FASB EXPOSURE DRAFT

Proposed Accounting Standards Update

Issued: May 6, 2019
Comments Due: June 28, 2019

Disclosure Improvements

Codification Amendments in Response to the SEC's Disclosure Update and Simplification Initiative

The Board issued this Exposure Draft to solicit public comment on proposed changes to the *FASB Accounting Standards Codification®*. Individuals can submit comments in one of three ways: using the electronic feedback form on the FASB website, emailing comments to director@fasb.org, or sending a letter to "Technical Director, File Reference No. 2019-600, FASB, 401 Merritt 7, PO Box 5116, Norwalk, CT 06856-5116."

Financial Accounting Standards Board

Notice to Recipients of This Exposure Draft of a Proposed Accounting Standards Update

The Board invites comments on all matters in this Exposure Draft until June 28, 2019. Interested parties may submit comments in one of three ways:

- Using the electronic feedback form available on the FASB website at Exposure Documents Open for Comment
- Emailing comments to director@fasb.org, File Reference No. 2019-600
- Sending a letter to "Technical Director, File Reference No. 2019-600, FASB, 401 Merritt 7, PO Box 5116, Norwalk, CT 06856-5116."

All comments received are part of the FASB's public file and are available at www.fasb.org.

The *FASB Accounting Standards Codification*® 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. A copy of this Exposure Draft is available at www.fasb.org.

FASB FINANCIAL ACCOUNTING STANDARDS BOARD®

Proposed Accounting Standards Update

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Summary and Questions for Respondents

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

In U.S. Securities and Exchange Commission (SEC) Release No. 33-10532, *Disclosure Update and Simplification*, issued on August 17, 2018, the SEC referred certain of its disclosure requirements that overlap with, but require incremental information to, generally accepted accounting principles (GAAP) to the FASB for potential incorporation into the Codification. The amendments in this proposed Update are the result of the Board's consideration of those referred disclosures.

Who Would Be Affected by the Amendments in This Proposed Update?

The amendments in this proposed Update would affect a variety of Topics in the Codification. A summary table identifying the Codification Subtopics and the nature of the proposed amendments is provided in the "Amendments to the *FASB Accounting Standards Codification*®" section. The proposed amendments would apply to all entities within the scope of the affected Topics unless otherwise indicated.

The Board is seeking input on whether the proposed amendments should apply to private companies and not-for-profit entities. However, certain of the disclosures included in the amendments in this proposed Update would not be required for entities other than public business entities.

What Are the Main Provisions?

The amendments in this proposed Update would modify the disclosure or presentation requirements of a variety of Topics in the Codification. Certain of the proposed amendments represent clarifications to or technical corrections of the current requirements. Because of the variety of Topics proposed to be amended, an entity should review all amendments in this proposed Update to determine whether it would be affected by those amendments.

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

The amendments in this proposed Update represent changes to clarify or improve disclosure and presentation requirements of a variety of Codification Topics. The proposed amendments would align the requirements in the Codification with the SEC's regulations and, therefore, would make the Codification easier to apply by eliminating those redundancies and providing clarifications.

When Would the Amendments Be Effective?

The amendments in this proposed Update would be applied prospectively to financial statements issued after the effective date.

The effective date will be determined after the Board considers stakeholders' feedback on the proposed amendments.

Questions for Respondents

The Board invites individuals and organizations to comment on all matters in this proposed Update, particularly on the issues and questions below. Comments are requested from those who agree with the proposed guidance as well as from those who do not agree. Comments are most helpful if they identify and clearly explain the issue or question to which they relate. Those who disagree with the proposed guidance are asked to describe their suggested alternatives, supported by specific reasoning.

Question 1: Do you agree with the amendments to the Codification in this proposed Update? If not, please explain which proposed amendment(s) you disagree with and why.

Question 2: Would the proposed amendments result in decision-useful information? Please explain why or why not.

Question 3: For entities other than public business entities, are the proposed disclosure requirements operable and auditable? If not, which aspects pose operability or auditability concerns and why?

Question 4: For entities other than public business entities, would any of the proposed disclosure requirements impose significant incremental costs? If so, please describe the nature and extent of the additional costs.

Question 5: The proposed amendment to paragraph 850-10-50-4A would not apply to entities other than public business entities. Do you agree with this proposed scope? Are there other proposed disclosure requirements that entities other than public business entities should not be required to apply? If so, please explain why.

Question 6: The proposed amendment to paragraph 810-10-50-1C would require that an entity disclose the names of newly consolidated or deconsolidated entities. Would this proposed disclosure requirement impose incremental costs for entities other than public business entities? If so, please describe the nature and extent of the additional costs.

Question 7: Should the proposed amendments be applied prospectively to financial statements issued after the effective date? If not, what transition method would be more appropriate and why?

Question 8: How much time would be needed to implement the proposed amendments? Should early adoption be permitted? Would the amount of time needed to apply the proposed amendments by entities other than public business entities be different from the amount of time needed by public business entities? Why or why not?

Question 9: Should the proposed amendments be finalized if the SEC does not eliminate the referred disclosure requirements in Regulation S-X and Regulation S-K? Why or why not?

Question 10: Do you agree with the Board's decision not to propose amendments to the Codification for certain referred disclosures? If not, please explain why.

Amendments to the *FASB Accounting Standards Codification®*

Summary of Proposed Amendments to the Accounting Standards Codification

1. The following table provides a summary of the proposed amendments to the Accounting Standards Codification.

Codification Subtopic	**Description of Changes**
205-10 Presentation of Financial Statements—Overall	Amend to conform to amendments made to Topic 830.
250-10 Accounting Changes and Error Corrections—Overall	Clarify that an entity should disclose in interim financial statements any material retroactive prior-period adjustment and the effect of the adjustment on retained earnings.
260-10 Earnings Per Share—Overall	Add disclosure of the methods used in the diluted earnings-per-share computation for each dilutive security and clarify that certain disclosures should be made during interim periods. Amend illustrative guidance to illustrate disclosure of the methods used in the diluted earnings-per-share computation.
270-10 Interim Reporting—Overall	Amend to conform to amendments made to Topic 250 and Topic 805.
280-10 Segment Reporting—Overall	Remove the impracticability exception to the requirement to disclose revenues for each product and service or each group of similar products and services.
440-10 Commitments—Overall	Add disclosure of assets mortgaged, pledged, or otherwise subject to lien and the obligations collateralized.

Codification Subtopic	Description of Changes
470-10 Debt—Overall	Add disclosure of amounts and terms of unused lines of credit and unfunded commitments and the weighted-average interest rate on outstanding short-term borrowings.
505-10 Equity—Overall	Amend requirement to present preference on involuntary liquidation parenthetically in the equity section of the balance sheet if the liquidation preference is other than par or stated value.
805-50 Business Combinations—Related Issues	Add disclosure of separate results of combined entities for periods before a combination between entities under common control in interim financial statements.
810-10 Consolidation—Overall	Add disclosure of the name of any legal entity newly included in or excluded from consolidated financial statements if the entity has a material effect on the financial statements.
815-10 Derivatives and Hedging—Overall	Add disclosure of where derivative instruments and their related gains and losses are reported in the statement of cash flows.
830-10 Foreign Currency Matters—Overall	Amend translation guidance to clarify the applicability to a reporting entity that reports its financial statements in a currency other than its functional currency.
830-20 Foreign Currency Matters—Foreign Currency Transactions	Amend to conform to amendments in Subtopic 830-10.
830-30 Foreign Currency Matters—Translation of Financial Statements	Amend to conform to amendments in Subtopic 830-10.
850-10 Related Party Disclosures—Overall	Add disclosure of profits or losses resulting from transactions with other entities in the consolidated or combined financial statements and the effects of those transactions in separate financial statements of public business entities.

Codification Subtopic	Description of Changes
860-30 Transfers and Servicing—Secured Borrowing and Collateral	Amend guidance to clarify that accrued interest should be included in the disclosure of liabilities incurred in securities borrowing or repurchase or resale transactions. Add requirement to present separately the carrying amount of reverse repurchase agreements on the face of the balance sheet if that amount exceeds 10 percent of total assets. Add disclosure of the effective interest rates of repurchase liabilities. Add disclosure of amounts at risk with an individual counterparty if that amount exceeds more than 10 percent of stockholder's equity. Add disclosure of whether there are any provisions in a reverse repurchase agreement to ensure that the market value of the underlying assets remains sufficient to protect against counterparty default and, if so, the nature of those provisions. Amend illustrative guidance to illustrate disclosure of effective interest rates of repurchase liabilities.
932-235 Extractive Activities—Oil and Gas—Notes to Financial Statements	Clarify that the guidance is applicable for all periods presented in the financial statements.
946-20 Financial Services—Investment Companies—Investment Company Activities	Clarify the requirement that investment companies disclose the components of capital on the balance sheet.
974-10 Real Estate—Real Estate Investment Trusts—Overall	Add disclosure of the tax status of distributions per unit (for example, ordinary income, capital gain, and return of capital) for a real estate investment trust.

