessary because a deferred tax asset related to those unrealized losses results from the interaction of Topic 740, Income Taxes, and Topic 320 and, therefore, is unique. The proposed guidance acknowledged that this issue is a special case stemming from the interaction of accounting requirements and that the unrealized losses on debt instruments recognized in other comprehensive income are unrelated to other items that give rise to deferred tax assets. Therefore, the need for a valuation allowance should be evaluated separately. For ease of discussion, the remainder of this discussion refers to that method of determining the need for a valuation allowance on deferred tax assets recognized in other comprehensive income as the “2013 Approach.”

## Feedback on the 2013 proposed Update and the IFRS guidance on this issue

BC92. Stakeholders who commented on this issue in the 2013 proposed Update were evenly divided, with some supporting the 2010 Approach and others supporting the 2013 Approach. The Board understands that both the 2010 Approach and the 2013 Approach are applied in practice.

BC93. The Board also considered the guidance in IFRS on this issue. Under IAS 12, *Income Taxes*, the guidance for deferred tax assets and liabilities is largely similar to GAAP. The IFRS Interpretations Committee (IFRIC) considered the issue of how to determine the need for a valuation allowance for unrealized losses on debt instruments measured at fair value. The IFRIC decided that an entity should assess the utilization of a deductible temporary difference related to unrealized losses on debt instruments measured at fair value in combination with other deductible temporary differences.

## Guidance in this Update

BC94. The Board decided to require the 2010 Approach, under which the deferred tax asset related to decreases in the fair value of an available-for-sale debt security is considered to be similar to all other deferred tax assets and should be evaluated in combination with them. The Board sees no conceptual basis for segregating deferred tax assets relating to fair value changes of available-for-sale debt securities without also segregating other individual deferred tax assets. In addition, the Board concluded that the 2013 Approach ultimately would support not recognizing deferred tax assets or deferred tax liabilities for items that may not have an effect on future taxable income. That result is in direct conflict with the concepts of Topic 740 that are based on a balance sheet approach to determining deferred tax assets or deferred tax liabilities. Accordingly, the Board concluded that the need for a valuation allowance for a deferred tax asset relating to available-for-sale debt securities should be evaluated *in combination* with an entity's other deferred tax assets.

## Improvements to Presentation and Disclosure Guidance

BC95. The amendments in both the 2010 and the 2013 proposed Updates would have changed the guidance in GAAP on how to present information about financial instruments in an entity's financial statements. The proposed guidance on presentation was closely related to the information about financial instruments that would have resulted from applying the recognition and measurement guidance in each proposed Update. Detailed discussion of the proposed guidance on financial statement presentation and note disclosures about financial instruments are included in the basis for conclusions for each proposed Update.

BC96. Because the amendments in this Update make fewer changes to current recognition and measurement guidance than either proposed Update would have, they also make fewer revisions to current presentation and disclosure guidance. The improvements that the amendments make to presentation and disclosure guidance in GAAP are discussed in paragraphs BC97–BC142.

### *Grouping of Financial Assets and Financial Liabilities by Measurement Category and Form of Financial Asset*

BC97. GAAP provides guidance on presenting financial assets and financial liabilities on the face of the statement of financial position. For example, loans or trade receivables may be presented as aggregate amounts on the statement of financial position, but receivables held for sale must be presented separately. Disaggregated information about major categories of loans or trade receivables must be provided either on the face of the statement of financial position or in the notes to financial statements. The Board decided not to change GAAP's

requirements for presenting information about financial assets and financial liabilities on the face of the statement of financial position.

BC98. The 2013 proposed Update would have required a reporting entity to group financial assets and financial liabilities by measurement category on the face of the statement of financial position. Many stakeholders who commented on this issue generally agreed that such disaggregated information by measurement category would provide useful information. But some preparers of financial statements objected to providing that information on the face of the statement of financial position, instead favoring presenting that information in the notes to financial statements. They said that the proposed level of disaggregation might make it more difficult for users of financial statements to extract and understand the information they need and to compare related information across entities.

