FINANCIAL ACCOUNTING SERIES

FASB ACCOUNTING STANDARDS UPDATE

No. 2015-10
June 2015

Technical Corrections and Improvements

An Amendment of the *FASB Accounting Standards Codification®*

Financial Accounting Standards Board

The *FASB Accounting Standards Codification*® is the source of authoritative generally accepted accounting principles (GAAP) recognized by the FASB to be applied by nongovernmental entities. An Accounting Standards Update is not authoritative; rather, it is a document that communicates how the Accounting Standards Codification is being amended. It also provides other information to help a user of GAAP understand how and why GAAP is changing and when the changes will be effective.

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FASB

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Summary

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

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

On November 10, 2010, the acting FASB chairman added a standing project to the FASB's agenda to address feedback received from stakeholders on the Codification and to make other incremental improvements to GAAP. This perpetual project will facilitate Codification updates for technical corrections, clarifications, and improvements and should eliminate the need for periodic agenda requests for narrow and incremental items. These amendments are referred to as Technical Corrections and Improvements.

The Board decided that the types of issues that it will consider through this project are changes to clarify the Codification, correct unintended application of guidance, or make minor improvements to the Codification that are not expected to have a significant effect on current accounting practice or create a significant administrative cost to most entities. The amendments in this Update include items raised to the Board through the Codification's feedback mechanism and are items that the Board concluded met the scope of this project, rather than that of a maintenance update, making due process necessary. Maintenance updates include nonsubstantive corrections to the Codification, such as editorial corrections, various types of link-related changes, and changes to source fragment information that is used for the Cross Reference and Printer-Friendly with Sources options of the Codification.

Who Is Affected by the Amendments in This Update?

This Update contains amendments that will affect a wide variety of Topics in the Codification. The amendments in this Update will apply to all reporting entities within the scope of the affected accounting guidance.

What Are the Main Provisions?

The amendments in this Update cover a wide range of Topics in the Codification. The reason for each amendment is provided before each amendment for clarity and ease of understanding. The amendments generally fall into one of the types of amendments listed below.

1. **Amendments Related to Differences between Original Guidance and the Codification.** These amendments arose because of differences between original guidance (for example, FASB Statements, EITF Issues, and so forth) and the Codification. These amendments principally carry forward pre-Codification guidance or subsequent amendments into the Codification. Many times, either the writing style or phrasing of the original guidance did not directly translate into the Codification format and style. As a result, the meaning of the guidance might have been unintentionally altered. Alternatively, amendments in this section may relate to guidance that was codified without some text, references, or phrasing that, upon review, was deemed important to the guidance.
2. **Guidance Clarification and Reference Corrections.** These amendments provide clarification through updating wording, correcting references, or a combination of both. In most cases, the feedback suggested that, without these enhancements, guidance may be misapplied or misinterpreted.
3. **Simplification.** These amendments streamline or simplify the Codification through minor structural changes to headings or minor editing of text to improve the usefulness and understandability of the Codification.
4. **Minor Improvements.** These amendments improve the guidance and are not expected to have a significant effect on current accounting practice or create a significant administrative cost to most entities.

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

The amendments in this Update represent changes to clarify the Codification, correct unintended application of guidance, or make minor improvements to the Codification that are not expected to have a significant effect on current accounting practice or create a significant administrative cost to most entities. Additionally, some of the amendments will make the Codification easier to understand and easier to apply by eliminating inconsistencies, providing needed clarifications, and improving the presentation of guidance in the Codification.

When Will the Amendments Be Effective?

Transition guidance varies based on the amendments in this Update. The amendments in this Update that require transition guidance are effective for all entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015. Early adoption is permitted, including adoption in an interim period. All other amendments will be effective upon the issuance of this Update.

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

The amendments in this Update are not intended to change GAAP. Additionally, the amendments are not expected to create or eliminate any differences between GAAP and IFRS.

Amendments to the *FASB Accounting Standards Codification®*

Introduction

1. The Accounting Standards Codification is amended as described in paragraphs 5–164. In some cases, to put the change in context, not only are the amended paragraphs shown but also the preceding and following paragraphs. Terms from the Master Glossary are in **bold** type. Added text is <u>underlined</u>, and deleted text is ~~struck out~~.

2. The amendments to the Codification are presented in Topic order, and each amendment is explained before the amendment.

3. The majority of the amendments are not expected to change practice, and, therefore, transition guidance is not provided for those amendments. The amendments in paragraphs 13, 17, 34, 43, 44, 54, 56, 82, 90, 92, and 96 are deemed to be potentially more substantive and may for some entities require transition guidance. This Update includes transition guidance that requires an entity to recognize and present separately the cumulative effect of any change in accounting principle as an adjustment to the opening balance of retained earnings (or other appropriate components of equity or net assets in the statement of financial position) for that fiscal year. The transition guidance is provided below. The cumulative-effect adjustment is the difference between the amounts recognized in the statement of financial position before initial application of the amendments and the amounts recognized in the statement of financial position at initial application of the amendments. Additionally, an entity may apply the above-described amendments retrospectively. An entity should follow the disclosure requirements for accounting changes and error corrections in Section 250-10-50, Accounting Changes and Error Corrections—Overall—Disclosure.

4. Two amendments have transition guidance that is specific to those individual amendments. The transition guidance for the amendment in paragraph 12 related to personal financial statements should be applied prospectively to preclude the use of hindsight in valuing real estate. The amendment in paragraph 52 related to employee stock ownership plans includes transition guidance that requires additional disclosures if an entity used a framework other than that in Topic 820, Fair Value Measurement, in prior valuations.

Amendments to Topic 105, Generally Accepted Accounting Principles

5. Add paragraph 105-10-65-3 and its related heading as follows:

Generally Accepted Accounting Principles—Overall

> Transition Related to Accounting Standards Update No. 2015-10, *Technical Corrections and Improvements*

105-10-65-3 The following represents the transition and effective date information related to Accounting Standards Update No. 2015-10, *Technical Corrections and Improvements:*

a. The pending content that links to this paragraph shall be effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015.
b. An entity shall recognize and present separately the cumulative effect of the change in accounting principle of the pending content that links to this paragraph as an adjustment to the opening balance of retained earnings (or other appropriate components of equity or net assets in the statement of financial position) for the period of adoption. The cumulative-effect adjustment is the difference between the amounts recognized in the statement of financial position before initial application of the pending content that links to this paragraph and the amounts recognized in the statement of financial position at initial application of the pending content that links to this paragraph.
c. An entity may elect to apply the pending content that links to this paragraph retrospectively.
d. Early application for the pending content that links to this paragraph is permitted for any fiscal year or interim period for which the entity's financial statements have not yet been issued (**public business entities**) or for which **financial statements are available to be issued** (all other entities).
e. An entity shall disclose the nature of the change and the reason for the change of the pending content that links to this paragraph.

Amendments to Subtopic 205-20, Presentation of Financial Statements—Discontinued Operations

6. This amendment clarifies the timing for recognizing a discontinued operation in paragraph 205-20-45-1D. Paragraph 205-20-45-1D currently states that "a

business or nonprofit activity that, on acquisition, meets the criteria in paragraph 205-20-45-1E to be classified as held for sale is a discontinued operation." The phrase *on acquisition* can be interpreted strictly to mean that only those businesses or nonprofit activities that meet the criteria explicitly on the date of acquisition to be classified as held for sale are discontinued operations. This is inconsistent with the guidance in Topic 360, Property, Plant, and Equipment, specifically paragraph 360-10-45-12, which states that "a long-lived asset (disposal group) that is newly acquired and that will be sold rather than held and used shall be classified as held for sale at the acquisition date only if the one-year requirement in paragraph 360-10-45-9(d) is met (except as permitted by the preceding paragraph) *and any other criteria in paragraph 360-10-45-9 that are not met at that date are probable of being met within a short period following the acquisition (usually within three months)*" (emphasis added). This amendment adds similar timing allowances for the classification of an acquired business or nonprofit activity as a discontinued operation because it was not the intent of the Board to require the entity to meet all the criteria on the exact date of acquisition.

7. Amend paragraph 205-20-45-1D, with no link to a transition paragraph, as follows:

Presentation of Financial Statements—Discontinued Operations

Other Presentation Matters

> > A Discontinued Operation Comprising a Business or Nonprofit Activity

205-20-45-1D A business or nonprofit activity that, on acquisition, meets the criteria in paragraph 205-20-45-1E to be classified as held for sale is a discontinued operation. <u>If the one-year requirement in paragraph 205-20-45-1E(d) is met (except as permitted by paragraph 205-20-45-1G), a business or nonprofit activity shall be classified as held for sale as a discontinued operation at the acquisition date if the other criteria in paragraph 205-20-45-1E are probable of being met within a short period following the acquisition (usually within three months).</u>

Amendments to Subtopic 230-10, Statement of Cash Flows—Overall

8. This amendment updates the term *market value* to *fair value* to conform to Topic 820, Fair Value Measurement.

9. Amend paragraph 230-10-45-20, with no link to a transition paragraph, as follows:

Statement of Cash Flows—Overall

Other Presentation Matters

230-10-45-20 Cash receipts and cash payments resulting from purchases and sales of other securities and other assets shall be classified as operating cash flows if those assets are acquired specifically for resale and are carried at fair~~market~~ value in a trading account.

Amendments to Subtopic 255-10, Changing Prices—Overall

10. Paragraph 255-10-55-2 incorporates guidance originally included in FASB Statement No. 89, *Financial Reporting and Changing Prices*, which stated that carrying trading account securities at fair value is the "predominant practice" by banks. The following amendment removes that nonguidance commentary and updates the paragraph to reflect that carrying trading account securities at fair value is the prescribed guidance.

11. Amend paragraph 255-10-55-2, with no link to a transition paragraph, as follows:

Changing Prices—Overall

Implementation Guidance and Illustrations

> > > Trading Account Investments in Fixed-income Securities Owned by Banks, Investment Brokers, and Others

255-10-55-2 Trading account securities are securities of all types carried in a ~~dealer~~ trading account that are held principally for resale~~ to customers~~. ~~The predominant practice by banks is to carry these~~These securities generally are carried at **fair value.** Trading account investments include both fixed-income securities (for example, nonconvertible preferred stock, convertible bonds, and other bonds) and other securities (for example, common stock). Usually, trading account securities are held for extremely short periods of time—sometimes for only a few hours. Frequently, the entity buys and sells the securities expecting to make a profit on the difference between dealer and retail, or bid and ask, prices rather than on price changes during the period securities are held. However, the prices of the securities change with market forces.

Amendments to Subtopic 274-10, Personal Financial Statements—Overall

12. Paragraph 274-10-55-11 (originally included in paragraph 34 of AICPA Statement of Position 82-1, *Accounting and Financial Reporting for Personal Financial Statements*) provides an example in Note 8 that identifies the purchase price plus the cost of improvements as information that may be used for determining the estimated current value of investments in real estate for personal financial statements. The purchase price plus the cost of improvements does not provide relevant information about the current value of an investment in real estate. This amendment updates Note 8 of paragraph 274-10-55-11 to reflect one of the listed examples in paragraph 274-10-55-6 (originally included in paragraph 24 of SOP 82-1), specifically, appraisals based on estimates of selling prices and selling costs obtained from independent real estate agents or brokers familiar with similar properties in similar locations. Paragraph 274-10-55-6 is included to show the list of information that may be used in determining the estimated current values of investments in real estate.

13. Amend Note 8 of paragraph 274-10-55-11, with a link to transition paragraph 274-10-65-1, as follows:

Personal Financial Statements—Overall

Implementation Guidance and Illustrations

> Implementation Guidance

> > Estimated Current Value

> > > Real Estate (Including Leaseholds)

274-10-55-6 Information that may be used in determining the estimated current values of investments in real estate (including leaseholds) includes any of the following:

a. Sales of similar property in similar circumstances
b. The discounted amounts of projected cash receipts and payments relating to the property or the net realizable value of the property, based on planned courses of action, including leaseholds whose current rental value exceeds the rent in the lease
c. Appraisals based on estimates of selling prices and selling costs obtained from independent real estate agents or brokers familiar with similar properties in similar locations
d. Appraisals used to obtain financing

e. Assessed value for property taxes, including consideration of the basis for such assessments and their relationship to market values in the area.

> Illustrations

> > Example 1: Illustrative Financial Statements

> > > Notes to Financial Statements

274-10-55-11 Illustrative notes to financial statements follow.