Introduction

2. The Accounting Standards Codification is amended as described in paragraphs 3 through 33. In some cases, to put the change in context, not only are the amended paragraphs shown but also the preceding and following paragraphs. Terms from the Master Glossary are in **bold** type. Added text is <u>underlined</u>, and deleted text is ~~struck out~~.

Amendments to Master Glossary

3. Add the following new Master Glossary terms, with a link to transition paragraph 105-10-65-6, as follows:

<u>**Amount at Risk under Repurchase Agreements**</u>

<u>The excess of the carrying amount (or market value, if higher than the carrying amount or if there is no carrying amount) of the securities or other assets sold under agreement to repurchase, including accrued interest plus any cash or other assets on deposit to secure the repurchase obligation, over the amount of the repurchase liability (adjusted for accrued interest).</u>

<u>**Amount at Risk under Reverse Repurchase Agreements**</u>

<u>The excess of the carrying amount of the reverse repurchase agreements over the market value of assets delivered in accordance with the agreements by the counterparty to the entity (or to a third-party agent that has affirmatively agreed to act on behalf of the entity) and not returned to the counterparty, except in exchange for their approximate market value in a separate transaction.</u>

4. Add the Master Glossary term *Change in the Reporting Entity* to Subtopic 270-10 as follows:

Change in the Reporting Entity

A change that results in financial statements that, in effect, are those of a different reporting entity. A change in the reporting entity is limited mainly to the following:

a. Presenting consolidated or combined financial statements in place of financial statements of individual entities
b. Changing specific subsidiaries that make up the group of entities for which consolidated financial statements are presented
c. Changing the entities included in combined financial statements.

Neither a business combination accounted for by the acquisition method nor the consolidation of a variable interest entity (VIE) pursuant to Topic 810 is a change in reporting entity.

5. Amend the Master Glossary term *Reporting Entity,* with a link to transition paragraph 105-10-65-6, as follows:

Reporting Entity

An entity or group whose financial statements are being referred to. Those financial statements reflect any of the following:

a. The financial statements of one or more foreign operations by combination, consolidation, or equity accounting
b. Foreign currency transactions.
c. Reporting in a currency other than an entity's functional currency.

6. Supersede the Master Glossary term *Foreign Currency* from Subtopic 830-30 and add the Master Glossary term *Reporting Currency* to Subtopic 830-30 as follows:

~~**Foreign Currency**~~

~~A currency other than the functional currency of the entity being referred to (for example, the dollar could be a foreign currency for a foreign entity). Composites of currencies, such as the **Special Drawing Rights**, used to set prices or denominate amounts of loans, and so forth, have the characteristics of foreign currency.~~

Reporting Currency

The currency in which a reporting entity prepares its financial statements.

Amendments to Subtopic 205-10

7. Amend paragraph 205-10-60-1, with a link to transition paragraph 105-10-65-6, as follows:

Presentation of Financial Statements—Overall

Relationships

> Foreign Currency Matters

205-10-60-1 For guidance on translating foreign currency statements that are incorporated in the financial statements of a reporting entity by consolidation, combination, or the equity method of accounting or when the reporting entity reports its financial statements in a currency other than its functional currency, see Subtopic 830-30.

Amendments to Subtopic 250-10

8. Amend paragraph 250-10-50-6, with a link to transition paragraph 105-10-65-6, as follows:

Accounting Changes and Error Corrections—Overall

Disclosure

> Accounting Changes

> > Change in Reporting Entity

250-10-50-6 When there has been a **change in the reporting entity**, the financial statements of <u>both </u>the <u>interim </u>period of the change <u>and the annual period of the change </u>shall describe the nature of the change and the reason for it. In addition, the effect of the change on income from continuing operations, net income (or other appropriate captions of changes in the applicable net assets or performance indicator), other comprehensive income, and any related per-share amounts shall be disclosed for all periods presented. <u>The cumulative effect of the change on retained earnings or other appropriate components of equity or net assets in the statement of financial position as of the beginning of the earliest period presented also shall be disclosed. </u>Financial statements of subsequent periods need not repeat the disclosures required by this paragraph. If a change in reporting entity does not have a material effect in the period of change but is reasonably certain to have a material effect in later periods, the nature of and reason for the change shall be disclosed whenever the financial statements of the period of change are presented. (Sections 805-10-50, 805-20-50, 805-30-50, and 805-740-50 describe the manner of reporting and the disclosures required for a business combination.)

Amendments to Subtopic 260-10

9. Amend paragraph 260-10-50-1, with a link to transition paragraph 105-10-65-6, as follows:

Earnings Per Share—Overall

Disclosure

General

260-10-50-1 For each period for which an income statement is presented, <u>including interim periods,</u> an entity shall disclose all of the following:

a. A reconciliation of the numerators and the denominators of the basic and diluted per-share computations for income from continuing operations. The reconciliation shall include the individual income and share amount effects of all securities that affect **earnings per share** (EPS). Example 2 (see paragraph 260-10-55-51) illustrates that disclosure. (See paragraph 260-10-45-3.) An entity is encouraged to refer to pertinent information about securities included in the EPS computations that is provided elsewhere in the financial statements as prescribed by Subtopic 505-10.
b. The effect that has been given to preferred dividends in arriving at **income available to common stockholders** in computing basic EPS.
c. Securities (including those issuable pursuant to contingent stock agreements) that could potentially dilute basic EPS in the future that were not included in the computation of diluted EPS because to do so would have been antidilutive for the period(s) presented. Full disclosure of the terms and conditions of these securities is required even if a **security** is not included in diluted EPS in the current period.
<u>d. The methods used in the diluted earnings-per-share computation for each dilutive security (that is, treasury stock method, if-converted method, two-class method, or reverse treasury stock method).</u>

10. Amend paragraph 260-10-55-52, with a link to transition paragraph 105-10-65-6, as follows:

Implementation Guidance and Illustrations

> Illustrations

> > Example 2: EPS Disclosures

260-10-55-52 The following table illustrates the computation of basic and diluted EPS for the year ended 20X1.

	For the Year Ended 20X1		
	Income (Numerator)	Shares (Denominator)	Per-Share Amount
Income from continuing operations	$ 7,500,000		
Less: Preferred stock dividends	(45,000)		
Basic EPS			
Income available to common stockholders	7,455,000	3,991,666	$ 1.87
Effect of Dilutive Securities			
Warrants		30,768	
Convertible preferred stock	45,000	308,333	
4% convertible debentures	60,000	50,000	
Diluted EPS			
Income available to common stockholders + assumed conversions	$ 7,560,000	4,380,767	$ 1.73

<u>Diluted EPS was computed using the treasury stock method for warrants and the if-converted method for convertible instruments.</u> Options to purchase 1,000,000 shares of common stock at $85 per share were outstanding during the second half of 20X1 but were not included in the computation of diluted EPS because the options' exercise price was greater than the average market price of the common shares. The options, which expire on June 30, 20Y1, were still outstanding at the end of year 20X1.

Amendments to Subtopic 270-10

11. Amend paragraphs 270-10-45-12 and 270-10-45-19, with a link to transition paragraph 105-10-65-6, as follows:

Interim Reporting—Overall

Other Presentation Matters

> Accounting Changes in Interim Periods

270-10-45-12 Each report of interim financial information shall indicate any **change in accounting principles** <u>or **change in the reporting entity**</u> ~~or practices~~ from those applied in any of the following:

a. The comparable interim period of the prior annual period
b. The preceding interim periods in the current annual period
c. The prior annual report.

> Guidance Related to Presentation of Other Topics at Interim Dates

270-10-45-19 The following may not represent all references to interim reporting:

a. For accounting changes, see paragraphs 250-10-45-14 through 45-21 ~~45-16~~.
b. For comprehensive income, see paragraph 220-10-45-18.
c. For incurred but not reported liability and interim reporting, see paragraphs 720-20-35-3 through 35-5 and 720-20-35-8.
d. For income tax provisions, see Subtopic 740-270.
e. For inventory, see paragraphs 330-10-55-2 and 610-30-25-3.
f. For pensions and other postretirement benefits, see paragraphs 715-20-55-18 through 55-19 and 715-60-35-40.
g. For earnings per share, see paragraph 260-10-50-1.

