FASB EXPOSURE DRAFT

Proposed Accounting Standards Update

Issued: October 3, 2017
Comments Due: December 4, 2017

Codification Improvements

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. 2017-320, 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 December 4, 2017. 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. 2017-320
- Sending a letter to "Technical Director, File Reference No. 2017-320, 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

Codification Improvements

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Comment Deadline: December 4, 2017

CONTENTS

Page
Numbers

Summary and Questions for Respondents

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

Since the *FASB Accounting Standards Codification*® was established in September 2009 as the source of authoritative generally accepted accounting principles (GAAP) to be applied by nongovernmental entities, stakeholders have provided suggestions for minor corrections and clarifications. The Codification's *About the Codification* describes the FASB's procedure for responding to submissions, which involves the staff analyzing and processing the submissions and including any resulting changes to the Codification in maintenance updates or in an Accounting Standards Update.

The Board has a standing project on its agenda to address suggestions received from stakeholders on the Codification and to make other incremental improvements to GAAP. This perpetual project facilitates Codification updates for technical corrections, clarifications, and other minor improvements and should eliminate the need for periodic agenda requests for narrow and incremental items. These amendments are referred to as Codification improvements.

The Board decided that the types of issues that it will consider through this project are changes to clarify the Codification or correct unintended application of guidance that is not expected to have a significant effect on current accounting practice or create a significant administrative cost to most entities. The amendments in this proposed Update include items raised for Board consideration through the Codification's feedback system that met the scope of this project rather than that of a maintenance update, making due process necessary. Maintenance updates include nonsubstantive corrections to the Codification, such as editorial corrections, various types of link-related changes, and changes to content structure that do not change guidance.

An explanation of why each amendment in this proposed Update is being made is provided in the "Amendments to the *FASB Accounting Standards Codification*®" section. Thus, there is no separate section for the Board's basis for conclusions in this proposed Update.

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

The amendments in this proposed Update would affect a wide variety of Topics in the Codification. A chart identifying the Topics, paragraphs, and the nature of amendment being proposed is provided in the "Amendments to the *FASB Accounting Standards Codification*®" section.

The amendments in this proposed Update would apply to all reporting entities within the scope of the affected accounting guidance.

What Are the Main Provisions?

Codification users should review the entire document to assess any effects that the amendments in this proposed Update may have on entities that are within the proposed Update's scope. The Board is highlighting the following proposed amendments to guidance that may have been incorrectly or inconsistently applied by certain entities. A complete list of Codification Topics that are affected by the proposed amendments can be found in the summary table on pages 9–11.

Amendments to Subtopic 220-10, Comprehensive Income—Overall

The guidance in paragraph 220-10-45-10B(b) states that taxes not payable in cash are required to be reported as a direct adjustment to paid-in capital. This requirement conflicts with other guidance in Topic 740, Income Taxes, Subtopic 805-740, Business Combinations—Income Taxes, and Subtopic 852-740, Reorganizations—Income Taxes, which generally states that income taxes and adjustments to those accounts upon a business combination or a bankruptcy that is eligible for fresh-start reporting must be recognized in income. The phrase *taxes not payable in cash* was codified from FASB Statement No. 130, *Reporting Comprehensive Income*. That phrase was used in the context of discussing the accounting treatment of tax benefits that may arise from net operating losses of an entity before bankruptcy reorganization. Without the proper context, the phrase could be interpreted to mean any tax expense that is not payable in cash, including the utilization of a deferred tax asset. FASB Statement No. 141 (revised 2007), *Business Combinations*, changed the accounting for tax benefits arising in bankruptcy reorganizations such that the guidance in paragraph 220-10-45-10B is not applicable to bankruptcy reorganizations. However, the guidance in paragraph 220-10-45-10B continues to be applicable to quasi-reorganizations as defined in Subtopic 852-20, Reorganizations—Quasi-Reorganizations. The amendment in this proposed Update would clarify the guidance in paragraph 220-10-45-10B by removing the generic phrase *taxes not payable in cash* and adding guidance that is specific to certain quasi-reorganizations.

Amendments to Subtopic 470-50, Debt—Modifications and Extinguishments

The guidance in paragraph 470-50-40-2 requires that the difference between the reacquisition price of debt and the net carrying amount of extinguished debt be recognized in income in the period of extinguishment. The guidance in that paragraph was not amended by FASB Statement No. 155, *Accounting for Certain Hybrid Financial Instruments*, or FASB Statement No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities*; therefore, it does not specifically address extinguishments of debt when the fair value option is elected. The amendments in this proposed Update would clarify that:

1. When the fair value option has been elected on extinguished debt, the net carrying amount of the extinguished debt equals its fair value at the reacquisition date.
2. Related gains or losses in other comprehensive income must be included in net income upon extinguishment of the debt.

Amendments to Subtopic 480-10, Distinguishing Liabilities from Equity—Overall

The guidance in paragraph 480-10-25-15 prohibits the combination of freestanding financial instruments in the scope of Subtopic 480-10 with noncontrolling interest, unless the combination is required by Topic 815, Derivatives and Hedging. The example in paragraph 480-10-55-59 conflicts with that guidance by stating that freestanding option contracts with the terms in Derivative 2 should be accounted for on a combined basis with the noncontrolling interest. The source of the example in paragraph 480-10-55-59 is from EITF Issue No. 00-4, "Majority Owner's Accounting for a Transaction in the Shares of a Consolidated Subsidiary and a Derivative Indexed to the Noncontrolling Interest in That Subsidiary." Issue 00-4 was nullified by FASB Statement No. 150, *Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity*, and a conforming amendment to the example in paragraph 480-10-55-59 was not made to align it with the guidance in Statement 150. The amendment in this proposed Update would conform the guidance in paragraph 480-10-55-59 with the guidance in Statement 150.

Amendments to Subtopic 718-740, Compensation—Stock Compensation—Income Taxes

The guidance in paragraph 718-740-35-2, as amended by the amendments in Accounting Standards Update No. 2016-09, *Compensation—Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting*, is unclear on whether an entity should recognize excess tax benefits (or tax deficiencies) for compensation expense that is taken on the entity's tax return. The amendment to paragraph 718-740-35-2 in this proposed Update would clarify that an entity should recognize excess tax benefits (or tax deficiencies) in the period when the tax deduction for compensation expense is taken on the entity's tax return. This includes deductions that are taken on the entity's return in a different period from when the event that gives rise to the tax deduction occurs and the uncertainty about whether (1) the entity will receive a tax deduction and (2) the amount of the tax deduction is resolved.

Amendments to Subtopic 805-740, Business Combinations—Income Taxes

The amendment to paragraph 805-740-25-13 in this proposed Update would remove a list of three methods for allocating the consolidated tax provision to an acquired entity after acquisition that is inconsistent with guidance in Topic 740. The guidance in paragraph 805-740-25-13 originated from EITF Issue No. 86-9, "IRC Section 338 and Push-Down Accounting," which was issued in March 1986 and included a discussion about a narrow fact pattern in which an entity was acquired and pushdown accounting was not elected. Subsequently, the accounting for the tax effect from a change in tax basis from all transactions with or among shareholders was addressed in EITF Issue No. 94-10, "Accounting by a Company for the Income Tax Effects of Transactions among or with Its Shareholders under FASB Statement No. 109." Issue 94-10 specifically included the scenario described in Issue 86-9, namely, that an investor purchasing 100 percent of the outstanding stock of a company in a transaction treated as a purchase of assets for tax purposes chooses not to "push down" the purchase price for financial reporting purposes. The decision and resulting guidance in Issue 94-10 was different from that in Issue 86-9. The decision in Issue 94-10 is codified in Topic 740, and the guidance in Issue 86-9 is codified in Subtopic 805-740. The three methods for tax allocation described in paragraph 805-740-25-13 do not follow the broad principles of being systematic, rational, and consistent with Topic 740. The proposed amendment would remove the allocation methods in paragraph 805-740-25-13 and conform the guidance in Subtopic 805-740 with the guidance in Topic 740.

Amendments to Subtopic 815-10, Derivatives and Hedging—Overall

The amendments to paragraphs 815-10-45-4 through 45-5 in this proposed Update would clarify the circumstances in which derivatives may be offset. Under certain specific conditions, derivatives may be offset if three of the four criteria in paragraph 210-20-45-1 are met. One of the criteria—the intent to set off—may not be required to offset derivative assets and liabilities for certain amounts arising from derivative instruments recognized at fair value and executed with the same counterparty under a master netting agreement. The guidance in paragraph 815-10-45-4 is potentially misleading because it specifically references the criteria in paragraph 210-20-45-1, which states that derivatives may only be offset when all four of the conditions in paragraph 210-20-45-1 are met. The proposed amendments would (1) modify the reference in paragraph 815-10-45-4 so that the reader is directed to the full guidance of Subtopic 210-20, Balance Sheet—Offsetting, and (2) clarify the guidance in paragraph 815-10-45-5 for the exception of the intent to set off criteria for derivatives.

Amendments to Subtopic 820-10, Fair Value Measurement—Overall

The amendments to paragraph 820-10-35-16D in this proposed Update would clarify the Board's decisions about the measurement of the fair value of a liability or instrument classified in a reporting entity's shareholder's equity from the perspective of a market participant that holds an item identical to an asset at the measurement date. A technical inquiry was received that questioned how transfer restrictions embedded in an asset should affect the fair value of the corresponding liability or equity instrument from the perspective of the issuer. The question arose from a sentence in paragraph 820-10-35-16D. That sentence states that, in the context of how an issuer should measure the fair value of a liability or equity instrument by reference to the quoted price of a corresponding asset, "a reporting entity shall ensure that the price of the asset does not reflect the effect of a restriction preventing the sale of that asset." The wording of this sentence came from the amendments in Accounting Standards Update No. 2011-04, *Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IRFSs*. The final wording of that sentence from Update 2011-04 was not in alignment with the Board's discussions and decisions on that measurement issue and could potentially lead to diversity in practice. The proposed amendments would correct the wording of paragraph 820-10-35-16D to clarify how an entity should account for those restrictions. The proposed amendments are not intended to substantively change the application of GAAP. However, it is possible that the proposed amendments may result in a change to existing practice for some entities.

The amendments to paragraphs 820-10-35-18D through 35-18F and 820-10-35-18H through 35-18L in this proposed Update would revise the current guidance to allow portfolios of financial instruments and nonfinancial instruments accounted for as derivatives in accordance with Topic 815 to use the portfolio exception to valuation. The amendments in Update 2011-04 indicate that only portfolios containing financial assets and financial liabilities are eligible for the portfolio exception to valuation. Thus, a mixed portfolio of physically settled commodity contracts that are derivatives but not financial assets and that are managed with offsetting cash-settled derivatives that are financial assets or financial liabilities would not be eligible for the portfolio exception. The exclusion of nonfinancial instruments was not intentional. The proposed amendments would improve guidance by adding wording that explicitly states that a group of financial assets, financial liabilities, or nonfinancial items accounted for as derivatives in accordance with Topic 815 and that otherwise meet the criteria to do so would be permitted to apply the portfolio exception for measuring fair value of the group. This would allow entities to measure fair value on a net basis for those portfolios in which financial assets and financial liabilities and nonfinancial instruments are managed and valued together. These proposed amendments are consistent with a similar amendment that the International Accounting Standards Board (IASB) made in its 2011–2013 annual improvements process.

The amendment to paragraph 820-10-50-2(bbb)(2) in this proposed Update would replace indefinite deferral guidance that is currently in paragraph 820-10-65-9 with a disclosure exemption in paragraph 820-10-50-2(bbb)(2) and paragraphs that explicitly cite that paragraph. The indefinite deferral originated from Accounting Standards Update No. 2013-09, *Fair Value Measurement (Topic 820): Deferral of the Effective Date of Certain Disclosures for Nonpublic Employee Benefit Plans in Update No. 2011-04*. Paragraph 820-10-50-2(bbb)(2) is indefinitely deferred for nonpublic employee benefit plans. The indefinite deferral functions as a de facto scope exception until the deferral is revisited by the Board. The proposed amendment would move the exception into the paragraphs that refer to paragraph 820-10-50-2(bbb)(2) to provide a more useful location for the exception. As new transition paragraphs are added to Topic 820, Fair Value Measurement, this deferral may not be clear to Codification users.

Amendments to Subtopic 940-405, Financial Services—Brokers and Dealers—Liabilities

The guidance in paragraph 940-405-55-1 could lead a user to think that a broker-dealer can offset securities borrowed and loaned transactions if there are explicit settlement dates, which is not correct. The reference to explicit settlement dates is included in paragraph 210-20-45-11 and applies to repurchase agreements and reverse repurchase agreement conditions for offsetting and does not apply to securities borrowed and loaned transactions. A broker-dealer also would need to meet the “intent” criterion in paragraph 210-20-45-1 and all the other criteria in that paragraph to offset securities borrowed and loaned transactions. There is similar guidance in paragraph 942-210-45-3. Paragraphs 940-405-55-1 and 942-210-45-3 originated from two different AICPA Audit and Accounting Guides and paraphrase the guidance in Subtopic 210-20, albeit each slightly different. The Board decided to amend both paragraphs so that the industry Topic guidance would refer to the complete guidance for offsetting. The amendment in this proposed Update would simplify the Codification by removing redundant guidance, which would make the guidance on offsetting consistent.

Amendments to Subtopic 962-325, Plan Accounting—Defined Contribution Pension Plans—Investments—Other

The amendment to Subtopic 962-325 in this proposed Update would remove the stable value common collective trust fund from the illustrative example in paragraph 962-325-55-17 to avoid the interpretation that such an investment should always be measured using the net asset value per share practical expedient. Rather, a plan would need to evaluate whether a readily determinable fair value exists.

