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ACCOUNTING STANDARDS UPDATE

No. 2015-07
May 2015

Fair Value Measurement (Topic 820)

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

a consensus of the FASB Emerging Issues Task Force

An Amendment of the *FASB Accounting Standards Codification*®

Financial Accounting Standards Board

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Fair Value Measurement (Topic 820)

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May 2015

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Summary

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

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

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

Who Is Affected by the Amendments in This Update?

The amendments in this Update apply to reporting entities that elect to measure the fair value of an investment within the scope of paragraphs 820-10-15-4 through 15-5 using the net asset value per share (or its equivalent) practical expedient in paragraph 820-10-35-59.

What Are the Main Provisions?

The amendments in this Update remove the requirement to categorize within the fair value hierarchy all investments for which fair value is measured using the net asset value per share practical expedient.

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

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

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

Under the amendments in this Update, investments for which fair value is measured at net asset value per share (or its equivalent) using the practical expedient should not be categorized in the fair value hierarchy. Removing those investments from the fair value hierarchy not only eliminates the diversity in practice resulting from the way in which investments measured at net asset value per share (or its equivalent) with future redemption dates are classified, but also ensures that all investments categorized in the fair value hierarchy are classified using a consistent approach. Investments that calculate net asset value per share (or its equivalent), but for which the practical expedient is not applied will continue to be included in the fair value hierarchy.

A reporting entity should continue to disclose information on investments for which fair value is measured at net asset value (or its equivalent) as a practical expedient to help users understand the nature and risks of the investments and whether the investments, if sold, are probable of being sold at amounts different from net asset value.

When Will the Amendments Be Effective?

The amendments in this Update are effective for public business entities for fiscal years beginning after December 15, 2015, and interim periods within those fiscal years. For all other entities, the amendments in this Update are effective for fiscal years beginning after December 15, 2016, and interim periods within those fiscal years. A reporting entity should apply the amendments retrospectively to all periods presented. The retrospective approach requires that an investment for which fair value is measured using the net asset value per share practical expedient be removed from the fair value hierarchy in all periods presented in an entity’s financial statements. Earlier application is permitted.

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

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

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 into context, not only are the amended paragraphs shown but also the preceding and following paragraphs. Terms from the Master Glossary are in **bold** type. Added text is underlined, and deleted text is ~~struck out~~.

Amendments to Subtopic 820-10

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

Fair Value Measurement—Overall

Subsequent Measurement

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

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

a. Subparagraph superseded by Accounting Standards Update 2015-07. ~~If a reporting entity has the ability to redeem its investment with the investee at net asset value per share (or its equivalent) at the measurement date, the fair value measurement of the investment shall be categorized within Level 2 of the fair value hierarchy.~~

b. Subparagraph superseded by Accounting Standards Update 2015-07. ~~If a reporting entity will never have the ability to redeem its investment with the investee at net asset value per share (or its equivalent), the fair value measurement of the investment shall be categorized within Level 3 of the fair value hierarchy.~~

c. Subparagraph superseded by Accounting Standards Update 2015-07. ~~If a reporting entity cannot redeem its investment with the investee at net asset value per share (or its equivalent) at the measurement date but the investment may be redeemable with the investee at a future date (for example, investments subject to a lockup or gate or investments whose redemption period does not coincide with the measurement date), the reporting entity shall take into account the length of time until the investment will become redeemable in determining whether the fair value measurement of the investment shall be categorized within Level 2 or Level 3 of the fair value hierarchy. For example, if the reporting entity does not know when it will have the ability to redeem the investment or it does not have the ability to redeem the investment in the near term at net asset value per share (or its equivalent), the fair value measurement of the investment shall be categorized within Level 3 of the fair value hierarchy.~~