James and Jane Person—Notes to Financial Statements

NOTE 8. The estimated current value of the residence is ~~its purchase price plus the cost of improvements. The residence was purchased in December 19X1, and improvements were made in 19X2 and 19X3~~the appraised value based on an estimate of selling price, net of estimated selling costs obtained from an independent real estate agent familiar with similar properties in similar locations.

14. Add transition paragraph 274-10-65-1 and its related heading as follows:

> Transition Related to Accounting Standards Update No. 2015-10, *Technical Corrections and Improvements*

274-10-65-1 The following represents the transition and effective date information related to Accounting Standards Update No. 2015-10, *Technical Corrections and Improvements*:

a. The pending content that links to this paragraph shall be effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015.
b. An entity shall recognize and present separately the cumulative effect of the change in accounting principle of the pending content that links to this paragraph as an adjustment to the opening balance of retained earnings (or other appropriate components of equity or net assets in the statement of financial position) for the period of adoption. The cumulative-effect adjustment is the difference between the amounts recognized in the statement of financial position (or the statement of financial condition for personal financial statements) before initial application of the pending content that links to this paragraph and the amounts recognized in the statement of financial position (or the statement of financial condition for personal financial statements) at initial application of the pending content that links to this paragraph.
c. An entity shall apply the pending content that links to this paragraph prospectively.

d. Early application for the pending content that links to this paragraph shall be permitted.
e. An entity shall disclose the nature of the change and the reason for the change of the pending content that links to this paragraph.

Amendments to Subtopic 310-10, Receivables—Overall

15. Paragraph 310-10-35-1 identifies four categories of subsequent measurement guidance that is provided in Section 310-10-35. The current headings for that Section make it difficult to discern which guidance pertains to loans, trade receivables, both loans and trade receivables, or other forms of credit. For example, paragraph 310-10-35-11 discusses uncollectible receivables, which might be interpreted as applying to both loan and trade receivables without further clarification. In addition, paragraph 310-10-35-11 falls under the ultimate heading of "Impairment of Receivables," which does not align with one of the four categories of subsequent measurement guidance introduced in paragraph 310-10-35-1.

16. The following table reflects the amendments that change the structure of the headings that relate to loan impairment in Section 310-10-35 in an effort to clarify the guidance.

17. Amend the headings in Section 310-10-35, with a link to transition paragraph 105-10-65-3, as follows:

Receivables—Overall

Subsequent Measurement

General

310-10-35-1 This Subsection provides the following subsequent measurement guidance:

a. **Loan** impairment
b. Credit losses for loans and trade receivables
c. Credit losses for **standby letters of credit** and certain loan commitments
d. Subsequent measurement of specific types of receivables.

Heading	Related Paragraphs
> ~~Loan~~ Impairment of Loans and Receivables	310-10-35-2 through 35-3
~~>~~ > > General Concepts	310-10-35-4
~~>~~ > > Impairment of Receivables	310-10-35-5
~~> >~~ > > > Applicability	310-10-35-6

Heading	Related Paragraphs
~~>>~~ > > > Losses from Uncollectible Receivables	310-10-35-7 through 35-11
~~>~~ > > Loans That Are Identified for Evaluation or That Are Individually Considered Impaired	310-10-35-12
~~>>~~ > > > Applicability	310-10-35-13
~~>>~~ > > > Identifying Loans for Evaluation	310-10-35-14 through 35-15
~~>>~~ > > > Assessing Whether a Loan Is Impaired	310-10-35-16 through 35-19
~~>>~~ > > > Measurement of Impairment	310-10-35-20 through 35-30
~~>>>~~ > > > > Impact of Hedging	310-10-35-31
~~>>>~~ > > > > Measurement of Impairment when Foreclosure Is Probable	310-10-35-32
~~>>~~ > > > Interaction with Subtopic 450-20	310-10-35-33 through 35-36
~~>>~~ > > > Changes in the Net Carrying Amount of an Impaired Loan	310-10-35-37 through 35-40
[Because the remainder of the structure remains unchanged, it is not shown here.]	

18. The last sentence of paragraph 310-10-35-32, which was originally included in the basis for conclusions of FASB Statement No. 114, *Accounting by Creditors for Impairment of a Loan*, explains why additional losses may need to be recognized when the present value method of recording value is used. The subsequent measurement guidance applies to all measurement methods, and providing in-depth reasoning for the guidance specific to the present value method is not necessary to the understanding of the guidance in the paragraph and may confuse a Codification user because the full context of the additional explanation for the present value method that is provided in the original guidance from which this sentence was codified is not provided. Therefore, the following amendment removes the last sentence in paragraph 310-10-35-32.

19. Amend paragraph 310-10-35-32, with no link to a transition paragraph, as follows:

310-10-35-32 Regardless of the measurement method, a creditor shall measure impairment based on the fair value of the collateral when the creditor determines that foreclosure is probable. When a creditor determines that foreclosure is probable, a creditor shall remeasure the loan at the fair value of the collateral so that loss recognition is not delayed until actual foreclosure. ~~However, the~~

~~requirement to discount may not preclude the need to recognize additional loss when foreclosure is probable because estimates of expected future cash flows are not remeasured using a market rate and because estimates of expected future cash flows may change when a creditor determines that foreclosure is probable.~~

20. The first sentence in paragraph 310-10-45-14 provides a reference to paragraph 505-10-45-2 (Equity) for recognizing a note received as a contribution to an entity's equity. The second sentence in paragraph 310-10-45-14 is incomplete guidance from paragraph 505-10-45-2. The remaining guidance in paragraph 505-10-45-2, which is not provided in paragraph 310-10-45-14, is necessary to obtain a complete understanding of recording a note received as an equity contribution. The following amendment eliminates this second sentence in paragraph 310-10-45-14 that contains incomplete guidance.

21. Amend paragraph 310-10-45-14, with no link to a transition paragraph, as follows:

Other Presentation Matters

> Note Received as an Equity Contribution

310-10-45-14 For guidance on a note received as a contribution to an entity's equity, see paragraph 505-10-45-2. ~~Reporting the note as an asset is generally not appropriate, except in very limited circumstances when there is substantial evidence of ability and intent to pay within a reasonably short period of time.~~

Amendments to Subtopic 310-20, Receivables—Nonrefundable Fees and Other Costs

22. Paragraphs 310-20-35-6 and 310-20-50-4 include guidance originally included in EITF Issue No. 92-5, "Amortization Period for Net Deferred Credit Card Origination Costs." The Codification omits the scope limitation from EITF Issue 92-5 that excludes the accounting for credit card origination cost related to the issuance of private label credit cards from the guidance in these two paragraphs. The following amendments add the missing scope limitation and links *private label credit card* to the Master Glossary.

23. Amend paragraph 310-20-35-6, with no link to a transition paragraph, as follows:

Receivables—Nonrefundable Fees and Other Costs

Subsequent Measurement

310-20-35-6 In connection with the issuance of a credit card that is not a **private label credit card**, an issuer may incur certain credit card origination costs that qualify as direct loan origination costs pursuant to this Topic. Paragraph 310-20-25-16 explains that only the costs of origination that qualify as direct loan origination costs under the definition of that term are eligible for deferral. That definition explains that all other costs shall be charged to expense as incurred. That definition explains that, therefore, costs eligible for deferral would likely exceed fees only when a credit card is first issued.

24. Amend paragraph 310-20-50-4, with no link to a transition paragraph, as follows:

Disclosure

310-20-50-4 With respect to **credit card fees** and costs for both purchased and originated credit cards that are not **private label credit cards**, an entity shall disclose its accounting policy, the net amount capitalized at the balance sheet date, and the amortization period(s).

Amendments to Subtopic 310-30, Receivables—Loans and Debt Securities Acquired with Deteriorated Credit Quality

25. In the first sentence of paragraph 310-30-35-10(a) (originally included in AICPA Statement of Position 03-3, *Accounting for Certain Loans or Debt Securities Acquired in a Transfer*), the phrase *this condition is met* is not needed. This amendment eliminates that phrase and adds the word *then* to the paragraph to correct the sentence. Additional editorial changes simplify the sentence structure.

26. Amend paragraph 310-30-35-10, with no link to a transition paragraph, as follows:

Receivables—Loans and Debt Securities Acquired with Deteriorated Credit Quality

Subsequent Measurement

> > Loan Not Accounted for as a Debt Security

310-30-35-10 An investor shall continue to estimate cash flows expected to be collected over the life of the loan. If, upon subsequent evaluation that is based on current information and events, it is probable that:

a. ~~Based on current information and events, it is probable that the~~The investor is unable to collect all cash flows expected at acquisition plus additional cash flows expected to be collected arising from changes in estimate after acquisition (in accordance with (b)(2)), then the~~this condition is met. The~~ loan shall be considered impaired for purposes of applying ~~the measurement and other provisions of~~ Topic 450 or, if applicable, this Topic. For purposes of applying paragraphs 310-10-35-10 through 35-11 to a loan within the scope of this Subtopic, the phrase *all amounts due according to the contractual terms* shall be read *all cash flows originally expected to be collected by the investor plus any additional cash flows expected to be collected arising from changes in estimate after acquisition*.

b. ~~Based on current information and events, it is probable that there~~There is a significant increase in cash flows previously expected to be collected, or if actual cash flows are significantly greater than cash flows previously expected, the investor shall:
   1. Reduce any remaining valuation allowance (or allowance for loan losses) for the loan established after its acquisition for the increase in the present value of cash flows expected to be collected
   2. Recalculate the amount of accretable yield for the loan as the excess of the revised cash flows expected to be collected over the sum of the initial investment less cash collected less write-downs plus amount of yield accreted to date.

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

27. This amendment simplifies the sentence structure in paragraph 320-10-15-7 to clarify that equity securities accounted for under the cost method are excluded from Subtopic 320-10.

28. Amend paragraph 320-10-15-7, with no link to a transition paragraph, as follows:

Investments—Debt and Equity Securities—Overall

Scope and Scope Exceptions

320-10-15-7 The guidance in this Topic does not apply to any of the following:

a. Derivative instruments that are subject to the requirements of Topic 815, including those that have been separated from a host contract as required by Section 815-15-25. If an investment would otherwise be in the scope of this Topic and it has within it an embedded derivative that is required by that Section to be separated, the host instrument (as described in that Section) remains within the scope of this Topic.

b. <u>Equity securities accounted for under the cost method in accordance with Subtopic 325-20, except with respect to the impairment guidance in Section 320-10-35.</u>~~Except with respect to the impairment guidance in Section 320-10-35, equity securities within the scope of Subtopic 325-20, that is, cost method investments.~~
c. Equity securities that, absent the election of the fair value option under paragraph 825-10-25-1, would be required to be accounted for under the equity method.
d. Investments in consolidated subsidiaries.

29. The following amendment incorporates wording from Question 5 of the FASB Special Report, *A Guide to Implementation of Statement 115 on Accounting for Certain Investments in Debt and Equity Securities*. Question 5 indicates that condition (c) of the definition of *readily determinable fair value* may be applied to investments other than investments in a mutual fund. The Codification omitted this distinction from the definition of *readily determinable fair value*.

30. Amend the Master Glossary term *readily determinable fair value*, with no link to a transition paragraph, as follows:

Readily Determinable Fair Value

An equity security has a readily determinable fair value if it meets any of the following conditions:

a. The fair value of an equity security is readily determinable if sales prices or bid-and-asked quotations are currently available on a securities exchange registered with the U.S. Securities and Exchange Commission (SEC) or in the over-the-counter market, provided that those prices or quotations for the over-the-counter market are publicly reported by the National Association of Securities Dealers Automated Quotations systems or by OTC Markets Group Inc. Restricted stock meets that definition if the restriction terminates within one year.
b. The fair value of an equity security traded only in a foreign market is readily determinable if that foreign market is of a breadth and scope comparable to one of the U.S. markets referred to above.
c. The fair value of an <u>equity security that is an</u> investment in a mutual fund <u>or in a structure similar to a mutual fund (that is, a limited partnership or a venture capital entity)</u> is readily determinable if the fair value per share (unit) is determined and published and is the basis for current transactions.

31. The following amendment corrects references to guidance that was eliminated by the issuance of the amendments in FASB Accounting Standards Update No.

2009-16, *Transfers and Servicing (Topic 860): Accounting for Transfers of Financial Assets*.

32. Amend paragraphs 320-10-25-20 and 320-10-40-3, with no link to a transition paragraph, as follows:

Recognition

320-10-25-20 If structured notes are acquired for the type of specified investment strategy described in paragraph 320-10-25-19, then the investor shall account for the two structured note securities as a unit until one of the securities is sold, at which time the ~~guidance~~ notes shall be measured in the same way as a participating interest in paragraph ~~860-10-35-3~~860-20-40-1A ~~shall be applied~~.