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, correct errors in, or make minor improvements to the Codification. The proposed amendments would make the Codification easier to understand and easier to apply by eliminating inconsistencies and providing clarifications.

When Would the Amendments Be Effective?

Many of the amendments in this proposed Update do not require transition guidance and would be effective upon issuance of a final Update. However, some conforming amendments in this proposed Update that have been made to recently issued guidance that is not yet effective would require application of the transition and effective date guidance in the original Accounting Standards Update.

For example, there are conforming amendments in this proposed Update to Topic 820, Fair Value Measurement, Topic 830, Foreign Currency Matters, and Subtopic 944-310, Financial Services—Insurance—Receivables, that are related to the amendments in Accounting Standards Update No. 2016-01, *Financial Instruments—Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities*, which would require application of the transition and effective date guidance in that Update.

The Board has tentatively identified other amendments in this proposed Update that may require transition guidance. The proposed transition and effective date guidance is based on the facts and circumstances of each proposed amendment.

The Board will consider feedback to the questions in this proposed Update about transition considerations and effective dates in its redeliberations. The Board will establish the effective date(s) of the proposed amendments before issuance of a final Update.

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 any of the proposed amendments result in substantive changes to the application of existing guidance that would require transition provisions? If so, please describe?

Question 3: Are there other changes that should be made that are directly or indirectly related to the proposed amendments? Please note that the Board will conduct Codification improvement projects on a periodic basis, and additional changes may be postponed to a subsequent Codification improvement project.

Question 4: The proposed amendments would apply to public and nonpublic entities. Would any of the proposed amendments require special consideration for nonpublic entities? If so, which proposed amendment(s) would require special consideration and why?

Amendments to the *FASB Accounting Standards Codification*®

Summary of Proposed Amendments to the Accounting Standards Codification

1. The following table summarizes the proposed amendments to the Codification.

Accounting Standards Codification Topic	**Paragraphs**	**Nature of Amendment**
Generally Accepted Accounting Principles (Topic 105)	79	Transition Guidance
Comprehensive Income (Topic 220)	3 and 4	Conforming
Earnings Per Share (Topic 260)	5 and 6	Simplification and Clarification
Investments—Debt and Equity Securities (Topic 320)	7 and 8	Clarification
Debt (Topic 470)	9–12	Improvement and Clarification
Distinguishing Liabilities from Equity (Topic 480)	13 and 14	Conforming

Accounting Standards Codification Topic	Paragraphs	Nature of Amendment
Compensation—Stock Compensation (Topic 718)	15 and 16	Clarification
Other Expenses (Topic 720)	17–21	Clarification
Income Taxes (Topic 740)	24–33	Conforming and Clarification
Business Combinations (Topic 805)	34–36	Conforming
Derivatives and Hedging (Topic 815)	37–40	Clarification
Fair Value Measurement (Topic 820)	41–55	Conforming, Improvement, and Clarification
Foreign Currency Matters (Topic 830)	56 and 57	Clarification
Financial Services—Brokers and Dealers (Topic 940)	58 and 59	Improvement and Clarification
Financial Services—Depository and Lending (Topic 942)	60–62	Clarification
Financial Services—Insurance (Topic 944)	22 and 23, 63–69	Conforming and Clarification

Accounting Standards Codification Topic	Paragraphs	Nature of Amendment
Not-for-Profit Entities (Topic 958)	70–73	Clarification
Plan Accounting—Defined Contribution Pension Plans (Topic 962)	74–78	Improvement

Introduction

2. The Accounting Standards Codification is amended as described in paragraphs 3–79. 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 Subtopic 220-10, Comprehensive Income—Overall

Issue 1

3. The phrase *taxes not payable in cash* in paragraph 220-10-45-10B(b)(2) was codified from paragraph 115 of FASB Statement No. 130, *Reporting Comprehensive Income*. That phrase was used in the context of discussing the accounting treatment of tax benefits that may arise from net operating losses of an entity before bankruptcy reorganization. Without the proper context, the phrase could be interpreted to mean any tax expense that is not payable in cash, including the utilization of a deferred tax asset. FASB Statement No. 141 (revised 2007), *Business Combinations*, changed the accounting for tax benefits arising in bankruptcy reorganizations such that the guidance in paragraph 220-10-45-10B is not applicable to bankruptcy reorganizations. However, the guidance in paragraph 220-10-45-10B continues to be applicable to quasi-reorganizations as defined in Subtopic 852-20, Reorganizations—Quasi-Reorganizations. This proposed amendment would clarify the guidance in paragraph 220-10-45-10B by removing the generic phrase *taxes not payable in cash* and adding guidance that is specific to certain quasi-reorganizations.

4. Amend paragraph 220-10-45-10B, with a link to transition paragraph 105-10-65-4, as follows:

Comprehensive Income—Overall

Other Presentation Matters

220-10-45-10B None of the following items qualify as an item of comprehensive income:

a. Changes in equity during a period resulting from investments by owners and distributions to owners
b. Items required to be reported as direct adjustments to paid-in capital, retained earnings, or other nonincome equity accounts such as the following types of transactions:
    1. A reduction of shareholders’ equity related to employee stock ownership plans
    2. Recognition of tax benefits related to deductible temporary differences and carryforwards arising from a quasi-reorganization as defined in Subtopic 852-20 (see paragraph 852-740-45-3)~~Taxes not payable in cash~~
    3. Net cash settlement resulting from a change in value of a contract that gives the entity a choice of net cash settlement or settlement in its own shares.

Amendments to Subtopic 260-10, Earnings Per Share—Overall

Issue 2

5. The last sentence of paragraph 260-10-45-60B references Example 6 in paragraph 260-10-55-62 after providing guidance for the diluted earnings per share (EPS) calculation. The use of the phrase *that provision* in the last sentence of paragraph 260-10-45-60B and the reference to Example 6 lead the reader to expect Example 6 to illustrate the accounting for dilutive securities. Example 6 reflects the two-class method, and there are no dilutive securities in the Example. These proposed amendments would make the reference more specific and add clarification.

6. Amend paragraphs 260-10-45-60B and 260-10-55-62, with no link to a transition paragraph, as follows:

Earnings Per Share—Overall

Other Presentation Matters

> > Participating Securities and the Two-Class Method

260-10-45-60B Under the two-class method:

a. Income from continuing operations (or net income) shall be reduced by the amount of dividends declared in the current period for each class of stock and by the contractual amount of dividends (or interest on participating income bonds) that must be paid for the current period (for example, unpaid cumulative dividends). Dividends declared in the current period do not include dividends declared in respect of prior-year unpaid cumulative dividends. Preferred dividends that are cumulative only if earned are deducted only to the extent that they are earned.
b. The remaining earnings shall be allocated to common stock and participating securities to the extent that each security may share in earnings as if all of the earnings for the period had been distributed. The total earnings allocated to each security shall be determined by adding together the amount allocated for dividends and the amount allocated for a participation feature.
c. The total earnings allocated to each security shall be divided by the number of outstanding shares of the security to which the earnings are allocated to determine the EPS for the security.
d. Basic and diluted EPS data shall be presented for each class of common stock.

For the diluted EPS computation, outstanding common shares shall include all potential common shares assumed issued. Example 6 (see paragraph 260-10-55-62) illustrates ~~that provision~~the two-class method.

Implementation Guidance and illustrations

> > Example 6: Two-Class Method

260-10-55-62 This Example illustrates the two-class method of computing basic EPS (see paragraph 260-10-45-60B) for an entity that has more than one class of nonconvertible securities. This method is described in paragraphs 260-10-45-59A through 45-70.~~45-70; as noted in paragraph 260-10-45-60B, diluted~~ Diluted EPS would be computed in a similar manner. This Example has the following assumptions for the year 20X0:

a. Net income was $65,000.
b. 10,000 shares of $50 par value common stock were outstanding.
c. 5,000 shares of $100 par value nonconvertible preferred stock were outstanding.
d. The preferred stock was entitled to a noncumulative annual dividend of $5 per share before any dividend is paid on common stock.

e. After common stock has been paid a dividend of $2 per share, the preferred stock then participates in any additional dividends on a 40:60 per-share ratio with common stock. (That is, after preferred and common stock have been paid dividends of $5 and $2 per share, respectively, preferred stock participates in any additional dividends at a rate of two-thirds of the additional amount paid to common stock on a per-share basis.)
f. Preferred stockholders have been paid $27,000 ($5.40 per share).
g. Common stockholders have been paid $26,000 ($2.60 per share).

Amendments to Subtopic 320-10, Investments—Debt and Equity Securities—Overall

Issue 3

7. These proposed amendments would simplify the Codification by removing redundant disclosure requirements in paragraphs 320-10-50-1A and 320-10-50-13. These proposed amendments would supersede paragraph 320-10-50-13 and add clarification to the disclosure requirements in paragraph 320-10-50-1A about summarized financial information. The disclosure requirements in Section 320-10-50 are from FASB Statement No. 115, *Accounting for Certain Investments in Debt and Equity Securities*. When Statement 115 was issued, the disclosure requirements did not state whether the disclosures were required for interim periods, and stakeholders asked for clarification. The staff resolved the issue and clarified that the disclosures were required for interim statements. The Board amended Statement 115 to reflect that. The FASB Special Report, *A Guide to Implementation of Statement 115 on Accounting for Certain Investments in Debt and Equity Securities*, which addressed whether the disclosure requirements were applicable to interim statements, also was issued. Paragraph 320-10-50-1A was codified from paragraph 18A of Statement 115, as amended. Paragraph 320-10-50-13 was codified from the Special Report on Statement 115. The Special Report was more detailed in its answer and clarified that the disclosures were required for all complete sets of financial statements but not for summarized interim financial information. Some stakeholders find the redundancy confusing, and some interpret the two paragraphs as two different requirements.

8. Amend paragraph 320-10-50-1A and supersede paragraph 320-10-50-13, with a link to transition paragraph 105-10-65-5, as follows:

Investments—Debt and Equity Securities—Overall

Disclosure

320-10-50-1A The disclosures in this Section are required for all interim and annual periods. The disclosures are required for all complete sets of financial statements. The minimum disclosure requirements for summarized interim financial information issued by publicly traded entities are established by paragraph 270-10-50-1.

320-10-50-13 Paragraph superseded by Accounting Standards Update No. 201X-XX.~~The disclosures in this Section are required to be made in all complete sets of financial statements for interim periods, for example, in conjunction with a securities registration statement. The minimum disclosure requirements for summarized interim financial information issued by publicly traded entities are established by Subtopic 270-10. Summarized financial information need not include the disclosures.~~

Amendments to Subtopic 470-50, Debt—Modifications and Extinguishments

Issue 4

9. These proposed amendments relate to measuring the gain or loss on early extinguishments of debt for which the fair value option has been elected. Existing guidance in paragraph 470-50-40-2 requires that the difference between the reacquisition price of debt and the net carrying amount of extinguished debt be recognized in income in the period of extinguishment. The guidance in paragraph 470-50-40-2 was not amended by FASB Statement No. 155, *Accounting for Certain Hybrid Financial Instruments*, or FASB Statement No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities*; therefore, the guidance does not specifically address extinguishments of debt when the fair value option is elected. These proposed amendments would add guidance to clarify that:

a. When the fair value option has been elected on debt that is extinguished, the net carrying amount of the extinguished debt equals its fair value at the reacquisition date.
b. The cumulative amounts of gains or losses in other comprehensive income that resulted from changes in instrument-specific credit risk must be included in the measurement of gain or loss presented in net income for the extinguished debt.

10. Add paragraph 470-50-40-2A, with a link to transition paragraph 105-10-65-5, as follows:

Debt—Modifications and Extinguishments

Derecognition

> Extinguishments of Debt

470-50-40-2A In an early extinguishment of debt for which the fair value option has been elected in accordance with Subtopic 815-15 on embedded derivatives or Subtopic 825-10 on financial instruments, the net carrying amount of the extinguished debt shall be equal to its fair value at the reacquisition date. In accordance with paragraph 825-10-45-6, upon extinguishment an entity shall include in net income the cumulative amount of the gain or loss on the extinguished debt that resulted from changes in instrument-specific credit risk.

Issue 5

11. Paragraph 470-50-40-18 provides general guidance for accounting for third-party costs of exchange or modification. Paragraph 470-50-40-21 provides specific guidance for modifications to, or exchanges of, line-of-credit arrangements or revolving-debt arrangements. This proposed amendment would add a reference to the general guidance for third-party costs so that users would be alerted that additional, more specific guidance is provided for line-of-credit arrangements and revolving-debt arrangements.

12. Amend paragraph 470-50-40-18, with a link to transition paragraph 105-10-65-4, as follows:

Debt—Modifications and Extinguishments

Derecognition

> Third Party Costs of Exchange or Modification

470-50-40-18 Costs incurred with third parties directly related to the exchange or modification (such as legal fees) shall be accounted for as follows:

a. If the exchange or modification is to be accounted for in the same manner as a debt extinguishment and the new debt instrument is initially recorded at fair value, then the costs shall be associated with the new debt instrument and amortized over the term of the new debt instrument using the interest method in a manner similar to debt issue costs.
b. If the exchange or modification is not to be accounted for in the same manner as a debt extinguishment, then the costs shall be expensed as incurred.

For line-of-credit arrangements or revolving-debt arrangements, see paragraph 470-50-40-21.

