FASB EXPOSURE DRAFT

Proposed Accounting Standards Update

Issued: October 30, 2014
Comments Due: January 15, 2015

Fair Value Measurement (Topic 820)

Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)

a consensus of the FASB Emerging Issues Task Force

This Exposure Draft of a proposed Accounting Standards Update of Topic 820 is issued by the Board for public comment. Comments can be provided using the electronic feedback form available on the FASB website. Written comments should be addressed to:

Technical Director
File Reference No. EITF-14B

Financial Accounting Standards Board

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.

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

The Board invites comments on all matters in this Exposure Draft and is requesting comments by January 15, 2015. 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 a written letter to director@fasb.org, File Reference No. EITF-14B
- Sending written comments to "Technical Director, File Reference No. EITF-14B, FASB, 401 Merritt 7, PO Box 5116, Norwalk, CT 06856-5116."

Do not send responses by fax.

All comments received are part of the FASB's public file. The FASB will make all comments publicly available by posting them to the online public reference room portion of its website.

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FASB FINANCIAL ACCOUNTING STANDARDS BOARD

Proposed Accounting Standards Update

Fair Value Measurement (Topic 820)

Disclosures for Investments in Certain Entities that Calculate Net Asset Value per Share (or Its Equivalent)

October 30, 2014

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Summary and Questions for Respondents

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

Topic 820, Fair Value Measurement, permits a reporting entity, as a practical expedient, to estimate the fair value of certain investments that calculate net asset value per share using the net asset value of the investment. Currently, investments valued using the practical expedient are categorized within the fair value hierarchy on the basis of whether the investment is redeemable with the investee at net asset value on the measurement date, never redeemable with the investee at net asset value, or redeemable with the investee at net asset value at a future date. For investments that are redeemable with the investee at a future date, a reporting entity must take into account the length of time until those investments become redeemable to determine the classification within the fair value hierarchy.

There is diversity in practice related to how certain investments measured at net asset value with redemption dates in the future (including periodic redemption dates) are categorized within the fair value hierarchy. The objective of this proposed Update is to address that diversity in practice.

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

The scope of this proposed Update is limited to reporting entities that elect to estimate the fair value of an investment within the scope of paragraphs 820-10-15-4 through 15-5 using the net asset value (or its equivalent) of the investment.

What Are the Main Provisions?

The amendments in this proposed Update would remove the requirement to categorize within the fair value hierarchy investments for which fair values are measured at net asset value using the practical expedient.

The proposed amendments also would remove the requirement to make certain disclosures for all investments that are eligible to be measured at fair value using the net asset value practical expedient. Rather, those disclosures would be limited to investments for which the entity has elected to estimate the fair value using that practical expedient.

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

Current GAAP requires that investments for which fair value is measured at net asset value (or its equivalent) using the practical expedient in Topic 820 be categorized within the fair value hierarchy using criteria that differ from the criteria used to categorize other fair value measurements within the hierarchy.

Under the proposed amendments, investments for which fair value is measured at net asset value (or its equivalent) using the practical expedient no longer would be categorized in the fair value hierarchy. Removing those investments from the fair value hierarchy not only would eliminate the diversity in practice in how investments measured at net asset value (or its equivalent) with future redemption dates are classified, but also would ensure that all investments categorized in the fair value hierarchy would be classified using a consistent approach.

A reporting entity would continue to disclose information on investments for which fair value is measured at net asset value (or its equivalent) using the practical expedient to help users understand the nature and risks of the investments.

When Would the Amendments Be Effective?

The amendments in this proposed Update would be applied retrospectively to all periods presented beginning in an entity’s fiscal year of adoption. The retrospective approach would require investments for which fair value is measured at net asset value using the practical expedient to be removed from the fair value hierarchy in all periods presented in the entity’s financial statements. The effective date will be determined after the Task Force considers stakeholder feedback on the proposed Update.

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

IFRS does not provide a practical expedient to measure the fair value of certain investments at net asset value. As such, both current GAAP and the proposed amendments differ from IFRS.

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: Should investments for which fair values are measured at net asset value (or its equivalent) using the practical expedient be excluded from categorization within the fair value hierarchy? If not, why not and how should those investments be categorized?

Question 2: Should the scope of the disclosures required in paragraph 820-10-50-6A be limited to only investments measured at net asset value (or its equivalent) using the practical expedient rather than all investments that are eligible to be measured at net asset value (or its equivalent) using the practical expedient? If not, why not?