12. Amend paragraphs 270-10-50-1(g) and 270-10-50-7(a), with a link to transition paragraph 105-10-65-6, as follows:

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:

g. **Changes in accounting principles,~~principles~~** ~~or~~ **changes in accounting estimates**, or **changes in the reporting entity** (see paragraphs 270-10-45-12 through 45-16)

> Guidance Related to Disclosure of Other Topics at Interim Dates

270-10-50-7 The following may not represent all references to interim disclosure:

a. For business combinations and combinations accounted for by **not-for-profit entities** and transactions between entities under common control, see Sections 805-10-50, 805-20-50, 805-30-50, 805-50-50, 805-740-50, and 958-805-50.

Amendments to Subtopic 280-10

13. Amend paragraph 280-10-50-40, with a link to transition paragraph 105-10-65-6, as follows:

Segment Reporting—Overall

Disclosure

> Operating Segments

> > Disclosure Requirements

> > > Information About Products and Services

280-10-50-40 A public entity shall report the revenues from external customers for each product and service or each group of similar products and services ~~unless it is impracticable to do so~~. The amounts of revenues reported shall be based on the financial information used to produce the public entity's general-purpose financial statements. ~~If providing the information is impracticable, that fact shall be disclosed.~~

Amendments to Subtopic 440-10

14. Amend paragraph 440-10-50-1, with a link to transition paragraph 105-10-65-6, as follows:

Commitments—Overall

Disclosure

General

440-10-50-1 Notwithstanding more explicit disclosures required elsewhere in this Codification, all of the following situations shall be disclosed in financial statements:

a. Unused letters of credit
b. Leases (see Section 842-20-50)
c. Assets mortgaged, pledged, or otherwise subject to lien, and the approximate amounts of those assets, and the related obligations collateralized ~~as security for loans~~
d. Pension plans (see Section 715-20-50)
e. The existence of cumulative preferred stock dividends in arrears
f. Commitments, including:
   1. A commitment for plant acquisition
   2. An obligation to reduce debts
   3. An obligation to maintain working capital
   4. An obligation to restrict dividends.

Amendments to Subtopic 470-10

15. Add paragraphs 470-10-50-6 through 50-7 and their related headings, with a link to transition paragraph 105-10-65-6, as follows:

Debt—Overall

Disclosure

> Unused Commitments and Lines of Credit

470-10-50-6 An entity shall disclose the following in the notes to financial statements:

a. The amount and terms (including commitment fees and the conditions under which commitments may be withdrawn) of unused commitments for long-term financing arrangements
b. The amount and terms (including commitment fees and the conditions under which lines may be withdrawn) of unused lines of credit for short-term financing. The amount of those lines of credit that support commercial paper borrowing arrangements or similar arrangements shall be disclosed separately.

> Weighted-Average Interest Rate on Short-Term Borrowings

470-10-50-7 An entity shall disclose the weighted-average interest rate on short-term borrowings outstanding as of the date of each balance sheet presented.

Amendments to Subtopic 505-10

16. Amend paragraph 505-10-50-4, with a link to transition paragraph 105-10-65-6, as follows:

Equity—Overall

Disclosure

> Securities with Preferences

505-10-50-4 An entity that issues **preferred stock** (or other senior stock) that has a preference in involuntary liquidation ~~considerably in excess of the~~other than par or stated value of the shares shall disclose the liquidation preference of the stock (the relationship between the preference in liquidation and the par or stated value of the shares). That disclosure shall be made in the equity section of the statement of financial position in the aggregate, either parenthetically or in short, rather than on a per-share basis or through disclosure in the notes.

Amendments to Subtopic 805-50

17. Amend paragraph 805-50-50-3, with a link to transition paragraph 105-10-65-6, as follows:

Business Combinations—Related Issues

Disclosure

Transactions Between Entities Under Common Control

805-50-50-3 The notes to financial statements of the receiving entity shall disclose the following for the period, including an interim period, in which the transfer of assets and liabilities or exchange of **equity interests** occurred:

a. The name and brief description of the entity included in the reporting entity as a result of the net asset transfer or exchange of equity interests
b. The method of accounting for the transfer of net assets or exchange of equity interests.
c. The separate results of each combined entity before combination for comparative periods presented.

Amendments to Subtopic 810-10

18. Add paragraph 810-10-50-1C and its related heading, with a link to transition paragraph 105-10-65-6, as follows:

Consolidation—Overall

Disclosure

> Changes in Consolidated or Combined Entities

810-10-50-1C A reporting entity shall disclose in consolidated financial statements or combined financial statements when there has been a change in the legal entities included in or excluded from the corresponding financial statements as compared with the preceding fiscal period and the names of those legal entities.

Amendments to Subtopic 815-10

19. Add paragraph 815-10-50-8B and its related heading, with a link to transition paragraph 105-10-65-6, as follows:

Derivatives and Hedging—Overall

Disclosure

> Statement of Cash Flows Classification

815-10-50-8B An entity shall disclose where in the statement of cash flows derivative instruments and their related gains and losses are reported.

Amendments to Subtopic 830-10

20. Amend paragraph 830-10-15-3 and supersede paragraph 830-10-15-7 and its related heading, with a link to transition paragraph 105-10-65-6, as follows:

Foreign Currency Matters—Overall

Scope and Scope Exceptions

> Transactions

830-10-15-3 The guidance in the Foreign Currency Matters Topic applies to all **foreign currency transactions** in financial statements of a **reporting entity** and all **foreign currency statements** that are incorporated in the financial statements of a reporting entity by consolidation, combination, or the equity method of accounting or when the reporting entity reports its financial statements in a currency other than its functional currency.

830-10-15-4 For convenience, this Topic assumes that the reporting entity uses the U.S. dollar as its reporting currency. However, a currency other than the U.S. dollar may be the **reporting currency** in financial statements that are prepared in conformity with U.S. generally accepted accounting principles (GAAP). For example, a **foreign entity** may report in its **local currency** in conformity with U.S. GAAP. If so, the requirements of this Topic apply.

> Other Considerations

~~**> > Convenience Translations and Translations for Other Purposes**~~

830-10-15-7 Paragraph superseded by Accounting Standards Update No. 2019-XX.~~Translation of financial statements from one currency to another for purposes other than consolidation, combination, or the equity method is beyond the scope of this Topic. For example, this Topic does not cover translation of the financial statements of a reporting entity from its reporting currency into another currency for the convenience of readers accustomed to that other currency.~~

21. Amend paragraphs 830-10-45-1 through 45-2, paragraph 830-10-45-7, and paragraph 830-10-45-11, with a link to transition paragraph 105-10-65-6, as follows:

Other Presentation Matters

830-10-45-1 The guidance in this Section relates to how a **reporting entity** determines the **functional currency** of a **foreign entity** (including of a foreign entity in a highly inflationary economy) or a reporting entity, remeasures the books of record (if necessary), and characterizes transaction gains and losses. The guidance is organized as follows:

a. The functional currency
b. The functional currency in highly inflationary economies
c. Remeasurement of books of record into the functional currency
d. Subparagraph superseded by Accounting Standards Update No. 2015-01.

> The Functional Currency

830-10-45-2 The assets, liabilities, and operations of a foreign entity <u>or a reporting entity</u> shall be measured using the functional currency of that entity. An entity's functional currency is the currency of the primary economic environment in which the entity operates; normally, that is the currency of the environment in which an entity primarily generates and expends cash.

> > Changes in the Functional Currency

830-10-45-7 Once the functional currency for a foreign entity <u>or a reporting entity</u> is determined, that determination shall be used consistently unless significant changes in economic facts and circumstances indicate clearly that the **functional currency** has changed. Previously issued financial statements shall not be restated for any change in the functional currency.

> The Functional Currency in Highly Inflationary Economies

830-10-45-11 The financial statements of a foreign entity <u>or a reporting entity</u> in a highly inflationary economy shall be remeasured as if the functional currency were the reporting currency. Accordingly, the financial statements of those entities shall be remeasured into the reporting currency according to the requirements of paragraph 830-10-45-17. For the purposes of this requirement, a highly inflationary economy is one that has cumulative inflation of approximately 100 percent or more over a 3-year period.