Amendments to Subtopic 480-10, Distinguishing Liabilities from Equity—Overall

Issue 6

13. Paragraph 480-10-25-15 prohibits the combination of freestanding financial instruments within the scope of Subtopic 480-10 with a noncontrolling interest unless a combination is required by Topic 815, Derivatives and Hedging. The example in paragraph 480-10-55-59 conflicts with that guidance by stating that freestanding option contracts with the terms in Derivative 2 should be accounted for on a combined basis with the noncontrolling interest. The source of the guidance in paragraph 480-10-55-59 is EITF Issue No. 00-4, "Majority Owner's Accounting for a Transaction in the Shares of a Consolidated Subsidiary and a Derivative Indexed to the Noncontrolling Interest in That Subsidiary." Issue 00-4 was nullified by FASB Statement No. 150, *Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity*. This proposed amendment would conform the guidance in paragraph 480-10-55-59 with the guidance in Statement 150 and paragraph 480-10-25-15.

14. Amend paragraph 480-10-55-59, with a link to transition paragraph 105-10-65-4, as follows:

Distinguishing Liabilities from Equity—Overall

Implementation Guidance and Illustrations

> > > Written Put Option and Purchased Call Option Embedded in Noncontrolling Interest

480-10-55-59 If the derivative instrument in Derivative 2 is embedded in the shares (noncontrolling interest) and the shares are not classified as liabilities under the guidance in this Subtopic, the derivative instrument~~freestanding of the noncontrolling interest, it~~ should be combined with the noncontrolling interest and accounted for as a financing. That is, the combination of option contracts should be viewed on a combined basis with the noncontrolling interest and accounted for as a financing of the parent's purchase of the noncontrolling interest.

Amendments to Topic 718-740, Compensation—Stock Compensation—Income Taxes

Issue 7

15. The amendments in Accounting Standards Update No. 2016-09, *Compensation—Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting*, require that all excess tax benefits and tax deficiencies be recognized as income tax expense or benefit in the income statement. In addition, the amendments require that an entity recognize an excess tax benefit even if the entity cannot use the deduction to reduce taxes payable in the current period (for example, when an entity has a net operating loss). Some stakeholders noted that the guidance in paragraph 718-740-35-2 is not clear about whether an entity should recognize excess tax benefits (or tax deficiencies) in its income statement in the period when the amount of the tax deduction is determined (that is, the uncertainty about the amount of the deduction is resolved) or in the period when the tax deduction is taken on the entity's tax return. The proposed amendments would clarify that an entity should recognize excess tax benefits (or tax deficiencies) in the period when the amount of the tax deduction is determined, which typically is when an award is exercised, in the case of share options, or vests, in the case of nonvested stock awards.

16. Amend paragraph 718-740-35-2, with a link to transition paragraph 105-10-65-4, as follows:

Compensation—Stock Compensation—Income Taxes

Subsequent Measurement

> Treatment of Tax Consequences When Actual Deductions Differ from Recognized Compensation Cost

718-740-35-2 This Section addresses the accounting required in a period when the deduction for compensation expense to be recognized in a~~actual tax deductions for compensation expense taken by an entity on its~~ tax return for **share-based payment arrangements** differs~~differ~~ in amounts and timing from the compensation cost~~those~~ recorded in the financial statements. The tax effect of the difference, if any, between the cumulative compensation cost of an **award** recognized for financial reporting purposes and the deduction for an award for tax purposes shall be recognized as income tax expense or benefit in the income statement. The tax effect shall be recognized in the income statement in the period in which the uncertainty about the amount of the deduction is resolved, which typically is when an award is exercised or expired, in the case of share options, or vests, in the case of nonvested stock awards~~tax deduction arises or, in the case~~

~~of an expiration of an award, in the period in which the expiration occurs~~. The appropriate period depends on the type of award and the incremental guidance under the requirements of Subtopic 740-270 on income taxes—interim reporting.

Amendments to Subtopic 720-35, Other Expenses—Advertising Costs, Subtopic 944-30, Financial Services—Insurance—Acquisition Costs, and Subtopic 944-720, Financial Services—Insurance—Other Expenses

Issue 8

17. Stakeholders highlighted that the scope of the guidance in paragraph 720-35-25-1A (originally in Subtopic 340-20, Other Assets and Deferred Costs—Capitalized Advertising Costs) is not aligned with the source guidance in AICPA Statement of Position (SOP) No. 93-7, *Reporting on Advertising Costs*. The scope of SOP 93-7 was not limited to direct-response advertising. However, the heading and references to direct-response advertising were included in the guidance when it was initially included in the Codification, and those references were carried forward in Accounting Standards Update No. 2016-20*, Technical Corrections and Improvements to Topic 606, Revenue from Contracts with Customers*, when the Board moved that guidance from Topic 340 to Topic 720. The Board understands that, in practice, the guidance in paragraph 720-35-25-1A is applied by some entities on the basis of the scope of SOP 93-7. The objective of the proposed amendment is to align the scope of this guidance in the Codification with the source guidance in SOP 93-7 by removing the references in the guidance and heading to direct-response advertising.

18. The proposed amendments also would relocate the guidance in paragraph 720-35-15-5 about direct-response advertising costs to paragraph 944-30-25-1AAA. Direct-response advertising costs can only be capitalized for insurance contracts within the scope of Topic 944 in certain circumstances. The proposed amendment that would add the phrase *except for those costs described in paragraph 720-35-25-1A* to paragraph 720-35-25-1 aligns that paragraph with the source literature in paragraph 26 of SOP 93-7 and clarifies the scope of paragraph 720-35-25-1 because the costs under paragraph 720-35-25-1A are not treated the same as the other costs in Subtopic 720-35. The proposed amendment to paragraph 944-720-55-1 would update the guidance to include paragraph 944-30-25-1AAA.

19. Supersede paragraph 720-35-15-5, with a link to transition paragraph 105-10-65-4, as follows:

Other Expenses—Advertising Costs

Scope and Scope Exceptions

720-35-15-5 Paragraph superseded by Accounting Standards Update No. 201X-XX.~~The guidance in paragraph 720-35-25-1A applies to accounting for costs related to direct-response advertising activities. Direct-response advertising activities exclude advertising that, though related to the direct-response advertising, is directed to an audience that could not be shown to have responded specifically to the direct-response advertising. For example, a television commercial announcing that order forms (that are direct-response advertising) soon will be distributed directly to some people in the viewing area would not be a direct-response advertising activity because the television commercial is directed to a broad audience, not all of which could be shown to have responded specifically to the direct-response advertising.~~ **[Content amended and moved to paragraph 944-30-25-1AAA]**

20. Amend paragraph 720-35-25-1, with a link to transition paragraph 105-10-65-4, as follows:

Recognition

720-35-25-1 The costs of advertising within the scope of this Subtopic shall be expensed either as incurred or the first time the advertising takes place, except for those costs described in paragraph 720-35-25-1A. The accounting policy selected from these two alternatives shall be applied consistently to similar kinds of advertising activities. Deferring the costs of advertising until the advertising takes place assumes that the costs have been incurred for advertising that will occur. Such costs shall be expensed immediately if such advertising is not expected to occur. Examples of the first-time advertising takes place include the first public showing of a television commercial for its intended purpose and the first appearance of a magazine advertisement for its intended purpose.

21. Supersede the heading preceding paragraph 720-35-25-1A, with a link to transition paragraph 105-10-65-4, as follows:

~~> Direct-Response Advertising Costs~~

720-35-25-1A Expenditures for some advertising costs are made after recognizing revenues related to those costs. For example, some entities assume an obligation to reimburse their customers for some or all of the customers' advertising costs (cooperative advertising). When revenues related to the transactions creating those obligations are recognized before the expenditures are made, those obligations shall be accrued and the advertising costs expensed when the related revenues are recognized.

22. Add paragraph 944-30-25-1AAA, with a link to transition paragraph 105-10-65-4, as follows:

Financial Services—Insurance—Acquisition Costs

Recognition

<u>944-30-25-1AAA</u> ~~The guidance in paragraph 720-35-25-1A applies to accounting for costs related to direct-response advertising activities.~~ Direct-response advertising activities exclude advertising that, though related to the direct-response advertising, is directed to an audience that could not be shown to have responded specifically to the direct-response advertising. For example, a television commercial announcing that order forms (that are direct-response advertising) soon will be distributed directly to some people in the viewing area would not be a direct-response advertising activity because the television commercial is directed to a broad audience, not all of which could be shown to have responded specifically to the direct-response advertising. **[Content amended as shown and moved from paragraph 720-35-15-5]**

23. Amend paragraph 944-720-55-1, with a link to transition paragraph 105-10-65-4, as follows:

Financial Services—Insurance—Other Expenses

Implementation Guidance and Illustrations

944-720-55-1 This implementation guidance addresses paragraph 944-720-25-2(a), which requires that an insurance entity charge to expense as incurred any acquisition-related cost that cannot be capitalized in accordance with paragraphs 944-30-25-1A through ~~25-1AA~~<u>25-1AAA</u>. Such costs include costs of all of the following:

a. Soliciting potential customers (except direct-response advertising capitalized in accordance with paragraph 944-30-25-1AA)
b. Market research
c. Training
d. Administration
e. Unsuccessful acquisition or renewal efforts (except direct-response advertising capitalized in accordance with paragraph 944-30-25-1AA)
f. Product development.

Amendments to Subtopic 740-10, Income Taxes—Overall

Issue 9

24. This proposed amendment to Subtopic 740-10 would remove paragraph 740-10-25-55 and update a related example in paragraph 740-10-55-203. The guidance in paragraph 740-10-25-55 requires an entity that purchases tax benefits

directly from the government, in its capacity as a taxing authority, that result from intra-entity transfers of inventory between members of a consolidated entity to apply the guidance in paragraph 740-10-25-3(e). The guidance in paragraph 740-10-25-3(e) prohibits recognition of a deferred tax asset for the difference between the tax basis of inventory in the buyer's tax jurisdiction and the cost of that inventory as reported in the consolidated financial statements.

25. Paragraph 740-10-25-3(e) was amended in Accounting Standards Update No. 2016-16, *Income Taxes (Topic 740): Intra-Entity Transfers of Assets Other Than Inventory*, to limit the scope of the paragraph to only the intra-entity transfers of inventory. As a result, intra-entity transfers of assets such as property, plant, and equipment and intellectual property no longer are subject to the prohibition on the recognition of income tax consequences. Stakeholders informed the FASB that the tax laws that created the need for the guidance in paragraph 740-10-25-55 were, and continue to be, applicable only to certain fixed and intangible assets. Therefore, the guidance in paragraph 740-10-25-55 and its related pending content, which now only references intra-entity transfers of inventory, describes a null set of transactions and is no longer relevant. The amendment to remove the reference to an intra-entity transfer of inventory from the example about transactions between a taxpayer and a government also is proposed for the same reason.

26. This proposed amendment also would add a heading preceding paragraph 740-10-25-53 that would clarify that the scope for paragraphs 740-10-25-53 through 25-54 consists of transactions directly between a taxpayer and a government acting in its capacity as a taxing authority.

27. Add the heading preceding paragraph 740-10-25-53, with a link to transition paragraph 740-10-65-5, as follows:

Income Taxes—Overall

Recognition

<u>> Transactions Directly between a Taxpayer and a Government</u>

740-10-25-53 Transactions directly between a taxpayer and a government in its capacity as a taxing authority shall be recorded directly in income in a manner similar to the way in which an entity accounts for changes in tax laws, rates, or other tax elections under this Subtopic. See Example 26 in paragraph 740-10-55-202 for an illustration of a transaction directly with a governmental taxing authority.

740-10-25-54 In situations in which the tax basis step up relates to goodwill that was previously not deductible, no deferred tax asset would be recorded for the increase in basis except to the extent that the newly deductible goodwill amount exceeds the remaining balance of book goodwill.

28. Supersede paragraph 740-10-25-55, with a link to transition paragraph 740-10-65-6, as follows:

740-10-25-55 Paragraph superseded by Accounting Standards Update No. 201X-XX.~~In the event that an entity purchases tax benefits that result from intra-entity transactions between members of a consolidated entity, paragraph 740-10-25-3(e), which prohibits recognition of a deferred tax asset for the difference between the tax basis of assets in the buyer's tax jurisdiction and the cost of those assets as reported in the consolidated financial statements, shall be applied.~~

In addition, supersede the following pending content for paragraph 740-10-25-55, with no additional link to transition:

~~**Pending Content:**~~

~~Transition Date: *(P) December 16, 2017; (N) December 16, 2018* | **Transition Guidance:** 740-10-65-5~~

740-10-25-55 Paragraph superseded by Accounting Standards Update No. 201X-XX.~~In the event that an entity purchases tax benefits that result from intra-entity transfers of **inventory** between members of a consolidated entity, paragraph 740-10-25-3(e), which prohibits recognition of a deferred tax asset for the difference between the tax basis of inventory in the buyer's tax jurisdiction and the cost of that inventory as reported in the consolidated financial statements, shall be applied.~~

29. Amend paragraphs 740-10-55-168 and 740-10-55-203, with a link to transition paragraph 740-10-65-6, as follows:

Implementation Guidance and Illustrations

> > Example 24: Built-In Gains of S Corporation

740-10-55-168 This Example illustrates an entity's change from taxable C corporation status to nontaxable S corporation status, in accordance with the guidance provided in paragraph 740-10-55-65. This Example has the following assumptions:

a. An entity's S corporation election is effective for calendar-year 1990 and that at the conversion date its assets comprise marketable securities, finished goods inventory, and depreciable assets as follows.

	Fair Market Value	Tax Basis	Reported Amount	Temporary Differences	Topic 740 Built-in Gain (Loss)
Marketable securities	$ 90	$ 100	$ 80	$ (20)	$ (10)
Inventory, (first-in, first-out [FIFO])	100	50	100	50	50
Depreciable assets	95	80	90	10	10
	$ 285	$ 230	$ 270	$ 40	$ 50

b. The entity has no tax loss or credit carryforwards available to offset the built-in gains.
c. The depreciable assets will be recovered by use in operations (and, therefore, will not result in a taxable amount pursuant to the tax law applied to built-in gains).
d. The marketable securities will be sold in the same year that the **{add glossary link}**inventory**{add glossary link}** is sold, the $50 built-in gain on the inventory is reduced by the $10 built-in loss on the marketable securities, and $40 would be taxed in the year that the inventory turns over and the securities are sold. Accordingly, the entity should continue to display in its statement of financial position a deferred tax liability for that $40 net taxable amount.