Question 3: Should any other disclosures be required for investments for which fair values are measured at net asset value (or its equivalent) using the practical expedient?

Question 4: Should the proposed amendments be applied retrospectively? If not, why not?

Question 5: How much time would be needed to implement the proposed amendments? Should early adoption be permitted?

Question 6: Do entities other than public business entities (that is, private companies and not-for-profit entities) need additional time to apply the proposed amendments? Why or why not?

Amendments to the *FASB Accounting Standards Codification*®

Introduction

1. The Accounting Standards Codification is amended as described in paragraphs 2–5. In some cases, to put the change into 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 Subtopic 820-10

2. Amend paragraph 820-10-35-54B and its related heading, with a link to transition paragraph 820-10-65-10, as follows:

Fair Value Measurement—Overall

Subsequent Measurement

~~> >~~ > ~~Categorizing~~ Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent) ~~within the Fair Value Hierarchy~~

820-10-35-54B ~~Categorization within the fair value hierarchy of a fair value measurement of an~~ An investment within the scope of paragraphs 820-10-15-4 through 15-5 for which fair value ~~that~~ is measured at **net asset value per share** (or its equivalent, for example member units or an ownership interest in partners' capital to which a proportionate share of net assets is attributed) using the practical expedient in paragraph 820-10-35-59 should not be categorized within the fair value hierarchy. In addition, the disclosure requirements in paragraph 820-10-50-2 do not apply to that investment. Disclosures required for an investment measured at net asset value per share (or its equivalent) using the practical expedient are described in paragraph 820-10-50-6A. Although the investment is not categorized within the fair value hierarchy, a reporting entity shall provide the amount measured at net asset value related to that investment to permit reconciliation of the fair value of investments included in the fair value hierarchy to the line items presented in the statement of financial position in accordance with paragraph 820-10-50-2B.~~requires judgment, considering the following:~~

a. Subparagraph superseded by Accounting Standards Update 2015-XX. ~~If a reporting entity has the ability to redeem its investment with the investee at net asset value per share (or its equivalent) at the measurement date, the fair value measurement of the investment shall be categorized within Level 2 of the fair value hierarchy.~~
b. Subparagraph superseded by Accounting Standards Update 2015-XX. ~~If a reporting entity will never have the ability to redeem its investment with the investee at net asset value per share (or its equivalent), the fair value measurement of the investment shall be categorized within Level 3 of the fair value hierarchy.~~
c. Subparagraph superseded by Accounting Standards Update 2015-XX. ~~If a reporting entity cannot redeem its investment with the investee at net asset value per share (or its equivalent) at the measurement date but the investment may be redeemable with the investee at a future date (for example, investments subject to a lockup or gate or investments whose redemption period does not coincide with the measurement date), the reporting entity shall take into account the length of time until the investment will become redeemable in determining whether the fair value measurement of the investment shall be categorized within Level 2 or Level 3 of the fair value hierarchy. For example, if the reporting entity does not know when it will have the ability to redeem the investment or it does not have the ability to redeem the investment in the near term at net asset value per share (or its equivalent), the fair value measurement of the investment shall be categorized within Level 3 of the fair value hierarchy.~~

3. Amend paragraph 820-10-50-6A, with a link to transition paragraph 820-10-65-10, as follows:

Disclosure

> Fair Value Measurements of Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)

820-10-50-6A For investments that are within the scope of paragraphs 820-10-15-4 through 15-5 ~~(regardless of whether~~ for which the practical expedient in paragraph 820-10-35-59 has been applied~~applied)~~ and that are measured at fair value on a recurring or nonrecurring basis during the period, a reporting entity shall disclose information that helps users of its financial statements to understand the nature and risks of the investments and whether the investments are probable of being sold at amounts different from **net asset value per share** (or its equivalent, such as member units or an ownership interest in partners' capital to which a proportionate share of net assets is attributed). To meet that objective, to the extent applicable, a reporting entity shall disclose, at a minimum, the following information for each class of investment:

a. The fair value measurement (as determined by applying paragraphs 820-10-35-59 through 35-62) of the investments in the class at the reporting date and a description of the significant investment strategies of the investee(s) in the class.
b. For each class of investment that includes investments that can never be redeemed with the investees, but the reporting entity receives distributions through the liquidation of the underlying assets of the investees, the reporting entity's estimate of the period of time over which the underlying assets are expected to be liquidated by the investees.
c. The amount of the reporting entity's unfunded commitments related to investments in the class.
d. A general description of the terms and conditions upon which the investor may redeem investments in the class (for example, quarterly redemption with 60 days' notice).
e. The circumstances in which an otherwise redeemable investment in the class (or a portion thereof) might not be redeemable (for example, investments subject to a lockup or gate). Also, for those otherwise redeemable investments that are restricted from redemption as of the reporting entity's measurement date, the reporting entity shall disclose its estimate of when the restriction from redemption might lapse. If an estimate cannot be made, the reporting entity shall disclose that fact and how long the restriction has been in effect.
f. Any other significant restriction on the ability to sell investments in the class at the measurement date.
g. Subparagraph superseded by Accounting Standards Update 2015-XX.~~If a reporting entity determines that it is probable that it will sell an investment(s) for an amount different from net asset value per share (or its equivalent) as described in paragraph 820-10-35-62, the reporting entity shall disclose the total fair value of all investments that meet the criteria in paragraph 820-10-35-62 and any remaining actions required to complete the sale.~~
h. If a group of investments would otherwise meet the criteria in paragraph 820-10-35-62 but the individual investments to be sold have not been identified (for example, if a reporting entity decides to sell 20 percent of its investments in private equity funds but the individual investments to be sold have not been identified), so the investments continue to qualify for the practical expedient in paragraph 820-10-35-59, the reporting entity shall disclose its plans to sell and any remaining actions required to complete the sale(s).

4. Amend paragraphs 820-10-55-100 and 820-10-55-107 and its related heading, with a link to transition paragraph 820-10-65-10, as follows:

Implementation Guidance and 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 to the line items 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/X9**	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**	**Total Gains (Losses)**
Recurring fair value measurements					
Trading securities [a]					
Equity securities—real estate industry	$ 93	$ 70	$ 23		
Equity securities—oil and gas industry	45	45			
Equity securities—other	15	15			
Total trading securities	$ 153	$ 130	$ 23		
Available-for-sale debt securities					
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		
Total available-for-sale debt securities	$ 412	$ 94	$ 108	$ 210	
Available-for-sale equity securities [a]					
Financial services industry	$ 150	$ 150			
Healthcare industry	110	110			
Other	15	15			
Total available-for-sale equity securities	$ 275	$ 275			
Total available-for-sale securities	$ 687	$ 369	$ 108	$ 210	
Hedge fund investments					
Equity long/short	$ 55		$ 55		
Global opportunities	35		35		
High-yield debt securities	90			$ 90	
Hedge fund investments measured at net asset value [f]	30				
Total hedge fund investments	$ 210 ~~180~~		$ 90	$ 90	
Other investments					
Private equity fund investments [b]	$ 25			$ 25	
Direct venture capital: healthcare [a]	53			53	
Direct venture capital: energy [a]	32			32	
Other investments measured at net asset value [f]	45				
Total other investments	$ 155 ~~110~~			$ 110	
Derivatives					
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 ~~1,366~~	$ 577	$ 341	$ 448	
Nonrecurring fair value measurements					
Long-lived assets held and used [c]	$ 75		$ 75		$ (25)
Goodwill [d]	30			$ 30	(35)
Long-lived assets held for sale [e]	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 were measured at net asset value per share (or its equivalent) 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 line items presented in the statement of financial position.

(Note: For liabilities, a similar table should be presented.)

> > > Case D: Disclosure—Fair Value Measurements of Investments ~~in Certain Entities That Calculate~~That Are Measured at Net Asset Value per Share (or Its Equivalent) as a Practical Expedient

820-10-55-107 For investments that are within the scope of paragraphs 820-10-15-4 through 15-5 and that are measured at net asset value per share as a practical expedient for measuring~~measured at~~ fair value during the period~~, in addition to the disclosures required in paragraphs 820-10-50-1 through 50-2~~, this Topic requires a reporting entity to disclose information that helps users to understand the nature, characteristics, and risks of the investments by class and whether the investments are probable of being sold at amounts different from net asset value per share (or its equivalent, such as member units or an ownership interest in partners' capital to which a proportionate share of net assets is attributed) (see paragraph 820-10-50-6A). That information may be presented as follows. (The classes presented below are provided as examples only and are not intended to be treated as a template. The classes disclosed should be tailored to the nature, characteristics, and risks of the reporting entity's investments.)

