FINANCIAL ACCOUNTING SERIES

ACCOUNTING STANDARDS UPDATE

No. 2014-13
August 2014

Consolidation (Topic 810)

Measuring the Financial Assets and the Financial Liabilities of a Consolidated Collateralized Financing Entity

a consensus of the FASB Emerging Issues Task Force

An Amendment of the *FASB Accounting Standards Codification*®

Financial Accounting Standards Board

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FINANCIAL ACCOUNTING SERIES (ISSN 0885-9051) is published quarterly by the Financial Accounting Foundation. Periodicals postage paid at Norwalk, CT and at additional mailing offices. The full subscription rate is $242 per year. POSTMASTER: Send address changes to Financial Accounting Standards Board, 401 Merritt 7, PO Box 5116, Norwalk, CT 06856-5116. | **No. 402**

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CONTENTS

Page Numbers

Summary

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

A reporting entity is required to consolidate in its financial statements a collateralized financing entity, such as a collateralized debt obligation (CDO) or collateralized loan obligation (CLO) entity, when the reporting entity determines that it is the primary beneficiary of the collateralized financing entity in accordance with the guidance in Topic 810 on consolidation. A collateralized financing entity is a variable interest entity with no more than nominal equity that holds financial assets and issues beneficial interests in those financial assets; the beneficial interests have contractual recourse only to the related assets of the collateralized financing entity and are classified as financial liabilities. A reporting entity may be the primary beneficiary when it holds some of the beneficial interests issued by the collateralized financing entity. In some instances, a reporting entity may be the primary beneficiary if it only holds beneficial interests that represent compensation for services (such as management fees or servicing fees).

Many reporting entities currently elect or are required to account for the financial assets and the financial liabilities of a consolidated collateralized financing entity at fair value. The fair value, as determined under generally accepted accounting principles (GAAP), of a collateralized financing entity's financial assets may differ from the fair value of its financial liabilities even when the financial liabilities have recourse only to the financial assets. The Task Force received input indicating that diversity in practice has developed in the accounting for this measurement difference in both the initial consolidation and the subsequent measurement of the financial assets and the financial liabilities of a collateralized financing entity. This Update addresses that measurement difference.

Who Is Affected by the Amendments in This Update?

After transition, the amendments in this Update apply to a reporting entity that is required to consolidate a collateralized financing entity under the Variable Interest Entities Subsections of Subtopic 810-10 when (1) the reporting entity measures all of the financial assets and the financial liabilities of that consolidated collateralized financing entity at fair value in the consolidated financial statements based on other Topics and (2) the changes in the fair values of those financial assets and financial liabilities are reflected in earnings.

What Are the Main Provisions?

A reporting entity that consolidates a collateralized financing entity within the scope of this Update may elect to measure the financial assets and the financial liabilities of that collateralized financing entity using either the measurement alternative included in this Update or Topic 820 on fair value measurement. When the measurement alternative is not elected for a consolidated collateralized financing entity within the scope of this Update, the amendments clarify that (1) the fair value of the financial assets and the fair value of the financial liabilities of the consolidated collateralized financing entity should be measured using the requirements of Topic 820 and (2) any differences in the fair value of the financial assets and the fair value of the financial liabilities of that consolidated collateralized financing entity should be reflected in earnings and attributed to the reporting entity in the consolidated statement of income (loss).

When a reporting entity elects the measurement alternative included in this Update for a collateralized financing entity, the reporting entity should measure both the financial assets and the financial liabilities of that collateralized financing entity in its consolidated financial statements using the more observable of the fair value of the financial assets and the fair value of the financial liabilities.

If the fair value of the financial assets of the collateralized financing entity is more observable, those financial assets should be measured at fair value and the financial liabilities should be measured in consolidation as (1) the sum of the fair value of the financial assets and the carrying value of any nonfinancial assets held temporarily, less (2) the sum of the fair value of any beneficial interests retained by the reporting entity (other than those that represent compensation for services) and the reporting entity's carrying value of any beneficial interests that represent compensation for services. The resulting amount should be allocated to the individual financial liabilities (other than the beneficial interests retained by the reporting entity) using a reasonable and consistent methodology.

If the fair value of the financial liabilities of the collateralized financing entity is more observable, those financial liabilities should be measured at fair value and the financial assets should be measured in consolidation as (1) the sum of the fair value of the financial liabilities (other than the beneficial interests retained by the reporting entity), the fair value of any beneficial interests retained by the reporting entity (other than those that represent compensation for services), and the reporting entity's carrying value of any beneficial interests that represent compensation for services, less (2) the carrying value of any nonfinancial assets held temporarily. The resulting amount should be allocated to the individual financial assets using a reasonable and consistent methodology.

The amendments in this Update clarify that when the measurement alternative is elected, a reporting entity's consolidated net income (loss) should reflect the reporting entity's own economic interests in the collateralized financing entity, including (1) changes in the fair value of the beneficial interests retained by the reporting entity and (2) beneficial interests that represent compensation for services. Beneficial interests retained by the reporting entity that represent compensation for services (for example, management fees or servicing fees) and nonfinancial assets that are held temporarily by a collateralized financing entity should be measured in accordance with other applicable Topics.

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

The fair value of the financial assets of a collateralized financing entity, as determined under GAAP, may differ from the fair value of its financial liabilities even when the financial liabilities have recourse only to the financial assets. Before this Update, there was no specific guidance in GAAP on how a reporting entity should account for that difference.

The amendments in this Update provide an alternative to Topic 820 for measuring the financial assets and the financial liabilities of a consolidated collateralized financing entity to eliminate that difference. When the measurement alternative is not elected for a consolidated collateralized financing entity within the scope of this Update, the amendments clarify that (1) the fair value of the financial assets and the fair value of the financial liabilities of the consolidated collateralized financing entity should be measured using the requirements of Topic 820 and (2) any differences in the fair value of the financial assets and the fair value of the financial liabilities of that consolidated collateralized financing entity should be reflected in earnings and attributed to the reporting entity in the consolidated statement of income (loss).