22. Amend paragraph 830-10-55-5, with a link to transition paragraph 105-10-65-6, as follows:

Implementation Guidance and Illustrations

> Implementation Guidance

> > The Functional Currency

830-10-55-5 The following salient economic factors, and possibly others, should be considered both individually and collectively when determining the functional currency <u>of a **foreign entity**</u>:

- f. Intra-entity transactions and arrangements indicators, for example:
  1. Foreign currency. There is a low volume of intra-entity transactions and there is not an extensive interrelationship between the operations of the **{remove glossary link}foreign entity{remove glossary link}** and the parent entity. However, the foreign entity's operations may rely on the parent's or affiliates' competitive advantages, such as patents and trademarks. **[Note: Only the amended content of this paragraph is shown here.]**

Amendments to Subtopic 830-20

23. Amend paragraph 830-20-25-2, with a link to transition paragraph 105-10-65-6, as follows:

Foreign Currency Matters—Foreign Currency Transactions

Recognition

830-20-25-2 Paragraphs 830-10-55-3 through 55-7 provide guidance on the determination of ~~a reporting~~an entity's functional currency. Paragraph 830-10-45-17 states that, if an entity's books of record are not maintained in its functional currency, remeasurement into the functional currency is required before **translation** into the reporting currency. That paragraph provides further guidance on remeasurement of books and records.

Amendments to Subtopic 830-30

24. Amend paragraph 830-30-05-1, with a link to transition paragraph 105-10-65-6, as follows:

Foreign Currency Matters—Translation of Financial Statements

Overview and Background

830-30-05-1 This Subtopic provides guidance for translating **foreign currency statements** that are incorporated in the financial statements of a **reporting entity** by consolidation, combination, or the equity method of accounting or when the reporting entity reports its financial statements in a currency other than its functional currency.

25. Amend paragraph 830-30-45-12, with a link to transition paragraph 105-10-65-6, as follows:

Other Presentation Matters

> Translation of Foreign Currency Statements

> > Reporting Translation Adjustments

830-30-45-12 If an entity's **functional currency** is <u>other than the **reporting currency**</u>~~**a foreign currency**~~, translation adjustments result from the process of translating that entity's <u>functional currency</u> financial statements into the reporting currency. Translation adjustments shall not be included in determining net income but shall be reported in other comprehensive income.

Amendments to Subtopic 850-10

26. Add paragraph 850-10-50-4A, with a link to transition paragraph 105-10-65-6, as follows:

Related Party Disclosures—Overall

Disclosure

> Related Party Transactions

850-10-50-1 Financial statements shall include disclosures of material related party transactions, other than compensation arrangements, expense allowances, and other similar items in the ordinary course of business. However, disclosure of transactions that are eliminated in the preparation of consolidated or combined financial statements is not required in those statements. The disclosures shall include:

a. The nature of the relationship(s) involved
b. A description of the transactions, including transactions to which no amounts or nominal amounts were ascribed, for each of the periods for which income statements are presented, and such other information deemed necessary to an understanding of the effects of the transactions on the financial statements
c. The dollar amounts of transactions for each of the periods for which income statements are presented and the effects of any change in the method of establishing the terms from that used in the preceding period
d. Amounts due from or to **related parties** as of the date of each balance sheet presented and, if not otherwise apparent, the terms and manner of settlement
e. The information required by paragraph 740-10-50-17.

850-10-50-4 It is not necessary to duplicate disclosures in a set of separate financial statements that is presented in the financial report of another entity (the primary reporting entity) if those separate financial statements also are consolidated or combined in a complete set of financial statements and both sets of financial statements are presented in the same financial report.

850-10-50-4A If separate financial statements of a public business entity are presented, any profits or losses resulting from transactions with other entities in the consolidated or combined financial statements and the effects of those transactions shall be disclosed.

Amendments to Subtopic 860-30

27. Amend paragraph 860-30-45-2 and add paragraph 860-30-45-2A, with a link to transition paragraph 105-10-65-6, as follows:

Transfers and Servicing—Secured Borrowing and Collateral

Other Presentation Matters

860-30-45-1 If the secured party (**transferee**) has the right by contract or custom to sell or repledge the **collateral**, then the obligor (**transferor**) shall reclassify that asset and report that asset in its statement of financial position separately (for example, as security pledged to creditors) from other assets not so encumbered.

860-30-45-2 Liabilities, including accrued interest, incurred by either the secured party or obligor in securities borrowing or resale transactions shall be separately classified.

860-30-45-2A If, as of the date of the most recent statement of financial position, the aggregate carrying amount of reverse repurchase agreements (securities or other assets purchased under agreements to resell) exceeds 10 percent of total assets, the assets shall be classified separately.

28. Amend paragraph 860-30-50-7 and add paragraphs 860-30-50-9 through 50-10 and their related heading, with a link to transition paragraph 105-10-65-6, as follows:

Disclosure

860-30-50-1A An entity shall disclose all of the following for **collateral**:

a. If the entity has entered into **repurchase agreements** or securities lending transactions, it shall disclose its policy for requiring collateral or other security.
b. As of the date of the latest statement of financial position presented, both of the following:
    1. The carrying amount and classifications of both of the following:

        i. Any assets pledged as collateral that are not reclassified and separately reported in the statement of financial position in accordance with paragraph 860-30-25-5(a)
        ii. Associated liabilities.
    2. Qualitative information about the relationship(s) between those assets and associated liabilities; for example, if assets are restricted solely to satisfy a specific obligation, a description of the nature of restrictions placed on those assets.
c. If the entity has accepted collateral that it is permitted by contract or custom to sell or repledge, it shall disclose all the following:
    1. The fair value as of the date of each statement of financial position presented of that collateral
    2. The fair value as of the date of each statement of financial position presented of the portion of that collateral that it has sold or repledged
    3. Information about the sources and uses of that collateral.

For overall guidance on Topic 860's disclosures, see Section 860-10-50.

> Disclosures for Repurchase Agreements, Securities Lending Transactions, and Repurchase-to-Maturity Transactions

860-30-50-7 To provide an understanding of the nature and risks of short-term collateralized financing obtained through **repurchase agreements**, securities lending transactions, and **repurchase-to-maturity transactions**, that are accounted for as secured borrowings at the reporting date, an entity shall disclose the following information for each interim and annual period about the collateral pledged and the associated risks to which the transferor continues to be exposed after the transfer:

a. A disaggregation of the gross obligation by the class of collateral pledged. An entity shall determine the appropriate level of disaggregation and classes to be presented on the basis of the nature, characteristics, and risks of the collateral pledged.
    1. Total borrowings under those agreements shall be reconciled to the amount of the gross liability for repurchase agreements and securities lending transactions disclosed in accordance with paragraph 210-20-50-3(a) before any adjustments for offsetting. Any difference between the amount of the gross obligation disclosed under this paragraph and the amount disclosed in accordance with paragraph 210-20-50-3(a) shall be presented as reconciling item(s).
b. The remaining contractual maturity of the repurchase agreements, securities lending transactions, and repurchase-to-maturity transactions. An entity shall use judgment to determine an appropriate range of maturity intervals that would convey an understanding of the overall maturity profile of the entity's financing agreements.

c. A discussion of the potential risks associated with the agreements and related collateral pledged, including obligations arising from a decline in the fair value of the collateral pledged and how those risks are managed.
d. The effective interest rate of the repurchase liability.

> Counterparty Risk

860-30-50-9 If, as of the date of the most recent statement of financial position, the **amount at risk under repurchase agreements** or the **amount at risk under reverse repurchase agreements** with any individual counterparty or group of related counterparties exceeds 10 percent of stockholders' equity, an entity shall disclose the name(s) of those counterparties or group of related counterparties, the amount at risk with each, and the weighted-average maturity of the repurchase agreements or reverse repurchase agreements with each.

860-30-50-10 If the aggregate carrying amount of reverse repurchase agreements exceeds 10 percent of total assets as described in paragraph 860-30-45-2A, an entity shall disclose whether there are any provisions to ensure that the market value of the underlying assets remains sufficient to protect the entity in the event that the counterparty defaults and, if so, the nature of those provisions.

29. Amend paragraph 860-30-55-4, with a link to transition paragraph 105-10-65-6, as follows:

Implementation Guidance and Illustrations

> Illustrations

> > Example 2: Disclosures for Repurchase Agreements, Securities Lending Transactions, and Repurchase-to-Maturity Transactions Accounted for as Secured Borrowings

860-30-55-4 This Example illustrates one approach for satisfying the quantitative disclosure requirements in paragraph 860-30-50-7.