> > Example 26: Direct Transaction with Governmental Taxing Authority

740-10-55-203 In this Example, tax laws in a foreign country enable corporate taxpayers to elect to step up the tax basis for certain fixed assets ($1,000,000) to fair value ($2,000,000) in exchange for a current payment to the government of 3 percent of the step-up ($30,000). An entity would be expected to avail itself of this election (and make the upfront payment) as long as it believed that it was likely that it would be able to utilize the additional deductions (at a tax rate of 35 percent) that were created as a result of the step-up to reduce future taxable income and that the timing and amount of the resulting future tax savings justified the current payment. (For purposes of this Example, it is assumed that the transaction that accomplishes this step-up for tax purposes does not create a taxable temporary difference~~ and is not an intra-entity transfer of **inventory** as discussed in paragraph 740-10-25-3(e)~~. A taxable temporary difference would exist, for example, if the tax benefit associated with the transaction with the governmental taxing authority becomes taxable in certain situations, such as those described in paragraph ~~830-740-25-7).~~830-740-25-7.)

30. Add paragraph 740-10-65-6 and its related heading as follows:

Transition and Open Effective Date Information

> Transition Related to Accounting Standards Update No. 201X-XX, *Codification Improvements*

740-10-65-6 The following represents the transition and effective date information related to Accounting Standards Update No. 201X-XX, *Codification Improvements*:

a. The pending content that links to this paragraph shall follow the transition and effective date guidance in paragraph 740-10-65-5 related to Accounting Standards Update No. 2016-16, *Income Taxes (Topic 740): Intra-Entity Transfers of Assets Other Than Inventory*.
b. If an entity has early adopted the amendments in Update 2016-16 then the entity shall apply the transition and effective date guidance in paragraph 105-10-65-4.

Amendments to Subtopic 740-30, Income Taxes—Other Considerations or Special Areas

Issue 10

31. The proposed amendments to paragraphs 740-30-25-9 and 740-30-50-2 would clarify that the phrase *essentially permanent in duration* (a) is intended to modify *corporate joint venture* and (b) is not intended to modify the phrase *investment in a subsidiary*.

32. Amend paragraph 740-30-25-9, with no link to a transition paragraph, as follows:

Income Taxes—Other Considerations or Special Areas

Recognition

> > Recognition of Deferred Tax Assets

740-30-25-9 A **deferred tax asset** shall be recognized for an excess of the tax basis over the amount for financial reporting of an investment in a subsidiary or of an investment in a corporate joint venture that is essentially permanent in duration only if it is apparent that the temporary difference will reverse in the foreseeable future.

33. Amend paragraph 740-30-50-2, with no link to a transition paragraph, as follows:

Disclosure

740-30-50-2 All of the following information shall be disclosed whenever a **deferred tax liability** is not recognized because of the exceptions to comprehensive recognition of deferred taxes related to subsidiaries and corporate joint ventures:

a. A description of the types of temporary differences for which a deferred tax liability has not been recognized and the types of events that would cause those temporary differences to become taxable
b. The cumulative amount of each type of **temporary difference**
c. The amount of the unrecognized deferred tax liability for temporary differences related to investments in foreign ~~subsidiaries and foreign~~ corporate joint ventures that are essentially permanent in duration and in foreign subsidiaries if determination of that liability is practicable or a statement that determination is not practicable. While paragraph 740-30-25-14 prohibits recognition of a tax **benefit** for tax deductions or favorable tax rates attributable to future dividends of undistributed earnings for which a deferred tax liability has not been recognized, favorable tax treatment would be reflected in measuring that unrecognized deferred tax liability for disclosure purposes.
d. The amount of the deferred tax liability for temporary differences other than those in (c) (that is, undistributed domestic earnings) that is not recognized in accordance with the provisions of paragraph 740-30-25-18.

Amendments to Subtopic 805-740, Business Combinations—Income Taxes

Issue 11

34. This proposed amendment would remove the guidance in Subtopic 805-740 that provides three methods for allocating the consolidated tax provision to an acquired entity after acquisition. The guidance originated in EITF Issue No. 86-9, "IRC Section 338 and Push-Down Accounting," which was issued in March 1986 and described a narrow fact pattern in which an entity was acquired and pushdown accounting was not elected. After Issue 86-9 was issued, the accounting for the tax effect from a change in tax basis from all transactions with or among shareholders was addressed in EITF Issue No. 94-10, "Accounting by a Company for the Income Tax Effects of Transactions among or with Its Shareholders under FASB Statement No. 109." Issue 94-10, now codified in Topic 740, specifically included the scenario described in Issue 86-9, namely, that an investor purchasing 100 percent of the outstanding stock of a company in a transaction treated as a purchase of assets for tax purposes chooses not to "push down" the purchase price for financial reporting purposes. The decision in Issue 94-10 was not consistent with the decision in Issue 86-9. Specifically, Issue 94-10 stated that the consequences of all temporary tax differences should be recognized through net income or adjustments to equity, not as permanent differences.

35. Furthermore, the guidance in Topic 740 requires an entity to adopt a tax allocation approach that is systematic, rational, and consistent with the broad principles established by the Topic when allocating the consolidated tax expense to separate financial statements of members of a consolidated entity. The guidance in paragraph 805-740-25-13 does not support those general principles and is no longer relevant given the overall principles in Topic 740. Removing the allocation methods in paragraph 805-740-25-13 would simplify the Codification and help ensure that the principles in Topic 740 are applied consistently.

36. Amend paragraph 805-740-25-13, with a link to transition paragraph 105-10-65-4, as follows:

Business Combinations—Income Taxes

Recognition

805-740-25-13 If there is a continuation of the historical basis for financial reporting, for example, when pushdown accounting is not applied, at the same time as there is a tax basis step-up, the tax benefit from the tax basis step-up shall be credited to the acquired entity's additional paid-in capital consistent with paragraph 740-20-45-11(g).~~any one of the following three methods is acceptable for allocating the consolidated tax provision, with appropriate disclosure:~~

a. Subparagraph superseded by Accounting Standards Update No. 201X-XX.~~Modify the intra-entity tax allocation agreement so that taxes are allocated to the acquired entity on the preacquisition tax basis~~
b. Subparagraph superseded by Accounting Standards Update No. 201X-XX.~~Credit the tax benefit from the tax basis step-up to the acquired entity's additional paid-in capital when realized~~
c. Subparagraph superseded by Accounting Standards Update No. 201X-XX.~~Credit the tax benefit to income of the acquired entity as a permanent difference when realized.~~

Amendments to Subtopic 815-10, Derivatives and Hedging—Overall

Issue 12

37. Four general criteria for offsetting are included in paragraph 210-20-45-1. Paragraph 815-10-45-1 references Subtopic 210-20, Balance Sheet—Offsetting, for the criteria for offsetting derivatives. One of the criteria in paragraph 210-20-45-1—the intent to set off—is not required to offset derivative assets and liabilities if certain other criteria are met. The guidance in paragraph 815-10-45-4 is

potentially misleading because it can be interpreted to mean that derivatives may only be offset when all four of the conditions in paragraph 210-20-45-1 are met. This proposed amendment would eliminate the redundancy of the reference to the criteria in paragraph 815-10-45-4 and make the guidance clearer in paragraph 815-10-45-5 for the exception regarding derivatives.

38. Supersede paragraph 815-10-45-4 and amend paragraph 815-10-45-5, with a link to a transition paragraph 105-10-65-5, as follows:

Derivatives and Hedging—Overall

Other Presentation Matters

815-10-45-4 Paragraph superseded by Accounting Standards Update No. 201X-XX.~~Unless the conditions in Section 220-10-45 are met, the **fair value** of derivative instruments in a loss position shall not be offset against the fair value of derivative instruments in a gain position. Similarly, amounts recognized as accrued receivables shall not be offset against amounts recognized as accrued payables unless a right of setoff exists.~~

815-10-45-5 Without regard to the condition in paragraph 210-20-45-1(c), a reporting entity may offset the following amounts arising from a derivative instrument or derivative instruments recognized at **fair value** executed with the same counterparty under a master netting arrangement:

a. The fair value of derivative instruments in a loss position against the fair value of derivative instruments in a gain position
b. Amounts recognized as accrued receivables and amounts recognized as accrued payables
c. Amounts recognized for the right to reclaim cash collateral (a receivable) against the obligation to return cash collateral (a payable) arising from derivative instruments recognized at fair value~~fair value amounts recognized for derivative instruments and fair value amounts recognized for the right to reclaim cash collateral (a receivable) or the obligation to return cash collateral (a payable) arising from derivative instrument(s) recognized at fair value executed with the same counterparty under a master netting arrangement~~.

Solely as it relates to the right to reclaim cash collateral or the obligation to return cash collateral, fair value amounts include amounts that approximate fair value. The preceding sentence shall not be analogized to for any other asset or liability. The fair value recognized for some contracts may include an accrual component for the periodic unconditional receivables and payables that result from the contract; the accrual component included therein may also be offset for contracts executed with the same counterparty under a master netting arrangement. A master netting arrangement exists if the reporting entity has multiple contracts, whether for the same type of derivative instrument or for different types of derivative instruments, with a single counterparty that are subject to a contractual agreement that provides for the net settlement of all contracts through a single payment in a single currency in the event of default on or termination of any one contract.

Amendments to Subtopic 815-15, Derivatives and Hedging—Embedded Derivatives

Issue 13

39. In paragraph 815-15-25-1(c), the phrase *this Subtopic* is not clear. That paragraph was originally sourced from paragraph 12 of FASB Statement No. 133, *Accounting for Derivative Instruments and Hedging Activities.* Statement 133 stated that the separate instrument should "be a derivative instrument subject to the requirements of this Statement." Since the scope guidance from Statement 133 is found in both Subtopic 815-10, Derivatives and Hedging—Overall, and Subtopic 815-15, this proposed amendment includes references to both Subtopics.

40. Amend paragraph 815-15-25-1, with no link to a transition paragraph, as follows:

Derivatives and Hedging—Embedded Derivatives

Recognition

815-15-25-1 An **embedded derivative** shall be separated from the host contract and accounted for as a **derivative instrument** pursuant to Subtopic 815-10 if and only if all of the following criteria are met:

a. The economic characteristics and risks of the embedded derivative are not clearly and closely related to the economic characteristics and risks of the host contract.
b. The **hybrid instrument** is not remeasured at **fair value** under otherwise applicable generally accepted accounting principles (GAAP) with changes in fair value reported in earnings as they occur.
c. A separate instrument with the same terms as the embedded derivative would, pursuant to Section 815-10-15, be a derivative instrument subject to the requirements of <u>Subtopic 815-10 and </u>this Subtopic. (The initial net investment for the hybrid instrument shall not be considered to be the initial net investment for the embedded derivative.)

Amendments to Subtopic 820-10, Fair Value Measurement—Overall

Issue 14

41. These proposed amendments would clarify the Board's decisions about measuring the fair value of a liability or instrument classified in a reporting entity's shareholder's equity from the perspective of a market participant that holds the identical item as an asset at the measurement date. The guidance was originally added to the Codification by the amendments in Accounting Standards Update No. 2009-05, *Fair Value Measurements and Disclosures (Topic 820): Measuring Liabilities at Fair Value*. That guidance was amended in Accounting Standards Update No. 2011-04, *Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs*, which made the guidance unclear. Before the amendments in Update 2011-04 were issued, the intent of the guidance could be characterized as follows:

a. When an issuer is valuing its liabilities or equity instruments on the basis of the quoted price of the corresponding asset, restrictions on an entity's ability to transfer such liabilities or equity instruments should not be included as an adjustment to the fair value of the quoted price of the corresponding asset.
b. Transfer restrictions that are characteristics of an asset should be considered in determining the fair value of the asset, whereas transfer restrictions that are characteristics of an entity should not be considered in determining the fair value of the asset.

42. These proposed amendments would clarify items (a) and (b) above and are not intended to substantively change how GAAP is applied. However, it is possible that the proposed amendments may result in a change to existing practice for some entities; therefore, transition guidance has been provided.

43. Amend paragraph 820-10-35-16D, with a link to transition paragraph 105-10-65-5, as follows:

Fair Value Measurement—Overall

Subsequent Measurement

820-10-35-16D <u>When measuring the fair value of a liability or an equity instrument held by another party as an asset, a</u>~~A~~ reporting entity shall adjust the quoted price of ~~a liability or an instrument classified in a reporting entity's shareholders' equity~~

~~held by another party as an~~the asset only if there are factors specific to the asset that are not applicable to the fair value measurement of the liability or equity instrument. ~~A reporting entity shall ensure that the price of the asset does not reflect the effect of a restriction preventing the sale of that asset.~~When the asset held by another party includes a characteristic restricting its sale, the fair value of the corresponding liability or equity instrument also would include the effect of the restriction. Some factors that may indicate that the quoted price of the asset should be adjusted include the following:

a. The quoted price for the asset relates to a similar (but not identical) liability or equity instrument held by another party as an asset. For example, the liability or equity instrument may have a particular characteristic (for example, the credit quality of the issuer) that is different from that reflected in the fair value of the similar liability or equity instrument held as an asset.
b. The unit of account for the asset is not the same as for the liability or equity instrument. For example, for liabilities, in some cases the price for an asset reflects a combined price for a package comprising both the amounts due from the issuer and a third-party credit enhancement. If the unit of account for the liability is not for the combined package, the objective is to measure the fair value of the issuer's liability, not the fair value of the combined package. Thus, in such cases, the reporting entity would adjust the observed price for the asset to exclude the effect of the third-party credit enhancement. See paragraph 820-10-35-18A for further guidance.