Derecognition

> Sales of Combinations of Structured Notes

320-10-40-3 As discussed in paragraph 320-10-25-20, if structured notes are acquired for the type of specified investment strategy described in paragraph 320-10-25-19, then the investor should account for the two **structured note** securities as a unit until one of the securities is sold, at which time the ~~guidance~~ notes shall be measured in the same way as a participating interest in paragraph ~~860-10-35-3~~ 860-20-40-1A ~~shall be applied~~.

Amendments to Subtopic 325-40, Investments—Other—Beneficial Interests in Securitized Financial Assets

33. Paragraph 325-40-55-1 was originally included in EITF Issue No. 99-20, "Recognition of Interest Income and Impairment on Purchased Beneficial Interests and Transferor's Beneficial Interests in Securitized Financial Assets Obtained in a Transfer Accounted for as a Sale." Paragraphs 320-10-35-34C through 35-34D were originally included in FSP FAS No. 115-1 and FAS No. 124-1, *The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments*. Paragraphs 320-10-35-34C through 35-34D state that if an entity does not intend to sell the security and it is not more likely than not that the entity will be required to sell the security before recovery of the current carrying amount adjusted for current-period credit losses, the amount of an other-than-temporary impairment recognized in earnings is limited to the amount of credit losses. The remaining portion is recognized in other comprehensive income. The prospective accretion yield would therefore equal the yield at acquisition. However, paragraph 325-40-55-1 was not amended upon the issuance of FSP FAS 115-1 and FAS 124-1 and still states that if the carrying amount of the beneficial interest exceeds the fair value and there has been an adverse change in cash flows, an other-than-

temporary impairment has occurred and the prospective accretion yield should equal the market rate. The following amendment updates paragraph 325-40-55-1 to reflect the guidance in FSP FAS 115-1 and FAS 124-1.

34. Amend paragraph 325-40-55-1, with a link to transition paragraph 105-10-65-3, as follows:

Investments—Other—Beneficial Interests in Securitized Financial Assets

Implementation Guidance and Illustrations

> Implementation Guidance

> > Application of Subtopic Guidance under Different Scenarios

325-40-55-1 The following table highlights the application of the guidance in this Subtopic under different scenarios:

Is Fair Value of the Beneficial Interest Greater Than or Equal to the Carrying Amount?	Has a Change in Cash Flows Expected to be Collected Occurred from the Last Revised Estimate (Considering Both Timing and Amount)?	Is an Other-Than-Temporary Impairment Recognized?	Is the Yield Revised for the Change?	Should the Original or Last Revised Cash Flows Expected to be Collected Be Used for Future Impairment Purposes?
Yes.	Yes, decrease (adverse change).	No.	Yes. The change in yield is recognized prospectively.	Last revised.
Yes.	No.	No.	N/A	If the cash flows expected to be collected have been previously revised, use the last revised cash flows. Otherwise, use the original cash flows.
Yes.	Yes, increase (favorable change).	No.	Yes. The change in yield is recognized prospectively.	Last revised.
No.	Yes, decrease (adverse change).	Yes. [(a)]	~~Yes. The yield is changed to the market rate.~~The yield is not changed as a result of recognizing an other-than-temporary impairment. However, the yield may be changed prospectively for non-credit-related factors. [(a)]	Last revised.
No.	No.	Generally, no. [(b)]	If an other-than-temporary impairment is recognized, the yield is changed to the market rate. If an other-than-temporary impairment is not recognized, the yield is not changed.	If the cash flows expected to be collected have been previously revised, use the last revised cash flows. Otherwise, use the original cash flows.
No.	Yes, increase (favorable change).	Generally, no. [(b)]	If an other-than-temporary impairment is recognized, the yield is changed to the market rate. If an other-than-temporary impairment is not recognized, the change in yield is recognized prospectively.	Last revised.

(a) Changes in the interest rate of a plain-vanilla, variable-rate beneficial interest (a plain-vanilla, variable-rate beneficial interest does not include those variable-rate beneficial interests with interest rate reset formulas that involve either leverage or an inverse floater) generally should not result in the recognition of an other-than-temporary impairment. For plain-vanilla, variable-rate beneficial interests, the yield is changed to reflect the revised interest rate based on the contractual interest rate reset formula. For example, if a beneficial interest pays interest quarterly at a rate equal to the London Interbank Offered Rate (LIBOR) plus 2 percent, the yield of that beneficial interest is changed prospectively to reflect changes in LIBOR. However, changes in the fair value of a plain-vanilla, variable-rate beneficial interest due to credit events shall be considered when evaluating whether there has been an other-than-temporary impairment. See Section 320-10-35 for a discussion of the recognition of an other-than-temporary impairment.

(b) See paragraph 325-40-35-13 for further discussion.

Amendments to Subtopic 405-20, Liabilities—Extinguishments of Liabilities

35. The term *financial-components approach* is used in the explanation of why an in-substance defeasance transaction does not meet derecognition criteria in an example in the implementation guidance in paragraph 405-20-55-4. The term was originally included in FASB Statement No. 125, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities*. In Statement 125, the Board adopted a consistent application of a financial-components approach that focused on control that replaced previous approaches that viewed each financial asset as an indivisible unit. The use of the term *financial-components approach* implies that there are other approaches available for in-substance defeasance transactions. However, alternative approaches are not available; therefore, the term is not needed and should be removed. The following amendment simplifies and clarifies the guidance by removing the reference to the financial-components approach and adding Codification references for the derecognition criteria.

36. Amend paragraph 405-20-55-4, with no link to a transition paragraph, as follows:

Liabilities—Extinguishments of Liabilities

Implementation Guidance and Illustrations

405-20-55-4 ~~Under the financial-components approach, an~~An in-substance defeasance transaction does not meet the derecognition criteria ~~for~~in either Section 405-20-40 for the liability or in Section 860-10-40 for the asset. The transaction ~~lacks the following critical characteristics~~does not meet the criteria because of the following:

a. The debtor is not released from the debt by putting assets in the trust; if the assets in the trust prove insufficient, for example, because a default by the debtor accelerates its debt, the debtor must make up the difference.
b. The lender is not limited to the cash flows from the assets in trust.
c. The lender does not have the ability to dispose of the assets at will or to terminate the trust.
d. If the assets in the trust exceed what is necessary to meet scheduled principal and interest payments, the transferor can remove the assets.
e. Subparagraph superseded by Accounting Standards Update No. 2012-04.
f. The debtor does not surrender control of the benefits of the assets because those assets are still being used for the debtor's benefit, to

extinguish its debt, and because no asset can be an asset of more than one entity, those benefits must still be the debtor's assets.

Amendments to Subtopic 410-30, Asset Retirement and Environmental Obligations—Environmental Obligations

37. The following amendment simplifies Section 410-30-35 by eliminating paragraph 410-30-35-7, which consists of nonguidance commentary.

38. Supersede paragraph 410-30-35-7, with no link to a transition paragraph, as follows:

Asset Retirement and Environmental Obligations—Environmental Obligations

Subsequent Measurement

> Impact of Potential Recoveries

410-30-35-7 Paragraph superseded by Accounting Standards Update 2015-XX. ~~Remediation technology is changing constantly, and, in many cases, new technologies have resulted in modified costs for environmental remediation (see the following paragraph.~~

Amendments to Subtopic 460-10, Guarantees—Overall

39. The amendments in FASB Accounting Standards Update No. 2009-16, *Transfers and Servicing (Topic 860): Accounting for Transfers of Financial Assets,* deleted paragraphs 860-10-35-1 through 35-12 related to subordination agreements. Paragraph 460-10-05-3 contains a reference to the deleted guidance for subordination agreements. Paragraph 460-10-60-35 also contains a reference to the deleted guidance. The following amendments remove these incorrect references.

40. Amend paragraph 460-10-05-3, with no link to a transition paragraph, as follows:

Guarantees—Overall

Overview and Background

460-10-05-3 Additional guidance about certain guarantees, such as put options ~~and subordination agreements~~, is provided in other Topics. Section 460-10-60 provides links to those other Topics. Guarantees that are unique to a particular industry are discussed in the Topic for that industry.

41. Supersede paragraph 460-10-60-35, with no link to a transition paragraph, as follows:

Relationships

> Transfers and Servicing

460-10-60-35 Paragraph superseded by Accounting Standards Update 2015-XX.~~For subordination agreements, which are commonly thought of as guarantees issued by subordinated investors, see paragraph 860-10-35-6.~~

Amendments to Subtopic 470-30, Debt—Participating Mortgage Loans

42. AICPA Statement of Position 97-1, *Accounting by Participating Mortgage Loan Borrowers,* provided guidance for the debtor's accounting for two types of participating mortgages: those related to results of operations and those related to market value appreciation. The Codification condensed the accounting guidance for those two types of participating mortgages, ultimately making the guidance unclear. The following amendments incorporate the accounting guidance originally included in SOP 97-1 to clarify the debtor's accounting for those two types of participating mortgages.

43. Amend paragraph 470-30-25-1, with a link to transition paragraph 105-10-65-3, as follows:

Debt—Participating Mortgage Loans

Recognition

470-30-25-1 If a lender is entitled to participate in the appreciation of the market value of a mortgaged real estate project, the~~The~~ borrower shall recognize a participation liability with a corresponding debit to a **debt** discount account.

44. Amend paragraph 470-30-35-4 and add paragraph 470-30-35-4A, with a link to transition paragraph 105-10-65-3, as follows:

Subsequent Measurement

470-30-35-4 Amounts due to a lender pursuant to the lender's participation in the real estate project's results of operations (as defined in the participating mortgage loan agreement) shall be charged to interest expense in the borrower's corresponding financial reporting period, with a corresponding credit to the participation liability. ~~At the end of each reporting period both of the following are required:~~

a. Subparagraph superseded by Accounting Standards Update 2015-10.~~The balance of the participation liability shall be adjusted to equal the fair value of the participation feature.~~
b. Subparagraph superseded by Accounting Standards Update 2015-10.~~The corresponding debit or credit shall be recorded in the related debt-discount account.~~ **[Content moved to paragraph 470-30-35-4A]**

470-30-35-4A If a lender is entitled to participate in the appreciation of the market value of a mortgaged real estate project, both of the following are required at the end of each reporting period:

a. The balance of the participation liability shall be adjusted to equal the current fair value of the participation feature.
b. The corresponding debit or credit shall be recorded in the related debt-discount account. **[Content moved from paragraph 470-30-35-4]**

Amendments to Subtopic 505-10, Equity—Overall

45. Paragraph 505-10-45-2 incorporates guidance originally from EITF Issue No. 85-1, "Classifying Notes Received for Capital Stock," that stated that "predominant practice is to offset the notes and stock in the equity section." The following amendment removes that nonguidance commentary and adds a reference to the guidance in paragraph 210-10-S99-1 (paragraphs 27 through 29), which is originally from SEC Rule No. 5-02.27, *Redeemable Preferred Stocks*, SEC Rule No. 5-02.28, *Non-Redeemable Preferred Stocks*, and SEC Rule No. 5-02.29, *Common Stocks*, of SEC Regulation S-X to add further clarification.

46. Amend paragraph 505-10-45-2, with no link to a transition paragraph, as follows:

Equity—Overall

Other Presentation Matters

> Receivables for Issuance of Equity

505-10-45-2 An entity may receive a note, rather than cash, as a contribution to its equity. The transaction may be a sale of capital stock or a contribution to paid-in capital. Reporting the note as an asset is generally not appropriate, except in very limited circumstances in which there is substantial evidence of ability and intent to pay within a reasonably short period of ~~time.~~time, for example, as discussed for public entities in paragraph 210-10-S99-1 (paragraphs 27 through 29), which requires a deduction of the receivable from equity. ~~Consequently, the predominant practice is to offset the notes and stock in the equity section.~~ However, such notes may be recorded as an asset if collected in cash before the financial statements are issued or are available to be issued (as discussed in Section 855-10-25).

Amendments to Subtopic 605-25, Revenue Recognition—Multiple-Element Arrangements

47. The following amendment updates the paragraph reference in paragraph 605-25-15-3A to include references to two additional paragraphs relevant to the entity's determination of how to allocate arrangement consideration in accordance with the relative selling price method. These two additional references are from the guidance in FASB Accounting Standards Update No. 2009-13, *Revenue Recognition (Topic 605): Multiple-Deliverable Revenue Arrangements*.