Repurchase Agreements, Securities Lending Transactions, and Repurchase-to-Maturity Transactions Accounted for as Secured Borrowings

(Dollars in millions)

	20XX				
	Remaining Contractual Maturity of the Agreements				
	Overnight and Continuous	Up to 30 days	30–90 days	Greater Than 90 days	Total
Repurchase agreements and repurchase-to-maturity transactions					
U.S. Treasury and agency securities	$ XXX	$ XXX	$ XXX	$ XXX	$ XXX
State and municipal securities	XXX	XXX	XXX	XXX	XXX
Asset-backed securities	XXX	XXX	XXX	XXX	XXX
Corporate securities	XXX	XXX	XXX	XXX	XXX
Equity securities	XXX	XXX	XXX	XXX	XXX
Non-U.S. sovereign debt	XXX	XXX	XXX	XXX	XXX
Loans	XXX	XXX	XXX	XXX	XXX
Other	XXX	XXX	XXX	XXX	XXX
Total	XXX	XXX	XXX	XXX	XXX
Weighted-average interest rate	X.XX%	X.XX%	X.XX%	X.XX%	X.XX%
Securities lending transactions					
U.S. Treasury and agency securities	XXX	XXX	XXX	XXX	XXX
State and municipal securities	XXX	XXX	XXX	XXX	XXX
Corporate securities	XXX	XXX	XXX	XXX	XXX
Equity securities	XXX	XXX	XXX	XXX	XXX
Non-U.S. sovereign debt	XXX	XXX	XXX	XXX	XXX
Loans	XXX	XXX	XXX	XXX	XXX
Other	XXX	XXX	XXX	XXX	XXX
Total	XXX	XXX	XXX	XXX	XXX
Total borrowings	$ XXX	$ XXX	$ XXX	$ XXX	$ XXX
Gross amount of recognized liabilities for repurchase agreements and securities lending in note X					$ XXX
Amounts related to agreements not included in offsetting disclosure in note X					$ XXX

Amendments to Subtopic 932-235

30. Add paragraph 932-235-50-2A, with a link to transition paragraph 105-10-65-6, as follows:

Extractive Activities—Oil and Gas—Notes to Financial Statements

Disclosure

> Publicly Traded Companies

932-235-50-2A For disclosure requirements in paragraphs 932-235-50-3 through 50-36, an entity shall:

a. Disclose information that relates to annual periods for each annual period for which a statement of comprehensive income is required.
b. Disclose information required as of the end of an annual period as of the date of each audited balance sheet required.
c. Disclose information required as of the beginning of an annual period for each annual period for which a statement of comprehensive income is required.

Amendments to Subtopic 946-20

31. Amend paragraph 946-20-50-11, with a link to transition paragraph 105-10-65-6, as follows:

Financial Services—Investment Companies—Investment Company Activities

Disclosure

> Components of Capital and Distributable Earnings

946-20-50-11 This guidance requires all investment companies to disclose ~~only~~ two components of capital on the balance sheet: shareholder capital and distributable earnings. The components of distributable earnings, on a tax basis, shall be disclosed in a note to financial statements. This information enables investors to determine the amount of accumulated and undistributed earnings they potentially could receive in the future and on which they could be taxed.

946-20-50-12 The notes shall disclose all of the following tax-basis components of distributable earnings as of the most recent tax year end:

a. Undistributed ordinary income
b. Undistributed long-term capital gains
c. Capital loss carryforwards
d. Unrealized appreciation (depreciation).

Amendments to Subtopic 974-10

32. Add Section 974-10-50, with a link to transition paragraph 105-10-65-6, as follows:

Real Estate—Real Estate Investment Trusts—Overall

Disclosure

974-10-50-1 An entity shall disclose the tax status of distributions per unit (for example, ordinary income, capital gain, and return of capital).

Amendments to Subtopic 105-10

33. Add paragraph 105-10-65-6 and its related heading as follows:

Generally Accepted Accounting Principles—Overall

Transition and Open Effective Date Information

> Transition Related to Accounting Standards Update No. 2019-XX, *Disclosure Improvements: Codification Amendments in Response to the SEC's Disclosure Update and Simplification Initiative*

105-10-65-6 The following represents the transition and effective date information related to Accounting Standards Update No. 2019-XX, *Disclosure Improvements: Codification Amendments in Response to the SEC's Disclosure Update and Simplification Initiative*:

a. For **public business entities**, the pending content that links to this paragraph shall be effective for annual periods, including interim periods within those annual periods, beginning after [date to be inserted after exposure].
b. For all other entities, the pending content that links to this paragraph shall be effective for annual periods, including interim periods within those annual periods, beginning after [date to be inserted after exposure].
c. Early application of the pending content that links to this paragraph is [to be inserted after exposure].
d. An entity shall apply the pending content that links to this paragraph prospectively to financial statements issued after the effective date.

The amendments in this proposed Update were approved for publication by the unanimous vote of the six members of the Financial Accounting Standards Board:

Russell G. Golden, *Chairman*
James L. Kroeker, *Vice Chairman*
Christine A. Botosan
Gary R. Buesser
Marsha L. Hunt
R. Harold Schroeder

Background Information and Basis for Conclusions

Introduction

BC1. The following summarizes the Board's considerations in reaching the conclusions in this proposed 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 amendments in this proposed Update would modify the disclosure or presentation requirements of a variety of Topics within the Codification. Certain of the proposed amendments represent clarifications to or technical corrections of the current requirements.

Background Information

BC3. On July 13, 2016, the SEC proposed amendments to certain of its disclosure requirements that were potentially duplicative, overlapping, or outdated in light of the SEC's other disclosure requirements, the FASB Codification, or changes in the information environment. The SEC received approximately 70 comment letters from a variety of stakeholders. The SEC issued final amendments in Release No. 33-10532, *Disclosure Update and Simplification*, on August 17, 2018, in which the SEC referred to the FASB certain of its disclosure requirements that overlap with, but require incremental information to, GAAP for potential incorporation into the Codification. The referred disclosures affect a variety of Codification Topics.

BC4. The referred disclosures originate in either Regulation S-X or Regulation S-K within the SEC's rules and regulations. Regulation S-X governs the form and content of, as well as the requirements for, financial statements filed with the SEC. In a public business entity's annual report on Form 10-K, Regulation S-X governs the information included in Item 8, Financial Statements and Supplementary Data, which includes the notes to financial statements. Regulation S-K governs the integrated disclosure requirements for the content of the nonfinancial statement portions of SEC filings, which is effectively all content outside Item 8, for example, general information related to business descriptions, properties, and legal proceedings, as well as management's discussion and analysis of financial condition and results of operations. Therefore, incorporating the incremental requirements from Regulation S-X into the Codification would not affect what currently is included in the audited financial statements of a public business entity. However, incorporating the incremental requirements from Regulation S-K into the Codification could affect what currently is included in the audited financial statements for a public business entity. Additionally, incorporating any SEC disclosure requirements into the Codification could affect the financial statements of entities other than public business entities because they are not subject to SEC disclosure requirements.

BC5. The Board issued FASB Concepts Statement No. 8, *Conceptual Framework for Financial Reporting: Chapter 8,* Notes to Financial Statements, on August 28, 2018. Chapter 8 of Concepts Statement 8 identifies a broad range of possible information for the Board to consider when deciding on the disclosure requirements for a particular topic. From that broad set, the Board generally will identify a narrower set of disclosures about that Topic to be required on the basis of, among other considerations, an evaluation of whether the expected benefits of entities providing the information will justify the expected costs. The Board considered Chapter 8 of Concepts Statement 8 in its evaluation of the referred disclosures.

BC6. In December 2013, the Board issued the *Private Company Decision-Making Framework: A Guide for Evaluating Financial Accounting and Reporting for Private Companies*, which assists the Board and the Private Company Council in determining, among other things, whether and in what circumstances to provide alternative disclosure requirements for private companies reporting under GAAP. The Board used the Private Company Decision-Making Framework, in conjunction with feedback received from the Private Company Council on the amendments in this proposed Update, to determine whether the referred disclosures should apply to entities other than public business entities.

Benefits and Costs

BC7. The objective of financial reporting is to provide information that is useful to present and potential investors, creditors, donors, and other capital market participants in making rational investment, credit, and similar resource allocation decisions. However, the benefits of providing information for that purpose should justify the related costs. Present and potential investors, creditors, donors, and other users of financial information benefit from improvements in financial reporting, while the costs to implement new guidance are borne primarily by present investors. The Board's assessment of the costs and benefits of issuing new guidance is unavoidably more qualitative than quantitative because there is no method to objectively measure the costs to implement new guidance or to quantify the value of improved information in financial statements.

BC8. The Board anticipates that the proposed disclosure requirements would be cost neutral for public business entities because those entities must comply with the SEC's guidance regardless of the Codification's disclosure requirements. Specifically, the Board noted that the proposed amendments resulting from the referred disclosures that are included in Regulation S-X would not affect audit costs of public business entities because those disclosures are already included in the audited financial statements. The proposed amendments resulting from incorporating the Regulation S-K referred disclosures into the Codification would move those disclosures from the nonfinancial statement portions of SEC filings to the notes to financial statements, but the Board anticipates that preparation costs associated with doing so would be minimal given the nature of those disclosures. The proposed amendments would provide the benefit of aligning the disclosure requirements in the Codification with the SEC's disclosure requirements, which would make GAAP easier to apply for entities that are SEC registrants.