Issue 15

44. An amendment in Accounting Standards Update No. 2016-19, *Technical Corrections and Improvements,* updated the definitions of three fair value approaches in the Codification's Master Glossary and made several amendments to Topic 820 to clarify the difference between a valuation approach and a valuation technique. Paragraph 820-10-35-24B contains an incorrect reference that also should have been amended at that time. That paragraph provides a reference to paragraph 820-10-55-35, which is related to two examples of an entity using multiple valuation approaches. Amending the reference to correctly state that the illustration is about multiple valuation approaches is problematic because the Section in which paragraph 820-10-35-24B resides is about valuation techniques and it would be counter to the prior efforts to create a clear distinction between the two terms. The guidance on valuation techniques is robust and does not require an illustration; therefore, this proposed amendment would remove the reference to paragraph 820-10-55-35.

45. Amend paragraph 820-10-35-24B, with no link to a transition paragraph, as follows:

Subsequent Measurement

820-10-35-24B In some cases, a single valuation technique will be appropriate (for example, when valuing an asset or a liability using quoted prices in an **active market** for identical assets or liabilities). In other cases, multiple valuation techniques will be appropriate (for example, that might be the case when valuing a reporting unit). If multiple valuation techniques are used to measure fair value, the results (that is, respective indications of fair value) shall be evaluated considering the reasonableness of the range of values indicated by those results. A fair value measurement is the point within that range that is most representative of fair value in the circumstances. ~~Paragraph 820-10-55-35 illustrates the use of multiple valuation techniques.~~

Issue 16

46. When initially drafted, the amendments in Accounting Standards Update No. 2011-04, *Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs*, indicated that only portfolios containing financial assets and financial liabilities were eligible for the "portfolio exception" to valuation. Nonfinancial assets and nonfinancial liabilities would continue to be valued on a net basis under an "in use" valuation premise. Thus, a mixed portfolio of physically settled commodity contracts (that are derivatives under Topic 815, Derivatives and Hedging, but are not financial assets or liabilities as defined in the Master Glossary) managed in a portfolio with offsetting cash-settled derivatives (that are financial assets or liabilities) would not be eligible for the portfolio exception. The exclusion of nonfinancial derivatives from the portfolio exception was not intentional. These proposed amendments would revise paragraphs 820-10-35-18D through 35-18F and 820-10-35-18H through 35-18L to include not only financial assets and financial liabilities, but also portfolios of financial instruments and nonfinancial instruments accounted for as derivatives in accordance with Topic 815. This would allow entities to measure fair value on a net basis for those portfolios in which financial assets and liabilities and nonfinancial instruments are managed and valued together. These proposed amendments are consistent with a similar amendment made by the IASB in its 2011–2013 annual improvements process.

47. Amend paragraphs 820-10-35-18D through 35-18F and 820-10-35-18H through 35-18L, with a link to transition paragraph 105-10-65-5, as follows:

Subsequent Measurement

> > Application to Financial Assets and Financial Liabilities with Offsetting Positions in Market Risks or Counterparty Credit Risk

820-10-35-18D A reporting entity that holds a group of **financial** **assets,** ~~**assets and**~~ **financial liabilities**, or nonfinancial items accounted for as derivatives in accordance with Topic 815 is exposed to market risks (that is, **interest rate risk**, **currency risk**, or **other price risk**) and to the credit risk of each of the counterparties. If the reporting entity manages that group of financial assets,~~assets and~~ financial liabilities, or nonfinancial items accounted for as derivatives in accordance with Topic 815 on the basis of its net exposure to either market risks or credit risk, the reporting entity is permitted to apply an exception to this Topic for measuring fair value. That exception permits a reporting entity to measure the fair value of a group of financial assets,~~assets and~~ financial liabilities, or nonfinancial items accounted for as derivatives in accordance with Topic 815 on the basis of the price that would be received to sell a net long position (that is, an asset) for a particular risk exposure or paid to transfer a net short position (that is, a liability) for a particular risk exposure in an orderly transaction between market participants at the measurement date under current market conditions. Accordingly, a reporting entity shall measure the fair value of the group of financial assets,~~assets and~~ financial liabilities, or nonfinancial items accounted for as derivatives in accordance with Topic 815 consistently with how market participants would price the net risk exposure at the measurement date.

820-10-35-18E A reporting entity is permitted to use the exception in ~~the preceding~~ paragraph 820-10-35-D only if the reporting entity does all of the following:

a. Manages the group of financial assets,~~assets and~~ financial liabilities, or nonfinancial items accounted for as derivatives in accordance with Topic 815 on the basis of the reporting entity's net exposure to a particular market risk (or risks) or to the credit risk of a particular counterparty in accordance with the reporting entity's documented risk management or investment strategy
b. Provides information on that basis about the group of financial assets,~~assets and~~ financial liabilities, or nonfinancial items accounted for as derivatives in accordance with Topic 815 to the reporting entity's **management**
c. Is required or has elected to measure those financial assets,~~assets and~~ financial liabilities, or nonfinancial items accounted for as derivatives in accordance with Topic 815 at fair value in the statement of financial position at the end of each reporting period.

820-10-35-18F The exception in paragraph 820-10-35-18D does not pertain to financial statement presentation. In some cases, the basis for the presentation of financial instruments in the statement of financial position differs from the basis for the measurement of financial instruments, for example, if a Topic does not require or permit financial instruments to be presented on a net basis. In such cases, a reporting entity may need to allocate the portfolio-level adjustments (see paragraphs 820-10-35-18I through 35-18L) to the individual assets or liabilities that make up the group of financial assets,~~assets and~~ financial liabilities, or nonfinancial items accounted for as derivatives in accordance with Topic 815 managed on the basis of the reporting entity's net risk exposure. A reporting entity shall perform such allocations on a reasonable and consistent basis using a methodology appropriate in the circumstances.

820-10-35-18G A reporting entity shall make an accounting policy decision to use the exception in paragraph 820-10-35-18D. A reporting entity that uses the exception shall apply that accounting policy, including its policy for allocating bid-ask adjustments (see paragraphs 820-10-35-18I through 35-18K) and credit adjustments (see paragraph 820-10-35-18L), if applicable, consistently from period to period for a particular portfolio.

820-10-35-18H The exception in paragraph 820-10-35-18D applies only to financial assets and financial liabilities within the scope of Topic 815 or Topic 825 and nonfinancial items accounted for as derivatives in accordance with Topic 815.

> > > Exposure to Market Risks

820-10-35-18I When using the exception in paragraph 820-10-35-18D to measure the fair value of a group of financial assets,~~assets and~~ financial liabilities, or nonfinancial items accounted for as derivatives in accordance with Topic 815 managed on the basis of the reporting entity's net exposure to a particular market risk (or risks), the reporting entity shall apply the price within the bid-ask spread that is most representative of fair value in the circumstances to the reporting entity's net exposure to those market risks (see paragraphs 820-10-35-36C through 35-36D).

820-10-35-18J When using the exception in paragraph 820-10-35-18D, a reporting entity shall ensure that the market risk (or risks) to which the reporting entity is exposed within that group of financial assets,~~assets and~~ financial liabilities, or nonfinancial items accounted for as derivatives in accordance with Topic 815 is substantially the same. For example, a reporting entity would not combine the interest rate risk associated with a financial asset with the commodity price risk associated with a financial liability, because doing so would not mitigate the reporting entity's exposure to interest rate risk or commodity price risk. When using the exception in paragraph 820-10-35-18D, any basis risk resulting from the market risk parameters not being identical shall be taken into account in the fair value measurement of the financial assets,~~assets and~~ financial liabilities, or nonfinancial items accounted for as derivatives in accordance with Topic 815 within the group.

820-10-35-18K Similarly, the duration of the reporting entity's exposure to a particular market risk (or risks) arising from the financial assets,~~assets and~~ financial liabilities, or nonfinancial items accounted for as derivatives in accordance with Topic 815 shall be substantially the same. For example, a reporting entity that uses a 12-month futures contract against the cash flows associated with 12 months' worth of interest rate risk exposure on a 5-year financial instrument within a group made up of only those financial assets,~~assets and~~ financial liabilities, or nonfinancial items accounted for as derivatives in accordance with Topic 815 measures the fair value of the exposure to 12-month interest rate risk on a net basis and the remaining interest rate risk exposure (that is, years 2 through 5) on a gross basis.

> > > Exposure to the Credit Risk of a Particular Counterparty

820-10-35-18L When using the exception in paragraph 820-10-35-18D to measure the fair value of a group of financial assets,~~assets and~~ financial liabilities, or items accounted for as derivatives in accordance with Topic 815 entered into with a particular counterparty, the reporting entity shall include the effect of the reporting entity's net exposure to the credit risk of that counterparty or the counterparty's net exposure to the credit risk of the reporting entity in the fair value measurement when market participants would take into account any existing arrangements that mitigate credit risk exposure in the event of default (for example, a master netting agreement with the counterparty or an agreement that requires the exchange of collateral on the basis of each party's net exposure to the credit risk of the other party). The fair value measurement shall reflect market participants' expectations about the likelihood that such an arrangement would be legally enforceable in the event of default.

Issue 17

48. This proposed amendment would replace an indefinite deferral in transition paragraph 820-10-65-9 from Accounting Standards Update No. 2013-09, *Fair Value Measurement (Topic 820): Deferral of the Effective Date of Certain Disclosures for Nonpublic Employee Benefit Plans in Update No. 2011-04*, with a disclosure exemption in paragraph 820-10-50-2(bbb)(2). In its deliberations on the amendments in Update 2013-09, the Board decided that the disclosure would provide competitive information that could be detrimental for employee benefit plans that held investments in their plan sponsor's own nonpublic equity securities, including equity securities of their plan sponsor's nonpublic affiliated entities. The indefinite deferral functions as a de facto disclosure exemption; however, the Transition and Open Effective Date Information Section of the Codification is not the most logical or effective placement for this exemption. Topic 820 has been amended frequently with relevant transition guidance. As additional transition guidance is added to this Topic, the paragraph containing the indefinite deferral is at risk of becoming less apparent to stakeholders. In addition, the guidance in paragraph 820-10-50-2 will remain as perpetual pending content as long as the indefinite deferral remains in the transition guidance. This creates unnecessary complications about the placement of all future amendments to paragraph 820-10-50-2. This proposed amendment would simplify the Codification for all

stakeholders by making the indefinite deferral a disclosure exception that is co-located with related disclosure guidance.

49. Amend paragraph 820-10-50-2(bbb), with no link to a transition paragraph, as follows:

Disclosure

820-10-50-2 To meet the objectives in paragraph 820-10-50-1, a reporting entity shall disclose, at a minimum, the following information for each class of assets and liabilities (see paragraph 820-10-50-2B for information on determining appropriate classes of assets and liabilities) measured at fair value (including measurements based on fair value within the scope of this Topic) in the statement of financial position after initial recognition:

- bbb. For recurring and nonrecurring fair value measurements categorized within Level 2 and Level 3 of the fair value hierarchy, a description of the valuation technique(s) and the inputs used in the fair value measurement. If there has been a change in valuation technique (for example, changing from a **market approach** to an **income approach** or the use of an additional valuation technique), the reporting entity shall disclose that change and the reason(s) for making it. For fair value measurements categorized within Level 3 of the fair value hierarchy, a reporting entity shall provide quantitative information about the significant unobservable inputs used in the fair value measurement. A reporting entity is not required to create quantitative information to comply with this disclosure requirement if quantitative unobservable inputs are not developed by the reporting entity when measuring fair value (for example, when a reporting entity uses prices from prior transactions or third-party pricing information without adjustment). However, when providing this disclosure, a reporting entity cannot ignore quantitative unobservable inputs that are significant to the fair value measurement and are reasonably available to the reporting entity. <u>Employee benefit plans, other than those plans that are subject to the U.S. Securities and Exchange Commission's (SEC) filing requirements, are not required to provide this disclosure for investments held by an employee benefit plan in their plan sponsor's own nonpublic equity securities, including equity securities of their plan sponsor's nonpublic affiliated entities.</u>

In addition, amend the following pending content for paragraph 820-10-50-2(bbb), with no additional link to transition:

Pending Content:

Transition Date: *(P) December 16, 2016; (N) December 16, 2016* | **Transition Guidance:** 820-10-65-11

820-10-50-2 To meet the objectives in paragraph 820-10-50-1, a reporting entity shall disclose, at a minimum, the following information for each class of assets and liabilities (see paragraph 820-10-50-2B for information on determining appropriate classes of assets and liabilities) measured at fair value (including measurements based on fair value within the scope of this Topic) in the statement of financial position after initial recognition:

bbb. The information shall include:

1. For recurring and nonrecurring fair value measurements categorized within Level 2 and Level 3 of the fair value hierarchy, a description of the valuation technique(s) and the inputs used in the fair value measurement. If there has been a change in either or both a valuation approach and a valuation technique (for example, changing from matrix pricing to the binomial model or the use of an additional valuation technique), the reporting entity shall disclose that change and the reason(s) for making it.
2. For fair value measurements categorized within Level 3 of the fair value hierarchy, a reporting entity shall provide quantitative information about the significant unobservable inputs used in the fair value measurement. A reporting entity is not required to create quantitative information to comply with this disclosure requirement if quantitative unobservable inputs are not developed by the reporting entity when measuring fair value (for example, when a reporting entity uses prices from prior transactions or third-party pricing information without adjustment). However, when providing this disclosure, a reporting entity cannot ignore quantitative unobservable inputs that are significant to the fair value measurement and are reasonably available to the reporting entity. Employee benefit plans, other than those plans that are subject to the U.S. Securities and Exchange Commission's (SEC) filing requirements, are not required to provide this disclosure for investments held by an employee benefit plan in their plan sponsor's own nonpublic equity securities, including equity securities of their plan sponsor's nonpublic affiliated entities.

