FASB Amends Accounting and Reporting for Financial Instruments

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The Financial Accounting Standards Board (FASB) and the International Accounting Standards Board (IASB) have been working to improve the reporting for financial instruments since 2005. The main objective has been to provide financial statement users with a more timely and representative depiction of a company, institution or nonprofit organization's involvement in financial instruments, while reducing the complexity in accounting for these instruments.

FASB and IASB have taken different approaches, with IASB issuing IFRS 9, *Financial Instruments*, in 2013. However, the feedback received in 2010 on the exposure draft caused FASB to rethink its original proposals on impairment, recognition and measurement, and hedging.

Amendments of the New Recognition and Measurement Standard

On Nov. 11, 2015, FASB voted to go ahead with a final Accounting Standards Update (ASU), intended to improve and simplify the recognition and measurement of financial instruments. The new standard, ASU No. 2016-01 *Financial Instruments – Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities*, was issued Jan. 5, 2016. The main objective of this ASU is to provide users of financial statements with more decision-useful information by enhancing the reporting of financial instruments. Following are the highlights.

The first amendment to GAAP is to require equity investments, except those accounted for under the equity method, to be measured at fair value with changes in fair value to be recognized in net income. The ASU also requires enhanced disclosures about these investments.

The second amendment is to simplify the impairment assessment of equity investments without readily determinable fair values by requiring a qualitative assessment to identify impairment. This qualitative assessment is similar to the assessment for long-lived assets, goodwill and indefinite-lived intangible assets. When an assessment indicates impairment exists, an entity is required to measure the investment at fair value. This impairment assessment reduces the complexity of the guidance entities were supposed to follow before this ASU, reducing cost for the preparers of the financial statements.

The third amendment eliminates the requirement to disclose the fair value of financial instruments measured at amortized cost for entities that are not public entities.

The fourth amendment to U.S. Generally Accepted Accounting Principles (GAAP) eliminates the requirement for public entities to disclose the method and significant assumptions used to estimate the fair value that is required to be disclosed for financial instruments measured at amortized cost on the balance sheet. These eliminations reduce cost for the preparers while still providing adequate information to the users of the financial statements.

The fifth amendment to GAAP requires public entities to use the exit price notion when measuring the fair value of financial instruments for disclosure purposes. This is consistent with Topic 820, *Fair Value Measurement*. This change eliminates the entry price method previously used by some entities for disclosure purposes. This elimination increases comparability between fair values of financial instruments held by different entities and provides users more comparable information.

The sixth amendment requires all entities to present separately in other comprehensive income the portion of the total change in the fair value of a liability resulting from a change in the instrument-specific credit risk when the entity has elected to measure the liability at fair value in accordance with the fair value option for financial instruments.

The seventh amendment is to require separate presentation of financial assets and financial liabilities by measurement category and form of financial asset (securities or loans and receivables) on the balance sheet or the accompanying notes to the financial statements.

The last amendment clarifies that an entity should evaluate the need for a valuation allowance on a deferred tax asset related to available-for-sale securities in combination with the entity's other deferred tax assets.

When the Amendments Will Be Effective

For public entities, the amendments in this ASU are effective for fiscal years beginning after Dec. 15, 2017, including the interim periods within those years. For all other entities, including nonprofit entities and employee benefit plans, the amendments in this ASU are effective for fiscal years beginning after Dec. 15, 2018, and the interim periods within fiscal years beginning after Dec. 15, 2019. All entities that are not public entities may elect to adopt the amendments along with the public entities on its requirement date.

Early application is permitted for the credit provision and the amendment that eliminates the requirement to disclose the fair value of financial instruments measured at amortized cost for not-public entities. All other early adoption is not permitted. For more information on this topic, visit fasb.org. ■

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