BC99. In reconsidering the presentation guidance in the 2013 proposed Update, the Board concluded that providing information about financial assets and financial liabilities grouped by measurement category in the notes would provide users with the information they need. Presentation in the notes might make it easier to develop a straightforward and eventually more comparable format for that information. Accordingly, the Board concluded that a reporting entity may provide disaggregated information about financial assets and financial liabilities by measurement category in the notes to the statement of financial position rather than on the face of that statement. In addition, the Board concluded that because the amendments in this Update retain current accounting based on the form of financial assets (that is, loans and receivables versus securities), a reporting entity should further disaggregate the information about the financial assets by class of the asset either in the balance sheet or in the notes to financial statements.

### *Effect of Changes in Instrument-Specific Credit Risk on Changes in the Fair Value of an Entity's Liabilities*

BC100. A significant concern about measuring financial liabilities at fair value that stakeholders raised throughout the project relates to changes in fair value that are attributable to changes in instrument-specific credit risk. If those changes are reflected in the fair value of a financial liability, an entity reports a gain from an increase in credit risk and a loss for a decrease in credit risk related to the underlying instrument. Many stakeholders consider recognizing a gain due to a decrease in credit standing to be potentially misleading because an entity often lacks the ability to realize those gains. Many also do not consider it useful to recognize a loss as credit standing increases.

BC101. The amendments in both the 2010 and the 2013 proposed Updates would have required an entity to separately present on the face of the statement of comprehensive income significant changes in the fair value of financial liabilities that are attributable to changes in instrument-specific credit risk. However, that

proposed guidance would not have applied to derivative liabilities, which an entity often can settle at their fair values before maturity of the contract.

BC102. The amendments in the two proposed Updates differed in how to measure the instrument-specific credit risk. The amendments in the 2010 proposed Update would have excluded changes in the price of credit from the separately presented changes in instrument-specific credit risk. That proposed requirement reflected the Board's view that the change in fair value attributable to the change in an entity's credit spread does not accurately reflect the change in an entity's own credit standing. The change in an entity's credit spread also measures the change in the price of credit, which affects not just the reporting entity but also other entities in the industry and the economy. The Board understands that, in practice, changes in instrument-specific credit risk generally are determined on the basis of changes in a reporting entity's own credit spreads or credit default swap spreads but that the method may vary depending on the nature of the liability. The amendments in the 2010 proposed Update did not provide guidance for determining the amount to be separately presented, but an appendix illustrated two possible methods.

BC103. The feedback from preparers and auditors who commented on the application of the 2010 proposed Update was nearly uniform in suggesting that all changes in the fair value of derivative liabilities, as well as liabilities that are traded, should be recognized in net income.

BC104. Preparers and auditors overwhelmingly opposed the proposal to separate the total change in the fair value of a liability attributable to changes in instrument-specific credit risk into two components: changes attributable to the entity's own nonperformance risk and changes due to other credit risks, such as changes in the price of credit. Although many preparers and auditors agreed with separately presenting the change in the fair value of a liability that is attributable to changes in the entity's credit standing, they said that bifurcating that change into components would be costly, complex, and arbitrary.

BC105. Most users of financial information who commented on the issue supported separate presentation of changes in fair value attributable to changes in an entity's credit standing, but most did not indicate that separating that amount further into changes in nonperformance risk and other credit market risks, such as changes in the price of credit, would be particularly useful.

### Guidance in the 2013 proposed Update on measuring and presenting the change in the fair value attributable to instrument-specific credit risk

BC106. Noting stakeholders' concerns, the Board decided in developing the 2013 proposed Update to require that changes in instrument-specific credit risk for financial liabilities for which a fair value option has been elected be separately

presented in other comprehensive income. The Board observed that because those liabilities typically are settled with the creditor rather than through a transfer or settlement with a third party, changes in the fair value attributable to changes in the instrument-specific credit risk usually are not realized. In addition, the Board proposed that the gain or loss recognized in accumulated comprehensive income be reclassified to earnings upon the settlement of the liability.