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

Disclosure

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

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

a. The fair value measurement (as determined by applying paragraphs 820-10-35-59 through 35-62) of the investments in the class at the reporting date and a description of the significant investment strategies of the investee(s) in the class.
b. For each class of investment that includes investments that can never be redeemed with the investees, but the reporting entity receives distributions through the liquidation of the underlying assets of the investees, the reporting entity's estimate of the period of time over which the underlying assets are expected to be liquidated by the investees.
c. The amount of the reporting entity's unfunded commitments related to investments in the class.
d. A general description of the terms and conditions upon which the investor may redeem investments in the class (for example, quarterly redemption with 60 days' notice).
e. The circumstances in which an otherwise redeemable investment in the class (or a portion thereof) might not be redeemable (for example, investments subject to a lockup or gate). Also, for those otherwise redeemable investments that are restricted from redemption as of the reporting entity's measurement date, the reporting entity shall disclose its estimate of when the restriction from redemption might lapse. If an estimate cannot be made, the reporting entity shall disclose that fact and how long the restriction has been in effect.
f. Any other significant restriction on the ability to sell investments in the class at the measurement date.
g. Subparagraph superseded by Accounting Standards Update 2015-07.~~If a reporting entity determines that it is probable that it will sell an investment(s) for an amount different from net asset value per share (or its equivalent) as described in paragraph 820-10-35-62, the reporting entity shall disclose the total fair value of all investments that meet the criteria in paragraph 820-10-35-62 and any remaining actions required to complete the sale.~~
h. If a group of investments would otherwise meet the criteria in paragraph 820-10-35-62 but the individual investments to be sold have not been identified (for example, if a reporting entity decides to sell 20 percent of its investments in private equity funds but the individual investments to be sold have not been identified), so the investments continue to qualify for the practical expedient in paragraph 820-10-35-59, the reporting entity shall disclose its plans to sell and any remaining actions required to complete the sale(s).

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

Implementation Guidance and Illustrations

> > Example 9: Fair Value Disclosures

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

820-10-55-100 For assets and liabilities measured at fair value at the reporting date, this Topic requires quantitative disclosures about the fair value measurements for each class of assets and liabilities at the end of the reporting period. Sufficient information must be provided to permit reconciliation 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)		Fair Value Measurements at the End of the Reporting Period Using			
	12/31/X9	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Gains (Losses)
Description					
Recurring fair value measurements					
Trading securities [(a)]					
Equity securities—real estate industry	$ 93	$ 70	$ 23		
Equity securities—oil and gas industry	45	45			
Equity securities—other	15	15			
Total trading securities	$ 153	$ 130	$ 23		
Available-for-sale debt securities					
Residential mortgage-backed securities	$ 149		$ 24	$ 125	
Commercial mortgage-backed securities	50			50	
Collateralized debt obligations	35			35	
U.S. Treasury securities	85	$ 85			
Corporate bonds	93	9	84		
Total available-for-sale debt securities	$ 412	$ 94	$ 108	$ 210	
Available-for-sale equity securities [(a)]					
Financial services industry	$ 150	$ 150			
Healthcare industry	110	110			
Other	15	15			
Total available-for-sale equity securities	$ 275	$ 275			
Total available-for-sale securities	$ 687	$ 369	$ 108	$ 210	
Hedge fund investments					
Equity long/short	$ 55		$ 55		
Global opportunities	35		35		
High-yield debt securities	90			$ 90	
Hedge fund investments measured at net asset value [(f)]	30				
Total hedge fund investments	$ 210		$ 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	$ 236	$ 78	$ 120	$ 38	
Total recurring fair value measurements	$ 1,441	$ 577	$ 341	$ 448	
Nonrecurring fair value measurements					
Long-lived assets held and used [(c)]	$ 75		$ 75		$ (25)
Goodwill [(d)]	30			$ 30	(35)
Long-lived assets held for sale [(e)]	26		26		(15)
Total nonrecurring fair value measurements	$ 131		$ 101	$ 30	$ (75)

(a) On the basis of its analysis of the nature, characteristics, and risks of the securities, the reporting entity has determined that presenting them by industry is appropriate.

(b) On the basis of its analysis of the nature, characteristics, and risks of the investments, the reporting entity has determined that presenting them as a single class is appropriate.

(c) In accordance with Subtopic 360-10, long-lived assets held and used with a carrying amount of $100 million were written down to their fair value of $75 million, resulting in an impairment charge of $25 million, which was included in earnings for the period.

(d) In accordance with Subtopic 350-20, goodwill with a carrying amount of $65 million was written down to its implied fair value of $30 million, resulting in an impairment charge of $35 million, which was included in earnings for the period.

(e) In accordance with Subtopic 360-10, long-lived assets held for sale with a carrying amount of $35 million were written down to their fair value of $26 million, less costs to sell of $6 million (or $20 million), resulting in a loss of $15 million, which was included in earnings for the period.

(f) In accordance with Subtopic 820-10, certain investments that are measured at fair value using the net asset value per share (or its equivalent) practical exedient 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.)