	Fair Value (in millions)	Unfunded Commitments	Redemption Frequency (If Currrently Eligible)	Redemption Notice Period
Equity long/short hedge funds [(a)]	$ 55		quarterly	30–60 days
Event driven hedge funds [(b)]	45		quarterly, annually	30–60 days
Global opportunities hedge funds [(c)]	35		quarterly	30–45 days
Multi-strategy hedge funds [(d)]	40		quarterly	30–60 days
Real estate funds [(e)]	47	$ 20		
~~Private equity funds—international~~ [(f)]	~~43~~	~~15~~		
Total	$ 222 ~~265~~	$ 20 ~~35~~		

a. This class includes investments in hedge funds that invest both long and short primarily in U.S. common stocks. Management of the hedge funds has the ability to shift investments from value to growth strategies, from small to large capitalization stocks, and from a net long position to a net short position. The fair values of the investments in this class have been estimated using the net asset value per share of the investments. Investments representing approximately 22 percent of the value of the investments in this class cannot be redeemed because the investments include restrictions that do not allow for redemption in the first 12 to 18 months after acquisition. The remaining restriction period for these investments ranged from three to seven months at December 31, 20X3.

b. This class includes investments in hedge funds that invest in approximately 60 percent equities and 40 percent bonds to profit from economic, political, and government driven events. A majority of the investments are targeted at economic policy decisions. The fair values of the investments in this class have been estimated using the net asset value per share of the investments.

c. This class includes investments in hedge funds that hold approximately 80 percent of the funds' investments in non-U.S. common stocks in the healthcare, energy, information technology, utilities, and telecommunications sectors and approximately 20 percent of the funds' investments in diversified currencies. The fair values of the investments in this class have been estimated using the net asset value per share of the investments. For one investment, valued at $8.75 million, a gate has been imposed by the hedge fund manager and no redemptions are currently permitted. This redemption restriction has been in place for six months and the time at which the redemption restriction might lapse cannot be estimated.

d. This class invests in hedge funds that pursue multiple strategies to diversify risks and reduce volatility. The hedge funds' composite portfolio for this class includes investments in approximately 50 percent U.S. common stocks, 30 percent global real estate projects, and 20 percent arbitrage investments. The fair values of the investments in this class have been estimated using the net asset value per share of the investments. Investments representing approximately 15 percent of the value of the investments in this class cannot be redeemed because the investments include restrictions that do not allow for redemption in the first year after acquisition. The remaining restriction period for these investments ranged from four to six months at December 31, 20X3.

e. This class includes several real estate funds that invest primarily in U.S. commercial real estate. The fair values of the investments in this class have been estimated using the net asset value of the Company's ownership interest in partners' capital. These investments can never be redeemed with the funds. Distributions from each fund will be received as the underlying investments of the funds are liquidated. It is estimated that the underlying assets of the fund will be liquidated over the next 7 to 10 years. Twenty percent of the total investment in this class is planned to be sold. However, the individual investments that will be sold have not yet been determined. Because it is not probable that any individual investment will be sold, the fair value of each individual investment has been estimated using the net asset value of the Company's ownership interest in partners' capital. Once it has been determined which investments will be sold and whether those investments will be sold individually or in a group, the investments will be sold in an auction process. The investee fund's management must approve of the buyer before the sale of the investments can be completed.

f. Footnote superseded by Accounting Standards Update 2015-XX.~~This class includes several private equity funds that invest primarily in foreign technology companies. These investments can never be redeemed with the funds. Instead, the nature of the investments in this class is that distributions are received through the liquidation of the underlying assets of the fund. If these investments were held, it is estimated that the underlying assets of the~~

~~fund would be liquidated over 5 to 8 years. However, as of December 31, 20X3, it is probable that all of the investments in this class will be sold at an amount different from the net asset value of the Company's ownership interest in partners' capital. Therefore, the fair values of the investments in this class have been estimated using recent observable transaction information for similar investments and non-binding bids received from potential buyers of the investments. As of December 31, 20X3, a buyer (or buyers) for these investments has not yet been identified. Once a buyer has been identified, the investee fund's management must approve of the buyer before the sale of the investments can be completed.~~