BC107. In light of stakeholders' feedback on the 2010 proposed Update about the computational difficulties of bifurcating the change in credit risk into two components, the Board also decided to propose that the entire risk in excess of the base market risk (for example, a risk-free interest rate) could be considered to be the instrument-specific credit risk. However, an entity may use an alternative method that results in a more faithful measurement of the fair value change attributable to changes in instrument-specific credit risk. Those presentation requirements are similar to the requirements in IFRS 9, although certain differences exist. For example, under IFRS 9 an entity is prohibited from reclassifying changes in fair value attributable to instrument-specific credit risk presented in other comprehensive income to net income upon the settlement of the liability. In addition, IFRS 9 requires changes in instrument-specific credit risk to be presented in net income if recognizing those changes in other comprehensive income exacerbates a measurement or recognition inconsistency involving related financial assets and financial liabilities (sometimes referred to as an "accounting mismatch") that otherwise would arise from measuring assets or liabilities or recognizing the gains and losses on them on different bases.

BC108. Feedback from stakeholders' on this issue in the 2013 proposed Update, including several users, strongly supported the requirement for an entity to separately present changes in fair value attributable to changes in instrument-specific credit risk in other comprehensive income for financial liabilities for which the entity has elected the fair value option. Respondents noted that this requirement would help to resolve concerns about how unrealized gains and losses attributable to changes in a liability's credit risk for financial liabilities measured at fair value under the fair value option should be considered in evaluating an entity's financial performance.

BC109. Some stakeholders, however, said that the presentation requirement for instrument-specific credit risk should apply to all financial liabilities measured at fair value with changes in fair value included in net income instruments, such as freestanding derivatives, and embedded derivative features in hybrid liabilities separated from the host contract under Subtopic 815-15.

## Guidance in this Update on instrument-specific credit risk

BC110. The Board decided to include in this Update the same guidance on instrument-specific credit risk that was in the 2013 proposed Update. In reaching that conclusion, the Board noted that stakeholders generally agreed with that

guidance. In addition, the few stakeholders who disagreed with that guidance wanted to extend its applicability rather than to eliminate it or to change the details of the proposed method.

BC111. The Board also decided to apply the guidance on instrument-specific credit risk only to liabilities measured at fair value in accordance with the fair value option rather than to extend it to derivatives or similar liabilities. The Board found both of the following considerations significant in reaching that decision:

- a. A derivative financial instrument may be either a liability or an asset depending on the nature of the contract (for example, if the derivative is a futures or forward contract rather than an option held or written) and the direction of the price changes on the underlying since inception of the contract. Different presentation requirements for the same contract depending on whether it is a liability or an asset to the reporting entity at the reporting date would be awkward and potentially confusing.
- b. The general inability of a borrower to settle a liability at fair value before its maturity is an important part of the rationale for presenting instrument-specific credit risk separately. That rationale does not apply to many derivative liabilities, which often can be repaid before maturity for their fair value at the date of settlement.

BC112. In summary, the Board sought to replace the guidance that requires disclosing changes in instrument-specific credit risk with presenting those same amounts in other comprehensive income. The Board did not intend to change how entities were identifying and measuring the changes in instrument-specific credit risk that was being disclosed under the requirements of previous GAAP. Therefore, the Board did not change the terminology from previous GAAP. The Board understands that entities did not disclose changes in instrument-specific credit risk for nonrecourse liabilities. Given those disclosure practices, the Board decided to include guidance in paragraph 825-10-45-7 to resolve stakeholders' concerns that the Board's decision on measuring financial liabilities of consolidated collateralized financing entities in accordance with paragraphs 810-10-30-10 through 30-15 and 810-10-35-6 through 35-8 should not be included in the scope of the presentation requirement for instrument-specific credit risk.

### *Fair Value of Financial Instruments Measured at Amortized Cost in the Financial Statements*

BC113. Topic 825 (before the issuance of this Update) required an entity to disclose the fair value of financial instruments either on the face of the statement of financial position or in the notes if it is practicable to estimate that value. Topic 825 specified that *practicable* means that an estimate of fair value can be made without incurring excessive costs. The Board understands that few entities apply the practicability exception because they are unable to provide sufficient documentation to justify that it is impracticable to estimate fair value, although

some entities that are not public business entities use that exception for highly illiquid financial instruments and investments in related parties because of the lack of observable market information.

BC114. The Board also understands that entities use different methods to estimate the fair values of loans, fixed-maturity deposits, and long-term debt for disclosure purposes. Some use an entry price calculation to estimate the fair value of their loan portfolio, while others estimate the fair value of their loans using the exit price guidance in Topic 820.