BC9. For entities other than public business entities, there likely would be increased costs to comply with the proposed disclosure requirements. However, on the basis of feedback from the Private Company Council, the Board anticipates that those costs would not be significant, and the Board has considered and proposed exceptions to the disclosure requirements for entities other than public business entities in accordance with the Private Company Decision-Making Framework as warranted. The Board also notes that aligning disclosure requirements would improve consistency between public and other-than-public business entities, which would benefit users of other-than-public business entity financial statements and may reduce costs if a nonpublic entity decides to become a public entity. The proposed amendments would not create new accounting requirements (that is, recognition or measurement) other than additional disclosures for which information should be readily available.

Basis for Conclusions

Referred Disclosures Incorporated into the Codification

BC10. This section summarizes the Board's considerations for the decisions to propose amendments to incorporate certain referred disclosures into the Codification.

BC11. The Board evaluated each of the proposed disclosure requirements under the Private Company Decision-Making Framework to assess whether any differences in disclosure requirements were warranted for private companies. Private Company Council members provided feedback on whether certain referred disclosures would be meaningful to users of private company financial statements and whether providing the information would be costly for private company preparers. In general, the feedback from Council members who are preparers and users supported incorporating the majority of the referred disclosures into the Codification. The Board considered whether different disclosure requirements for private companies (and other nonpublic entities) were warranted for two referred disclosures that Council members did not support incorporating into the Codification (that is, disclosure of the weighted-average interest rates on short-term borrowings and disclosure of intra-entity profits and losses of related party transactions). See paragraphs BC19 and BC28 for a description of the Board's considerations.

Interim—Changes in Reporting Entity (Topic 250)

BC12. Regulation S-X Rule 10-01(b)(7) requires that an entity disclose (a) any material retroactive prior-period adjustment related to changes in reporting entities made during any period covered by interim financial statements and (b) the effect of the adjustment on net income (total and per share) and retained earnings. Regulation S-X Rule 8-03(b)(5) provides similar requirements for smaller reporting companies but does not require that an entity disclose the effect of the adjustment on retained earnings. Topic 250, Accounting Changes and Error Corrections, is not clear about whether changes in reporting entities should be disclosed in interim financial statements. Additionally, Topic 250 does not require that an entity disclose the effect of the change on retained earnings when there has been a change in the reporting entity.

BC13. The Board decided that clarifying that disclosure of changes in reporting entities should be made in interim periods and requiring that all entities disclose the effect of that change on retained earnings or other components of equity or net assets would improve the guidance in Topic 250 and align it with the guidance for a change in accounting principle in that Topic. The Board noted that the proposed amendment that would require that all entities disclose the effect of a change in reporting entity on retained earnings would increase the number of entities that provide such a disclosure because Regulation S-X Rule 8-03(b)(5) does not require that smaller reporting companies disclose the effect on retained earnings. However, the Board also noted that the change should not be costly because the effect on retained earnings would be known when an entity recasts its financial statements.

Interim—Earnings per Share (Topic 260)

BC14. Regulation S-X Rule 10-01(b)(2) requires that "the basis of the earnings per share computation shall be stated together with the number of shares used in the computation" in interim financial statements. The Board observed that paragraph 260-10-50-1 requires that an entity provide a reconciliation of the numerator and the denominator used in the computation of earnings per share "for each period for which an income statement is presented," which can be interpreted to include interim financial statements. The Board acknowledged, however, that some stakeholders could interpret that guidance to require disclosure only for each of the years for which an income statement is presented in the annual financial statements. The Board also noted that diluted earnings per share can be calculated using several different methods (that is, the treasury stock method, the reverse treasury stock method, the if-converted method, and the two-class method), depending on the facts and circumstances, and that the effects of the method used can change each period. Therefore, the Board decided that requiring that an entity disclose the methods used in the diluted earnings-per-share calculation in interim periods and clarifying that the earnings-per-share disclosures in paragraph 260-10-50-1 should be provided in interim periods would provide financial statement users with useful information about the earnings-per-share calculation.

Products or Services (Topic 280)

BC15. Regulation S-K Item 101(c)(1)(i) requires that an entity disclose each class of similar product or service that contributed to 10 percent or more of consolidated revenue. Topic 280, Segment Reporting, requires that an entity disclose the revenues for each product and service or each group of similar products and services unless it is impracticable to do so. Regulation S-K Item 101(c)(1)(i) does not include an impracticability exception. The Board decided that removing the impracticability exception from paragraph 280-10-50-40 would improve GAAP by eliminating an exception that conflicts with the requirement in Regulation S-K Item 101(c)(1)(i). The Board also observed that feedback indicated that the impracticability exception is not used often in practice because Topic 280 only applies to public business entities; therefore, an entity that applies the impracticability exception would be required to disclose the information about products or services under Regulation S-K Item 101(c)(1)(i). Therefore, the Board noted that incorporating the proposed amendment into the Codification would not significantly increase costs for preparers.

Assets Subject to Lien (Topic 440)

BC16. Regulation S-X Rule 4-08(b) requires that "assets mortgaged, pledged, or otherwise subject to lien, and the approximate amounts thereof, shall be designated and the obligations collateralized briefly identified." The Board noted that although Topic 440, Commitments, and Topic 860, Transfers and Servicing, include disclosure requirements for specific circumstances, there is no general requirement in the Codification to disclose all assets subject to lien. The Board decided that a general requirement would provide investors with useful information about all types of instances in which assets may be subject to lien.

Debt (Topic 470)

BC17. Regulation S-X Rule 5-02.19 requires that an entity disclose in the notes to financial statements the amount and terms of unused lines of credit for short-term financing. Additionally, it requires that an entity disclose the weighted-average interest rate for short-term borrowings outstanding at each balance sheet date. If the lines of credit support a commercial paper borrowing arrangement (or similar arrangement), that fact also must be disclosed. Similarly, Regulation S-X Rule 5-02.22 requires that an entity disclose the amount and terms of unused commitments for long-term financing arrangements. Topic 470, Debt, does not contain similar disclosure requirements.

BC18. The Board observed that information about existing obligations and potential obligations along with the relevant details of those obligations (for example, borrowing capacity and interest rates) provides financial statement users with important information about an entity's resources and access to resources. Investors currently rely on the availability of that information for public business entities in assessing liquidity and leverage. Therefore, the Board decided that the referred disclosures about unused lines of credit or unused commitments for both short-term and long-term financing arrangements as well as the weighted-average interest rate for short-term borrowings would provide investors with useful information.

BC19. The Board considered whether an exception for entities other than public business entities is warranted for the proposed requirement to disclose the weighted-average interest rate on short-term borrowings (that is, the proposed amendment in paragraph 470-10-50-7) on the basis of feedback from the Private Company Council. Feedback from Council members who are preparers indicated that the proposed requirement to disclose the weighted-average interest rate for short-term borrowings could be costly and complex to prepare. Council members (both preparers and users) also noted that users can estimate the weighted-average interest rate on their own by using other available information in the financial statements. Two Board members supported an exception for entities other than public business entities on the basis of that feedback and noted that users of the financial statements could apply the red-flag approach as described in the Private Company Decision-Making Framework to obtain additional information about weighted-average interest rates as needed. However, the other Board members did not support an exception. One of those Board members noted that, in other than very simple situations, users would be unable to accurately estimate weighted-average interest rates when short-term borrowings fluctuate significantly during a reporting period (for example, in the case of revolving lines of credit when the amount borrowed is material and fluctuates significantly). Therefore, the Board decided that the proposed amendment in paragraph 470-10-50-7 would apply to all entities.

Preferred Shares (Topic 505)

BC20. Regulation S-X Rule 4-08(d) states that "aggregate preferences on involuntary liquidation, if other than par or stated value, shall be shown parenthetically in the equity section of the balance sheet." Topic 505, Equity, has a similar disclosure requirement with a slight variation. Paragraph 505-10-50-4 requires disclosure if the preference on involuntary liquidation is "considerably in excess" of the par or stated value. The Board noted that the term *considerably in excess* is subjective and may require an entity to exercise judgment to determine whether it is required to provide that disclosure. That judgment may lead to variations in the quality and quantity of disclosures made about preferences on involuntary liquidation. The Board decided that the proposed amendment to paragraph 505-10-50-4 would simplify existing GAAP and improve the consistency of disclosures related to preferences on involuntary liquidation.