5. Add paragraph 820-10-65-10 and its related heading as follows:

<u>**> Transition Related to Accounting Standards Update No. 2015-XX, *Fair Value Measurement (Topic 820): Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)***</u>

<u>**820-10-65-10** The following represents the transition and effective date information related to Accounting Standards Update No. 2015-XX, *Fair Value Measurement (Topic 820): Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent):*</u>

- <u>a. The pending content that links to this paragraph shall be effective for fiscal years, and interim periods within those years, beginning after [date to be inserted after exposure].</u>
- <u>b. The pending content that links to this paragraph shall be applied retrospectively to all periods presented.</u>
- <u>c. An entity shall provide the disclosures in paragraph 250-10-50-1(a) in the first interim and annual period the entity adopts the pending content that links to this paragraph.</u>

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

Russell G. Golden, *Chairman*
James L. Kroeker, *Vice Chairman*
Daryl E. Buck
Thomas J. Linsmeier
R. Harold Schroeder
Marc A. Siegel
Lawrence W. Smith

Background Information and Basis for Conclusions

Introduction

BC1. The following summarizes the Task Force's considerations in reaching the conclusions in this proposed Update. It includes the Board's basis for ratifying the Task Force conclusions when needed to supplement the Task Force's considerations. It also includes reasons for accepting certain approaches and rejecting others. Individual Task Force and Board members gave greater weight to some factors than to others.

Background Information

BC2. Topic 820 permits a reporting entity, as a practical expedient, to estimate the fair value of certain investments that calculate net asset value per share using the net asset value of the investment. In practice, it is common for entities that make investments in investment companies to measure those investments at net asset value using the practical expedient. Investments valued using the practical expedient are categorized within the fair value hierarchy on the basis of whether the investment is redeemable with the investee at net asset value on the measurement date, never redeemable with the investee at net asset value, or redeemable with the investee at net asset value at a future date.

BC3. The categorization within the fair value hierarchy of investments in certain entities that calculate net asset value (or its equivalent) is discussed in paragraph 820-10-35-54B. Currently, investments that are redeemable at the measurement date at net asset value (or its equivalent) are categorized in Level 2, and investments that will never be redeemable at net asset value (or its equivalent) are categorized in Level 3. However, for investments that are not redeemable at net asset value (or its equivalent) on the measurement date but become redeemable at a future date, paragraph 820-10-35-54B requires that reporting entities take into account the length of time until those investments become redeemable to determine whether to categorize the investment in Level 2 or Level 3. If the future redemption dates are unknown or not in the near term, the investment is categorized in Level 3.

BC4. In contrast, other fair value measurements are categorized in the fair value hierarchy on the basis of the inputs to valuation techniques used to measure fair value, with the highest priority to quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1 inputs) and the lowest priority to unobservable inputs (Level 3 inputs).

Scope

BC5. The Task Force reached a consensus-for-exposure that the guidance in this proposed Update should apply only to reporting entities that elect to estimate the fair value of an investment within the scope of paragraphs 820-10-15-4 through 15-5 using the net asset value of the investment (or its equivalent) using the practical expedient.

Categorization in the Fair Value Hierarchy of Investments Measured at Net Asset Value (or Its Equivalent)

BC6. Diversity in practice exists related to categorization of investments that have future redemption dates (including periodic redemption dates) and for which fair values are measured at net asset value (or its equivalent). In part, that diversity exists because of differing views on how to interpret whether an investment is redeemable in the near term. The Task Force was asked to clarify how such fair value measurements should be categorized in the fair value hierarchy. However, in evaluating how investments with periodic redemption dates should be categorized in the fair value hierarchy, Task Force members had differing views on how or whether the investments should be categorized in Level 2 or Level 3, primarily because the criteria used to classify investments measured at net asset value (or its equivalent) using the practical expedient are different from the criteria for categorizing other fair value measurements in the fair value hierarchy. The Task Force also observed that the net asset value practical expedient is the only practical expedient for measuring fair value that has different criteria for classification within the fair value hierarchy.