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

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

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

a. This class includes investments in hedge funds that invest both long and short primarily in U.S. common stocks. Management of the hedge funds has the ability to shift investments from value to growth strategies, from small to large capitalization stocks, and from a net long position to a net short position. The fair values of the investments in this class have been estimated using the net asset value per share of the investments.

Investments representing approximately 22 percent of the value of the investments in this class cannot be redeemed because the investments include restrictions that do not allow for redemption in the first 12 to 18 months after acquisition. The remaining restriction period for these investments ranged from three to seven months at December 31, 20X3.

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

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

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

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

f. Footnote superseded by Accounting Standards Update 2015-07.~~This class includes several private equity funds that invest primarily in foreign technology companies. These investments can never be redeemed with the funds. Instead, the nature of the investments in this class is that distributions are received through the liquidation of the underlying assets of the fund. If these investments were held, it is estimated that the underlying assets of the fund would be liquidated over 5 to 8 years. However, as of December 31, 20X3, it is probable that all of the investments in this class will be sold at an amount different from the net asset value of the Company's ownership interest in partners' capital. Therefore, the fair values of the investments in this class have been estimated using recent observable transaction information for similar investments and non-binding bids received from potential buyers of the investments. As of December 31, 20X3, a buyer (or buyers) for these investments has not yet been identified. Once a buyer has been identified, the investee fund's management must approve of the buyer before the sale of the investments can be completed.~~

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

> Transition Related to Accounting Standards Update No. 2015-07, *Fair Value Measurement (Topic 820): Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)*

820-10-65-10 The following represents the transition and effective date information related to Accounting Standards Update No. 2015-07, *Fair Value Measurement (Topic 820): Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent):*

a. For public business entities, the pending content that links to this paragraph shall be effective for fiscal years beginning after December 15, 2015, and interim periods within those fiscal years. For all other entities, the pending content that links to this paragraph shall be effective for fiscal years beginning after December 15, 2016, and interim periods within those fiscal years. Earlier application is permitted.
b. The pending content that links to this paragraph shall be applied retrospectively to all periods presented.
c. An entity shall provide the disclosures in paragraph 250-10-50-1(a) in the first interim and annual period the entity adopts the pending content that links to this paragraph.

Amendments to Subtopic 230-10

6. Amend paragraph 230-10-15-4(c), with a link to transition paragraph 820-10-65-10, as follows:

Statement of Cash Flows—Overall

Scope and Scope Exceptions

> Entities

230-10-15-4 The guidance in this Topic does not apply to the following entities:

- c. For an investment company specified in (b) to be exempt from the requirement to provide a statement of cash flows, all of the following conditions must be met:
    1. Subparagraph superseded by Accounting Standards Update No. 2013-08.
    2. During the period, substantially all of the entity's investments were carried at **fair value** and classified in accordance with Topic 820 as Level 1 or Level 2 measurements or were measured using the practical expedient in paragraph 820-10-35-59 to determine their fair values and are redeemable in the near term at all times~~in accordance with Topic 820~~.
    3. The entity had little or no debt, based on the average debt outstanding during the period, in relation to average total assets. For the purpose of determining average debt outstanding, obligations resulting from redemptions of shares by the entity from unsettled purchases of securities or similar assets, or from covered options written generally may be excluded. However, any extension of credit by the seller that is not in accordance with standard industry practices for redeeming shares or for settling purchases of investments shall be included in average debt outstanding.
    4. The entity provides a statement of changes in net assets.

Amendments to Subtopic 715-20

7. Amend paragraphs 715-20-50-1(d) and 715-20-50-5(c), with a link to transition paragraph 820-10-65-10, as follows:

Compensation—Retirement Benefits—Defined Benefit Plans—General

Disclosure

> Disclosures by Public Entities

715-20-50-1 An employer that sponsors one or more defined benefit pension plans or one or more defined benefit other postretirement plans shall provide the following information, separately for pension plans and other postretirement benefit plans. Amounts related to the employer's results of operations shall be disclosed for each period for which a statement of income is presented. Amounts related to the employer's statement of financial position shall be disclosed as of the date of each statement of financial position presented. All of the following shall be disclosed:

d. The objectives of the disclosures about postretirement benefit plan assets are to provide users of financial statements with an understanding of:

   1. How investment allocation decisions are made, including the factors that are pertinent to an understanding of investment policies and strategies
   2. The classes of plan assets
   3. The inputs and valuation techniques used to measure the fair value of plan assets
   4. The effect of fair value measurements using significant unobservable inputs (Level 3) on changes in plan assets for the period
   5. Significant concentrations of risk within plan assets.