48. Amend paragraph 605-25-15-3A(b), with no link to a transition paragraph, as follows:

Revenue Recognition—Multiple-Element Arrangements

Scope and Scope Exceptions

605-25-15-3A Those Topics may provide guidance with respect to whether and how to allocate consideration of a multiple-deliverable arrangement. Whether deliverables are within the scope of those other Topics is determined by the scope provisions of those Topics, without regard to the order of delivery of that item in the arrangement. The following describes the three categories into which the other Codification Topics fall and the application of this Subtopic or the other Topics in determining separate units of accounting and allocating arrangement consideration:

b. Other Topics address separation, but not allocation. If another Topic provides guidance requiring separation of deliverables within the scope of that Topic from deliverables not within the scope of that Topic, but does not specify how to allocate arrangement consideration to each separate unit of accounting, such allocation shall be based on the relative selling price of the deliverables within the scope of that Topic and the deliverables not within the scope of that Topic. For example, leased assets are required to be accounted for separately under the guidance in Subtopics 840-20 and 840-30. See paragraph 605-25-55-3. (For purposes of the allocation between deliverables within the scope of another Topic and deliverables not within the scope of that other Topic, the selling price shall be determined using the guidance as discussed in paragraphs 605-25-30-6A through ~~30-6B~~30-7.) Subsequent identification of separate units of accounting and allocation of arrangement consideration to the deliverables not subject to that other Topic would be governed by the provisions of this Subtopic.

Amendments to Subtopic 715-30, Compensation—Retirement Benefits—Defined Benefit Plans—Pension

49. The following amendments remove an incorrect reference to nonpublic entities in paragraph 715-80-50-5(e) and clarify that a statement of activities is the financial statement that a not-for-profit entity issues according to paragraph 958-225-05-1.

50. Amend paragraph 715-30-55-63, with no link to a transition paragraph, as follows:

Compensation—Retirement Benefits—Defined Benefit Plans—Pension

Implementation Guidance and Illustrations

715-30-55-63 Assume a not-for-profit entity (NFP) has a defined benefit pension plan that covers employees at the national and all local chapters and each chapter is required to contribute to the pension plan based on a predetermined formula (for example, on a percentage-of-salary basis), plan assets are not segregated or restricted on a chapter-by-chapter basis, and if a chapter withdraws from the pension plan, the pension obligations for its employees are retained by the pension plan as opposed to being allocated to the withdrawing chapter. This arrangement should be accounted for as a single-employer pension plan in the NFP's ~~consolidated~~ financial statements. However, in each chapter's separate financial statements (if issued) the arrangement should be accounted for as a multiemployer pension plan. It is unclear how an allocation of net periodic pension cost or the overfunded or underfunded status of the defined benefit pension plan would be made if each chapter were to view its respective participation as a single-employer pension plan because the assets are not segregated or restricted by chapter and obligations are not assumed by a withdrawing chapter. Accounting for the pension plan as a multiemployer pension plan requires that a chapter's contribution for the period (in this example, the amount required to be contributed to the pension plan based on a percentage of its employees' salaries) be recognized as net periodic pension cost. A liability would be recognized for any contributions due and unpaid. The disclosures required by Section 715-80-50 do not apply in this situation. Instead, each chapter should disclose the name of the plan in which it participates and the amount of contributions it made in each annual period for which a statement of income (statement of activities for ~~**nonpublic entities**~~**not-for-profit entities**) is presented, as well as any related-party disclosures required by Subtopic 850-10.

Amendments to Subtopic 715-80, Compensation—Retirement Benefits—Multiemployer Plans

51. Amend paragraph 715-80-50-5(e), with no link to a transition paragraph, as follows:

Compensation—Retirement Benefits—Multiemployer Plans

Disclosure

715-80-50-5 When feasible, the information required by this paragraph shall be provided in a tabular format. Information that requires greater narrative description may be provided outside the table. For each individually significant multiemployer plan that provides pension benefits, an employer shall disclose the following:

- e. For each period that a statement of income (statement of activities for a **not-for-profit entity** ~~for **nonpublic entities**~~) is presented:
  1. The employer's contributions made to the plan
  2. Whether the employer's contributions represent more than 5 percent of total contributions to the plan as indicated in the plan's most recently available annual report (Form 5500 for U.S. plans). The disclosure shall specify the year-end date of the plan to which the annual report relates.

Amendments to Subtopic 718-40, Compensation—Stock Compensation—Employee Stock Ownership Plans

52. The Master Glossary contains two definitions of the term *fair value*. The first glossary definition (Definition 1) originates from FASB Statement No. 123 (revised 2004), *Share-Based Payment,* and the second glossary definition (Definition 2) originates from FASB Statement No. 157, *Fair Value Measurements*. Statement 123(R) established fair value as the measurement objective in accounting for share-based payment arrangements and requires all entities to apply a fair-value-based measurement method in accounting for share-based payment transactions with employees, except for equity instruments held by

employee share ownership plans. Statement 123(R) specifies AICPA Statement of Position 93-6, *Employers' Accounting for Employee Stock Ownership Plans*, as measurement guidance for employee stock ownership plans. SOP 93-6 contains a definition of *fair value* that is different from the definitions in Statements 123(R) and 157. However, the glossary (Section 718-40-20) for Subtopic 718-40 was incorrectly codified with the definition of *fair value* from Statement 123(R) instead of the definition from SOP 93-6. The SOP 93-6 definition was subsequently amended by the guidance in FASB Accounting Standards Update No. 2012-04, *Technical Corrections and Improvements*, to the Statement 157 definition of *fair value*. That clarification was reflected in Topic 820; however, it was not reflected in Subtopic 718-40. This amendment corrects the definition of *fair value* in the glossary for Subtopic 718-40 and in related paragraphs so that both are in accordance with the guidance in Update 2012-04.

53. Supersede the Master Glossary term *fair value* (first definition) from Subtopic 718-40 and add the Master Glossary term *fair value* (second definition) to Subtopic 718-40 as follows:

~~Fair Value (first definition)~~

~~The amount at which an asset (or liability) could be bought (or incurred) or sold (or settled) in a current transaction between willing parties, that is, other than in a forced or liquidation sale.~~

Fair Value (second definition)

The price that would be received to sell an asset or paid to transfer a liability in an **orderly transaction** between **market participants** at the measurement date.

54. Amend paragraphs 718-40-25-2, 718-40-25-14, 718-40-30-2, 718-40-30-4 through 30-5, 718-40-40-2, 718-40-45-7, 718-40-50-1(e), and 718-40-55-4(g), with a link to transition paragraph 718-40-65-1, as follows:

Compensation—Stock Compensation—Employee Stock Ownership Plans

Recognition

General

> Stock with a Put Option or a Guaranteed Redemption Price

718-40-25-2 Regardless of whether an employee stock ownership plan is leveraged or nonleveraged, employers are required to give a put option to participants holding employee stock ownership plan shares that are not readily tradable, which on exercise requires the employer to repurchase the shares at **{remove glossary link to 1st definition and add glossary link to 2nd definition}fair value{remove glossary link to 1st definition and add glossary link to 2nd definition}**. **Public entity** sponsors sometimes offer cash redemption options to participants who are eligible to withdraw traded shares from their accounts, which on exercise requires the employer to repurchase the shares at fair value. Employers shall report the satisfaction of such option exercises as purchases of treasury stock.

Leveraged Employee Stock Ownership Plans

718-40-25-14 Some employers agree to provide a specified or determinable benefit, such as a contribution to a 401(k) plan or to a formula profit-sharing plan, to employees and use the employee stock ownership plan to partially or fully fund the benefit. Employers shall recognize compensation cost and liabilities associated with providing such benefits to employees in the same manner they would had an employee stock ownership plan not been used to fund the benefit. For employee stock ownership plan shares committed to be released to **settle** liabilities for such benefits, employers shall report satisfaction of the liabilities when the shares are committed to be released to settle the liability. The number of shares released to settle the liability shall be based on the **{remove glossary link to 1st definition and add glossary link to 2nd definition}fair value{remove glossary link to 1st definition and add glossary link to 2nd definition}** of shares as of dates specified by the employers, which are usually specified in the employee stock ownership plan documents.

Initial Measurement

Leveraged Employee Stock Ownership Plans

718-40-30-2 Some employers establish **employee stock ownership plans** that are not linked to any other **employee** benefit or compensation promise; therefore, the employee stock ownership plan shares directly compensate the employees. For employee stock ownership plan shares committed to be released to compensate employees directly, the employer shall recognize compensation cost equal to the **{remove glossary link to 1st definition and add glossary link to 2nd definition}fair value{remove glossary link to 1st definition and add glossary link to 2nd definition}** of the shares committed to be released. The shares generally shall be deemed to be committed to be released ratably during an accounting period as the employees perform services, and, accordingly, average fair values shall be used to determine the amount of compensation cost to recognize each reporting period (interim or annual). The amount of compensation cost recognized in previous interim periods shall not be adjusted for subsequent changes in the fair value of shares.

718-40-30-4 The **{add glossary link to 2nd definition}**fair value**{add glossary link to 2nd definition}** of employee stock ownership plan shares is needed to apply certain provisions of this Subtopic. ~~The fair value of an employee stock ownership plan share is the amount the seller could reasonably expect to receive for it in a current sale between a willing buyer and a willing seller, that is, other than a forced or liquidation sale. For shares that are traded, the price in the most active market shall be used to measure fair value. If there is no market price, the employer's best estimate of fair value shall be used. The use of independent experts may be necessary to estimate fair value. For example, the amount determined in a recent (within 12 months of the employer's year-end) independent stock valuation report may aid in determining the best estimate of fair value.~~

Nonleveraged Employee Stock Ownership Plans

718-40-30-5 Compensation cost shall be measured as the **{remove glossary link to 1st definition and add glossary link to 2nd definition}fair value{remove glossary link to 1st definition and add glossary link to 2nd definition}** of the shares contributed to or committed to be contributed to the **employee stock ownership plan** or as the cash contributed to or committed to be contributed to the employee stock ownership plan, as appropriate under the terms of the plan.

Derecognition

Leveraged Employee Stock Ownership Plans

718-40-40-2 Upon termination of a leveraged **employee stock ownership plan**, either in whole or in part, all outstanding debt related to the shares being terminated shall be repaid or refinanced. An employee stock ownership plan may repay the debt using an employer contribution to the plan, dividends on employee stock ownership plan shares, the proceeds from selling **suspense shares** to the employer or to another party, or some combination of these. The tax law limits the shares employers may reacquire to the number of shares with a **{remove glossary link to 1st definition and add glossary link to 2nd definition}fair value{remove glossary link to 1st definition and add glossary link to 2nd definition}** equal to the applicable unpaid debt and requires that the remaining shares, if any, shall be allocated to participants.

Other Presentation Matters

Leveraged Employee Stock Ownership Plans

718-40-45-7 When participants withdraw account balances containing convertible preferred shares from an employee stock ownership plan, they may be entitled to receive common shares or cash with a value equal to either the **{remove glossary**

link to 1st definition and add glossary link to 2nd definition}fair value{remove glossary link to 1st definition and add glossary link to 2nd definition} of the convertible preferred shares or a stated minimum value per share. Accordingly, if the value of the common stock issuable is less than the stated minimum value or the fair value of the preferred, participants may receive common shares or cash with a value greater than the value of the common shares issuable at the stated conversion rate. In determining EPS, the employer shall presume that such a shortfall will be made up with shares of common stock. However, that presumption may be overcome if past experience or a stated policy provides a reasonable basis to believe that the shortfall will be paid in cash. In applying the if-converted method, the number of common shares issuable on assumed conversion, which shall be included in the denominator of the EPS calculation, shall be the greater of the following:

a. The shares issuable at the stated conversion rate
b. The shares issuable if the participants were to withdraw the shares from their accounts.

Disclosure

718-40-50-1 An employer sponsoring an **employee stock ownership plan** shall disclose all of the following information about the plan, if applicable:

e. The **{remove glossary link to 1st definition and add glossary link to 2nd definition}fair value{remove glossary link to 1st definition and add glossary link to 2nd definition}** of unearned employee stock ownership plan shares at the balance-sheet date for shares accounted for under this Subtopic. (Future tax deductions will be allowed only for the employee stock ownership plan's cost of unearned employee stock ownership plan shares.) This disclosure need not be made for old employee stock ownership plan shares for which the employer does not apply the guidance in this Subtopic.