In addition, amend the following pending content and roll off the pending content that links to paragraph 820-10-65-9:

Pending Content:

Transition Date: *Indefinitely deferred* | **Transition Guidance:** 820-10-65-9

820-10-50-2 To meet the objectives in paragraph 820-10-50-1, a reporting entity shall disclose, at a minimum, the following information for each class of assets and liabilities (see paragraph 820-10-50-2B for information on determining appropriate classes of assets and liabilities) measured at fair value (including measurements based on fair value within the scope of this Topic) in the statement of financial position after initial recognition:

bbb. The information shall include:

1. For recurring and nonrecurring fair value measurements categorized within Level 2 and Level 3 of the fair value hierarchy, a description of the valuation technique(s) and the inputs used in the fair value measurement. If there has been a change in either or both a valuation approach and a valuation technique (for example, changing from matrix pricing to the binomial model or the use of an additional valuation technique), the reporting entity shall disclose that change and the reason(s) for making it.
2. For fair value measurements categorized within Level 3 of the fair value hierarchy, a reporting entity shall provide quantitative information about the significant unobservable inputs used in the fair value measurement. A reporting entity is not required to create quantitative information to comply with this disclosure requirement if quantitative unobservable inputs are not developed by the reporting entity when measuring fair value (for example, when a reporting entity uses prices from prior transactions or third-party pricing information without adjustment). However, when providing this disclosure, a reporting entity cannot ignore quantitative unobservable inputs that are significant to the fair value measurement and are reasonably available to the reporting entity. <u>Employee benefit plans, other than those plans that are subject to the U.S. Securities and Exchange Commission's (SEC) filing requirements, are not required to provide this disclosure for investments held by an employee benefit plan in their plan sponsor's own nonpublic equity securities, including equity securities of their plan sponsor's nonpublic affiliated entities.</u>

Issue 18

50. Paragraphs 820-10-55-11 and 820-10-55-33 through 55-34 use the term *build-up approach*. This conflicts with the guidance that states that there are three valuation approaches (cost, market, and income). The build-up approach is a method of applying the discount rate adjustment technique. As indicated in the guidance, a build-up methodology is a subset of a valuation technique. Therefore, this proposed amendment would change the term to *build-up methodology* for clarity.

51. Amend paragraphs 820-10-55-11 and 820-10-55-33 through 55-34 and their related heading, with no link to a transition paragraph, as follows:

Implementation Guidance and Illustrations

> > > > Discount Rate Adjustment Technique

820-10-55-11 The discount rate adjustment technique requires an analysis of market data for comparable assets or liabilities. Comparability is established by considering the nature of the cash flows (for example, whether the cash flows are contractual or noncontractual and are likely to respond similarly to changes in economic conditions), as well as other factors (for example, credit standing, collateral, duration, restrictive covenants, and liquidity). Alternatively, if a single comparable asset or liability does not fairly reflect the risk inherent in the cash flows of the asset or liability being measured, it may be possible to derive a discount rate using data for several comparable assets or liabilities in conjunction with the risk-free yield curve (that is, using a build-up <u>methodology</u>~~approach~~). Paragraph 820-10-55-33 illustrates the build-up <u>methodology</u>~~approach~~.

> > Example 2: Discount Rate Adjustment Technique—The Build-Up <u>Methodology</u>~~Approach~~

820-10-55-33 To illustrate a build-up <u>methodology</u>~~approach~~ (as discussed in paragraph 820-10-55-11), assume that Asset A is a contractual right to receive $800 in 1 year (that is, there is no timing uncertainty). There is an established market for comparable assets, and information about those assets, including price information, is available. Of those comparable assets:

a. Asset B is a contractual right to receive $1,200 in 1 year and has a market price of $1,083. Thus, the implied annual rate of return (that is, a 1-year market rate of return) is 10.8 percent [($1,200/$1,083) – 1].
b. Asset C is a contractual right to receive $700 in 2 years and has a market price of $566. Thus, the implied annual rate of return (that is, a 2-year market rate of return) is 11.2 percent [($700/$566)^0.5 – 1].
c. All three assets are comparable with respect to risk (that is, dispersion of possible payoffs and credit).

820-10-55-34 On the basis of the timing of the contractual payments to be received for Asset A relative to the timing for Asset B and Asset C (that is, one year for Asset B versus two years for Asset C), Asset B is deemed more comparable to Asset A. Using the contractual payment to be received for Asset A ($800) and the 1-year market rate derived from Asset B (10.8 percent), the fair value of Asset A is $722 ($800/1.108). Alternatively, in the absence of available market information for Asset B, the one-year market rate could be derived from Asset C using the build-up <u>methodology</u>~~approach~~. In that case, the 2-year market rate indicated by Asset C (11.2 percent) would be adjusted to a 1-year market rate using the term structure of the risk-free yield curve. Additional information and analysis might be required to determine whether the risk premiums for one-year and two-year assets are the same. If it is determined that the risk premiums for one-year and two-year assets are not the same, the two-year market rate of return would be further adjusted for that effect.

Issue 19

52. The proposed amendment to paragraph 820-10-50-2E relates to a requirement to disclose information about the methods and assumptions used to measure fair value for financial instruments that are measured at amortized cost and for which fair value information is required to be disclosed. The amendments in Accounting Standards Update No. 2016-01, *Financial Instruments—Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities*, amended Topic 825, superseding the requirement to disclose information on the methods and assumptions used to measure fair value for those financial instruments. A corresponding consequential amendment, in which the same disclosure requirements exist, was not made to Topic 820. Therefore, this proposed amendment would conform the requirements in Topic 820 with the amendments made to Topic 825 so that the disclosure information is not required, which is consistent with the Board's intent in the amendments in Update 2016-01.

53. Amend paragraph 820-10-50-2E, with a link to transition paragraph 825-10-65-2, as follows:

Disclosure

820-10-50-2E For each class of assets and liabilities not measured at fair value in the statement of financial position but for which the fair value is disclosed, a reporting entity shall disclose the information required by paragraph 820-10-50-2(b)~~, (bbb)(1),~~ and (h). However, a reporting entity is not required to provide the quantitative disclosures about significant unobservable inputs used in fair value measurements categorized within Level 3 of the fair value hierarchy required by paragraph 820-10-50-2(bbb)(2). For such assets and liabilities, a reporting entity does not need to provide the other disclosures required by this Topic.

Issue 20

54. The amendment to paragraph 820-10-50-2 in Accounting Standards Update No. 2015-10, *Technical Corrections and Improvements,* requires disclosure of the fair value measurement at the relevant measurement date, not at the end of the reporting period. Furthermore, a reporting entity is required to clearly indicate that the fair value information presented is not as of the period's end as well as the date or period that the measurement was taken. Because this disclosure illustrates how

one would comply with the guidance in paragraph 820-10-50-2, the proposed amendments to the example would illustrate the disclosure of fair value information at various measurement dates that are different from the period end date.

55. Amend paragraph 820-10-55-100, with no link to a transition paragraph, as follows:

Implementation Guidance and Illustrations

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

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

($ in millions)

Description	12/31/X9	Fair Value Measurements at the End of the Reporting Period Using: 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					
Equity securities [(a)]					
Equity securities—real estate industry	$ 93	$ 70	$ 23		
Equity securities—oil and gas industry	45	45			
Equity securities—financial services industry	150	150			
Equity securities—healthcare industry	110	110			
Equity securities—other	30	30			
Total equity securities	$ 428	$ 405	$ 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		93		
Total available-for-sale debt securities	$ 412	$ 85	$ 117	$ 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		$ 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	
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	$ 179	$ 78	$ 120	$ -	
Total recurring fair value measurements	$ 1,441	$ 568	$ 350	$ 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) At 9/30/X9, in~~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) At 12/31/X9, in~~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) At 5/1/X9, in~~In~~ accordance with Subtopic 360-10, long-lived assets held for sale with a carrying amount of $35 million were written down to their fair value of $26 million, less costs to sell of $6 million (or $20 million), resulting in a loss of $15 million, which was included in earnings for the period.

(f) In accordance with Subtopic 820-10, certain investments that are measured at fair value using the net asset value per share (or its equivalent) practical expedient have not been classified in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the statement of financial position.

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

Amendments to Subtopic 830-10, Foreign Currency Matters—Overall

Issue 21

56. The proposed amendments to Topic 830 relate to the application of historical exchange rates for remeasuring certain accounts on the balance sheet. Topic 321, Investments—Equity Securities, provides a measurement alternative for equity securities without a readily determinable fair value. These proposed amendments would clarify that the only equity securities required to follow the guidance in paragraph 830-10-45-18, which requires those accounts to be remeasured at historical exchange rates, are those equity securities without readily determinable fair values accounted for under the guidance in paragraph 321-10-35-2. These proposed amendments also would clarify that only debt securities intended to be held to maturity are required to follow the guidance in paragraph 830-10-45-18.

57. Amend paragraph 830-10-45-18, with a link to transition paragraph 825-10 65-2, as follows:

Foreign Currency Matters—Overall

Other Presentation Matters

> > Accounts to Be Remeasured Using Historical Exchange Rates

830-10-45-18 All of the following are common nonmonetary balance sheet items and related revenue, expense, gain, and loss accounts that shall be remeasured using historical rates to produce the same result in terms of the functional currency that would have occurred if those items had been initially recorded in the functional currency:

a. Marketable securities carried at cost, including:
   1. Equity securities <u>without readily determinable fair values accounted for under paragraph 321-10-35-2</u>
   2. Debt securities ~~not~~ intended to be held until maturity.
b. Inventories carried at cost
c. Prepaid expenses such as insurance, advertising, and rent
d. Property, plant, and equipment
e. Accumulated depreciation on property, plant, and equipment
f. Patents, trademarks, licenses, and formulas
g. Goodwill
h. Other intangible assets
i. Deferred charges and credits, except policy acquisition costs for life insurance companies

j. Deferred income
k. Common stock
l. Preferred stock carried at issuance price
m. Revenues and expenses related to nonmonetary items, for example:
    1. Cost of goods sold
    2. Depreciation of property, plant, and equipment
    3. Amortization of intangible items such as patents, licenses, and so forth
    4. Amortization of deferred charges or credits except policy acquisition costs for life insurance entities.

Amendments to Subtopic 940-405, Financial Services—Brokers and Dealers—Liabilities, and Subtopic 942-210, Financial Services—Depository and Lending—Balance Sheet

Issue 22

58. The guidance in paragraph 940-405-55-1 could lead a user to think that a broker-dealer can offset securities borrowed and loaned transactions if there are explicit settlement dates, which is not correct. The reference to explicit settlement dates is included in paragraph 210-20-45-11 and applies to repurchase agreements and reverse repurchase agreement conditions for offsetting but does not apply to securities borrowed and loaned transactions. The broker-dealer also would need to meet the "intent" criterion in paragraph 210-20-45-1 and all the other criteria in that paragraph to offset securities borrowed and loaned transactions. There is similar guidance in paragraph 942-210-45-3. Paragraphs 940-405-55-1 and 942-210-45-3 originated from the AICPA Audit and Accounting Guide, *Brokers and Dealers in Securities*, and the AICPA Audit and Accounting Guide, *Depository and Lending Institutions: Banks and Savings Institutions, Credit Unions, Finance Companies, and Mortgage Companies*, which paraphrased the guidance in Section 210-20-45, albeit, each slightly different. This proposed amendment would simplify the Codification by removing the paraphrased guidance from paragraphs 940-405-55-1 and 942-210-45-3 so that the industry Topic guidance refers to the full guidance in Section 210-20-45. In addition, the reference in paragraph 940-405-55-1 would be moved to a new paragraph 940-210-45-1 to correct the intersecting Topic. In Subtopic 940-405, the intersecting Topic is Topic 405, Liabilities. The intersecting Topic should be Topic 210, Balance Sheet. This proposed amendment would remove redundant guidance, provide consistent guidance for offsetting, and make the guidance for offsetting easier to find in Topic 940.

59. Supersede Section 940-405-55, Financial Services—Brokers and Dealers—Liabilities—Implementation Guidance and Illustrations, with a link to transition paragraph 105-10-65-4.

60. Supersede paragraph 942-210-45-3 and its related heading and add paragraph 942-210-45-3A, with a link to transition paragraph 105-10-65-4, as follows:

Financial Services—Depository and Lending—Balance Sheet

Other Presentation Matters

> Offsetting Amounts in the Balance Sheet

~~> > Repurchase and Reverse Repurchase Agreements~~

942-210-45-3 Paragraph superseded by Accounting Standards Update No. 201X-XX.~~Topic 210 permits offsetting in the statement of financial position of only payables and receivables that represent repurchase agreements and reverse repurchase agreements and that meet all of the conditions specified therein and does not apply to securities borrowing or lending transactions.~~

942-210-45-3A See Section 210-20-45 for guidance about offsetting securities, borrowed transactions, and securities loaned transactions.

Amendments to Subtopic 942-505, Financial Services—Depository and Lending—Equity

Issue 23

61. This proposed amendment would clarify the requirements for disclosing information on regulatory capital for depository institutions. The proposed amendment is necessary because of recent changes in the measures of regulatory capital in Basel III, with which depository institutions must comply (for example, the newly defined measure of Common Equity Tier 1). The proposed amendment would clarify that an entity must disclose the required and actual amounts of regulatory capital for each measure of regulatory capital for which the entity must comply. In the event of future changes to regulatory capital measures, the proposed amendment would require any new measures that an entity is required to comply with to be disclosed in the financial statements. The new capital requirements have been adopted; therefore, no transition guidance would be required for this proposed change.