When Will the Amendments Be Effective?

The amendments in this Update are effective for public business entities for annual periods, and interim periods within those annual periods, beginning after December 15, 2015. For entities other than public business entities, the amendments in this Update are effective for annual periods ending after December 15, 2016, and interim periods beginning after December 15, 2016. Early adoption is permitted as of the beginning of an annual period.

A reporting entity may apply the amendments in this Update using a modified retrospective approach by recording a cumulative-effect adjustment to equity as of the beginning of the annual period of adoption. A reporting entity also may apply the amendments retrospectively to all relevant prior periods beginning with the annual period in which the amendments in Accounting Standards Update No. 2009-17, *Consolidations (Topic 810): Improvements to Financial Reporting by Enterprises Involved with Variable Interest Entities*, were initially adopted.

A reporting entity that consolidates a collateralized financing entity that does not meet the scope requirements in this Update because the fair value option in Topic 825 was not elected to measure the eligible financial assets, financial liabilities, or both of the collateralized financing entity when it was initially consolidated, may elect at the date of adoption to apply the measurement alternative in this Update to those financial assets and financial liabilities or to continue using the guidance in other Topics to measure the financial assets and the financial liabilities of the consolidated collateralized financing entity. A reporting entity that does not elect to use the measurement alternative may not elect at the date of adoption to use the measurement requirements of Topic 820 on fair value measurement or to otherwise change its basis for measuring the financial assets or the financial liabilities of the collateralized financing entity.

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

IFRS does not contain any guidance specific to the measurement of consolidated collateralized financing entities.

Amendments to the *FASB Accounting Standards Codification*®

Introduction

1. The Accounting Standards Codification is amended as described in paragraphs 2–10. In some cases, to put the change in context, not only are the amended paragraphs shown but also the preceding and following paragraphs. Terms from the Master Glossary are in **bold** type. Added text is underlined, and deleted text is ~~struck out~~.

Amendments to Master Glossary

2. Add the new Master Glossary term *Collateralized Financing Entity*, with a link to transition paragraph 810-10-65-6, as follows:

Collateralized Financing Entity

A **variable interest entity** that holds financial assets, issues **beneficial interests** in those financial assets, and has no more than nominal equity. The beneficial interests have contractual recourse only to the related assets of the collateralized financing entity and are classified as financial liabilities. A collateralized financing entity may hold **nonfinancial assets** temporarily as a result of default by the debtor on the underlying debt instruments held as assets by the collateralized financing entity or in an effort to restructure the debt instruments held as assets by the collateralized financing entity. A collateralized financing entity also may hold other financial assets and financial liabilities that are incidental to the operations of the collateralized financing entity and have carrying values that approximate fair value (for example, cash, broker receivables, or broker payables).

Amendments to Subtopic 810-10

3. Add paragraphs 810-10-15-17D, 810-10-30-10 through 30-16, 810-10-35-6 through 35-9, and 810-10-50-20 through 50-22 and their related headings, with a link to transition paragraph 810-10-65-6, as follows:

Consolidation—Overall

Scope and Scope Exceptions

Variable Interest Entities

> Collateralized Financing Entities

810-10-15-17D The guidance on **collateralized financing entities** in this Topic provides a measurement alternative to Topic 820 on fair value measurement and applies to a reporting entity that consolidates a collateralized financing entity when both of the following conditions exist:

a. All of the financial assets and the financial liabilities of the collateralized financing entity are measured at fair value in the consolidated financial statements under other applicable Topics, other than financial assets and financial liabilities that are incidental to the operations of the collateralized financing entity and have carrying values that approximate fair value (for example, cash, broker receivables, or broker payables).
b. The changes in the fair values of those financial assets and financial liabilities are reflected in earnings.

Initial Measurement

Variable Interest Entities

> Collateralized Financing Entities

810-10-30-10 When a reporting entity initially consolidates a **variable interest entity** that is a **collateralized financing entity** that meets the scope requirements in paragraph 810-10-15-17D, it may elect to measure the financial assets and the financial liabilities of the collateralized financing entity using a measurement alternative to Topic 820 on fair value measurement.

810-10-30-11 Under the measurement alternative, the reporting entity shall measure both the financial assets and the financial liabilities of the collateralized financing entity using the more observable of the fair value of the financial assets and the fair value of the financial liabilities. Any gain or loss that results from the initial application of this measurement alternative shall be reflected in earnings and attributed to the reporting entity in the consolidated statement of income (loss).

810-10-30-12 If the fair value of the financial assets of the **collateralized financing entity** is more observable, those financial assets shall be measured at fair value. The financial liabilities shall be measured in the initial consolidation as the difference between the following two amounts:

a. The sum of:
   1. The fair value of the financial assets
   2. The carrying value of any nonfinancial assets held temporarily

b. The sum of:
   1. The fair value of any **beneficial interests** retained by the reporting entity (other than those that represent compensation for services)
   2. The reporting entity's carrying value of any beneficial interests that represent compensation for services.

The fair value of the financial assets in (a)(1) should include the carrying values of any financial assets that are incidental to the operations of the collateralized financing entity because the financial assets' carrying values approximate their fair values.

810-10-30-13 If the fair value of the financial liabilities of the collateralized financing entity is more observable, those financial liabilities shall be measured at fair value. The financial assets shall be measured in the initial consolidation as the difference between the following two amounts:

a. The sum of:
   1. The fair value of the financial liabilities (other than the beneficial interests retained by the reporting entity)
   2. The fair value of any beneficial interests retained by the reporting entity (other than those that represent compensation for services)
   3. The reporting entity's carrying value of any beneficial interests that represent compensation for services
b. The carrying value of any nonfinancial assets held temporarily.

The fair value of the financial liabilities in (a)(1) should include the carrying values of any financial liabilities that are incidental to the operations of the collateralized financing entity because the financial liabilities' carrying values approximate their fair values.