Implementation Guidance and Illustrations

Leveraged Employee Stock Ownership Plans

> > > Case A: A Common-Stock Leveraged Employee Stock Ownership Plan with a Direct Loan

718-40-55-4 This Case illustrates a common stock leveraged employee stock ownership plan with a direct loan. This Case has the following assumptions:

g. The common stock pays normal dividends at the end of each quarter of 12.5 cents per share ($50,000 for the employee stock ownership plan's shares each year). Accordingly, in this Case, the average **{remove**

glossary link to 1st definition and add glossary link to 2nd definition}fair value{remove glossary link to 1st definition and add glossary link to 2nd definition} of shares is used to determine the number of shares used to satisfy the employers' obligation to replace dividends on **allocated shares** used for debt service.

55. Add transition paragraph 718-40-65-1 and its related heading as follows:

> Transition Related to Accounting Standards Update No. 2015-10, *Technical Corrections and Improvements*

718-40-65-1 The following represents the transition and effective date information related to Accounting Standards Update No. 2015-10, *Technical Corrections and Improvements:*

a. The pending content that links to this paragraph shall be effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015.
b. An entity shall apply the pending content that links to this paragraph prospectively.
c. An entity shall recognize and present separately the cumulative effect of the change in accounting principle of the pending content that links to this paragraph as an adjustment to the opening balance of retained earnings (or other appropriate components of equity or net assets in the statement of financial position) for the period of adoption. The cumulative-effect adjustment is the difference between the amounts recognized in the statement of financial position before initial application of the pending content that links to this paragraph and the amounts recognized in the statement of financial position at initial application of the pending content that links to this paragraph.
d. An entity shall disclose all of the following:
    1. The fact that it was using a framework other than the framework in Topic 820 on fair value measurement in prior valuations
    2. A qualitative description of how the valuation methodology that was used differs from that of Topic 820 and the possible effect on prior valuations
    3. The nature of the change and the reason for the change of the pending content that links to this paragraph.
e. Early application for the pending content that links to this paragraph is permitted for any fiscal year or interim period for which the entity's financial statements have not yet been issued (**public business entities**) or **financial statements are available to be issued** (all other entities).

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

56. Amend paragraphs 718-740-25-6(a) and 718-740-45-5, with a link to transition paragraph 718-40-65-1, as follows:

Compensation—Stock Compensation—Income Taxes

Recognition

> > Employee Stock Ownership Plans

718-740-25-6 For employers with leveraged employee stock ownership plans, the amount of employee stock ownership plan related expense reported under the requirements of Subtopic 718-40 for a period may differ from the amount of the employee stock ownership plan related income tax deduction (prescribed by income tax rules and regulations) for that period. Differences result in either of the following situations:

a. The **{remove glossary link to 1st definition and add glossary link to 2nd definition}fair value{remove glossary link to 1st definition and add glossary link to 2nd definition}** of shares committed to be released differs from the cost of those shares to the employee stock ownership plan.

Other Presentation Matters

> Employee Stock Ownership Plans

718-740-45-5 If the cost of shares committed to be released in an **employee stock ownership plan** is greater than their **{add glossary link to 2nd definition}**fair value**{add glossary link to 2nd definition}**, and in accordance with the requirements of paragraph 740-20-45-11(d), the employer shall credit the tax effect of the amount by which the deductible expense exceeds the book expense to shareholders' equity.

57. The following amendment corrects references in Subtopic 718-740. Paragraph 718-740-25-9, which pertains to recognition of the accounting for excess tax benefits (and their recognition as additional paid-in capital), currently refers to Section 718-740-30 on initial measurement. The references should be to Sections 718-740-35 and 718-740-45, which pertain to subsequent measurement and presentation guidance.

58. Amend paragraph 718-740-25-9, with no link to a transition paragraph, as follows:

Recognition

> Tax Benefit Recognition of Excess Deductions Limited to Realized Amounts

718-740-25-9 Actual tax deductions for share-based payment arrangements may be greater than compensation cost recognized for book purposes. Sections 718-740-35 and 718-740-45 establish~~Section 718-740-30 establishes~~ a methodology for measuring the part of an entity's actual tax deduction that results in **excess tax benefits** and ~~requires~~require that such benefits be recorded as additional paid-in capital. The requirements for recognition of excess tax benefits are different from those for recognition of the benefit from the compensation cost amount recognized for book purposes.

Amendments to Subtopic 740-10, Income Taxes—Overall

59. The following amendment simplifies the scope language in Subtopic 740-10. It also replaces the term *uncertain tax positions* with the broader term *uncertainty in income taxes*. This amendment brings paragraph 740-10-15-2AA in line with FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes*, which also uses the term *uncertainty in income taxes*. Paragraph B12 of Interpretation 48 states the following:

> In its redeliberations, the Board considered whether to apply the provisions of this Interpretation to all income tax positions or some subset of income tax positions, specifically, **uncertain** tax positions. The Board concluded that limiting the application to only uncertain tax positions, or tax positions with specified attributes, would create a rules-based standard that would result in inconsistent application and would add complexity to the accounting guidance for income taxes.

Therefore, replacing the current term with the broader term *uncertainty in income taxes* is appropriate.

60. Amend paragraph 740-10-15-2AA, with no link to a transition paragraph, as follows:

Income Taxes—Overall

Scope and Scope Exceptions

> Entities

740-10-15-2AA The ~~Sections of~~ guidance in this Subtopic relating to accounting for uncertainty in income taxes applies to all entities ~~uncertain tax positions are applicable to all entities~~, including tax-exempt not-for-profit entities, pass-through entities, and entities that are taxed in a manner similar to pass-through entities such as real estate investment trusts and registered investment companies.

61. The following amendment adds specific paragraph references to clarify the paragraphs that contain the alternative acceptable policy choices.

62. Amend paragraph 740-10-50-18, with no link to a transition paragraph, as follows:

Disclosure

> Policy Related Disclosures

740-10-50-18 Acceptable alternative~~Alternative acceptable~~ policy choices available to an entity require disclosure as follows in paragraphs 740-10-50-19 through 50-20.

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

63. The following amendment eliminates the term *subsidiary* from the glossary of Subtopic 740-30. The source of the Master Glossary term *subsidiary* is AICPA Accounting Research Bulletin No. 51, *Consolidated Financial Statements*. However, FASB Statement No. 160, *Noncontrolling Interests in Consolidated Financial Statements*, amended the definition of *subsidiary* from ARB 51. The term *subsidiary*, as amended, was used in Topic 740. Therefore, the broad Master Glossary definition of *subsidiary* could create confusion when referring to the guidance in Subtopic 740-30 and should not be used in that Subtopic.

64. As an illustration supporting these amendments, Subtopic 740-30 addresses whether deferred taxes should be recorded on outside basis differences (differences between a parent's financial statement/book basis and tax basis of an investment in a subsidiary) associated with a parent's investment in a foreign operation resulting from undistributed earnings of the subsidiary (commonly

referred to as the APB Opinion No. 23, *Accounting for Income Taxes—Special Areas,* exception). This exception to recognizing deferred taxes is not applicable for partnerships (or other pass-through entities), because the income flows to the parent for tax purposes. Because the guidance on the Opinion 23 exception in Subtopic 740-30 uses the term *subsidiary* and the definition of *subsidiary* in that Subtopic includes the term *partnership,* some may find the guidance confusing.

65. Amend paragraph 740-30-05-4, with no link to a transition paragraph, as follows:

Income Taxes—Other Considerations or Special Areas

Overview and Background

740-30-05-4 A domestic or foreign **{remove glossary link}subsidiary{remove glossary link}** remits earnings to a parent entity after the parties consider numerous factors, including the following:

a. Financial requirements of the parent entity
b. Financial requirements of the subsidiary
c. Operational and fiscal objectives of the parent entity, both long-term and short-term
d. Remittance restrictions imposed by governments
e. Remittance restrictions imposed by lease or financing agreements of the subsidiary
f. **Tax consequences** of the remittance.

66. Amend paragraph 740-30-25-2, with no link to a transition paragraph, as follows:

Recognition

740-30-25-2 Including undistributed earnings of a **{remove glossary link}subsidiary{remove glossary link}** (which would include the undistributed earnings of a domestic international sales corporation eligible for tax deferral) in the pretax accounting income of a parent entity either through consolidation or accounting for the investment by the equity method results in a **temporary difference**.

67. Amend paragraph 740-30-45-2, with no link to a transition paragraph, as follows: **[Note: The amendment to paragraph 740-30-45-2 is being made to the current content as well as to the pending content paragraph because the pending content paragraph will be effective after the effective date of this Update.]**

Other Presentation Matters

740-30-45-2 Paragraph 740-30-25-18 identifies situations where deferred tax liabilities are not recorded for specific temporary differences. Paragraph 740-30-25-19 provides that if circumstances change and it becomes apparent that some or all of the undistributed earnings of a **{remove glossary link}subsidiary{remove glossary link}** will be remitted in the foreseeable future but income taxes have not been recognized by the parent entity, it shall accrue as an expense of the current period income taxes attributable to that remittance; income tax expense for such undistributed earnings shall not be accounted for as an extraordinary item. If it becomes apparent that some or all of the undistributed earnings of a subsidiary on which income taxes have been accrued will not be remitted in the foreseeable future, the parent entity shall adjust income tax expense of the current period; such adjustment of income tax expense shall not be accounted for as an extraordinary item.

Pending Content:

Transition Date: *(P) December 16, 2015; (N) December 16, 2016* **| Transition Guidance:** 225-20-65-1

740-30-45-2 Paragraph 740-30-25-18 identifies situations where deferred tax liabilities are not recorded for specific temporary differences. Paragraph 740-30-25-19 provides that if circumstances change and it becomes apparent that some or all of the undistributed earnings of a **{remove glossary link}subsidiary{remove glossary link}** will be remitted in the foreseeable future but income taxes have not been recognized by the parent entity, it shall accrue as an expense of the current period income taxes attributable to that remittance. If it becomes apparent that some or all of the undistributed earnings of a subsidiary on which income taxes have been accrued will not be remitted in the foreseeable future, the parent entity shall adjust income tax expense of the current period.

Amendments to Subtopic 805-10, Business Combinations—Overall

68. The following amendment moves a paragraph that is currently codified in the incorrect Subtopic in the Codification to the correct Subtopic. Paragraph 805-20-50-4 refers to a following paragraph that does not exist. The information that is referred to is from paragraph 72 of FASB Statement No. 141 (revised 2007), *Business Combinations*. This information is codified in paragraphs 805-10-50-6 and 805-30-50-4. Paragraph 805-10-50-6 includes disclosure requirements that are specific to identifiable assets and liabilities and any noncontrolling interest. Therefore, the content of that paragraph is moved from Subtopic 805-10 to Subtopic 805-20, Business Combinations—Identifiable Assets and Liabilities, and

Any Noncontrolling Interest. Paragraph 958-805-50-16 is amended to no longer refer to the superseded paragraph 805-10-50-6.

69. Supersede paragraph 805-10-50-6, with no link to a transition paragraph, as follows:

Business Combinations—Overall

Disclosure

805-10-50-6 Paragraph superseded by Accounting Standards Update 2015-10.~~If the initial accounting for a business combination is incomplete (see paragraphs 805-10-25-13 through 25-14) for particular assets, liabilities, noncontrolling interests, or items of consideration and the amounts recognized in the financial statements for the business combination thus have been determined only provisionally, the acquirer shall disclose the following information for each material business combination or in the aggregate for individually immaterial business combinations that are material collectively to meet the objective in preceding paragraph:~~

- ~~a. The reasons why the initial accounting is incomplete~~
- ~~b. The assets, liabilities, equity interests, or items of consideration for which the initial accounting is incomplete~~
- ~~c. The nature and amount of any measurement period adjustments recognized during the reporting period in accordance with paragraph 805-10-25-17.~~ **[Content amended and moved to paragraph 805-20-50-4A]**

Amendments to Subtopic 805-20, Business Combinations—Identifiable Assets and Liabilities, and Any Noncontrolling Interest

70. Amend paragraph 805-20-50-4 and add paragraph 805-20-50-4A, with no link to a transition paragraph, as follows:

Business Combinations—Identifiable Assets and Liabilities, and Any Noncontrolling Interest

Disclosure

> The Financial Effects of Adjustments That Relate to Business Combinations That Occurred in the Current or Previous Reporting Periods

805-20-50-4 Paragraph 805-10-50-5 identifies the second objective of disclosures about the effects of business combinations that occurred in the current or previous reporting periods. To meet the objective in that paragraph, the acquirer shall disclose the information in ~~the following~~ paragraph 805-20-50-4A for each material business combination or in the aggregate for individually immaterial business combinations that are material collectively.