## Fair value disclosures in the 2010 proposed Update

BC115. Whether to require presentation of fair value on the face of the statement of financial position was not a significant issue in the 2010 proposed Update because the proposal would have required most financial assets to be measured at fair value. Measurement of financial assets at amortized cost would have been permitted only in limited circumstances. For example, an entity could have elected to measure financial assets that qualified for the fair-value-through-other-comprehensive-income category at amortized cost if fair value measurement would have exacerbated a measurement attribute mismatch between recognized assets and liabilities. For financial liabilities that an entity elected to measure at amortized cost, the guidance in the proposed Update would have required fair value to be disclosed in the notes to financial statements.

## Feedback received on the fair value disclosures in the 2010 proposed Update

BC116. Many users of financial information who provided feedback on the 2010 proposed Update noted that information about fair value is useful and should be provided in the financial statements even if the primary measurement attribute is amortized cost. Most users who supported disclosure of supplemental fair value information for financial instruments measured at amortized cost preferred that fair value be presented in the notes to financial statements. Many of those users stated that presenting fair value on the face of the statement of financial position might be confusing; they noted that fair value is not consistent with an entity's business strategy for financial instruments held for collection or payment of cash flows.

BC117. Other users who provided feedback on the 2010 proposed Update preferred fair value be presented on the face of the statement of financial position, in part because they noted that requiring presentation of fair value on the face of the financial statement would increase preparer rigor in determining fair value as well as the auditor's attention to it.

BC118. Most investors and others who use the fair values disclosed today do so to better understand differences in the market's assessment of credit and also to better understand the realizable value if liquidity is an issue or if they expect that

liquidity may become an issue in the near future. They also compare reported fair value amounts to reported amortized cost amounts across entities in an industry. However, users said that the usefulness of the fair values disclosed today is impaired by the different methods of determining the fair values of loans. As discussed in paragraph BC114, some entities report as fair value an entry price as permitted by the guidance in FASB Statement No. 107, *Disclosures about Fair Value of Financial Instruments*, now codified in Subtopic 825-10, while others report an exit price as defined by Topic 820. Users also said that the fair value amounts are not sufficiently disaggregated by class of instrument. Users said that consistent measurement and greater disaggregation would improve significantly the usefulness of the fair value information and thereby improve the decision usefulness of the financial statements. The guidance on fair value disclosures reflecting the Board's decisions reached after considering the feedback from users and others on guidance in the 2013 proposed Update is discussed in paragraphs BC127–BC141.

BC119. Most stakeholders other than users who commented on the 2010 proposed Update supported a mixed-attribute model; they did not consider fair value and amortized cost to be equally relevant. Those stakeholders supported displaying only the primary measurement attribute on the face of the statement of financial position. They generally said that presenting another measurement attribute on the face of that financial statement would be confusing and misleading for users of financial statements and could lead to questions about which measurement attribute is most appropriate.

BC120. Stakeholders other than users generally acknowledged that users request fair value information for financial instruments held for collection or payment of contractual cash flows. Most of those stakeholders stated that if fair value information is to be provided, it should be presented in the notes to financial statements. Some suggested that fair value information disclosed in the notes should be disaggregated by class of financial instrument.

## Guidance in the 2013 proposed Update on fair value disclosures

BC121. The guidance in the 2013 proposed Update would have added an amortized cost category to the two fair value categories in the 2010 proposed Update and, thus, would have significantly expanded the number and type of financial instruments measured at amortized cost. Thus, the Board considered whether to require entities to present the fair value of some or all financial instruments measured at amortized cost on the face of the statement of financial position. The Board considered that issue separately for public business entities and entities that are not public business entities. Paragraphs BC132–BC136 discuss the reasons for different fair value disclosure requirements for public business entities and entities that are not public business entities.

BC122. In developing the 2013 proposed Update, the Board decided that a public business entity should present the fair values of financial instruments measured at amortized cost parenthetically on the face of the statement of financial position. In reaching that decision, the Board weighed the need for both increased prominence of the fair value information and additional rigor in its development against some stakeholders' views that presenting an alternative measure of financial instruments on the face of the statement of financial position might confuse users.