   An employer shall consider those overall objectives in providing the following information about plan assets:

   i. A narrative description of investment policies and strategies, including target allocation percentages or range of percentages considering the classes of plan assets disclosed pursuant to (ii) below, as of the latest statement of financial position presented (on a weighted-average basis for employers with more than one plan), and other factors that are pertinent to an understanding of those policies and strategies such as investment goals, risk management practices, permitted and prohibited investments including the use of derivatives, diversification, and the relationship between plan assets and benefit obligations. For investment funds disclosed as classes as described in (ii) below, a description of the significant investment strategies of those funds shall be provided.
   ii. The fair value of each class of plan assets as of each date for which a statement of financial position is presented. For additional guidance on determining appropriate classes of plan assets, see paragraph 820-10-50-2B. Examples of classes of assets could include, but are not limited to, the following: cash and **cash equivalents;** equity securities (segregated by

industry type, company size, or investment objective); debt securities issued by national, state, and local governments; corporate debt securities; asset-backed securities; structured debt; derivatives on a gross basis (segregated by type of underlying risk in the contract, for example, interest rate contracts, foreign exchange contracts, equity contracts, commodity contracts, credit contracts, and other contracts); investment funds (segregated by type of fund); and real estate. Those examples are not meant to be all inclusive. An employer should consider the overall objectives in paragraph 715-20-50-1(d)(1) through (5) in determining whether additional classes of plan assets or further disaggregation of classes should be disclosed. If an employer determines the measurement date of plan assets in accordance with paragraph 715-30-35-63A or 715-60-35-123A and the employer contributes assets to the plan between the measurement date and its fiscal year-end, the employer shall not adjust the fair value of each class of plan assets for the effects of the contribution. Instead, the employer shall disclose the amount of the contribution to permit reconciliation of the total fair value of all the classes of plan assets to the ending balance of the fair value of plan assets. For example, the contribution could be disclosed as follows:

		Fair Value Measurements at February 3, 20X5 (in thousands)		
Asset Class	**Total**	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
Cash	$ 14,770	$ 14,770	$ -	$ -
Equity securities:				
U.S. companies	41,200	37,000	1,200	3,000
International companies	32,900	24,000	7,600	1,300
Mortgage-backed securities	13,335	-	12,780	555
Assets at fair value at measurement date of 1/31/20X5	102,205	$ 75,770	$ 21,580	$ 4,855
Contributions after measurement date	25,000			
Total assets reported at 2/3/20X5	$ 127,205			

iii. A narrative description of the basis used to determine the overall expected long-term rate-of-return-on-assets assumption, such as the general approach used, the extent to which the overall rate-of-return-on-assets assumption was based on historical returns, the extent to which adjustments were made to those historical returns in order to reflect expectations of future returns, and how those adjustments were determined. The description should consider the classes of assets as described in (ii) above, as appropriate.

iv. Information that enables users of financial statements to assess the inputs and valuation techniques used to develop fair value measurements of plan assets at the reporting date. For fair value measurements using significant unobservable inputs, an employer shall disclose the effect of the measurements on changes in plan assets for the period. To meet those objectives, the employer shall disclose the following information for each class of plan assets disclosed pursuant to (ii) above for each annual period:

    01. The level of the fair value hierarchy within which the fair value measurements are categorized in their entirety, segregating fair value measurements using quoted prices in active markets for identical assets or liabilities (Level 1), significant other observable inputs (Level 2), and significant unobservable inputs (Level 3). The guidance in paragraphs 820-10-35-37 through 35-37A is applicable. <u>Investments for which fair value is measured using the net asset value per share (or its equivalent) practical expedient in paragraph 820-10-35-59 shall not be categorized within the fair value hierarchy, as noted by paragraph 820-10-35-54B.</u> If an employer determines the measurement date of plan assets in accordance with paragraph 715-30-35-63A or 715-60-35-123A and the employer contributes assets to the plan between the measurement date and its fiscal year-end, the employer shall not adjust the fair value of each class of plan assets for the effects of the contribution. Instead, the employer shall disclose the amount of the contribution to permit reconciliation of the total fair value of all plan assets in the fair value hierarchy to the ending balance of the fair value of plan assets. For example, the contribution could be disclosed as follows:

		Fair Value Measurements at February 3, 20X5 (in thousands)		
Asset Class	**Total**	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
Cash	$ 14,770	$ 14,770	$ -	$ -
Equity securities:				
U.S. companies	41,200	37,000	1,200	3,000
International companies	32,900	24,000	7,600	1,300
Mortgage-backed securities	13,335	-	12,780	555
Assets at fair value at measurement date of 1/31/20X5	102,205	$ 75,770	$ 21,580	$ 4,855
Contributions after measurement date	25,000			
Total assets reported at 2/3/20X5	$ 127,205			

02. For fair value measurements of plan assets using significant unobservable inputs (Level 3), a reconciliation from the opening balances to the closing balances, disclosing separately changes during the period attributable to the following:
    A. Actual Return on Plan Assets (Component of **Net Periodic Postretirement Benefit Cost**) or Actual Return on Plan Assets (Component of **Net Periodic Pension Cost**), separately identifying the amount related to assets still held at the reporting date and the amount related to assets sold during the period
    B. Purchases, sales, and **settlements**, net
    C. The amounts of any transfers into or out of Level 3 (for example, transfers due to changes in the observability of significant inputs)
03. Information about the valuation technique(s) and inputs used to measure fair value and a discussion of changes in valuation techniques and inputs, if any, during the period.

> Disclosures by Nonpublic Entities

715-20-50-5 A **nonpublic entity** is not required to disclose the information required by paragraphs 715-20-50-1(a) through (c), 715-20-50-1(h), 715-20-50-1(m), and 715-20-50-1(o) through (r). A nonpublic entity that sponsors one or more defined benefit pension plans or one or more other defined benefit postretirement plans shall provide all of the following information, separately for pension plans and other postretirement benefit plans. Amounts related to the employer's results of operations shall be disclosed for each period for which a statement of income is presented. Amounts related to the employer's statement of financial position shall be disclosed as of the date of each statement of financial position presented.

c. The objectives of the disclosures about postretirement benefit plan assets are to provide users of financial statements with an understanding of:
   1. How investment allocation decisions are made, including the factors that are pertinent to an understanding of investment policies and strategies
   2. The classes of plan assets
   3. The inputs and valuation techniques used to measure the fair value of plan assets
   4. The effect of fair value measurements using significant unobservable inputs (Level 3) on changes in plan assets for the period
   5. Significant concentrations of risk within plan assets.

   An employer shall consider those overall objectives in providing the following information about plan assets:

   i. A narrative description of investment policies and strategies, including target allocation percentages or range of percentages considering the classes of plan assets disclosed pursuant to (ii) below, as of the latest statement of financial position presented (on a weighted-average basis for employers with more than one plan), and other factors that are pertinent to an understanding of those policies and strategies such as investment goals, risk management practices, permitted and prohibited investments including the use of derivatives, diversification, and the relationship between plan assets and benefit obligations. For investment funds disclosed as classes as described in (ii) below, a description of the significant investment strategies of those funds shall be provided.
   ii. The fair value of each class of plan assets as of each date for which a statement of financial position is presented. For additional guidance on determining appropriate classes of plan assets, see paragraph 820-10-50-2B. Examples of classes of assets could include, but are not limited to, the following: cash and cash equivalents; equity securities (segregated by industry type, company size, or investment objective); debt securities issued by national, state, and local governments; corporate debt securities; asset-backed securities; structured debt; derivatives on a gross basis (segregated by type of underlying risk in the contract, for example, interest rate contracts, foreign exchange contracts, equity contracts, commodity contracts, credit contracts, and other contracts); investment funds (segregated

by type of fund); and real estate. Those examples are not meant to be all inclusive. An employer should consider the overall objectives in paragraph 715-20-50-5(c)(1) through (5) in determining whether additional classes of plan assets or further disaggregation of classes should be disclosed. If an employer determines the measurement date of plan assets in accordance with paragraph 715-30-35-63A or 715-60-35-123A and the employer contributes assets to the plan between the measurement date and its fiscal year-end, the employer shall not adjust the fair value of each class of plan assets for the effects of the contribution. Instead, the employer shall disclose the amount of the contribution to permit reconciliation of the total fair value of all the classes of plan assets to the ending balance of the fair value of plan assets. For example, the contribution could be disclosed as follows:

		Fair Value Measurements at February 3, 20X5 (in thousands)		
Asset Class	**Total**	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
Cash	$ 14,770	$ 14,770	$ -	$ -
Equity securities:				
U.S. companies	41,200	37,000	1,200	3,000
International companies	32,900	24,000	7,600	1,300
Mortgage-backed securities	13,335	-	12,780	555
Assets at fair value at measurement date of 1/31/20X5	102,205	$ 75,770	$ 21,580	$ 4,855
Contributions after measurement date	25,000			
Total assets reported at 2/3/20X5	$ 127,205			

iii. A narrative description of the basis used to determine the overall expected long-term rate-of-return-on-assets assumption, such as the general approach used, the extent to which the overall rate-of-return-on-assets assumption was based on historical returns, the extent to which adjustments were made to those historical returns in order to reflect expectations of future returns, and how those adjustments were determined. The description should consider the classes of assets as described in (ii) above, as appropriate.

iv. Information that enables users of financial statements to assess the inputs and valuation techniques used to develop fair value measurements of plan assets at the reporting date. For fair value measurements using significant unobservable inputs, an employer shall disclose the effect of the measurements on changes in plan assets for the period. To meet those objectives, the employer shall disclose the following information for each class of plan assets disclosed pursuant to (ii) above for each annual period:

01. The level of the fair value hierarchy within which the fair value measurements are categorized in their entirety, segregating fair value measurements using quoted prices in active markets for identical assets or liabilities (Level 1), significant other observable inputs (Level 2), and significant unobservable inputs (Level 3). The guidance in paragraphs 820-10-35-37 through 35-37A is applicable. <u>Investments for which fair value is measured using the net asset value per share (or its equivalent) practical expedient in paragraph 820-10-35-59 shall not be categorized within the fair value hierarchy, as noted by paragraph 820-10-35-54B.</u> If an employer determines the measurement date of plan assets in accordance with paragraph 715-30-35-63A or 715-60-35-123A and the employer contributes assets to the plan between the measurement date and its fiscal year-end, the employer shall not adjust the fair value of each class of plan assets for the effects of the contribution. Instead, the employer shall disclose the amount of the contribution to permit reconciliation of the total fair value of all plan assets in the fair value hierarchy to the ending balance of the fair value of plan assets. For example, the contribution could be disclosed as follows:

Asset Class	Total	Fair Value Measurements at February 3, 20X5 (in thousands) Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Cash	$ 14,770	$ 14,770	$ -	$ -
Equity securities:				
U.S. companies	41,200	37,000	1,200	3,000
International companies	32,900	24,000	7,600	1,300
Mortgage-backed securities	13,335	-	12,780	555
Assets at fair value at measurement date of 1/31/20X5	102,205	$ 75,770	$ 21,580	$ 4,855
Contributions after measurement date	25,000			
Total assets reported at 2/3/20X5	$ 127,205			

02. For fair value measurements of plan assets using significant unobservable inputs (Level 3), a reconciliation from the opening balances to the closing balances, disclosing separately changes during the period attributable to the following:
    A. Actual Return on Plan Assets (Component of Net Periodic Postretirement Benefit Cost) or Actual Return on Plan Assets (Component of Net Periodic Pension Cost), separately identifying the amount related to assets still held at the reporting date and the amount related to assets sold during the period
    B. Purchases, sales, and settlements, net
    C. The amounts of any transfers into or out of Level 3 (for example, transfers due to changes in the observability of significant inputs)
03. Information about the valuation technique(s) and inputs used to measure fair value and a discussion of changes in valuation techniques and inputs, if any, during the period.

8. Amend paragraph 230-10-00-1, by adding the following item to the table, as follows:

230-10-00-1 The following table identifies the changes made to this Subtopic.

Paragraph	Action	Accounting Standards Update	Date
230-10-15-4	Amended	2015-07	05/01/2015

9. Amend paragraph 715-20-00-1, by adding the following items to the table, as follows:

715-20-00-1 The following table identifies the changes made to this Subtopic.

Paragraph	Action	Accounting Standards Update	Date
715-20-50-1	Amended	2015-07	05/01/2015
715-20-50-5	Amended	2015-07	05/01/2015

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
820-10-35-54B	Amended	2015-07	05/01/2015
820-10-50-6A	Amended	2015-07	05/01/2015
820-10-55-100	Amended	2015-07	05/01/2015
820-10-55-107	Amended	2015-07	05/01/2015
820-10-65-10	Added	2015-07	05/01/2015

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.