810-10-30-14 The amount resulting from paragraph 810-10-30-12 or paragraph 810-10-30-13 shall be allocated to the less observable of the financial assets and financial liabilities (other than the beneficial interests retained by the reporting entity), as applicable, using a reasonable and consistent methodology.

810-10-30-15 The carrying value of the beneficial interests that represent compensation for services (for example, rights to receive management fees or servicing fees) and the carrying value of any nonfinancial assets held temporarily by the **collateralized financing entity** shall be measured in accordance with other applicable Topics.

810-10-30-16 If a reporting entity does not elect to apply the measurement alternative to a collateralized financing entity that meets the scope requirements in paragraph 810-10-15-17D, the reporting entity shall measure the fair value of the financial assets and the fair value of the financial liabilities of the collateralized financing entity using the requirements of Topic 820 on fair value measurement. If Topic 820 is applied, any initial difference in the fair value of the financial assets and the fair value of the financial liabilities of the collateralized financing entity shall be reflected in earnings and attributed to the reporting entity in the consolidated statement of income (loss).

Subsequent Measurement

Variable Interest Entities

> Collateralized Financing Entities

810-10-35-6 A reporting entity that elects to apply the measurement alternative to Topic 820 on fair value measurement upon initial consolidation of a **collateralized financing entity** that meets the scope requirements in paragraph 810-10-15-17D shall consistently apply the measurement alternative for the subsequent measurement of the financial assets and the financial liabilities of that consolidated collateralized financing entity provided that it continues to meet the scope requirements in paragraph 810-10-15-17D. If a collateralized financing entity subsequently fails to meet the scope requirements, a reporting entity shall no longer apply the measurement alternative to that collateralized financing entity. Instead, it shall apply Topic 820 to measure those financial assets and financial liabilities that were previously measured using the measurement alternative.

810-10-35-7 Under the measurement alternative, a reporting entity shall measure both the financial assets and the financial liabilities of the collateralized financing entity using the more observable of the fair value of the financial assets and the fair value of the financial liabilities, as described in paragraphs 810-10-30-12 through 30-15.

810-10-35-8 A reporting entity that applies the measurement alternative shall recognize in its earnings all amounts that reflect its own economic interests in the consolidated **collateralized financing entity**, including both of the following:

a. The changes in the fair value of any beneficial interests retained by the reporting entity (other than those that represent compensation for services)
b. Beneficial interests that represent compensation for services (for example, management fees or servicing fees).

810-10-35-9 If a reporting entity does not apply the measurement alternative to a collateralized financing entity that meets the scope requirements in paragraph 810-10-15-17D, the reporting entity shall measure the fair value of the financial assets and the fair value of the financial liabilities of the collateralized financing entity using the requirements of Topic 820 on fair value measurement. If Topic 820 is applied, any subsequent changes in the fair value of the financial assets and the changes in the fair value of the financial liabilities of the collateralized financing entity shall be reflected in earnings and attributed to the reporting entity in the consolidated statement of income (loss).

Disclosure

Variable Interest Entities

> Collateralized Financing Entities

810-10-50-20 A reporting entity that consolidates a **collateralized financing entity** and measures the financial assets and the financial liabilities using the measurement alternative in paragraphs 810-10-30-10 through 30-15 and 810-10-35-6 through 35-8 shall disclose the information required by Topic 820 on fair value measurement and Topic 825 on financial instruments for the financial assets and the financial liabilities of the consolidated collateralized financing entity.

810-10-50-21 For the less observable of the fair value of the financial assets and the fair value of the financial liabilities of the collateralized financing entity that is measured in accordance with the measurement alternative in paragraphs 810-10-30-10 through 30-15 and 810-10-35-6 through 35-8, a reporting entity shall disclose that the amount was measured on the basis of the more observable of the fair value of the financial liabilities and the fair value of the financial assets.

810-10-50-22 The disclosures in paragraphs 810-10-50-20 through 50-21 do not apply to the financial assets and the financial liabilities that are incidental to the operations of the **collateralized financing entity** and have carrying values that approximate fair value.

4. Add paragraphs 810-10-55-205J through 55-205K and their related headings, with a link to transition paragraph 810-10-65-6, as follows: **[Note: For ease of readability, the tables and footnotes are not underlined as new text.]**

Implementation Guidance and Illustrations

Variable Interest Entities

> > Example 9: Collateralized Financing Entities—Application of the Measurement Alternative to the Financial Liabilities When the Fair Value of the Financial Assets Is More Observable

810-10-55-205J A reporting entity has determined that it must consolidate a **collateralized financing entity** under this Topic and is eligible to and has elected to apply the measurement alternative in paragraphs 810-10-30-10 through 30-15 and 810-10-35-6 through 35-8. The reporting entity retains certain **beneficial interests** in the collateralized financing entity as compensation for its services and also retains other beneficial interests. Since initial consolidation, the collateralized financing entity has not settled any of the outstanding beneficial interests related to compensation for services. The collateralized financing entity's only assets are corporate debt obligations, and its only liabilities (the beneficial interests issued by the collateralized financing entity) are thinly traded. The reporting entity determines that the fair value of the collateralized financing entity's financial assets is more observable than the fair value of its financial liabilities. Because the fair value of the financial assets is more observable, the reporting entity determines the amount of the financial liabilities of the collateralized financing entity (other than those beneficial interests retained by the reporting entity) as follows.

	June 20, 20X4 (Measurement upon Initial Consolidation)	December 31, 20X4
Fair value of the financial assets[(a)]	$ 100	$ 105
Plus: Carrying value of the nonfinancial assets[(b)]	5	5
Total value of the assets of the collateralized financing entity	105	110
Less: Fair value of the beneficial interests retained by the reporting entity (other than those that represent compensation for services)[(c)]	10	12
Less: Carrying value of the beneficial interests related to compensation for services[(d)]	6	8
Financial liabilities related to the collateralized financing entity in consolidation	89	90
Net assets related to the collateralized financing entity[(e)]	$ 16	$ 20
Change in the net assets related to the collateralized financing entity[(f)]		$ 4
Changes in the beneficial interests attributable to the reporting entity[(f)]		$ 4

(a) The financial assets include $5 and $10 at June 20, 20X4, and December 31, 20X4, respectively, of cash held by the collateralized financing entity. The carrying value of the cash and cash equivalents is equal to the fair value.