62. Amend paragraph 942-505-50-1, with no link to a transition paragraph, as follows:

Financial Services—Depository and Lending—Equity

Disclosure

> Regulatory Capital Disclosures

> > Banks and Savings Institutions

942-505-50-1 Noncompliance with regulatory capital requirements could materially affect the economic resources of a bank or savings institution and claims to those resources. Accordingly, at a minimum, an entity shall disclose all of the following in the notes to the financial statements:

- a. A description of regulatory capital requirements for both of the following:
  1. Those for capital adequacy purposes
  2. Those established by the prompt corrective action provisions of Section 38 of the Federal Deposit Insurance Act.
- b. The actual or possible material effects of noncompliance with such requirements.
- c. Whether the entity is in compliance with the regulatory capital requirements, including, as of each balance sheet date presented, both of the following with respect to quantitative measures:
  1. The entity's required and actual ratios and amounts of regulatory capital, which may include Common Equity Tier 1, Tier 1 leverage, Tier 1 risk-based, and total risk-based capital, and (for savings institutions) tangible capital~~, and (for certain banks and bank holding companies) Tier 3 capital for market risk~~
  2. Factors that may significantly affect capital adequacy such as potentially volatile components of capital, qualitative factors, and regulatory mandates.
- d. As of each balance sheet date presented, the prompt corrective action category in which the entity was classified as of its most recent notification.
- e. As of the most recent balance sheet date, whether management believes any conditions or events since notification have changed the institution's category.

Noncompliance with regulatory capital requirements may, when considered with other factors, raise substantial doubt about the entity's ability to continue as a going concern for a reasonable period of time.

Amendments to Subtopic 944-30, Financial Services—Insurance—Acquisition Costs

Issue 24

63. This proposed amendment would restore guidance about an accounting policy election to paragraph 944-30-25-1A that was originally included in the transition guidance in Accounting Standards Update No. 2010-26, *Financial Services—Insurance (Topic 944): Accounting for Costs Associated with Acquiring or Renewing Insurance Contracts*. There was a one-time election upon the adoption of the amendments in Update 2010-26 that if the initial application of the guidance would result in the capitalization of acquisition costs that had not been capitalized previously by an entity, the entity could elect to not capitalize those types of costs. The guidance for the one-time election was automatically removed with the transition guidance because the effective date had been met for all entities. Stakeholders expressed concern that the guidance that provided the one-time policy election was no longer in the Codification, which could potentially raise questions about the appropriateness of the accounting some time in the future for those entities that chose that election.

64. Amend paragraph 944-30-25-1A, with no link to a transition paragraph, as follows:

Financial Services—Insurance—Acquisition Costs

Recognition

944-30-25-1A An insurance entity shall capitalize only the following as acquisition costs related directly to the successful acquisition of new or renewal insurance contracts:

- a. **Incremental direct costs of contract acquisition**
- b. The portion of the employee’s total compensation (excluding any compensation that is capitalized as incremental direct costs of contract acquisition) and payroll-related fringe benefits related directly to time spent performing any of the following acquisition activities for a contract that actually has been acquired:
  1. Underwriting
  2. Policy issuance and processing
  3. Medical and inspection
  4. Sales force contract selling.
- c. Other costs related directly to the insurer’s acquisition activities in (b) that would not have been incurred by the insurance entity had the acquisition contract transaction(s) not occurred.

d. Advertising costs that meet the capitalization criteria in paragraph 340-20-25-4.

<u>If the application of the guidance in this paragraph results in the capitalization of acquisition costs that had not previously been capitalized by the insurance entity before fiscal years beginning after December 15, 2011, the insurance entity may elect to not capitalize those types of costs. This election shall be made before fiscal years beginning after December 15, 2011.</u>

[***Editor's Note:*** *This accounting policy election was a one-time election upon the adoption of the amendments in Update 2010-26.*]

In addition, amend the following pending content for paragraph 944-30-25-1A, with no additional link to transition:

Pending Content:

Transition Date: *(P) December 16, 2017; (N) December 16, 2018* | **Transition Guidance:** 606-10-65-1

944-30-25-1A An insurance entity shall capitalize only the following as acquisition costs related directly to the successful acquisition of new or renewal insurance contracts:

a. **Incremental direct costs of contract acquisition**
b. The portion of the employee's total compensation (excluding any compensation that is capitalized as incremental direct costs of contract acquisition) and payroll-related fringe benefits related directly to time spent performing any of the following acquisition activities for a contract that actually has been acquired:
   1. Underwriting
   2. Policy issuance and processing
   3. Medical and inspection
   4. Sales force contract selling.
c. Other costs related directly to the insurer's acquisition activities in (b) that would not have been incurred by the insurance entity had the acquisition contract transaction(s) not occurred.
d. Subparagraph superseded by Accounting Standards Update No. 2014-09.

<u>If the application of the guidance in this paragraph results in the capitalization of acquisition costs that had not previously been capitalized by the insurance entity before fiscal years beginning after December 15, 2011, the insurance entity may elect to not capitalize those types of costs. This election shall be made before fiscal years beginning after December 15, 2011.</u>

[***Editor's Note:*** *This accounting policy election was a one-time election upon the adoption of the amendments in Update 2010-26.*]

Amendments to Subtopic 944-310, Financial Services—Insurance—Receivables, and Subtopic 944-360, Financial Services—Insurance—Property, Plant, and Equipment

Issue 25

65. The amendments in Accounting Standards Update No. 2016-01, *Financial Instruments—Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities*, superseded paragraphs 944-325-45-3 through 45-4 and 944-325-50-1. This proposed amendment would be a conforming amendment to remove the references in the Codification to those paragraphs.

66. Amend paragraphs 944-310-45-1 through 45-2 and 944-310-50-1, with a link to transition paragraph 825-10-65-2, as follows:

Financial Services—Insurance—Receivables

Other Presentation Matters

> Mortgage Loans

944-310-45-1 ~~Paragraph 944-325-45-3 states that realized~~Realized gains and losses on ~~all~~ investments in mortgage loans (except those that are accounted for as either hedges of net investments in foreign operations [see Subtopic 815-35] or cash flow hedges [see Subtopic 815-30]) shall be reported in the statement of earnings as a component of other income, on a pretax basis.

944-310-45-2 ~~Paragraph 944-325-45-4 states that, if~~If not presented as a separate item in the statement of earnings, realized gains and losses shall be disclosed in the notes to financial statements (see paragraph 944-310-50-1).

Disclosure

> Mortgage Loans

944-310-50-1 ~~Paragraph 944-325-50-1 states that, if~~If realized gains and losses are not presented as a separate item in the statement of earnings ~~(see paragraph 944-310-45-4)~~, they shall be disclosed in the notes to financial statements.

67. Amend paragraphs 944-360-45-3 through 45-4 and 944-360-50-1, with a link to transition paragraph 825-10-65-2, as follows:

Financial Services—Insurance—Property, Plant, and Equipment

Other Presentation Matters

> Income Statement

> > Real Estate Investments

944-360-45-3 ~~Paragraph 944-325-45-3 states that realized~~Realized gains and losses on ~~all~~ investments in real estate (except those that are accounted for as either hedges of net investments in foreign operations [see Subtopic 815-35] or cash flow hedges [see Subtopic 815-30]) shall be reported in the statement of earnings as a component of other income, on a pretax basis.

944-360-45-4 ~~Paragraph 944-325-45-4 states that realized~~Realized gains and losses shall be presented as a separate item in the statement of earnings or disclosed in the notes to financial statements (see paragraph 944-310-50-1).

Disclosure

944-360-50-1 ~~Paragraph 944-325-50-1 states that, if~~If realized gains and losses are not presented as a separate item in the statement of earnings ~~(see paragraph 944-360-45-4)~~, they shall be disclosed in the notes to financial statements.

Issue 26

68. Real estate that meets the criteria to be classified as held for sale is carried at the lower of carrying value or fair value less cost to sell, as originally specified in paragraph 34 of FASB Statement No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*. That guidance was not included in paragraph 944-360-35-1. This proposed amendment would add references to the applicable guidance for determining the subsequent measurement of real estate acquired by insurance companies in settling certain claims.

69. Amend paragraph 944-360-35-1, with no link to a transition paragraph, as follows:

Subsequent Measurement

> Real Estate Acquired in Settling Certain Claims

944-360-35-1 In accordance with paragraph 360-10-35-43, real estate classified as held for sale that was~~Real estate~~ acquired in settling mortgage guaranty and title insurance claims shall be ~~reported~~ subsequently measured in accordance with the guidance on property, plant, and equipment in Section 360-10-35~~at **fair value**~~.

Amendments to Subtopic 958-325, Not-for-Profit Entities—Investments—Other

Issue 27

70. Institutions of higher learning may have investments outside the scope of Subtopic 326-20, Financial Instruments—Credit Losses—Measured at Amortized Cost*.* This proposed amendment would add guidance to paragraph 958-325-35-1 to address the measurement of carrying value for other investments that are not within the scope of Subtopic 326-20.

71. Amend paragraph 958-325-35-1, with a link to transition paragraph 326-10-65-1, as follows.

Not-for-Profit Entities—Investments—Other

Subsequent Measurement

> Institutions of Higher Education

958-325-35-1 Institutions of higher education, including colleges, universities, and community or junior colleges, shall subsequently report other investments at either of the following measures:

a. Carrying value~~—that is,~~ those that were acquired by purchase are reported at cost, and those that were contributed are reported at their **fair value** at the date of the gift. ~~However, the~~The carrying value for financial instruments shall be reduced by an allowance for credit losses (if applicable) under ~~Topic 326.~~Subtopic 326-20 on financial instruments—credit losses—measured at amortized cost. For other investments that are not within the scope of Subtopic 326-20, the carrying value shall be adjusted in accordance with Subtopic 325-20 on cost method investments.
b. Fair value.

Amendments to Subtopic 958-720, Not-for-Profit Entities—Other Expenses

Issue 28

72. This proposed amendment would improve the description of the items in paragraph 958-720-45-15 that would be considered gains and losses for a not-for-profit entity. This proposed amendment also would change the term *for-profit entity* to the term *business entity* in Topic 958.

73. Amend paragraph 958-720-45-15, with no link to a transition paragraph, as follows:

Not-for-Profit Entities—Other Expenses

Other Presentation Matters

> Analysis of Expenses by Their Nature and Function

958-720-45-15 All NFPs shall report information about all expenses in one location on the face of the statement of activities, as a schedule in the notes to financial statements, or in a separate financial statement, as discussed in paragraph 958-205-45-6. The relationship between functional classification and natural classification for all expenses shall be presented in an analysis that disaggregates **functional expense classifications**, such as major classes of **program services** and **supporting activities**, by their **natural expense classifications**, such as salaries, rent, electricity, interest expense, supplies, depreciation, awards and grants to others, and professional fees. To the extent that expenses are reported by other than their natural classification (such as salaries included in cost of goods sold or facility rental costs of special events reported as direct benefits to donors), they shall be reported by their natural classification in the analysis of expenses by nature and function. For example, salaries, wages, and fringe benefits that are included as part of the cost of goods sold on the statement of activities shall be included with other salaries, wages, and fringe benefits in the analysis of expenses by nature and function. External and direct internal investment expenses that have been netted against investment return shall not be included in the analysis of expenses by nature and function. Certain items that are typically excluded from net ~~income~~income, that are included in other comprehensive income of ~~for-profit entities~~business entities, and that do not follow Topic 958, such as those items listed in paragraph 220-10-45-10A, are considered gains or losses and, like other gains and losses, shall not be included in the analysis of expenses by nature and function. See Note F in paragraph 958-205-55-21 for an example of how to report expenses by nature and function.

Amendments to Subtopic 962-205, Plan Accounting—Defined Contribution Pension Plans—Presentation of Financial Statements, and Addition of Subtopic 962-360, Plan Accounting—Defined Contribution Pension Plans—Property, Plant, and Equipment

Issue 29

74. Paragraph 962-205-45-5 contains guidance for property, plant, and equipment. Subtopic 962-205 is the intersecting Subtopic for the presentation of financial statements, but not for property, plant, and equipment. Proposed Subtopic 962-360, Plan Accounting—Defined Contribution Pension Plans—Property, Plant, and Equipment, would be the intersecting Subtopic for property, plant, and equipment. This proposed change would make the guidance easier to locate and provide consistency with updated Topics on plan accounting. In Topic 960, Plan Accounting—Defined Benefit Pension Plans, and Topic 965, Plan Accounting—Health and Welfare Benefit Plans, this guidance resides in intersecting Subtopics 960-360 and 965-360, respectively. To make the Topic structure consistent with related Topics and the guidance easier to find, this proposed amendment would move the property, plant, and equipment guidance to proposed Subtopic 962-360.

75. Add Subtopic 962-360, Plan Accounting—Defined Contribution Pension Plans—Property, Plant, and Equipment, with no link to a transition paragraph, as follows:

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

Plan Accounting—Defined Contribution Pension Plans—Property, Plant, and Equipment

Overview and Background

General

962-360-05-1 This Subtopic provides guidance on accounting for property, plant, and equipment for **defined contribution plans**.

Scope and Scope Exceptions

General

> Overall Guidance

962-360-15-1 This Subtopic follows the same Scope and Scope Exceptions as outlined in the Overall Subtopic; see Section 962-10-15.