Background Information

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

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

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

BC5. At its September 18, 2014 meeting, the Task Force reached a consensus-for-exposure on this Issue. The consensus-for-exposure was ratified subsequently by the Board and a proposed Accounting Standards Update, *Fair Value Measurement (Topic 820): Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)*, was issued for public comment on October 30, 2014, with a comment period that ended on January 15, 2015. The Board received 18 comment letters on the proposed Update.

BC6. The Task Force considered the feedback received on the proposed Update at its March 19, 2015 meeting and reached a consensus. The consensus was ratified subsequently by the Board resulting in issuance of this Update.

Scope

BC7. The Task Force reached a consensus that the guidance in this Update should apply only to reporting entities that elect to measure the fair value of an investment within the scope of paragraphs 820-10-15-4 through 15-5 using the net asset value per share (or its equivalent) practical expedient in paragraph 820-10-35-59.

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

BC8. Diversity in practice exists related to categorization of investments that have future redemption dates (including periodic redemption dates) and fair values that were measured using net asset value per share (or its equivalent) as a practical expedient. In part, that diversity exists because of differing views on how to interpret whether an investment is redeemable in the near term. The Task Force was asked to clarify how such fair value measurements should be categorized in the fair value hierarchy. However, in evaluating how investments with periodic redemption dates should be categorized in the fair value hierarchy, Task Force members had differing views on how or whether the investments should be categorized in Level 2 or Level 3, primarily because the criteria used to classify investments measured at fair value using net asset value per share (or its equivalent) as a practical expedient are different from the criteria for categorizing other fair value measurements in the fair value hierarchy. The Task Force also observed that the net asset value per share practical expedient is the only practical expedient for measuring fair value that has different criteria for classification within the fair value hierarchy.

BC9. The Task Force observed that the intent of the fair value hierarchy is to help financial statement users assess the relative subjectivity of the various fair value measurements by categorizing the fair value measurements on the basis of the observability of the significant inputs in the fair value measurement. Because the criteria for categorizing investments in the fair value hierarchy for which fair values are measured using the net asset value per share (or its equivalent) practical expedient do not consider the observability of inputs and are therefore inconsistent with the overarching intent of the fair value hierarchy, including those assets in the fair value hierarchy is potentially confusing and misleading to users. For example, an investment in a mutual fund holding primarily Level 1 investments could be required to be categorized as Level 3 because of the infrequency of redemption dates even though the inputs used in the calculation of net asset value could be observed. The Task Force also considered whether investments measured using net asset value per share as a practical expedient could be categorized within the fair value hierarchy based on the observability of significant inputs used to develop the net asset value of the investment. However, many of the Task Force members were concerned that entities would not always have an understanding of the observability of those significant inputs needed to make that categorization.

BC10. The Task Force further noted that the disclosures required by paragraph 820-10-50-6A provide information that helps users understand the nature and risks of investments measured at fair value using net asset value per share as a practical expedient. The required disclosures include the fair value of the investments by class, a description of the terms and conditions upon which the investor may redeem investments in the class, and information on any significant restrictions on the ability to sell investments in the class. With these disclosures in place, the Task Force decided that removing from the fair value hierarchy the investments measured using net asset value per share (or its equivalent) as a practical expedient will not result in a reduction in information provided to users.

BC11. The Task Force concluded that the disclosure requirements of paragraph 820-10-50-6A are not needed for investments that are eligible for the practical expedient but not valued using the practical expedient (which is currently required). It observed that if the practical expedient is not used, the fair value of the investment will be included in the fair value hierarchy on the basis of the relative observability of the inputs used in the valuation and subject to the disclosure requirements of paragraph 820-10-50-2. The Task Force also removed one of the subparagraphs (820-10-50-6A(g)) that related solely to investments that were probable of being sold for an amount different from net asset value and were therefore not valued using the practical expedient. The Task Force noted that limiting the disclosures required by paragraph 820-10-50-6A to investments that were valued using the practical expedient (rather than all that were eligible for the expedient) will allow users to more easily understand which investments are included in the fair value hierarchy and which are valued using the practical expedient, because there will be no overlap between the investments included in the fair value hierarchy and the investments included in the paragraph 820-10-50-6A disclosures. The Task Force further noted that paragraph 820-10-50-2B already requires reporting entities to provide sufficient information to permit reconciliation of the fair value hierarchy to the amounts presented in the statement of financial position.