(b) To determine the financial liabilities of the collateralized financing entity, the reporting entity uses the sum of the fair value of the financial assets and the carrying value of the nonfinancial assets. The nonfinancial assets of the collateralized financing entity are measured in accordance with other Topics.

(c) This amount represents the fair value of the beneficial interests retained by the reporting entity (other than those that represent compensation for services) determined in accordance with Topic 820. This amount is not included in the financial liabilities of the consolidated reporting entity because it does not represent an amount due to third-party beneficial interest holders.

(d) The reporting entity has rights to a portion of the beneficial interests through its compensation arrangement. That amount is measured in accordance with other Topics. That amount is not included in the financial liabilities of the consolidated reporting entity because it does not represent an amount due to third-party beneficial interest holders.

(e) The net assets related to the collateralized financing entity equal the reporting entity's beneficial interests (that is, the sum of the fair value of the beneficial interests retained [other than those that represent compensation] and the carrying value of beneficial interests that represent compensation for services). The change in the net assets is included in the reporting entity’s consolidated net income (loss).

(f) The change in the net assets related to the collateralized financing entity equals the change in the value of the beneficial interests retained by the reporting entity, including the change in the carrying value of the beneficial interests representing compensation for services.

> > Example 10: Collateralized Financing Entities—Application of the Measurement Alternative to the Financial Assets When the Fair Value of the Financial Liabilities Is More Observable

810-10-55-205K A reporting entity has determined that it must consolidate a **collateralized financing entity** under this Topic and is eligible to and has elected to apply the measurement alternative in paragraphs 810-10-30-10 through 30-15 and 810-10-35-6 through 35-8. The reporting entity retains certain **beneficial interests** in the collateralized financing entity as compensation for its services and also retains other beneficial interests. Since initial consolidation, the collateralized financing entity has not settled any of the outstanding beneficial interests related to compensation for services. The collateralized financing entity's only assets are mortgages with primarily unobservable inputs, and its only liabilities are beneficial interests issued in those assets. The beneficial interests of the collateralized financing entity are frequently traded, although not in an active market. Because the fair value of the financial liabilities is more observable, the reporting entity determines the amount of the financial assets of the collateralized financing entity as follows.

	June 20, 20X4 (Measurement upon Initial Consolidation)	December 31, 20X4
Fair value of the financial liabilities (other than beneficial interests retained by the reporting entity)[(a)]	$ 90	$ 95
Plus: Fair value of the beneficial interests retained by the reporting entity (other than those that represent compensation for services)[(b)]	10	12
Plus: Carrying value of the beneficial interests related to compensation for services[(c)]	6	8
Total value of the financial liabilities of the collateralized financing entity[(d)]	106	115
Less: Carrying value of the nonfinancial assets[(e)]	5	5
Financial assets of the collateralized financing entity	101	110
Net assets related to the collateralized financing entity[(f)]	$ 16	$ 20
Change in the net assets related to the collateralized financing entity[(g)]		$ 4
Changes in the beneficial interests attributable to the reporting entity[(g)]		$ 4

(a) This amount reflects the fair value of the beneficial interests held by third parties in the consolidated financial statements. While any beneficial interests retained by the reporting entity are financial liabilities of the collateralized financing entity, such amounts are eliminated in consolidation because they do not represent amounts due to third-party beneficial interest holders. This amount also includes $6 and $8 at June 20, 20X4, and December 31, 20X4, respectively, of payables held by the collateralized financing entity for securities purchased but not yet settled. The carrying amount of those payables approximates fair value.

(b) This amount represents the fair value of the beneficial interests retained by the reporting entity (other than those that represent compensation for services).

(c) The reporting entity holds beneficial interests that represent compensation for services. This amount is measured in accordance with other Topics.

(d) The total liabilities of the collateralized financing entity include the beneficial interests held by third parties, the beneficial interests retained by the reporting entity, and any beneficial interests related to compensation. The reporting entity's beneficial interests (including those related to compensation) are financial liabilities of the collateralized financial entity that are eliminated in consolidation.

(e) The nonfinancial assets of the collateralized financing entity are measured in accordance with other Topics.

(f) The net assets related to the collateralized financing entity equal the reporting entity's beneficial interests (that is, the sum of the fair value of the beneficial interests retained [other than those that represent compensation] and the carrying value of beneficial interests that represent compensation for services). The change in the net assets is included in the reporting entity's consolidated net income (loss).

(g) The change in the net assets related to the collateralized financing entity equals the change in the value of the beneficial interests attributable to the reporting entity, including the change in the carrying value of the beneficial interests representing compensation for services.

5. Add paragraph 810-10-65-6 and its related heading as follows:

> Transition Related to Accounting Standards Update No. 2014-13, *Consolidation (Topic 810): Measuring the Financial Assets and the Financial Liabilities of a Consolidated Collateralized Financing Entity*

810-10-65-6 The following represents the transition and effective date information related to Accounting Standards Update No. 2014-13, *Consolidation (Topic 810): Measuring the Financial Assets and the Financial Liabilities of a Consolidated Collateralized Financing Entity:*