BC123. In the basis for conclusions of the 2013 proposed Update, the Board acknowledged some users' concerns that fair value information presented in the notes may not be prepared with the same rigor as information presented with more prominence. Regardless of the extent to which those concerns are valid, the Board decided at that time that increasing the prominence of the fair value information seemed to be a valid way of attempting to increase the care with which the information is developed, particularly if that also helps to achieve other goals. For example, presenting the fair values of financial instruments on the face of the statement of financial position would make it easier for a user to find and use fair values, facilitating a user's comparison and analysis of the fair values of financial instruments with other information about those instruments, including their amortized costs.

BC124. The Board also concluded that concerns about any potential confusion resulting from including an alternative measure of financial instruments on the face of the statement of financial position can be dealt with by straightforward presentations that clearly label all information presented.

BC125. Some stakeholders who supported presenting the fair value of financial assets measured at amortized cost on the statement of financial position did not hold the same view for financial liabilities. They noted that an entity ordinarily cannot realize changes in the fair values of its financial liabilities that are measured at amortized cost because those liabilities generally are settled at par.

BC126. In developing both the 2013 proposed Update and this Update, the Board decided that fair value information is important even for liabilities that will be settled at par because fair value provides information that is helpful in evaluating the overall risk and leverage position of the entity. Net interest rate risk and net credit risk exposure cannot be fully portrayed without fair value information for both assets and liabilities, regardless of whether the liabilities can be effectively settled in the market at fair value. More broadly, assets and liabilities are always interrelated; an entity's assets often depend on corresponding liability funding, without which the assets would not be available to the entity. Accordingly, users of financial statements need consistent information for both assets and liabilities.

## Guidance in this Update on fair value disclosures

BC127. The amendments in this Update also require a public business entity to disclose the fair values of its financial assets and financial liabilities that are measured at amortized cost in the financial statements. Other amendments in this Update, some of which are the same as in the proposed 2013 Update, are discussed in paragraphs BC128–BC142.

### *Note disclosure permitted*

BC128. The amendments in this Update retain the guidance in GAAP that permits a reporting entity to choose whether to present the fair values of financial assets and financial liabilities measured at amortized cost parenthetically on the face of the statement of financial position or in the notes to financial statements. The Board continues to consider it possible to provide that information parenthetically on the face of the financial statements without confusing readers, as discussed in paragraphs BC122 and BC124. However, the Board concluded that the location of the information does not determine its decision usefulness. The Board also concluded that allowing presentation either on the face of the statement of financial position or in the notes is more consistent with other provisions of this Update that retain current guidance in GAAP.

### *Emphasis on exit prices and no practicability exception*

BC129. As mentioned in paragraph BC65, some entities currently use entry prices to measure fair value of loans that do not have market prices because the existing disclosure requirements in Subtopic 825-10 continue to permit use of an entry price. At the time that the Board issued Statement 107, which is codified in Subtopic 825-10, the fair value measurement framework in Topic 820 did not exist. Other entities measure fair value in accordance with the exit price notion in Topic 820. The amendments in this Update change the requirements to emphasize that entities are to measure fair value in accordance with Topic 820. The 2013 proposed Update contained the same emphasis on exit prices.

BC130. The Board recognizes that the requirement to use exit prices in developing the fair values of loans, that is, eliminating the permission in GAAP to use entry prices, likely will increase the costs of developing the fair value disclosures for entities that have been using entry prices for that purpose. However, an increase in the cost to some (or all) entities of complying with a financial reporting requirement may be justified by an increase in the decision usefulness of the related information. As noted in paragraph BC118, users told the Board that the decision usefulness of the fair values presently disclosed is impaired by the different methods of determining the fair values of loans, that is, some are based on entry prices while others are based on exit prices. The Board decided that the potential increase in the costs to some entities of developing estimates of

the fair values of financial assets for which observable market prices are not available (primarily loans and trade receivables that are not excluded because their term exceeds one year) is justified by the resulting increase in the decision usefulness of the fair value information provided. The Board also notes that the cost increase will affect only a subset of reporting entities—those that have taken advantage of the provision in current GAAP to use entry prices. Many entities already use exit prices to develop the fair values of loans (and trade receivables to which the fair value disclosure provision applies). Those entities should not experience a cost increase from the requirement to use exit prices in accordance with the provisions of Topic 820.