Amendment to Topic 230

BC12. In accordance with Topic 230, investment companies that meet certain criteria are exempt from the requirement to provide a statement of cash flows. One of the three criteria for an investment company to be exempt from the requirement to provide a statement of cash flows is that substantially all of the entity's investments are carried at fair value and classified as Level 1 and Level 2 in the fair value hierarchy. If Topic 230 was not amended, all reporting entities that utilized the practical expedient would be required to provide statements of cash flows because some of their assets would not be classified in Level 1 and Level 2 of the fair value hierarchy. Because the Task Force wanted to minimize the effect the amendments in this Update have on which entities are required to prepare statements of cash flows, Topic 230 has been amended to allow reporting entities to not provide a statement of cash flows if substantially all of an entity's investments are carried at fair value and classified in Level 1 or Level 2 of the fair value hierarchy, or are measured using the net asset value practical expedient and redeemable in the near term at all times.

Amendment to Topic 715

BC13. In accordance with paragraph 820-10-50-10, the plan assets of a defined benefit pension or other postretirement plan that are accounted for under Topic 715 are not subject to the disclosure requirements in paragraphs 820-10-50-1 through 50-9 in the financial statements of the plan sponsor. Instead, the disclosures required in paragraphs 715-20-50-1(d)(iv) and 715-20-50-5(c)(iv) apply in the financial statements of the plan sponsor. Topic 715 does not discuss the net asset value per share (or its equivalent) practical expedient. However, the fair value of pension plan assets is measured using the measurement guidance of Topic 820, and many reporting entities avail themselves of the practical expedient when measuring the fair value of applicable pension plan assets. Based on feedback on the proposed Update, the Task Force decided to amend the disclosure requirements in Topic 715 to clarify that such investments should not be categorized within the fair value hierarchy.

Effective Date and Transition

BC14. The Task Force decided that this Update should be effective for public business entities for fiscal years beginning after December 15, 2015, and interim periods within those fiscal years. The Private Company Decision Making Framework notes that most training on new guidance for private companies occurs in the summer, but training materials typically do not include guidance issued after February or March of the related year. As a result, entities other than public business entities often need additional time to become aware of and be adequately trained on new guidance. The Task Force therefore decided that for entities other than public business entities, the amendments should be effective for fiscal years beginning after December 15, 2016, and interim periods within those fiscal years. The Task Force further decided that earlier application is permitted for any interim and annual financial statements that have not yet been made available for issuance.

BC15. The Task Force reached a consensus that the amendments in the Update should be applied retrospectively to all periods presented beginning in an entity's fiscal year of adoption. Thus, all investments measured using the net asset value per share (or its equivalent) practical expedient should be removed from the fair value hierarchy for all periods presented. The Task Force concluded that it is appropriate for the items included in the fair value hierarchy to be consistent in all periods presented in a reporting entity's financial statements because it will allow for greater comparability.

BC16. The Task Force considered whether the disclosures about changes in accounting principle in paragraphs 250-10-50-1 through 50-3 should apply to the amendments. Because this Update relates only to disclosures about items measured at net asset value, there would be no effect on income, per share amounts, or retained earnings. Therefore, the Task Force concluded that a reporting entity should be required to disclose only the nature of and reason for the change in accounting principle (that is, the requirements of paragraph 250-10-50-1(a)).

Benefits and Costs

BC17. 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.

BC18. The Task Force does not anticipate that entities will incur significant costs as a result of the amendments in this Update because the amendments will result in no new disclosures. While removing investments measured at net asset value using the practical expedient from the fair value hierarchy may require reporting entities to provide additional information to permit reconciliation of the fair value of assets categorized within the fair value hierarchy to the amounts presented in the statement of financial position, the amendments will not change the existing requirement to disclose information sufficient to permit such a reconciliation. In addition, the Task Force concluded that providing information to permit that reconciliation should not be costly. Furthermore, because reporting entities will no longer need to evaluate in which level of the fair value hierarchy investments using the practical expedient should be categorized, reporting entities could have cost savings from the amendments in this Update. The amendments will provide the benefit of all items in the fair value hierarchy being categorized using the same framework while continuing to provide relevant disclosures on the investments for which fair values are measured at net asset value (or its equivalent) using the practical expedient. Thus, on balance, the benefits of using a consistent method for classifying items in the fair value hierarchy should justify the costs of complying with the amendments.

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 (Taxonomy). Those changes, which will be incorporated into the proposed 2016 Taxonomy, are available for public comment through ASU Taxonomy Changes provided at www.fasb.org, and finalized as part of the annual release process starting in September 2015.