805-20-50-4A If the initial accounting for a business combination is incomplete (see paragraphs 805-10-25-13 through 25-14) for particular assets, liabilities, noncontrolling interests, or items of consideration and the amounts recognized in the financial statements for the business combination thus have been determined only provisionally, the acquirer shall disclose the following information for each material business combination or in the aggregate for individually immaterial business combinations that are material collectively to meet the objective in ~~preceding~~ paragraph 805-10-50-5:

a. The reasons why the initial accounting is incomplete
b. The assets, liabilities, equity interests, or items of consideration for which the initial accounting is incomplete
c. The nature and amount of any measurement period adjustments recognized during the reporting period in accordance with paragraph 805-10-25-17. **[Content amended as shown and moved from paragraph 805-10-50-6]**

Amendments to Subtopic 958-805, Not-for-Profit Entities—Business Combinations

71. Amend paragraph 958-805-50-16, with no link to a transition paragraph, as follows:

Not-for-Profit Entities—Business Combinations

Disclosure

Acquisition by a Not-for-Profit Entity

958-805-50-16 To meet the objective in paragraph 805-10-50-5, an NFP acquirer shall disclose the information in this paragraph and paragraph 805-20-50-4A~~805-10-50-6~~ for each material acquisition or in the aggregate for individually immaterial business combinations that are material collectively. For each reporting period after the acquisition date until the NFP acquirer collects, sells, or otherwise loses the right to a contingent consideration asset, or until the NFP acquirer settles a contingent consideration liability or the liability is cancelled or expires, the NFP acquirer shall disclose all of the following:

a. Any changes in the recognized amounts, including any differences arising upon settlement
b. Any changes in the range of outcomes (undiscounted) and the reasons for those changes
c. The disclosures required by Section 820-10-50.

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

72. Paragraph 815-10-15-63 (originally from FASB Statement No. 133, *Accounting for Derivative Instruments and Hedging Activities*) references the guidance on sales accounting under Topic 860 (originally from FASB Statement No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities*). The following amendment replaces the word *available* with *obtainable* in the fourth sentence of paragraph 815-10-15-63 to make this paragraph consistent with the terminology in Topic 860 in which the term *readily obtainable* is used instead of the term *readily available*.

73. Amend paragraph 815-10-15-63, with no link to a transition paragraph, as follows:

Derivatives and Hedging—Overall

Scope and Scope Exceptions

> > > Derivative Instruments That Impede Sale Accounting

815-10-15-63 A derivative instrument (whether freestanding or embedded in another contract) whose existence serves as an impediment to recognizing a related contract as a sale by one party or a purchase by the counterparty is not subject to this Subtopic. For example, the existence of a guarantee of the residual value of a leased asset by the lessor may be an impediment to treating a contract as a sales-type lease, in which case the contract would be treated by the lessor as an operating lease. Another example is the existence of a call option enabling a transferor to repurchase transferred assets that is an impediment to sales accounting under Topic 860. Such a call option on transferred financial assets that are not readily obtainable~~available~~ would prevent accounting for that transfer as a sale. The consequence is that to recognize the call option would be to count the same thing twice. The holder of the option already recognizes in its financial statements the assets that it has the option to purchase.

Amendments to Subtopic 815-20, Derivatives and Hedging—Hedging—General

74. This amendment changes an incorrect reference in paragraph 815-20-25-2. The paragraph currently references a paragraph that is not used in the Codification.

75. Amend paragraph 815-20-25-2, with no link to a transition paragraph, as follows:

Derivatives and Hedging—Hedging—General

Recognition

815-20-25-2 The guidance in this Section specifies whether a criterion applies to one or more types of hedging relationships. For example, paragraph 815-20-25-3(b)(1)~~815-20-25-3(a)(1)~~ is specified as a criterion that applies to fair value hedges, cash flow hedges, and net investment hedges.

76. The following amendment adds a link to the second definition of the Master Glossary term *probable* that is used in paragraph 815-20-25-15.

77. Amend paragraph 815-20-25-15(b), with no link to a transition paragraph, as follows:

815-20-25-15 A forecasted transaction is eligible for designation as a hedged transaction in a cash flow hedge if all of the following additional criteria are met:

b. The occurrence of the forecasted transaction is **{add glossary link to 2nd definition}**probable**{add glossary link to 2nd definition}**.

Amendments to Subtopic 815-25, Derivatives and Hedging—Fair Value Hedges

78. The Master Glossary term *recorded investment* does not address a loan that is a hedged item in a fair value hedge. The following amendment adds guidance on loans that are hedged items in a fair value hedge to the *recorded investment* definition and adds a link to this Master Glossary term in paragraph 815-25-35-11.

79. Amend the Master Glossary term *recorded investment*, with no link to a transition paragraph, as follows:

Recorded Investment

The amount of the investment in a loan, which is not net of a valuation allowance, but which does reflect any direct write-down of the investment. <u>However, if a loan is a hedged item in a fair value hedge, the amount of that loan's recorded investment should include the unamortized amount of the cumulative fair value hedge adjustments.</u>

80. Amend paragraph 815-25-35-11, with no link to a transition paragraph, as follows:

Derivatives and Hedging—Fair Value Hedges

Subsequent Measurement

> > > Interaction with Loan Impairment

815-25-35-11 This Subtopic implicitly affects the measurement of impairment under Section 310-10-35 by requiring the present value of expected future cash flows to be discounted by the new effective rate based on the adjusted **{add glossary link}**recorded investment**{add glossary link}** in a hedged loan. Paragraph 310-10-35-31 requires that, when the recorded investment of a loan has been adjusted under fair value hedge accounting, the effective rate is the discount rate that equates the present value of the loan's future cash flows with that adjusted recorded investment. That paragraph states that the adjustment under fair value hedge accounting of the loan's carrying amount for changes in fair value attributable to the hedged risk under this Subtopic shall be considered to be an adjustment of the loan's recorded investment. As discussed in that paragraph, the loan's original effective interest rate becomes irrelevant once the recorded amount of the loan is adjusted for any changes in its fair value. Because paragraph 815-25-35-10 requires that the loan's carrying amount be adjusted for hedge accounting before the impairment requirements of Subtopic 310-10 are applied, this Subtopic implicitly supports using the new effective rate and the adjusted recorded investment.

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

81. Paragraph 820-10-15-3(d) provides an exemption to the requirement to measure fair value in Topic 958, Not-for-Profit Entities, and Subtopic 720-25, Other

Expenses—Contributions Made. The exemption was codified correctly from Statement 157. The exemption in Statement 157 originated from an incorrect codification of the basis for conclusions in FASB Statement No. 116, *Accounting for Contributions Received and Contributions Made*. Neither Statement 116 nor its basis for conclusions provided an exemption to the requirement for fair value measurement. Paragraph 75 of the basis for conclusions in Statement 116 stated that "in certain circumstances, uncertainties may be so significant that recognition of an asset or liability must be delayed until there is adequate evidence that it exists, has value, and can be reliably measured." Statement 157 incorrectly characterized this delay in recognition as an exemption from the requirement to measure at fair value. The following amendment eliminates subparagraph 820-10-15-3(d), because there is no exception to measurement at fair value in Topic 958 and Subtopic 720-25.

82. Amend paragraph 820-10-15-3(d), with a link to transition paragraph 105-10-65-3, as follows: **[Note: The amendment to paragraph 820-10-15-3 is being made to the current content as well as to both of the pending content paragraphs because both pending content paragraphs 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:

d. Subparagraph superseded by Accounting Standards Update 2015-10.~~An exemption to the requirement to measure fair value if fair value cannot be measured with sufficient reliability (such as contributions in accordance with Topic 958 and Subtopic 720-25).~~

Pending Content:

Transition Date: *(P) December 16, 2015; (N) December 16, 2016* **| Transition Guidance:** 810-10-65-6

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:

d. Subparagraph superseded by Accounting Standards Update 2015-10.~~An exemption to the requirement to measure fair value if fair value cannot be measured with sufficient reliability (such as contributions in accordance with Topic 958 and Subtopic 720-25).~~

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:

d. Subparagraph superseded by Accounting Standards Update 2015-10.~~An exemption to the requirement to measure fair value if fair value cannot be measured with sufficient reliability (such as contributions in accordance with Topic 958 and Subtopic 720-25).~~

83. The objective of the following amendment to paragraph 820-10-35-36D is to clarify that the paragraphs in Subtopic 820-10 that address a change in valuation technique are applicable to a change from the use of mid-market pricing or other pricing conventions to another valuation technique.

84. Amend paragraph 820-10-35-36D, with no link to a transition paragraph, as follows:

Subsequent Measurement

> > Inputs Based on Bid and Ask Prices

820-10-35-36D This Topic does not preclude the use of mid-market pricing or other pricing conventions that are used by market participants as a practical expedient for fair value measurements within a bid-ask spread. For example, paragraphs 820-10-35-25 through 35-26 apply to a change from the use of mid-market pricing or other pricing conventions to another valuation technique. In addition, the disclosure requirements in paragraph 820-10-50-2(bbb) apply to such changes.

85. The following amendment corrects a drafting error in FASB Accounting Standards Update No. 2011-04, *Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs*, which occurred when the disclosure requirements for recurring and nonrecurring fair value measurements were combined into one paragraph. Nonrecurring fair value measurements that may occur during the period, but not at the end of the reporting period, should be

disclosed along with the reasons for the measurement. When the disclosure requirements for recurring and nonrecurring fair value measurements were combined into a single paragraph, the guidance for nonrecurring fair value measurement occurring during the period did not get carried over. The Board did not intend to create a new requirement to determine the fair value of assets or liabilities at a date that is not used in the nonrecurring fair value measurement event. The following amendment to paragraph 820-10-50-2 clarifies that the disclosure requirements for nonrecurring fair value measurements made during the period also should be disclosed as is periodically required.

86. Amend paragraph 820-10-50-2(a), with no link to a transition paragraph, as follows: **[Note: The amendment to paragraph 820-10-50-2(a) is being made to the current content as well as to the pending content paragraph because the pending content paragraph may be effective after the effective date of this Update.]**

Disclosure

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

a. For recurring ~~and nonrecurring~~ fair value measurements, the fair value measurement at the end of the reporting period, and for nonrecurring fair value measurements, the fair value measurement at the relevant measurement date and the reasons for the measurement. Recurring fair value measurements of assets or liabilities are those that other Topics require or permit in the statement of financial position at the end of each reporting period. Nonrecurring fair value measurements of asset or liabilities are those that other Topics require or permit in the statement of financial position in particular circumstances (for example, when a reporting entity measures a long-lived asset or disposal group classified as held for sale at fair value less costs to sell in accordance with Topic 360 because the asset's fair value less costs to sell is lower than its carrying amount). For nonrecurring measurements estimated at a date during the reporting period other than the end of the reporting period, a reporting entity shall clearly indicate that the fair value information presented is not as of the period's end as well as the date or period that the measurement was taken.

Pending Content:

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

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

a. For recurring ~~and nonrecurring~~ fair value measurements, the fair value measurement at the end of the reporting period, and for nonrecurring fair value measurements, <u>the fair value measurement at the relevant measurement date and</u> the reasons for the measurement. Recurring fair value measurements of assets or liabilities are those that other Topics require or permit in the statement of financial position at the end of each reporting period. Nonrecurring fair value measurements of asset or liabilities are those that other Topics require or permit in the statement of financial position in particular circumstances (for example, when a reporting entity measures a long-lived asset or disposal group classified as held for sale at fair value less costs to sell in accordance with Topic 360 because the asset's fair value less costs to sell is lower than its carrying amount). <u>For nonrecurring measurements estimated at a date during the reporting period other than the end of the reporting period, a reporting entity shall clearly indicate that the fair value information presented is not as of the period's end as well as the date or period that the measurement was taken.</u>

Amendments to Subtopic 860-10, Transfers and Servicing—Overall

87. The following amendment to paragraph 860-10-40-21 adds a link to the Master Glossary definition of the term *attached call option,* and the term *attached call* is corrected to *attached call option*.