BC131. Also, unlike the fair value disclosure requirements that existed in previous GAAP, the amendments in this Update, like the amendments in the 2013 proposed Update, do not provide an overriding practicability exception on the basis of presumed excessive costs of developing fair value information. However, also like the amendments in the 2013 proposed Update, this Update excludes receivables and payables due in one year or less from the requirement to disclose fair value. Because the amortized cost of a receivable or a payable due in so short a time should approximate fair value, the Board concluded that requiring disclosure of their fair value rarely provides information of sufficient benefit to justify the cost of developing it.

### *Exemption for entities that are not public business entities*

BC132. Most of the users of financial statements of entities that are not public business entities, who provided feedback on whether those entities should be required to disclose the fair values of financial instruments measured at amortized cost, including regulators of financial institutions, noted that they do not use that fair value information in their primary analyses of entities. However, some users of financial statements of those entities indicated that they compare the fair values to amortized cost and analyse the differences.

BC133. The majority of preparers and auditors of entities that are not public business entities stated that presentation of the fair values of financial instruments is not cost beneficial because of the usual lack of observable market data. Determining fair value may require the use of extensive modeling with unobservable inputs, which may be costly to obtain and may result in overly subjective and unreliable valuations. Preparing fair value estimates often requires a significant amount of management judgment and knowledge, which may create particular difficulties for entities with relatively few employees.

BC134. In developing the 2013 proposed Update, the Board considered several alternatives for exempting some or all entities that are not public business entities from presenting and disclosing the fair values of financial instruments measured at amortized cost, ranging from exempting all entities that are not public business entities to exempting none.

BC135. The Board also considered information obtained during development of its Invitation to Comment, *Private Company Decision-Making Framework—A Framework for Evaluating Financial Accounting and Reporting Guidance for Private Companies*, which was issued for comment on July 31, 2012. On December 23, 2013, the Board and the Private Company Council issued its *Private Company Decision-Making Framework: A Guide for Evaluating Financial Accounting and Reporting for Private Companies*.

BC136. Both the Invitation to Comment and the Private Company Decision-Making Framework discuss how and why the needs of users of private company financial statements differ from the needs of users of public company financial statements and how the cost-benefit considerations of financial reporting vary between private and public companies. The Board understands that fewer users of financial statements of entities that are not public business entities consider fair value information to be significant in their analyses. Users of financial statements of entities that are not public business entities usually have more access to an entity's management than users of public business entities' financial statements. Accordingly, users who want information about the fair values of an entity's financial instruments likely can ask management for the fair value (or for information needed to develop their own estimates of fair value).

### *Exemption for demand deposit liabilities*

BC137. The 2013 proposed Update would have exempt demand deposit liabilities from the requirement to present information about the fair values of financial liabilities, and the amendments in this Update also exempt demand deposit liabilities from the requirement to disclose the fair values of financial liabilities. The Board concluded that the difficulties of determining the fair value of those deposits support not requiring disclosure of fair value, either parenthetically or in the notes.

BC138. The 2013 proposed Update would have required that public business entities disclose (a) the core deposit liability balance, (b) the implied weighted-average maturity period, and (c) the estimated all-in-cost-to-service rate for each significant type of core deposit account. During redeliberations, the Board decided not to require those disclosures because of feedback received from preparers who said that the cost of providing that information would be significant and could result in disclosure of proprietary information. In addition, many preparer respondents noted that because the definition of what constitutes a core deposit liability is based on management's determination, there will be a lack of comparability between entities, thereby diminishing the benefit of this information for users.