- a. The pending content that links to this paragraph shall be effective as follows:
  1. For **public business entities**, for annual periods, and interim periods within those annual periods, beginning after December 15, 2015
  2. For all other entities, for annual periods ending after December 15, 2016, and interim periods beginning after December 15, 2016.
- b. Upon adoption, a reporting entity may apply the measurement alternative in paragraphs 810-10-30-10 through 30-15 and 810-10-35-6 through 35-8 to any existing consolidated **collateralized financing entity** that meets the scope requirements of paragraph 810-10-15-17D using a modified retrospective approach by remeasuring the financial assets or the financial liabilities of the existing consolidated collateralized financing entity as of the beginning of the annual period of adoption and recording a cumulative-effect adjustment for the remeasurement to equity. Any reporting entity that does not elect to apply the measurement alternative shall reclassify any accumulated differences in the fair value of the financial assets and the fair value of the financial liabilities of its collateralized financing entity to retained earnings if those differences were previously presented in another caption within equity (for example, appropriated retained earnings).
- c. A reporting entity also may elect to apply the pending content that links to this paragraph retrospectively to all relevant prior periods beginning with the annual period in which the amendments in Accounting Standards Update No. 2009-17, *Consolidations (Topic 810): Improvements to Financial Reporting by Enterprises Involved with Variable Interest Entities*, were initially adopted.
- d. A reporting entity that consolidates a collateralized financing entity that does not meet the scope requirements in paragraph 810-10-15-17D because the fair value option in Topic 825 was not elected to measure the eligible financial assets, financial liabilities, or both of the collateralized financing entity when it was initially consolidated, may elect at the date of adoption to apply the measurement alternative in paragraphs 810-10-30-10 through 30-15 and 810-10-35-6 through 35-8 to those financial assets and financial liabilities or to continue using the guidance in other Topics to measure the financial assets and the

financial liabilities of the consolidated collateralized financing entity. A reporting entity that does not elect to use the measurement alternative may not elect at the date of adoption to use the measurement requirements of Topic 820 on fair value measurement or to otherwise change its basis for measuring the financial assets or the financial liabilities of the collateralized financing entity.

e. Earlier application of the pending content that links to this paragraph is permitted as of the beginning of an annual period.
f. An entity shall provide the disclosures in paragraphs 250-10-50-1 through 50-3 in the period the entity adopts the pending content that links to this paragraph.

Amendments to Subtopic 805-10

6. Amend paragraph 805-10-15-4 by adding item f, with a link to transition paragraph 810-10-65-6, as follows:

Business Combinations—Overall

Scope and Scope Exceptions

> Transactions

805-10-15-4 The guidance in the Business Combinations Topic does not apply to any of the following:

f. Financial assets and financial liabilities of a consolidated variable interest entity that is a **collateralized financing entity** within the scope of the guidance on collateralized financing entities in Subtopic 810-10.

Amendments to Subtopic 820-10

7. Amend paragraph 820-10-15-3 by adding item ee, with a link to transition paragraph 810-10-65-6, as follows: **[Note: The amendment to paragraph 820-10-15-3 is being made to the current content as well as the pending content because the pending content will be effective after the effective date of this Update.]**

Fair Value Measurement—Overall

Scope and Scope Exceptions

> Practicability Exceptions to This Topic

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

ee. Financial assets or financial liabilities of a consolidated variable interest entity that is a **collateralized financing entity** when the financial assets or financial liabilities are measured using the measurement alternative in paragraphs 810-10-30-10 through 30-15 and 810-10-35-6 through 35-8.

Pending Content:

Transition Date: *(P) December 15, 2016; (N) December 15, 2018* │ **Transition Guidance**: 606-10-65-1

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

ee. Financial assets or financial liabilities of a consolidated variable interest entity that is a **collateralized financing entity** when the financial assets or financial liabilities are measured using the measurement alternative in paragraphs 810-10-30-10 through 30-15 and 810-10-35-6 through 35-8.

f. An exemption to the requirement to measure fair value if fair value cannot be reasonably estimated, such as the following:
   1. Noncash consideration promised in a contract in accordance with the guidance in paragraphs 606-10-32-21 through 32-24.

8. Amend paragraph 805-10-00-1, by adding the following items to the table, as follows:

805-10-00-1 The following table identifies the changes made to this Subtopic.

Paragraph	Action	Accounting Standards Update	Date
Beneficial Interests	Added	2014-13	08/05/2014
Collateralized Financing Entity	Added	2014-13	08/05/2014

Paragraph	Action	Accounting Standards Update	Date
Nonfinancial Asset	Added	2014-13	08/05/2014
805-10-15-4	Amended	2014-13	08/05/2014

9. Amend paragraph 810-10-00-1, by adding the following items to the table, as follows:

810-10-00-1 The following table identifies the changes made to this Subtopic.

Paragraph	Action	Accounting Standards Update	Date
Beneficial Interests	Added	2014-13	08/05/2014
Collateralized Financing Entity	Added	2014-13	08/05/2014
Nonfinancial Asset	Added	2014-13	08/05/2014
810-10-15-17D	Added	2014-13	08/05/2014
810-10-30-10 through 30-16	Added	2014-13	08/05/2014
810-10-35-6 through 35-9	Added	2014-13	08/05/2014
810-10-50-20 through 50-22	Added	2014-13	08/05/2014
810-10-55-205J	Added	2014-13	08/05/2014
810-10-55-205K	Added	2014-13	08/05/2014
810-10-65-6	Added	2014-13	08/05/2014

10. Amend paragraph 820-10-00-1, by adding the following items to the table, as follows:

820-10-00-1 The following table identifies the changes made to this Subtopic.

Paragraph	Action	Accounting Standards Update	Date
Beneficial Interests	Added	2014-13	08/05/2014
Collateralized Financing Entity	Added	2014-13	08/05/2014
Nonfinancial Asset	Added	2014-13	08/05/2014
820-10-15-3	Amended	2014-13	08/05/2014

The amendments in this Update were adopted by the unanimous vote of the seven members of the Financial Accounting Standards Board:

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

Background Information and Basis for Conclusions

Introduction

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

BC2. The Board previously issued two Exposure Drafts relating to this Issue. The first Exposure Draft was issued on October 11, 2012, with a comment period that ended on December 10, 2012. The Board received 11 comment letters. A second Exposure Draft was issued on July 19, 2013. Comment letters on this Exposure Draft were due September 18, 2013, but the deadline was extended to October 17, 2013. The Board received 22 comment letters on the second Exposure Draft.