Glossary

Defined Contribution Plan

A plan that provides an individual account for each participant and provides benefits that are based on all of the following: amounts contributed to the participant's account by the employer or employee; investment experience; and any forfeitures allocated to the account, less any administrative expenses charged to the plan.

a. Defined contribution health and welfare plans—Defined contribution health and welfare plans maintain an individual account for each plan participant. They have terms that specify the means of determining the contributions to participants' accounts, rather than the amount of benefits the participants are to receive. The benefits a plan participant will receive are limited to the amount contributed to the participant's account, investment experience, expenses, and any forfeitures allocated to the participant's account. These plans also include flexible spending arrangements.
b. Defined contribution postretirement plan—A plan that provides postretirement benefits in return for services rendered, provides an individual account for each plan participant, and specifies how contributions to the individual's account are to be determined rather than specifies the amount of benefits the individual is to receive. Under a defined contribution postretirement plan, the benefits a plan participant will receive depend solely on the amount contributed to the plan participant's account, the returns earned on investments of those contributions, and the forfeitures of other plan participants' benefits that may be allocated to that plan participant's account.

Subsequent Measurement

General

962-360-35-1 Plan assets used in plan operations shall be reported at cost less accumulated depreciation or amortization and may consist of any of the following:

a. Buildings
b. Equipment
c. Furniture and Fixtures

d. Leasehold improvements. **[Content moved from paragraph 962-205-45-5]**

76. Supersede paragraph 962-205-45-5, with no link to a transition paragraph, as follows:

962-205-45-5 <u>Paragraph superseded by Accounting Standards Update No. 201X-XX.</u>~~Plan assets used in plan operations shall be reported at cost less accumulated depreciation or amortization and may consist of any of the following:~~

~~a. Buildings~~
~~b. Equipment~~
~~c. Furniture and fixtures~~
~~d. Leasehold improvements.~~ **[Content moved to paragraph 962-360-35-1]**

Amendments to Subtopic 962-325, Plan Accounting—Defined Contribution Pension Plans—Investments—Other

Issue 30

77. This proposed amendment would remove the stable value common collective trust fund from the illustrative example in paragraph 962-325-55-17 to avoid the interpretation that such an investment should always be measured using the net asset value per share practical expedient. Rather, the plan would need to evaluate whether a readily determinable fair value exists.

78. Amend paragraph 962-325-55-17, with a link to transition paragraph 105-10-65-5, as follows:

Plan Accounting—Defined Contribution Pension Plans—Investments—Other

Implementation Guidance and Illustrations

> Illustrations

> > Example 2: Illustrative Financial Statements and Disclosures of a Defined Contribution Plan

962-325-55-17 This Example illustrates certain applications of the provisions of this Subtopic to the annual financial statements of a defined contribution plan. The following are illustrative financial statements and disclosures.

Key assumptions in the Example include:

a. ~~The stable value collective trust fund that is referenced throughout the financial statements files Form 5500 as a direct filing entity, and, as a result, the plan has not disclosed that investment's significant investment strategies as allowed under paragraph 962-325-50-9.~~Except for the fully benefit-responsive investment contracts that are reported at contract value, all investments held by the defined contribution plan were evaluated for and determined to have a readily determinable fair value.
b. The plan assets are measured as of the plan's fiscal year-end on December 31, 20X1, and December 31, 20X0.

[The tables in (b) are not shown because they are unchanged.]

Notes to Financial Statements

[Notes A and B are not shown because they are unchanged.]

C. Fair Value Measurements

The framework for measuring fair value provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). Valuation techniques maximize the use of relevant observable inputs and minimize the use of unobservable inputs. The three levels of the fair value hierarchy under Topic 820 are described as follows:

Level 1	Inputs to the valuation methodology are quoted prices (unadjusted) in active markets for identical assets or liabilities that the Plan can access at the measurement date.
Level 2	Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly, such as: a. Quoted prices for similar assets or liabilities in active markets b. Quoted prices for identical or similar assets or liabilities in inactive markets c. Inputs other than quoted prices that are observable for the asset or liability

d. Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3	Inputs that are unobservable inputs for the asset or liability.

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at December 31, 20X1, and 20X0.

1. Common stocks. Valued at the closing price reported on the active market on which the individual securities are traded.
2. Self-directed brokerage accounts. Accounts primarily consist of mutual funds and common stocks that are valued on the basis of readily determinable market prices.
3. Corporate bonds. Valued using pricing models maximizing the use of observable inputs for similar securities. This includes basing the value on yields currently available on comparable securities of issuers with similar credit ratings. When quoted prices are not available for identical or similar bonds, those corporate bonds are valued under a discounted cash flow approach that maximizes observable inputs, such as current yields or similar instruments, but includes adjustments for certain risks that may not be observable, such as credit and liquidity risks.
4. Mutual funds. Valued at the daily closing price as reported by the fund. Mutual funds held by the Plan are open-end mutual funds that are registered with the U.S. Securities and Exchange Commission. These funds are required to publish their daily net asset value and to transact at that price. The mutual funds held by the Plan are deemed to be actively traded.
5. Subparagraph superseded by Accounting Standards Update No. 2017-XX.~~Stable value collective trust fund. A stable value fund that is composed primarily of fully benefit-responsive investment contracts that is valued at the net asset value of units of the bank collective trust. The net asset value is used as a practical expedient to estimate fair value. This practical expedient would not be used if it is determined to be probable that the fund will sell the investment for an amount different from the reported net asset value. Participant transactions (purchases and sales) may occur daily. If the Plan initiates a full redemption of the collective trust, the issuer reserves the~~

~~right to require 12 months' notification in order to ensure that securities liquidations will be carried out in an orderly business manner.~~

6. U.S. government securities. Valued using pricing models maximizing the use of observable inputs for similar securities.

The following table sets forth by level, within the fair value hierarchy, the Plan's assets at fair value as of December 31, 20X1, and 20X0. Classification within the fair value hierarchy table is based on the lowest level of any input that is significant to the fair value measurement.

	Assets at Fair Value as of December 31, 20X1			
	Level 1	Level 2	Level 3	Total
Mutual funds	~~$ 4,437,500~~ $ 5,859,500	$ -	$ -	~~$ 4,437,500~~ $ 5,859,500
Self-directed brokerage account	25,000	-	-	25,000
Common stocks	960,000	-	-	960,000
U.S. government securities	-	225,000	-	225,000
Corporate bonds (Aaa credit rating & noninvestment grade)	-	307,500	20,000	327,500
~~Total assets in the fair value hierarchy~~	~~5,422,500~~	~~532,500~~	~~20,000~~	~~5,975,000~~
~~Investments measured at net asset value~~ [(a)]	~~-~~	~~-~~	~~-~~	~~1,422,000~~
Investments at fair value	~~$ 5,422,500~~ $ 6,844,500	$ 532,500	$ 20,000	$ 7,397,000

	Assets at Fair Value as of December 31, 20X0			
	Level 1	Level 2	Level 3	Total
Mutual funds	~~$ 3,630,000~~ $ 5,730,000	$ -	$ -	~~$ 3,630,000~~ $ 5,730,000
Self-directed brokerage account	20,000	-	-	20,000
Common stocks	870,000	-	-	870,000
U.S. government securities	-	120,000	-	120,000
Corporate bonds (Aaa credit rating & noninvestment grade)	-	255,000	19,000	274,000
~~Total assets in the fair value hierarchy~~	~~4,520,000~~	~~375,000~~	~~19,000~~	~~4,914,000~~
~~Investments measured at net asset value~~ [(a)]	~~-~~	~~-~~	~~-~~	~~2,100,000~~
Investments at fair value	~~$ 4,520,000~~ $ 6,620,000	$ 375,000	$ 19,000	$ 7,014,000

(a) Footnote superseded by Accounting Standards Update No. 201X-XX. ~~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 net assets available for benefits.~~

Transfers between Levels

For years ended December 31, 20X1, and 20X0, there were no significant transfers between Levels 1 and 2 and no transfers in or out of Level 3.

Changes in Fair Value of Level 3 Assets and Related Gains and Losses

The following table sets forth a summary of changes in the fair value of the Plan's Level 3 assets for the year ended December 31, 20X1.

	Level 3 Assets Year Ended December 31, 20X1 (Corporate Bonds)	
Balance, beginning of year	$	19,000
Realized gains/(losses)		500
Unrealized gains/(losses) relating to instruments still held at the reporting date		2,000
Purchases		-
Sales		(1,500)
Transfers in and/or out of Level 3		-
Balance, end of year	$	20,000
The amount of total gains or losses for the period attributable to the change in unrealized gains or losses relating to assets still held at the reporting date	$	2,000

Quantitative Information about Significant Unobservable Inputs Used in Level 3 Fair Value Measurements

The following table represents the Plan's Level 3 financial instruments, the valuation techniques used to measure the fair value of those financial instruments, and the significant unobservable inputs and the ranges of values for those inputs.

Instrument	**Fair Value**	**Principal Valuation Technique**	**Unobservable Inputs**	**Range of Significant Input Values**	**Weighted Average**
			Credit risk (basis points)	xx-xxx	Y%
Corporate bonds	$20,000	Discounted cash flow	Liquidity risk (basis points)	xx-xxx	Y%

~~Investments Measured Using the Net Asset Value per Share Practical Expedient~~

~~The following table summarizes investments for which fair value is measured using the net asset value per share practical expedient as of December 31, 20X1, and 20X0, respectively. There are no participant redemption restrictions for these investments; the redemption notice period is applicable only to the Plan.~~

~~**December 31, 20X1**~~	~~**Fair Value**~~	~~**Unfunded Commitments**~~	~~**Redemption Frequency (If Currently Eligible)**~~	~~**Redemption Notice Period**~~
~~Stable value collective trust fund~~	~~$1,422,000~~	~~n/a~~	~~Daily~~	~~12 months~~

~~**December 31, 20X0**~~	~~**Fair Value**~~	~~**Unfunded Commitments**~~	~~**Redemption Frequency (If Currently Eligible)**~~	~~**Redemption Notice Period**~~
~~Stable value collective trust fund~~	~~$2,100,000~~	~~n/a~~	~~Daily~~	~~12 months~~

D. Fully Benefit-Responsive Investment Contracts

The Plan holds a portfolio of investment contracts <u>that are directly effected with the issuer</u> that comprises a traditional investment contract and a portfolio of synthetic investment contracts. These contracts meet the fully benefit-responsive investment contract criteria and therefore are reported at contract value. Contract value is the relevant measure for fully benefit-responsive investment contracts because this is the amount received by participants if they were to initiate permitted transactions under the terms of the Plan. Contract value represents contributions made under each contract, plus earnings, less participant withdrawals, and administrative expenses. The following represents the disaggregation of contract value between types of investment contracts held by the Plan.

[The remainder of this paragraph is not shown because it is unchanged.]

79. Add paragraphs 105-10-65-4 through 65-5 and their related heading as follows:

Generally Accepted Accounting Principles—Overall

Transition and Open Effective Date Information

> Transition Related to Accounting Standards Update No. 201X-XX, *Codification Improvements*

105-10-65-4 The following represents the transition and effective date information related to Accounting Standards Update No. 201X-XX, *Codification Improvements*:

a. A **public business entity**, a **not-for-profit entity** that has issued, or is a conduit bond obligor for, securities that are traded, listed, or quoted on an exchange or an over-the-counter market, and an employee benefit plan that files or furnishes financial statements with or to the U.S. Securities and Exchange Commission, shall apply the pending content that links to this paragraph for annual periods beginning after December 15, 2017, including interim periods within those annual periods.
b. All other entities shall apply the pending content that links to this paragraph for annual periods beginning after December 15, 2018, and interim periods within annual periods beginning after December 15, 2019.
c. An entity shall recognize and present separately the cumulative effect of the change in accounting principle of the pending content that links to this paragraph as an adjustment to the opening balance of retained earnings (or other appropriate components of equity or net assets in the statement of financial position) as of the beginning of the period in which it is first applied. The cumulative-effect adjustment is the difference between the amounts recognized in the statement of financial position before initial application of the pending content that links to this paragraph and the amounts recognized in the statement of financial position at initial application of the pending content that links to this paragraph.
d. An entity may elect to apply the pending content that links to this paragraph retrospectively.
e. Early application of the pending content that links to this paragraph is permitted for any fiscal year or interim period for which the entity's financial statements have not yet been issued (public business entities) or for which **financial statements are available to be issued** (all other entities).
f. An entity shall disclose the nature of a change in accounting principle to the pending content that links to this paragraph and the reason for the change.

105-10-65-5 The following represents the transition and effective date information related to Accounting Standards Update No. 201X-XX, *Codification Improvements*:

a. A **public business entity**, a **not-for-profit entity** that has issued, or is a conduit bond obligor for, securities that are traded, listed, or quoted on an exchange or an over-the-counter market, and an employee benefit plan that files or furnishes financial statements with or to the U.S. Securities and Exchange Commission, shall apply the pending content that links to this paragraph for annual periods beginning after December 15, 2017, including interim periods within those annual periods.

b. All other entities shall apply the pending content that links to this paragraph for annual periods beginning after December 15, 2018, and interim periods within annual periods beginning after December 15, 2019.

c. An entity shall apply the pending content that links to this paragraph prospectively.

d. Early application of the pending content that links to this paragraph is permitted for any fiscal year or interim period for which the entity's financial statements have not yet been issued (public business entities) or for which **financial statements are available to be issued** (all other entities).

e. An entity shall disclose the nature of a change in accounting principle to the pending content that links to this paragraph and the reason for the change.

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*
Christine A. Botosan
Marsha L. Hunt
Harold L. Monk, Jr.
R. Harold Schroeder
Marc A. Siegel

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 (Taxonomy). We welcome comments on these proposed changes to the Taxonomy 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 Taxonomy will be made available for public comment at www.fasb.org and finalized as part of the annual release process.