Interim—Common Control Transactions (Topic 805)

BC21. Regulation S-X Rule 10-01(b)(3) requires "supplemental disclosure of the separate results of the combined entities for periods prior to the combination" when a combination between entities under common control occurs in an interim period. Topic 805, Business Combinations, has various disclosure requirements about separate results of combined entities; however, it does not address disclosure requirements for a combination of entities under common control in an interim period. The Board decided that the proposed requirement to disclose the separate results of combined entities for periods before the combination would improve GAAP because it would provide users with supplemental information about the entities' financial statement results before they were combined. The Board noted that in some cases users would have the entities' financial statements before they were combined. However, certain investors and potential investors would not have that information. Additionally, the Board noted that the proposed disclosure would be consistent with the overall disclosure objectives in Topic 805 of providing users with the information necessary to evaluate the nature and financial effect of a business combination. The Board noted that it would not be costly for an entity to provide the information because entities would have the information from their previously prepared separate financial statements.

Consolidation (Topic 810)

BC22. Regulation S-X Rule 3A-03(b) requires that entities newly included in or excluded from consolidated financial statements be disclosed by name if they have a material effect on the financial statements. Topic 810, Consolidation, includes certain disclosure requirements about changes in consolidation conclusions for variable interest entities, but it does not require a similar disclosure for voting interest entities and does not require disclosure of the names of newly included or excluded entities. Additionally, Topic 805 contains disclosure requirements about acquired entities that achieve similar objectives to Regulation S-X Rule 3A-03(b).

BC23. Although the information on newly consolidated entities is generally available in Topics 805 and 810, the Board noted that there are no required disclosures on newly deconsolidated entities that are not variable interest entities. The Board decided to include the referred disclosure in Topic 810 because of the benefits of an explicit requirement to disclose all newly consolidated and deconsolidated entities in a single Topic. In addition, the Board decided that requiring the names of newly consolidated and deconsolidated entities would provide context to the disclosure that a new entity is included or excluded from the consolidated financial statements. Some investors indicated that disclosing the associated dates of the consolidation or deconsolidation also would be useful, but the Board concluded that, if material, such information already would be required by other Topics, such as Topic 805, and it would be unnecessary to repeat that information.

Derivative Accounting Policies (Topic 815)

BC24. Regulation S-X Rule 4-08(n)(7), before the amendments resulting from Release No. 33-10532, requires that an entity disclose “where and when derivative financial instruments and derivative commodity instruments, and their related gains and losses, are reported in the statements of financial position, cash flows, and results of operations,” whereas Topic 815, Derivatives and Hedging, only requires those disclosures for the statement of financial position and results of operations. The Board decided that requiring that an entity disclose where derivative financial instruments and their related gains and losses are reported in the statement of cash flows would improve Topic 815 because it would provide information about the effect of derivatives on all relevant measures of financial performance, not only the statement of financial position and results of operations.

Foreign Currency (Topic 830)

BC25. Regulation S-X Rule 3-20(d) addresses how to determine the functional currency of a reporting entity and how to translate the functional currency financial statements of a reporting entity into a reporting currency that is different from its functional currency. Topic 830, Foreign Currency Matters, also provides guidance on how to determine the functional currency of an entity and how to translate the functional currency financial statements into a reporting currency; however, Topic 830 can be interpreted to apply only to foreign subsidiaries of a reporting entity because it does not explicitly address the functional currency determination of the reporting entity itself. The Board observed that most entities that report under GAAP have a functional currency that is the same as their reporting currency but that certain reporting entities, such as foreign private issuers registered with the SEC, may decide to present their financial statements in U.S. dollars even though their functional currency is some other currency. The Board noted that IFRS Standards contain guidance on determining the functional currency of a parent entity. Paragraph 17 of IAS 21, *The Effects of Changes in Foreign Exchange Rates,* states that “each entity—whether a stand-alone entity, an entity with foreign operations (such as a parent) or a foreign operation (such as a subsidiary or branch)—determines its functional currency in accordance with paragraphs 9–14.” The guidance in paragraphs 9 through 14 of IAS 21 is consistent with the functional currency determination guidance in Topic 830.

BC26. The Board decided that clarifying the functional currency determination of a reporting entity and providing guidance on how to translate the functional currency financial statements of a reporting entity into a reporting currency that is different from its functional currency would remove any existing diversity in practice and more closely align GAAP with IFRS Standards.

Intra-Entity Profits and Losses (Topic 850)

BC27. Regulation S-X Rule 4-08(k)(2) requires disclosure in separate financial statements of any intra-entity profits or losses resulting from transactions with related parties. Topic 850, Related Party Disclosures, requires various disclosures about transactions with related parties, but it does not require disclosure of intra-entity profits or losses in separate financial statements. The Board noted that under the existing requirements in Topic 850, an entity must disclose the dollar amounts of transactions affecting the income statement. Therefore, the Board decided that requiring an entity to disclose the associated profit or loss resulting from transactions with other entities in the consolidated or combined financial statements in separate financial statements would not result in significant incremental cost or effort and would enhance the usefulness of separate financial statements by providing additional context about the economics of related party transactions.

BC28. The Board decided that an exception for entities other than public business entities would be warranted for the proposed amendment to require disclosure of profits and losses resulting from transactions with other entities in the consolidated or combined financial statements in separate financial statements on the basis of the Private Company Decision-Making Framework and feedback from the Private Company Council. Council members who are preparers indicated that existing related party disclosure requirements in Topic 850 provide users with sufficient information about the existence and magnitude of related party transactions and noted that users of the financial statements could apply the red-flag approach as described in the Private Company Decision-Making Framework to obtain additional information about profits and losses of those transactions. The Board decided that the costs of preparing and auditing the information would outweigh the expected benefits for private company financial statement users. The Board also decided to extend the exception to other nonpublic business entities because the need for and access to the information is similar.

Repurchase and Reverse Repurchase Agreements (Topic 860)

BC29. Regulation S-X Rule 4-08(m) includes several presentation and disclosure requirements for repurchase agreements and reverse repurchase agreements that are incremental to the requirements in Topic 860. That is, Regulation S-X Rule 4-08(m) requires the disclosure of the liability (including accrued interest payable), the associated interest rate, amounts at risk with an individual counterparty if that amount exceeds more than 10 percent of stockholders' equity, reverse repurchase agreements in which the aggregate carrying amount exceeds 10 percent of total assets, and whether there are any provisions in a reverse repurchase agreement to ensure that the market value of the underlying assets remains sufficient to protect against counterparty default. The Board decided to propose amendments to incorporate the referred disclosures into the Codification because repurchase agreements and reverse repurchase agreements are complex transactions and because the Board decided that the proposed disclosures would provide financial statement users with useful information about those transactions.

BC30. The proposed amendment in paragraph 860-30-45-2 would clarify that accrued interest should be included in the presentation of the repurchase agreement liability. The Board decided that this clarification would reduce diversity in practice. The Board also decided to require disclosure of the interest rate on the repurchase liability to further enhance the information provided. The proposed amendment in paragraph 860-30-45-2A would require that reverse repurchase agreements be classified separately if the carrying amount exceeds 10 percent of total assets, which would be consistent with the existing requirement in paragraph 860-30-45-2 to classify separately repurchase agreement liabilities (albeit without the 10 percent of total assets threshold). The Board considered whether to require or adjust the bright-line threshold of 10 percent of total assets. The Board noted that repurchase agreements are most often entered into by financial institutions, but reverse repurchase agreements are entered into by various types of entities. Therefore, the Board noted that having a threshold in the guidance would require the disclosure only for those entities that have significant reverse repurchase agreements.

BC31. The Board also decided that the proposed amendments on counterparty risk in paragraphs 860-30-50-9 through 50-10 would provide financial statement users with important decision-useful information about those risks.

Oil- and Gas-Producing Activities (Topic 932)

BC32. Regulation S-K Item 302(b) provides requirements for supplemental financial information for oil- and gas-producing activities for SEC registrants and specifies that compliance with Subtopic 932-235, Extractive Activities—Oil and Gas—Notes to Financial Statements, is required for all periods presented in the applicable financial statements. Although Subtopic 932-235, like most other Topics and Subtopics within the Codification, does not specify that the requirements are required for all periods presented, it is widely interpreted and applied that way in practice. The Board decided that clarifying that the supplemental information in Subtopic 932-235 would be required for all periods presented would improve GAAP by removing any ambiguity. The Board also noted that the clarification would not be costly for preparers because they would have the information from when it was disclosed in prior periods.