Background Information

BC3. Under Subtopic 810-10 on consolidation, if a reporting entity holds a controlling financial interest in a variable interest entity (VIE), that entity is determined to be the primary beneficiary of the VIE and is required to consolidate the VIE. Characteristics of a controlling financial interest in a VIE are (a) the power to direct the activities of the VIE that most significantly affect the VIE's economic performance (the power criterion) and (b) the obligation to absorb losses of the VIE or the right to receive benefits from the VIE that could potentially be significant to the VIE (the losses-benefits criterion). A reporting entity may be the primary beneficiary of a collateralized financing entity when it holds some of the beneficial interests in the collateralized financing entity. In some instances, a reporting entity also may be the primary beneficiary if it retains only beneficial interests that represent compensation for services (such as management fees or servicing fees).

BC4. Collateralized financing entities are VIEs that hold financial assets, issue beneficial interests in those financial assets, and have no more than nominal equity. The beneficial interests have contractual recourse only to the related assets of the collateralized financing entity and are classified as financial liabilities. A collateralized financing entity may hold nonfinancial assets temporarily as a result of default by the debtor on the underlying debt instruments held as assets by the collateralized financing entity or in an effort to restructure the debt instruments held as assets by the collateralized financing entity. Because many collateralized financing entities hold such nonfinancial assets temporarily, the Task Force decided it was necessary to include those entities within the scope of this Update.

BC5. In addition, a collateralized financing entity also may hold other financial assets and financial liabilities that have carrying values that approximate fair value that are incidental to the operations of the collateralized financing entity (for example, cash, broker receivables, or broker payables). It is not uncommon for collateralized financing entities to hold such financial assets and financial liabilities; thus, the Task Force was concerned that excluding these collateralized financing entities could prevent many reporting entities from using the measurement alternative. However, because the Task Force did not want entities to change their basis for measuring the financial assets and the financial liabilities of a collateralized financing entity when applying the measurement alternative, the Task Force decided that a collateralized financing entity should be within the scope of this guidance only if the carrying values of the financial assets and the financial liabilities that are incidental to its operations approximate fair value.

BC6. A reporting entity may be required or may elect to measure the financial assets and the financial liabilities of a consolidated collateralized financing entity at fair value, based on the requirements of Topic 810, Topic 825, Topic 320 (on debt and equity securities), or a combination of those requirements. The fair value, as determined under GAAP, of a collateralized financing entity's financial assets may differ from the fair value of its financial liabilities even when the financial liabilities have recourse only to the related financial assets of the collateralized financing entity.

BC7. Diversity in practice has developed in the accounting for the difference between the fair value of the financial assets and the fair value of the financial liabilities of a collateralized financing entity. For example, some reporting entities record the difference in the consolidated statement of income (loss) as a gain or loss and then allocate the amount between controlling and noncontrolling beneficial interest holders in arriving at net income (loss) attributable to common shareholders. In some cases, those amounts are then reclassified to retained earnings and appropriated retained earnings, as applicable, in the statement of changes in equity. Other reporting entities initially record the entire difference as a direct adjustment to appropriated retained earnings in the statement of changes in equity. Some other reporting entities measure both the financial assets and the financial liabilities on the basis of the more observable of the fair value of the financial assets and the fair value of the financial liabilities to eliminate any differences other than those related beneficial interests retained by the reporting entity. Some reporting entities indicated that it can be very costly to independently value both the financial assets and the financial liabilities of a collateralized financing entity.

BC8. This Update addresses the measurement difference that exists between a collateralized financing entity's financial assets and its financial liabilities in consolidation when those financial assets and financial liabilities are both measured at fair value.

Scope

BC9. The amendments in this Update apply to reporting entities that are required to consolidate a collateralized financing entity under the Variable Interest Entities Subsections of Subtopic 810-10 when (a) all of the financial assets and the financial liabilities of that collateralized financing entity are measured at fair value in the consolidated financial statements (other than those financial assets and financial liabilities that are incidental to the operations of the collateralized financing entity and are measured at an amount that approximates fair value) and (b) the changes in the fair values of those financial assets and financial liabilities are reflected in earnings. The Task Force decided that, except as provided in the transition guidance, this guidance should not change when a reporting entity can measure the financial assets and the financial liabilities of a consolidated collateralized financing entity at fair value, but only should provide an alternative to Topic 820 for the measurement of those financial assets and financial liabilities.

BC10. The Task Force discussed whether a reporting entity that consolidates a collateralized financing entity that holds financial assets that were transferred from the reporting entity parent into the consolidated collateralized financing entity should be precluded from applying the measurement alternative because Topic 860 on transfers and servicing would not permit that entity to recognize the transfer of those assets as a sale. The Task Force decided against precluding such a reporting entity from using the measurement alternative so long as the collateralized financing entity meets the scope criteria above (for example, the financial assets must be measured at fair value with changes in the fair value of those financial assets reflected in earnings before transfer into the collateralized financing entity).

BC11. The Task Force discussed whether the scope of this Update should be broadened to apply to all reporting entities that are required to consolidate VIEs under Subtopic 810-10. The Task Force determined that the diversity in practice primarily relates to a reporting entity's accounting for the difference between the fair value of financial assets and the fair value of financial liabilities of collateralized financing entities, as defined. Because there is more direct guidance in GAAP on the accounting for noncontrolling interests in other types of VIEs, the Task Force determined that the scope of this Update should not be broadened beyond collateralized financing entities.

BC12. The Task Force also discussed whether this Update should be applied when the beneficial interest holders have recourse to assets outside the collateralized financing entity. For example, some reporting entities that consolidate collateralized financing entities guarantee all or a portion of the beneficial interests. Thus, the beneficial interest holders would have recourse to the reporting entity. The Task Force decided to exclude such collateralized financing entities because the measurement linkage of the financial assets and the financial liabilities of a collateralized financing entity permitted by the measurement alternative is premised on the basis that, generally, the cash flows of those financial assets can be used only to pay the financial liabilities and the financial liabilities can be settled only with the cash flows of those financial assets. Assets transferred with standard representations and warranties, as defined in Topic 860, would not preclude an entity from meeting the definition of a collateralized financing entity for purposes of applying the amendments in this Update.