88. Amend paragraph 860-10-40-21, with no link to a transition paragraph, as follows:

Transfers and Servicing—Overall

Derecognition

860-10-40-21 As discussed in paragraphs 860-10-40-22 through 40-39, some rights or obligations to reacquire transferred financial assets, regardless of whether they constrain the transferee, may result in the transferor's maintaining effective control over the transferred financial assets, thus precluding sale accounting under paragraph 860-10-40-5(c). For example, an **{add glossary link}**attached call option**{add glossary link}** in itself would not constrain a transferee who is able, by exchanging or pledging the asset subject to that call, to obtain substantially all of its economic benefits. However, an attached call option could result in the transferor's maintaining effective control over the transferred asset(s) because the attached call option gives the transferor the unilateral ability to cause whoever holds that specific asset to return it.

89. This amendment corrects the initial codification of paragraph 16E of FASB Statement No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities* (as amended by FASB Statement No. 166, *Accounting for Transfers of Financial Assets*). The word *public* was not in the original guidance. The following amendment eliminates the word *public*, thus making the paragraph applicable to all entities as intended in the original guidance. In addition, a new heading before paragraph 860-10-50-7 is added to improve the structure of this Topic. Paragraph 860-10-50-7 applies to all disclosure requirements and does not relate to the disclosure objective or the aggregation of certain disclosures. This amendment will clarify that separation.

90. Amend paragraphs 860-10-50-2 and 860-10-50-7 and add the related heading, with a link to transition paragraph 105-10-65-3, as follows:

Disclosure

860-10-50-2 Overall guidance on Topic 860 disclosures is organized as follows:

a. Disclosure objectives
b. Aggregation of certain ~~disclosures.~~ disclosures
c. Involvements by others.

> Involvements by Others

860-10-50-7 To apply the disclosures required in this Topic, an ~~a public~~ entity shall consider all involvements by the transferor, its **consolidated affiliates** included in the financial statements being presented, or its **agents** to be involvements by the transferor.

91. Paragraph 860-10-55-14 was codified from Question 12 of the FASB Special Report, *A Guide to Implementation of Statement 140 on Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities*. Question 12 was intended to address investments controlled by a broker-dealer or investment company that are reported at fair value. The last sentence in paragraph 860-10-55-14 is incorrect because it indicates that a broker-dealer or an investment

company is an example of a controlled entity reported by its parent at fair value, rather than the parent consolidating the underlying assets and liabilities of the broker-dealer or investment company. The following amendment moves the example to a parenthetical phrase in the first sentence of the paragraph.

92. Amend paragraph 860-10-55-14, with a link to transition paragraph 105-10-65-3, as follows:

Implementation Guidance and Illustrations

> > > > Investment in a Nonconsolidated Investee

860-10-55-14 An entity <u>(for example, a broker-dealer or an investment company)</u> that carries an investment in a subsidiary at fair value will realize its investment by disposing of it rather than by realizing the values of the underlying assets through operations. Therefore, a transfer of an investment in a subsidiary by that entity is a transfer of the investment (a financial asset), not the underlying assets and liabilities (which might include nonfinancial assets). Generally, the guidance in this Subtopic applies to a transfer of an investment in a controlled entity that has not been consolidated by an entity because that entity accounts for its investment in the controlled entity at fair value. ~~An example of such a controlled entity is a broker-dealer or an investment company.~~

Amendments to Subtopic 860-20, Transfers and Servicing—Sales of Financial Assets

93. The last sentence in paragraph 860-20-25-4 is initial measurement (not recognition) guidance. Initial measurement guidance is provided in Sections 815-10-30 and 860-20-30. The following amendment eliminates that sentence.

94. Amend paragraph 860-20-25-4, with no link to a transition paragraph, as follows:

Transfers and Servicing—Sales of Financial Assets

Recognition

> Assets Obtained and Liabilities Incurred as Proceeds

860-20-25-4 The proceeds from a sale of financial assets consist of the cash and any other assets obtained, including beneficial interests and separately recognized servicing assets, in the transfer less any liabilities incurred, including separately recognized servicing liabilities. Any asset obtained is part of the proceeds from the sale. Any liability incurred, even if it is related to the transferred financial assets, is a reduction of the proceeds. Any **derivative financial instrument** entered into concurrently with a transfer of financial assets is either an asset obtained or a liability incurred and part of the proceeds received in the transfer. ~~All proceeds and reductions of proceeds from a sale shall be initially measured at fair value.~~

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

95. The following amendment conforms terminology in Subtopic 944-30 with the revised criteria for deferred acquisition cost capitalization established by the guidance in FASB Accounting Standards Update No. 2010-26, *Financial Services—Insurance (Topic 944): Accounting for Costs Associated with Acquiring or Renewing Insurance Contracts.*

96. Amend paragraph 944-30-25-8, with a link to transition paragraph 105-10-65-3, as follows:

Financial Services—Insurance—Acquisition Costs

Recognition

Long-Duration Contracts

> Limited-Payment Contracts

944-30-25-8 Costs related to the acquisition of new and renewal business that are not capitalized (because they do not meet the criteria for capitalization in paragraphs 944-30-25-1A through 25-1AA~~, for example, the costs do not vary with the acquisition of the business~~) are period costs that shall be recognized when incurred. Such costs shall not be included in the calculation of **net premium** used in determining the profit to be deferred on **limited-payment contracts** because the inclusion of such costs in the calculation of net premium would result in their deferral.

Amendments to Subtopic 958-10, Not-for-Profit Entities—Overall

97. The following amendment simplifies the example of a subject matter that would preclude applicability of Subtopic 958-10. The current example provided in paragraph 958-10-05-1 is “convertible debt.” The example should read “the issuance of convertible debt.” However, to simplify and provide an example that is more relevant for this guidance, the payment of dividends is recommended as an example.

98. Amend paragraph 958-10-05-1, with no link to a transition paragraph, as follows:

Not-for-Profit Entities—Overall

Overview and Background

958-10-05-1 The Not-for-Profit Entities Topic provides guidance for **not-for-profit entities** (NFPs) as defined in Section 958-10-15 that are **nongovernmental entities**, or as further defined in the Scope Sections of the individual Subtopics. Guidance in other Topics and Subtopics applies to NFPs unless the specific Scope Sections exempt NFPs or the subject matter precludes applicability (for example, ~~convertible debt~~payment of dividends).

Amendments to Subtopic 958-205, Not-for-Profit Entities—Presentation of Financial Statements

99. The following amendment clarifies and illustrates the accounting for situations resulting in the expiration of donor-imposed restrictions. The amendment to paragraph 958-205-45-10 focuses on the accounting for situations involving two temporary restrictions—a purpose and a time restriction—that were specified by the donor. Paragraph 958-205-45-10A provides guidance for situations involving a donor-specified purpose restriction and an implied time restriction. The added language clarifies that if evidence suggests that it is reasonable to conclude that a donor restriction has been met, an implied time restriction should not override that evidence.

100. Amend paragraph 958-205-45-10 and add paragraph 958-205-45-10A, with no link to a transition paragraph, as follows:

Not-for-Profit Entities—Presentation of Financial Statements

Other Presentation Matters

> Expirations of Donor-Imposed Restrictions

958-205-45-9 An NFP shall recognize the expiration of a **donor-imposed restriction** on a **contribution** in the period in which the restriction expires. A restriction expires when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both. If two or more temporary restrictions are imposed on a contribution, the effect of the expiration of those restrictions shall be recognized in the period in which the last remaining restriction has expired.

958-205-45-10 For example, a gift of a **term endowment** that is to be invested for five years has two temporary restrictions—a purpose restriction (to be invested) and a time restriction (for a period of five years).~~shall be recognized as **restricted support** (revenue or gain) in the period it is received.~~ After five years of investing, the purpose restriction will be met and the time restriction will lapse. In Year 5, when that term endowment becomes unrestricted, a **reclassification** shall be reported to reflect the decrease in **temporarily restricted net assets** and the increase in unrestricted net assets. ~~Thus, the related effects of that time-restricted gift shall be reported in the period of receipt as well as the period in which the nature of the restriction changes.~~

958-205-45-10A In determining when the last of two or more temporary restrictions has expired, explicit donor stipulations generally carry more weight than implied restrictions. For example, assume in Year 1 that an entity receives an unconditional promise to give that is payable in two equal installments in Years 2 and 3 with an explicit donor stipulation that its gift is to cover purchases of new equipment for the new School of Chemistry, which is expected to be completed in Year 3. That gift would have a purpose restriction (to be used to acquire new equipment to be housed in the new building), and because the unconditional promise is payable in Years 2 and 3, an entity generally would imply a time restriction (see paragraph 958-605-45-5). If, however, the building was completed early and opened in Year 2 and all of the needed equipment was purchased in Year 2 and exceeded the promised amount, absent an explicit stipulation to the contrary, it would be reasonable to conclude that those purchases fulfilled the donor restriction on the promised gift. Because the entity did not adopt a policy of implying time restrictions on long-lived assets in accordance with paragraph 958-205-45-12, the restriction for the purchase of the equipment expires when the equipment is placed in service. In addition, a reclassification would be reported to reflect the decrease in temporarily restricted net assets and the increase in unrestricted net assets in Year 2.

Amendments to Master Glossary Terms in Topic 958, Not-for-Profit Entities

101. The Master Glossary terms *agency transaction* and *agency transactions (not for profits)* have the same definition. The following amendments eliminate the Master Glossary term *agency transactions (not for profits)* and update all links for this term to the definition of *agency transaction*. The amendment also adds links to defined terms that are used in the definition of agency transaction.

102. Supersede the Master Glossary term *agency transactions (not for profits),* with no link to a transition paragraph, as follows:

~~**Agency Transactions (Not for Profits)**~~

~~A type of exchange transaction in which the reporting organization acts as an **agent**, **trustee**, or **intermediary** for another party that may be a donor or donee.~~

103. Amend the Master Glossary term *agency transaction,* with no link to a transition paragraph, as follows:

Agency Transaction

A type of exchange transaction in which the reporting entity acts as an **{add glossary link}**agent**{add glossary link}**, **{add glossary link}**trustee**{add glossary link}**, or **{add glossary link}**intermediary**{add glossary link}** for another party that may be a donor or donee.

104. Amend paragraph 958-230-55-4, with no link to a transition paragraph, as follows:

Not-for-Profit Entities—Statement of Cash Flows

Implementation Guidance and Illustrations

> > Agency Transactions

958-230-55-4 Cash received and paid in **{remove glossary link and add glossary link to agency transaction}agency transactions{remove glossary link and add glossary link to agency transaction}** shall be reported as cash flows from operating activities in a statement of cash flows. If the statement of cash flows is presented using the indirect method, cash received and paid in such transactions is permitted to be reported either gross or net.

105. Amend paragraph 958-320-35-3, with no link to a transition paragraph, as follows:

Not-for-Profit Entities—Investments—Debt and Equity Securities

Subsequent Measurement

> Investments Held As an Agent

958-320-35-3 If a **not-for-profit entity** (NFP) is holding an investment as an **agent** and has little or no discretion in determining how the investment income, unrealized gains and losses, and realized gains and losses resulting from that investment will be used, those investment activities shall be reported as **{remove glossary link and add glossary link to agency transaction}agency transactions{remove glossary link and add glossary link to agency**

transaction} and, therefore, as changes in assets and liabilities, rather than as changes in **net assets**.

106. Amend paragraph 958-325-35-16, with no link to a transition paragraph, as follows:

Not-for-Profit Entities—Investments—Other

Subsequent Measurement

> > Investments Held by an Agent

958-325-35-16 If an NFP is holding an investment as an **agent** and has little or no discretion in determining how the investment income, unrealized gains and losses, and realized gains and losses resulting from that investment will be used, those investment activities shall be reported as **{remove glossary link and add glossary link to agency transaction}agency transactions{remove glossary link and add glossary link to agency transaction}** and, therefore, as changes in assets and liabilities, rather than as changes in net assets. See paragraphs 958-605-25-23 through 25-24 for additional guidance.

107. Amend paragraph 958-605-55-1, with no link to a transition paragraph, as follows:

Not-for-Profit Entities—Revenue Recognition

Implementation Guidance and Illustrations

958-605-55-1 This Section, which is an integral part of the requirements of this Subtopic, provides general guidance to be used in distinguishing **contributions** from exchange transactions, including membership dues and **{remove glossary link and add glossary link to agency transaction}agency transactions{remove glossary link and add glossary link to agency transaction}**.

Amendments to Subtopic 958-605, Not-for-Profit Entities—Revenue Recognition

108. Paragraph 958-605-25-33 contains links to two separate definitions of the Master Glossary term *control*. In the Codification, there cannot be two identical glossary terms in the same Subtopic. The following amendments eliminate the link to one of the definitions.