*Disclosure of how the fair values of financial instruments measured at amortized cost were determined*

BC139. In developing the 2013 proposed Update, the Board considered whether a public business entity's parenthetical disclosures of fair value should be supplemented by the existing disclosures from Topic 825 about how fair values were determined or by the more extensive disclosures on that matter from Topic 820. Both Topics require disclosure of the method and significant assumptions used to estimate fair values, but Topic 820 also requires more information, for example, valuation processes in place for all Level 3 measurements and descriptions of the sensitivity of the measures to changes in unobservable inputs to the calculations. The Board decided that not all of the more extensive disclosures from Topic 820 are necessary for items whose primary measurement basis is not fair value. Therefore, the guidance in the 2013 proposed Update would have required only limited disclosures about how the parenthetical disclosures of fair value were determined. For example, an entity would have been required to disclose the level of the fair value hierarchy within which the fair value measurements fall. Additional disclosures would have been required for measurements in either Level 2 or Level 3 of the hierarchy, including a description of the valuation technique(s) and the inputs used to measure fair value.

BC140. Many stakeholders, primarily preparers of financial information, disagreed with the proposed disclosures about fair value information. Most respondents who disagreed said that the disclosures would be burdensome to prepare and would not provide decision-useful information because fair values generally are not used in evaluating the financial performance of financial instruments measured at amortized cost. However, as previously discussed, the Board continues to consider fair value information for financial instruments carried at amortized cost in the balance sheet to be decision useful.

BC141. In light of the input received on the disclosures about how fair values were determined, however, the Board reconsidered the need for disclosure of information such as the method and significant assumptions used to measure the supplemental disclosure of fair values of instruments carried at amortized cost in the balance sheet. Board members focused on the supplemental nature of the disclosed fair values. For those instruments, amortized cost is the primary measurement attribute; fair value is an alternative or secondary attribute. On that basis, the Board decided not to require the disclosures about how fair values presented either parenthetically on the face of the statement of financial position or in the notes to the financial statement were determined. Only the disclosure of the level of the fair value hierarchy within which the fair value measures fall is required.

## Other disclosures

### *Disclosures about equity securities without readily determinable fair values*

BC142. As discussed in paragraphs BC83–BC89, the amendments in this Update require investments in equity securities for which fair values are not readily determinable to be measured at fair value only upon an observable price change. The Board decided that users need information about that measurement and the inputs to it to understand the carrying amount and how it differs from both fair value and amortized cost. Thus, the amendments require disclosure of the carrying amount of those investments in equity securities, as well as the adjustments made to the carrying amount because of observable price changes and impairment charges during the reporting period. An entity also would have to disclose the information it considered in developing the carrying amount and upward or downward adjustments resulting from observable price changes.

## Effective Date and Transition

### *Effective Date*

BC143. The Board concluded that the amendments in this Update should be effective for public business entities for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. The Board concluded that an effective date that is two years after the issuance of this Update will provide public business entities with sufficient time to implement the amendments. In determining the effective date, the Board also considered that most of the amendments in this Update require only a balance sheet reclassification or disclosures, and that the remaining amendments require a prospective application.

BC144. The Board concluded that for entities that do not qualify as public business entities, including not-for-profit entities and employee benefit plans within the scope of Topics 960 through 965 on plan accounting, the amendments in this Update are effective for fiscal years beginning after December 15, 2018, and interim periods within fiscal years beginning after December 15, 2019. This is consistent with the Private Company Decision-Making Framework, which suggests that the effective date of an Update for private companies should be a minimum of one year after the effective date for public companies. In making this decision, the Board observed that (a) some preparers and auditors of private company financial statements rely on the experience of public entities and their auditors when implementing a new standard and (b) the education cycle for preparers of private company financial statements generally occurs once per year—typically during the second half of the year. Furthermore, private companies generally have fewer resources than public entities and, consequently, will benefit from having additional

time to evaluate the effects of the amendments in this Update. In deciding to set the effective date for private companies as of the end of the initial annual reporting period, the Board considered the factor in the Private Company Decision-Making Framework that indicates that private companies generally should not be required to adopt new requirements during an interim period within the fiscal year of adoption.

BC145. The Private Company Decision-Making Framework indicates that, generally, private companies should be permitted to adopt the amendments before the deferred effective date for private companies, but no earlier than the required or permitted effective date for public companies. In addition, this approach provides a private company with the flexibility to achieve comparability of its financial statements with public company financial statements. Consequently, the Board concluded that an entity that is not a public business entity may elect to apply the amendments in this Update no earlier than an annual reporting period beginning after December 15, 2017, including interim reporting periods in that period, as required for public business entities.