The Measurement Alternative

BC13. The Task Force decided to provide a measurement alternative to Topic 820 for the financial assets and the financial liabilities of a consolidated collateralized financing entity. Under the measurement alternative, a reporting entity should use the more observable of the fair value of the financial assets and the fair value of the financial liabilities of a collateralized financing entity to measure both. When elected, the measurement alternative will eliminate the measurement difference that exists when both the financial assets and the financial liabilities of a collateralized financing entity are measured at fair value. The measurement alternative will reduce cost and complexity because reporting entities will not be required to independently value both the financial assets and the financial liabilities of a collateralized financing entity.

BC14. Upon initial consolidation, a reporting entity may elect to measure the financial assets and the financial liabilities of a consolidated collateralized financing entity within the scope of this Update using the measurement alternative in this Update or using the guidance in Topic 820. For subsequent measurement, the Task Force decided that a reporting entity that elected to apply the measurement guidance in this Update initially should continue to apply that measurement guidance provided that the collateralized financing entity continues to meet the scope of this Update. That is, if a reporting entity subsequently transfers financial assets or financial liabilities into a consolidated collateralized financing entity that are not measured at fair value or are not measured at fair value with the changes in fair value reflected in earnings, the reporting entity would no longer be permitted to use the measurement alternative in this Update and would be required to use Topic 820 to measure the financial assets and the financial liabilities of its consolidated collateralized financing entity that were previously measured using the measurement alternative. Because the measurement alternative can be elected only upon initial consolidation, once a collateralized financing entity fails to meet the scope requirements, it cannot use the measurement alternative, even if it meets the scope requirements again at a later date.

BC15. The Task Force also decided that if a reporting entity does not elect to apply the measurement alternative for a consolidated collateralized financing entity that meets the scope requirements in this Update, the financial assets and the financial liabilities of the consolidated collateralized financing entity should be measured using Topic 820 and any initial or subsequent differences in the fair value of the financial assets and the fair value of the financial liabilities of the consolidated collateralized financing entity should be reflected in earnings and attributed to the reporting entity in the consolidated statement of net income (loss). The Task Force concluded that this clarification was necessary to prevent reporting entities that did not elect to apply the amendments in this Update from applying the diverse practices that are used today to present the measurement difference (for example, using noncontrolling interest and appropriated retained earnings).

BC16. The Task Force determined that if the fair value of the financial assets of the collateralized financing entity is more observable, those financial assets should be measured at fair value and the financial liabilities should be measured in consolidation as (a) the sum of the fair value of the financial assets and the carrying value of any nonfinancial assets held temporarily, less (b) the sum of the fair value of any beneficial interests retained by the reporting entity (other than those that represent compensation for services) and the reporting entity's carrying value of any beneficial interests that represent compensation for services. The resulting amount should be allocated to the individual financial liabilities (other than the beneficial interests retained by the reporting entity) using a reasonable and consistent methodology. The Task Force decided that this measurement for financial liabilities of a collateralized financing entity is appropriate because the beneficial interests (representing financial liabilities) have recourse only to the financial assets. When the fair value of the financial assets is more observable, the Task Force acknowledged that in many instances the fair value of a reporting entity's beneficial interests may need to be determined based on a reasonable allocation of the fair value of the financial assets.

BC17. The Task Force also received input from stakeholders that in many instances the fair value of the financial liabilities of a collateralized financing entity is more observable than the fair value of its financial assets. This is the case, for example, in many mortgage-backed structures in which the underlying assets are often restricted from sale and thus have little to no observable transactions to be relied upon in a fair value measurement. In other instances, the beneficial interests representing financial liabilities may be traded, and therefore the inputs to their fair value measurement can be more observable. The Task Force therefore decided that if the fair value of the financial liabilities of the collateralized financing entity is more observable, the financial liabilities should be measured at fair value and the financial assets should be measured in consolidation as (a) the sum of the fair value of the financial liabilities (other than those beneficial interests retained by the reporting entity), the fair value of any beneficial interests retained by the reporting entity (other than those that represent compensation for services), and the reporting entity's carrying value of any beneficial interests that represent compensation for services, less (b) the carrying value of any nonfinancial assets held temporarily. The resulting amount should be allocated to the individual financial assets using a reasonable and consistent methodology.

BC18. In the proposed Update, the Task Force had decided against permitting the value of the financial assets to be measured on the basis of the fair value of the financial liabilities because of concerns that the measurement could result in the value of the financial assets inappropriately including an amount relating to the changes in the fair value of any nonfinancial assets held by the collateralized financing entity. However, respondents to the proposed Update indicated that the value of any nonfinancial assets held by a collateralized financing entity is generally insignificant and nonfinancial assets are held temporarily. Furthermore, respondents noted that the nonfinancial assets generally are held for sale and, thus, are carried at the lower of cost or fair value less cost to sell. Thus, the difference in the fair value of the nonfinancial assets and the carrying value generally also is insignificant.

BC19. The Task Force also decided that a reporting entity that consolidates a collateralized financing entity and elects to apply the measurement alternative should recognize in its consolidated net income (loss) only amounts that reflect changes in its own economic interests in the consolidated collateralized financing entity. A reporting entity may have various economic interests in a consolidated collateralized financing entity including, but not limited to, direct ownership of beneficial interests and rights to compensation for services provided to the collateralized financing entity's beneficial interest holders. The Task Force decided that the changes in the fair value of any beneficial interests (other than those that represent compensation for services) retained by the reporting entity should be reflected in the consolidated net income (loss) of the reporting entity. Many stakeholders noted that the fair value of a reporting entity's retained beneficial interest generally is measured each reporting period and is relevant to the users of financial statements because it reflects the reporting entity's net economic risks. The Task Force also clarified that interests that represent compensation for services, such as management fees or servicing fees, should be accounted for under other applicable Topics because accounting for them in another way (such as measuring all of those transactions at fair value) would be inconsistent with other similar transactions, would potentially distort the results of the reporting entity that have other similar transactions, and therefore, could confuse users of the reporting entity's financial statements.