BC7. The Task Force observed that the intent of the fair value hierarchy is to help financial statement users assess the relative subjectivity of the various fair value measurements by categorizing the fair value measurements on the basis of the observability of the significant inputs in the fair value measurement. Because the criteria for categorizing investments for which fair values are measured at net asset value (or its equivalent) using the practical expedient in the fair value hierarchy do not consider the observability of inputs and are therefore inconsistent with the overarching intent of the fair value hierarchy, the Task Force believes that including those assets in the fair value hierarchy is potentially confusing and misleading to users. For example, an investment in a mutual fund holding primarily Level 1 investments could be categorized in Level 3 because of infrequent redemption dates even though the inputs into the calculation of net asset value could be observed. The Task Force also considered whether investments measured at net asset value using the practical expedient could be categorized within the fair value hierarchy based on the observability of significant inputs used to develop the net asset value of the investment. However, many of the Task Force members were concerned that entities would not always have an understanding of the observability of those significant inputs needed to make that categorization.

BC8. The Task Force further noted that the disclosures required by paragraph 820-10-50-6A provide information that helps users understand the nature and risks of investments measured at net asset value using the practical expedient. The required disclosures include the fair value of the investments by class, a description of the terms and conditions upon which the investor may redeem investments in the class, and information on any significant restrictions on the ability to sell investments in the class. With these disclosures in place, the Task Force decided that removing from the fair value hierarchy the investments measured at net asset value (or its equivalent) using the practical expedient would not result in a reduction in information provided to users.

BC9. The Task Force does not believe that the disclosure requirements of paragraph 820-10-50-6A were needed for investments that are eligible for the practical expedient but not valued using the practical expedient (which is currently required). It observed that if the practical expedient is not used, the fair value of the investment would be included in the fair value hierarchy on the basis of the relative observability of the inputs used in the valuation and subject to the disclosure requirements of paragraph 820-10-50-2.

Effective Date and Transition

BC10. The Task Force reached a consensus-for-exposure that the amendments in the proposed Update should be applied retrospectively to all periods presented beginning in an entity's fiscal year of adoption. Thus, all investments measured at net asset value (or its equivalent) using the practical expedient would be removed from the fair value hierarchy for all periods presented. The Task Force believes that it is appropriate for the items included in the fair value hierarchy to be consistent in all periods presented in a reporting entity's financial statements because it would allow for greater comparability.

BC11. The effective date will be determined after the Task Force considers stakeholder feedback on the proposed Update.

BC12. The Task Force considered whether the disclosures related to changes in accounting principle in paragraphs 250-10-50-1 through 50-3 should apply to the proposed amendments. Because the proposed Update relates only to disclosures related to items measured at net asset value, there would be no effect on income, per share amounts, or retained earnings. As such, the Task Force believes that a reporting entity should only be required to disclose the nature of and reason for the change in accounting principle (that is, the requirements of paragraph 250-10-50-1(a)).

Benefits and Costs

BC13. The objective of financial reporting is to provide information that is useful to present and potential investors, creditors, donors, and other capital market participants in making rational investment, credit, and similar resource allocation decisions. However, the benefits of providing information for that purpose should justify the related costs. Present and potential investors, creditors, donors, and other users of financial information benefit from improvements in financial reporting, while the costs to implement new guidance are borne primarily by present investors. The Task Force's assessment of the costs and benefits of issuing new guidance is unavoidably more qualitative than quantitative because there is no method to objectively measure the costs to implement new guidance or to quantify the value of improved information in financial statements.

BC14. The Task Force does not anticipate that entities will incur significant costs as a result of the amendments in this proposed Update because the proposed amendments would result in no new disclosures. While removing investments measured at net asset value using the practical expedient from the fair value hierarchy may require reporting entities to provide additional information to permit reconciliation to line items presented in the statement of financial position, the proposed amendments would not change the existing requirement to disclose information sufficient to permit such a reconciliation. In addition, the Task Force does not believe that providing information to permit that reconciliation will be costly. Furthermore, the Task Force believes that there could be cost savings associated with reporting entities no longer needing to evaluate in which level of the fair value hierarchy investments measured at net asset value (or its equivalent) using the practical expedient should be categorized. The proposed amendments would provide the benefit of all items in the fair value hierarchy being categorized using the same framework while continuing to provide relevant disclosures on the investments for which fair values are measured at net asset value (or its equivalent) using the practical expedient. Thus, on balance, the Task Force believes that the benefits of using a consistent method for classifying items in the fair value hierarchy justify the costs of complying with the proposed amendments.

Amendments to the XBRL Taxonomy

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