### Early adoption

BC146. To avoid impairing the comparability of financial statements during the early adoption period, the Board often does not permit early adoption of the amendments in an Update. For that reason, the Board decided not to allow early adoption of the amendments in this Update, with three exceptions.

BC147. As discussed in paragraph BC145, an entity that is not a public business entity may elect to adopt the amendments in this Update no earlier than the effective date for public business entities.

BC148. The Board decided to permit early adoption of the presentation requirements in paragraphs 825-10-45-5 through 45-7 for the portion of the total change in the fair value of a liability that results from a change in instrument-specific credit risk. The Board understands that users often disregard unrealized gains and losses attributable to changes in an entity's credit standing for financial liabilities measured at fair value under the fair value option in GAAP in analyzing the entity's financial performance. The Board concluded that the effect on comparability of permitting early adoption of presentation guidance is less significant than the effect of permitting early adoption of the recognition or measurement guidance.

BC149. The Board decided to permit entities that are not public business entities to adopt the amendments that exempt them from the disclosure requirements on fair value of financial instruments in the General Subsection of Section 825-10-50. The Board concluded that because these disclosure requirements are no longer required upon the effective date of the amendments in this Update, there is no

need for entities to present those disclosures in the financial statements of reporting periods that have not yet been made available for issuance as of the issuance of this Update.

## *Transition*

BC150. The amendments in this Update require that transition to the amendments be effected by a cumulative-effect adjustment to the statement of financial position as of the beginning of the fiscal year in which the guidance is adopted (that is, a modified-retrospective approach). That approach requires the amounts reported in accumulated other comprehensive income for equity securities that exist as of the date of adoption previously classified as available-for-sale to be reclassified to retained earnings. In addition, amounts attributable to changes in instrument-specific credit risk for financial liabilities measured under the fair value option that exist as of the date of adoption should be reclassified from retained earnings to accumulated other comprehensive income.

BC151. The amendments related to equity securities without readily determinable fair values (including related disclosure requirements) will be applied prospectively to all equity investments that exist as of the date of adoption of the amendments. The Board acknowledges that requiring guidance for equity securities without readily determinable fair values to be applied on a prospective basis is inconsistent with the cumulative-effect transition approach requirement to apply fair value through net income measurement to equity securities with readily determinable fair values, but it concluded that a prospective transition approach for those equity securities is a better approach considering the cost many entities would be required to incur for determining the last observable price of its nonmarketable equity security holdings.

BC152. The amendments in this Update require an entity to calculate fair value of financial instruments for disclosure purposes based on the exit price notion in Topic 820. The Board concluded that an entity is not required to revise its prior-period disclosures of fair value for those financial instruments that may have been calculated using the entry price notion, which was an acceptable method under previous GAAP. The Board acknowledges that if an entity used an entry price notion to measure fair value in a prior period, then the disclosure of fair value in the periods after adoption of this Update may not be comparable with the new disclosures because those disclosures measure fair value using the exit price notion. In those cases, the Board concluded that the entity should clarify in the notes to financial statements that the prior-period fair values disclosed are not determined in a manner consistent with the current-period fair values disclosed because of a change in the methodology.

BC153. The Board rejected other transition methods, including methods requiring retrospective transition, although it acknowledges that retrospective transition methods may provide more decision-useful information. The Board concluded that retrospective application, even if limited to financial instruments held or outstanding at the effective date, would be impracticable to apply in some circumstances because it would require an entity to make significant estimates of amounts and assumptions about how financial instruments would have been classified in prior periods. For example, the measurement approach for equity securities without readily determinable fair values will be difficult to apply using a retrospective approach. Although similar to the cost method, the measurement method (that is, cost less impairment adjusted for observable price changes) is not identical. To apply that measurement approach retrospectively, an entity would need to adjust the balances of those securities as if the measurement approach had been applied in each prior period. An entity may be unable to obtain objective information about observable changes in price for prior periods that might have required adjustments to the carrying value of those securities.

## Amendments to the XBRL Taxonomy

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The amendments to the *FASB Accounting Standards Codification*<sup>®</sup> 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 2017 Taxonomy, are available for public comment through [ASU Taxonomy Changes](#) provided at [www.fasb.org](http://www.fasb.org), and finalized as part of the annual release process.