Technical Correction for Investment Companies (Topic 946)

BC33. The SEC staff recommended that the Board clarify the requirements in paragraph 946-20-50-11 because the language conflicts with the illustrative example in paragraph 946-830-55-12. Paragraph 946-20-50-11 states:

> This guidance requires all investment companies to disclose only two components of capital on the balance sheet: shareholder capital and distributable earnings. The components of distributable earnings, on a tax basis, shall be disclosed in a note to the financial statements. This information enables investors to determine the amount of accumulated and undistributed earnings they potentially could receive in the future and on which they could be taxed.

However, the example illustration in paragraph 946-830-55-12 disaggregates the components of distributable earnings on the balance sheet, which contradicts the term *only* in paragraph 946-20-50-11. The Board noted that paragraph 946-20-50-11 provides minimum requirements rather than providing prescriptive requirements with the use of the term *only.* The Board determined that deleting the term *only* would result in improved clarity of Subtopic 946-20, Financial Services—Investment Companies—Investment Company Activities, and remove any perceived inconsistency in the Codification.

Real Estate Investment Trusts (Topic 974)

BC34. Regulation S-X Rule 3-15(c) requires that a real estate investment trust (REIT) disclose the tax status of distributions per unit (for example, ordinary income and capital gain). Investors' feedback provided to the Board indicated that although current investors have access to tax forms that provide such information, potential investors would benefit from information about the tax status of distributions before they decide to invest. Therefore, the Board decided to propose a requirement to disclose the tax status of distributions per unit for REITs. The Board also considered whether the scope of the referred disclosure should be expanded to include other types of pass-through entities but determined that existing disclosure requirements in other Topics are sufficient. For example, Topic 946, Financial Services—Investment Companies, requires investment companies, which represent a significant type of pass-through entity, to disclose the tax status of dividends in accordance with paragraph 946-20-50-8.

Referred Disclosures Not Incorporated into the Codification

BC35. This section summarizes the Board's considerations for the decisions not to incorporate certain referred disclosures into the Codification.

BC36. Regulation S-K Item 201(d) requires that an entity disclose the formula, if any, for calculating the number of shares available for issuance under an equity compensation plan. The Board noted that Topic 718, Compensation—Stock Compensation, requires the number of shares available for issuance to be disclosed. Feedback from some investors indicated that the formula for calculating the number of shares available for issuance under an equity compensation plan is not meaningful because an entity's board of directors has the authority to increase the number of shares available for issuance if, and when, needed (subject to shareholder or other approval where applicable). Some Board members disagreed with that feedback and indicated that this disclosure provides investors with decision-useful information. The Board decided that whether or not the formula for calculating the number of shares available for issuance under an equity compensation plan is meaningful, that disclosure is more appropriately provided outside the financial statements. Therefore, the Board decided not to add to the Codification a requirement to disclose the formula for calculating the number of shares available for issuance under an equity compensation plan.

BC37. Regulation S-X Rule 4-07 requires that discounts on shares (or any unamortized balance) be shown separately as a deduction from equity accounts either on the face of the balance sheet or in the notes to financial statements. The Board noted that the disclosure requirement in Regulation S-X Rule 4-07 was important under previous accounting practice in which stock issuance costs were amortized, which no longer is permitted under current GAAP. The Board observed that there is an existing requirement in Topic 230, Statement of Cash Flows, to disclose stock issuance costs in the period of issuance, which provides users with sufficient information about the existence of those discounts. The Board also noted that other discounts to par or stated value (aside from issuance costs) are addressed by other disclosure requirements in the Codification. Therefore, the Board decided not to incorporate the referred disclosure into the Codification.

BC38. Regulation S-K Item 101(c) requires that an entity disclose the name of any customer that represents more than 10 percent of the entity's consolidated revenues. Topic 280 also requires that an entity disclose the existence of major customers and utilizes a 10 percent threshold in defining a major customer. However, Topic 280 specifically states that an entity need not disclose the identity of major customers. Paragraph D32 of Chapter 8 of Concepts Statement 8 outlines potential adverse consequences that the Board should consider when determining whether to require a particular disclosure, and one such adverse consequence is competitive harm. The Board considered whether the disclosure of the names of major customers (absent the SEC's disclosure requirement) could result in competitive harm to entities subject to the disclosure. Some Board members supported that notion, while other Board members indicated that the risk of competitive harm has been reduced because public business entities already provide the names of major customers to comply with Regulation S-K Item 101(c). The Board decided that the objective of disclosing information about major customers is to signal the existence of concentration risk and that the existing disclosure requirement in paragraph 280-10-50-42 provides users with sufficient information about concentration risk without disclosing the names of customers. Therefore, the Board decided not to incorporate the names of major customers into the requirements in Topic 280 of the Codification. The Board acknowledged investors' feedback that indicated that the disclosure of the names of major customers is important to investors and provides useful information, but the Board decided that the disclosure is more appropriately provided outside the financial statements.

BC39. Regulation S-X Rule 4-08(f) requires that an entity disclose any significant changes in the authorized or issued amounts of bonds, mortgages, or similar debt since the date of the latest balance sheet. The Board noted that the issuance of a bond or debt after the balance sheet date but before the financial statements are issued is included as an example in Topic 855, Subsequent Events, of a nonrecognized subsequent event that should be disclosed; however, changes in the authorized amounts of bonds is not mentioned as an example. Feedback from both preparers and users indicated that information about changes in the authorized amount of debt does not provide decision-useful information and that an entity's board of directors likely would need to approve the terms of the issuance of significant debt even if there is authorized debt outstanding. Additionally, the Board noted that if a preparer determines that, given its facts and circumstances, changes in the authorized amount of debt after the balance sheet date but before the financial statements are issued has a material effect on the financial statements, the preparer would be required to disclose that information in accordance with the existing requirements in Topic 855. Therefore, the Board decided not to incorporate into the Codification the disclosure of changes in the authorized amount of debt as a prescribed subsequent event.

BC40. Regulation S-X Rule 4-08(k)(1) states that "amounts of related party transactions should be stated on the face of the balance sheet, statement of comprehensive income, or statement of cash flows." The Board decided that the disclosure requirements in Topic 850 provide an appropriate level of detail for material related party transactions that allows users to understand the nature of those transactions and whether terms other than arm's length were offered. The Board decided that no additional benefit would be provided to users by including this information on the face of the financial statements. Therefore, the Board decided not to incorporate the referred disclosure into the Codification.

Other Referred Disclosures Not Included in This Update

BC41. One referred disclosure about debt in default was already exposed by the Board in proposed Accounting Standards Update, *Debt (Topic 470): Simplifying the Classification of Debt in a Classified Balance Sheet (Current versus Noncurrent)*, which was issued in January 2017. Additionally, two referred disclosures about income taxes were exposed by the Board in revised proposed Accounting Standards Update, *Income Taxes (Topic 740): Disclosure Framework—Changes to the Disclosure Requirements for Income Taxes*, which was issued in March 2019. Because those referred disclosures are being considered as part of existing technical agenda projects, the Board did not make decisions about those referred disclosures as part of this proposed Update.

Effective Date and Transition

BC42. The Board will determine the effective date and whether early application of the amendments in this proposed Update should be permitted after it considers stakeholders' feedback on the proposed amendments.

BC43. The Board decided that an entity would apply the amendments in this proposed Update prospectively to financial statements issued after the effective date. The Board noted that there should be no transition necessary for public business entities to apply the proposed amendments resulting from incorporating the Regulation S-X referred disclosures into the Codification because they already are required to comply with the SEC's disclosure requirements. A minor transition would be necessary for public business entities to apply the proposed amendments resulting from incorporating the Regulation S-K referred disclosures into the Codification because although they already are required to comply with the SEC's disclosure requirements, the disclosures would need to be moved from the nonfinancial statement portions of SEC filings to the notes to financial statements. The Board noted that transition to the proposed disclosure requirements would be costlier for entities other than public business entities because they would not have been required to comply with the SEC's disclosure requirements in Regulation S-X and Regulation S-K previously and the proposed amendments would require that an entity disclose new information. A prospective transition method would prevent entities other than public business entities from incurring additional costs to provide the new information for comparative periods. Although retrospective application for entities other than public business entities would improve the comparability of financial information across all periods presented, the Board decided that the benefits of greater comparability would not justify the additional costs.

Amendments to the XBRL Taxonomy

The provisions of this Exposure Draft, if finalized as proposed, would require improvements to the U.S. GAAP Financial Reporting Taxonomy (Taxonomy). We welcome comments on these proposed improvements to the Taxonomy through Proposed Taxonomy Improvements provided at www.fasb.org. After the FASB has completed its deliberations and issued a final Accounting Standards Update, the proposed improvements to the Taxonomy will be finalized as part of the annual release process.