BC20. As of the date of this Update's issuance, the Board's project on the recognition and measurement of financial instruments is still in process and could include measurement guidance that would affect the financial assets and financial liabilities of a collateralized financing entity. In addition, the Board's project on the determination of principal or agent with respect to consolidations may result in the deconsolidation of certain collateralized financing entities. Therefore, those projects, when finalized, may affect the amendments in this Update. The Task Force debated whether it was appropriate to reach a consensus on this Issue given its interaction with those projects. However, because the ultimate timing and outcome of those projects are uncertain and many stakeholders indicated that the diversity in practice related to this Issue needed to be addressed without delay, the Task Force decided to move forward with a consensus.

Disclosures

BC21. The Task Force agreed that a reporting entity that consolidates a collateralized financing entity and measures the financial assets or the financial liabilities of the collateralized financing entity using this guidance should disclose all of the information required by Topic 820, Topic 825, and other relevant Topics, as applicable, for both the financial assets and the financial liabilities of the collateralized financing entity. For the less observable of the fair value of the financial assets and the fair value of the financial liabilities, the Task Force concluded that a reporting entity should disclose that the amount was determined using the measurement alternative. Those disclosures would not include the financial assets and financial liabilities that are incidental to the operations of the collateralized financing entity and have carrying values that approximate fair value (for example, cash, broker receivables, or broker payables).

BC22. The Task Force considered whether reporting entities would be able to provide the fair value disclosures in Topic 820 for the less observable of the fair value of the financial assets and the financial liabilities of a collateralized financing entity. For example, some Task Force members questioned whether it would be clear how to determine which level of the fair value hierarchy is appropriate for that measurement. The Task Force decided that a reporting entity should be able to use its judgment to determine which level is most appropriate.

Transition and Early Adoption

BC23. The Task Force decided that a reporting entity may apply the amendments in this Update using a modified retrospective approach. In addition, the Task Force agreed that a reporting entity may apply the amendments retrospectively to all relevant prior periods beginning with the annual period in which the amendments in Update 2009-17 were initially adopted. The Task Force clarified that under the modified retrospective approach, a reporting entity should remeasure the financial assets or the financial liabilities using this guidance as of the beginning of the annual period of adoption and record a cumulative-effect adjustment to equity.

BC24. A reporting entity that consolidates a collateralized financing entity that does not meet the scope requirements in this Update because the fair value option in Topic 825 was not elected to measure the eligible financial assets, financial liabilities, or both of the collateralized financing entity when it was initially consolidated, may elect at the date of adoption to apply the measurement alternative to those financial assets and financial liabilities in the Collateralized Financing Entities Subsections or to continue using other Topics to measure the financial assets and the financial liabilities of the collateralized financing entity. That is, such a reporting entity only may elect to use the measurement alternative for a collateralized financing entity and cannot elect at the date of adoption to use the measurement requirements of Topic 820 or to otherwise change its basis for measuring the financial assets or financial liabilities of the collateralized financing entity. The Task Force decided this one-time election was appropriate because some entities may not have elected the fair value option upon initial consolidation of a collateralized financing entity because it was unclear how to address the measurement difference between the fair value of the financial assets and the fair value of the financial liabilities.

BC25. The Task Force decided that the amendments in this Update should be effective for public business entities for annual periods, and interim reporting periods within those annual periods, beginning after December 15, 2015. For entities other than public business entities, because of the timing of issuance of this Update, their resource limitations, the potential opportunity for them to learn from public entities' quarterly filings about implementing the amended guidance, and their learning cycle, the Task Force decided that the amendments in this Update should be effective in the first annual period ending after December 15, 2016, and interim periods beginning after December 15, 2016. The Task Force decided to permit early adoption of the amendments as of the beginning of an annual period to eliminate existing diversity in practice as soon as is practicable.

Benefits and Costs

BC26. The objective of financial reporting is to provide information that is useful to present and potential investors, creditors, donors, and other capital market participants in making rational investment, credit, and similar resource allocation decisions. However, the benefits of providing information for that purpose should justify the related costs. Present and potential investors, creditors, donors, and other users of financial information benefit from improvements in financial reporting, while the costs to implement new guidance are borne primarily by present investors. The Task Force's assessment of the costs and benefits of issuing new guidance is unavoidably more qualitative than quantitative because there is no method to objectively measure the costs to implement new guidance or to quantify the value of improved information in financial statements.

BC27. The amendments will provide the benefit of improving consistent application of GAAP by eliminating diversity in practice in the measurement of a consolidated collateralized financing entity's financial assets and financial liabilities. In addition, the amendments should reduce both cost and complexity for reporting entities that elect the alternative because they will no longer be required to independently measure both the financial assets and the financial liabilities of a collateralized financing entity within the scope of this Update. The Task Force acknowledges that there may be some complexities in applying the amendments in this Update for some companies. However, the Task Force concluded that applying the amendments in this Update would reduce the cost and complexity when compared with applying the fair value option under Topic 825. Additionally, the Task Force notes that the elective nature of the guidance gives reporting entities the flexibility to continue to apply the measurement requirements of Topic 820 if they deem it appropriate. Therefore, the Task Force concluded that the benefits of the amendments in this Update justify the related costs.

Amendments to the XBRL Taxonomy

The amendments to the *FASB Accounting Standards Codification*® in this Accounting Standards Update require changes to the U.S. GAAP Financial Reporting Taxonomy (UGT). Those changes, which will be incorporated into the proposed 2015 UGT, are available for public comment through the ASU Taxonomy Changes provided at www.fasb.org, and finalized as part of the annual release process starting in September 2014.