109. Amend paragraph 958-605-25-33, with no link to a transition paragraph, as follows:

Not-for-Profit Entities—Revenue Recognition

Recognition

Transfers of Assets to a Not-for-Profit Entity or Charitable Trust That Raises or Holds Contributions for Others

> Transfers That Are Not Contributions Because They Are Revocable, Repayable, or Reciprocal

958-605-25-33 A transfer of assets to a recipient entity is not a contribution and shall be accounted for as an asset by the resource provider and as a liability by the recipient entity if any of the following conditions are present:

a. The transfer is subject to the resource provider's unilateral right to redirect the use of the assets to another beneficiary.
b. The transfer is accompanied by the resource provider's **conditional promise to give** or is otherwise revocable or repayable.
c. The resource provider controls the recipient entity and specifies an unaffiliated beneficiary. ~~Several definitions of control exist. The~~See the definition of **control** in Subtopic 958-810~~ and the definition of **control** in Topic 850 should be considered when determining whether one entity controls another~~.
d. The resource provider specifies itself or its **affiliate** as the beneficiary and the transfer is not an equity transaction (see paragraph 958-20-25-4).

110. Supersede Definition 1 of the Master Glossary term *control* in Subtopic 958-605 as follows:

~~**Control (Definition 1)**~~

~~The possession, direct or indirect, of the power to direct or cause the direction of the management and policies of an entity through ownership, by contract, or otherwise.~~

Amendments to Subtopic 958-810, Not-for-Profit Entities—Consolidation

111. The following amendment to paragraph 958-810-25-3 clarifies that the economic interest must be in the controlled not-for-profit entity (NFP), instead of using the vague phrase *other such organizations*.

112. Amend paragraph 958-810-25-3, with no link to a transition paragraph, as follows:

Not-for-Profit Entities—Consolidation

Recognition

> Majority Voting Interest in the Board

958-810-25-3 In the case of control of a related but separate NFP through a majority voting interest in the board of the other NFP by means other than ownership or sole corporate membership and an economic interest in that other NFP~~such organizations~~, consolidation is required, unless control does not rest with the holder of the majority voting interest, in which case consolidation is prohibited. An NFP has a majority voting interest in the board of another entity if it has the direct or indirect ability to appoint individuals that together constitute a majority of the votes of the fully constituted board (that is, including any vacant board positions). Those individuals are not limited to the NFP's own board members, employees, or officers. For implementation guidance on a majority voting interest in the board of another entity, see paragraph 958-810-55-5.

Amendments to SEC Materials

113. The following amendment reflects the guidance in EITF Topic No. D-41, "Adjustments in Assets and Liabilities for Holding Gains and Losses as Related to the Implementation of FASB Statement No. 115." This EITF Topic is an SEC Staff Announcement that was incorrectly codified. The amendment updates the references in paragraph 320-10-S99-2 to cover the types of acquisition costs accounted for under the following three standards: FASB Statements No. 60, *Accounting and Reporting by Insurance Enterprises*, No. 97, *Accounting and Reporting by Insurance Enterprises for Certain Long-Duration Contracts and for Realized Gains and Losses from the Sale of Investments*, and No. 120, *Accounting and Reporting by Mutual Life Insurance Enterprises and by Insurance Enterprises for Certain Long-Duration Participating Contracts*.

114. Amend paragraph 320-10-S99-2, with no link to a transition paragraph, as follows:

Investments—Debt and Equity Securities—Overall

SEC Materials

> > Announcements Made by SEC Staff at Emerging Issues Task Force (EITF) Meetings

> > > SEC Staff Announcement: Adjustments in Assets and Liabilities for Holding Gains and Losses as Related to the Implementation of Subtopic 320-10

320-10-S99-2 The following is the text of SEC Staff Announcement: Adjustments in Assets and Liabilities for Holding Gains and Losses as Related to the Implementation of Subtopic 320-10.

> The SEC staff has been asked whether certain assets and liabilities, such as noncontrolling interests, certain life insurance policyholder liabilities, deferred acquisition costs, and intangible assets arising from insurance contracts acquired in business combinations, should be adjusted with a corresponding adjustment to other comprehensive income at the same time unrealized holding gains and losses from securities classified as available-for-sale are recognized in other comprehensive income. That is, should the carrying value of these assets and liabilities be adjusted to the amount that would have been reported had unrealized gains and losses been realized?
>
> Paragraph 740-20-45-11(b) addresses specifically the classification of the deferred tax effects of unrealized holding gains and losses reported in other comprehensive income. Paragraph 740-20-45-11(b) requires that the tax effects of those gains and losses be reported as charges or credits directly to other comprehensive income. That is, the recognition of unrealized holding gains and losses in equity may create temporary differences for which deferred taxes would be recognized, the effect of which would be reported in accumulated other comprehensive income along with the related unrealized holding gains and losses. Therefore, deferred tax assets and liabilities are required to be recognized for the temporary differences relating to unrealized holding gains and losses as though those gains and losses actually had been realized, except the corresponding charges or credits are reported in other comprehensive income rather than as charges or credits to income in the statement of income.
>
> By analogy to paragraph 740-20-45-11(b), the SEC staff believes that, in addition to adjusting deferred tax assets and liabilities, registrants should adjust other assets and liabilities that would have been adjusted if the unrealized holding gains and losses from securities classified as available-for-sale actually had been realized. That is, to the extent that unrealized holding gains or losses from securities classified as available-for-sale would result in adjustments of noncontrolling interest, policyholder liabilities, deferred acquisition costs that are amortized using the gross-profits method, or intangible assets arising from insurance contracts acquired in business combinations that are amortized using the gross-profits method had those gains or losses actually been realized,

the SEC staff believes that those balance sheet amounts should be adjusted with corresponding credits or charges reported directly to other comprehensive income. As a practical matter, the staff, at this time, would not extend those adjustments to other accounts such as liabilities for compensation to employees. The adjustments to asset accounts should be accomplished by way of valuation allowances that would be adjusted at subsequent balance sheet dates.

For example, certain policyholder liabilities should be adjusted to the extent that liabilities exist for insurance policies that, by contract, credit or charge the policyholders for either a portion or all of the realized gains or losses of specific securities classified as available-for-sale. Further, asset amounts that are amortized using the gross-profits method, such as deferred acquisition costs accounted for under ~~paragraph~~paragraphs 944-30-35-4 and 944-30-35-11, and certain intangible assets arising from insurance contracts acquired in business combinations, should be adjusted to reflect the effects that would have been recognized had the unrealized holding gains and losses actually been realized. Further, capitalized acquisition costs associated with insurance contracts covered by ~~paragraph 944-30-35-4~~paragraphs 944-30-35-1A through 35-3A and 944-30-35-17 should not be adjusted for an unrealized holding gain or loss unless a "premium deficiency" would have resulted had the gain or loss actually been realized.

This announcement should not affect reported net income. It addresses only the adjustment of certain assets and liabilities and the reporting of unrealized holding gains and losses from securities classified as available for sale.

115. The following amendment corrects the reference in footnote 16 (paragraph 17) in paragraph 480-10-S99-3A. Footnote 16 should refer to paragraph 825-10-15-5(f), which is the scope of the fair value option, rather than to paragraph 825-10-50-8, which is a disclosure requirement.

116. Amend footnote 16 of paragraph 17 in paragraph 480-10-S99-3A, with no link to a transition paragraph, as follows:

Distinguishing Liabilities from Equity—Overall

SEC Materials

> > Announcements Made by SEC Staff at Emerging Issues Task Force (EITF) Meetings

> > > SEC Staff Announcement: Classification and Measurement of Redeemable Securities

480-10-S99-3A

17. *Application of the fair value option.* Measurement of a redeemable equity instrument (or host contract) subject to ASR 268 at fair value through earnings in lieu of the measurement guidance provided in paragraphs 14–16 is not appropriate. FN16

FN16 Paragraph 825-10-15-5(f)~~825-10-50-8~~ prohibits the election of the fair value option for financial instruments that are, in whole or in part, classified in stockholder's equity (including temporary equity).

117. The following amendments correct the references from Topic 860, Transfers and Servicing, to Subtopic 405-20, Liabilities—Extinguishments of Liabilities, which was originally included in paragraph 16 of Statement 140, and address extinguishments of liabilities.

118. Amend paragraph 605-10-S99-1, with no link to a transition paragraph, as follows:

Revenue Recognition—Overall

SEC Materials

> SEC Staff Guidance

> > Staff Accounting Bulletins

> > > SAB Topic 13, Revenue Recognition

Editor's Note: *The text below represents the current wording of SAB Topic 13.A.4. All references to Topic 860 in paragraph 605-10-S99-1 should be corrected to Subtopic 405-20.*

605-10-S99-1 The following is the text of SAB Topic 13, Revenue Recognition.

[Paragraphs containing SAB Topic 13.A and 13.A.1 through 13.A.3 are not shown because they are unchanged.]

SAB Topic 13.A.4, Fixed or Determinable Sales Price

a. Refundable fees for services.

A company's contracts may include customer cancellation or termination clauses. Cancellation or termination provisions may be indicative of a demonstration period or an otherwise incomplete transaction. Examples of transactions that financial management and auditors should be aware of and where such provisions may exist include "side" agreements and significant transactions with unusual terms and conditions. These contractual provisions raise questions as to whether the sales price is fixed or determinable. The sales price in arrangements that are cancelable by the customer is neither fixed nor determinable until the cancellation privileges lapse. FN46 If the cancellation privileges expire ratably over a stated contractual term, the sales price is considered to become determinable ratably over the stated term. FN47 Short-term rights of return, such as thirty-day money-back guarantees, and other customary rights to return products are not considered to be cancellation privileges, but should be accounted for in accordance with FASB ASC Subtopic 605-15, Revenue Recognition—Products. FN48

FN46 FASB ASC paragraph 985-605-25-37.
FN47 Ibid.
FN48 Ibid.

Question 1.

Facts: Company M is a discount retailer. It generates revenue from annual membership fees it charges customers to shop at its stores and from the sale of products at a discount price to those customers. The membership arrangements with retail customers require the customer to pay the entire membership fee (e. g., $35) at the outset of the arrangement. However, the customer has the unilateral right to cancel the arrangement at any time during its term and receive a full refund of the initial fee. Based on historical data collected over time for a large number of homogeneous transactions, Company M estimates that approximately 40% of the customers will request a refund before the end of the membership contract term. Company M's data for the past five years indicates that significant variations between actual and estimated cancellations have not occurred, and Company M does not expect significant variations to occur in the foreseeable future.

Question: May Company M recognize in earnings the revenue for the membership fees and accrue the costs to provide membership services at the outset of the arrangement?

Interpretive Response: No. In the staff's view, it would be inappropriate for Company M to recognize the membership fees as earned revenue upon billing or receipt of the initial fee with a corresponding accrual for estimated costs to provide the membership services. This conclusion is based on Company M's remaining and unfulfilled contractual obligation to perform services (i. e., make available and offer products for sale at a discounted price) throughout the membership period. Therefore, the earnings process, irrespective of whether a cancellation clause exists, is not complete.

In addition, the ability of the member to receive a full refund of the membership fee up to the last day of the membership term raises an uncertainty as to whether the fee is fixed or determinable at any point before the end of the term. Generally, the staff believes that a sales price is not fixed or determinable when a customer has the unilateral right to terminate or cancel the contract and receive a cash refund. A sales price or fee that is variable until the occurrence of future events (other than product returns that are within the scope of FASB ASC Subtopic 605-15) generally is not fixed or determinable until the future event occurs. The revenue from such transactions should not be recognized in earnings until the sales price or fee becomes fixed or determinable. Moreover, revenue should not be recognized in earnings by assessing the probability that significant, but unfulfilled, terms of a contract will be fulfilled at some point in the future. Accordingly, the revenue from such transactions should not be recognized in earnings prior to the refund privileges expiring. The amounts received from customers or subscribers (i. e., the $35 fee mentioned above) should be credited to a monetary liability account such as "customers' refundable fees."

The staff believes that if a customer has the unilateral right to receive both (1) the seller's substantial performance under an arrangement (e. g., providing services or delivering product) and (2) a cash refund of prepaid fees, then the prepaid fees should be accounted for as a monetary liability. In consideration of whether the monetary liability can be derecognized, FASB ASC Topic 860, Transfers and Servicing [See Editor's Note above.], provides that liabilities may be derecognized only if (1) the debtor pays the creditor and is relieved of its obligation for the liability (paying the creditor includes delivery of cash, other financial assets, goods, or services or reacquisition by the debtor of its outstanding debt securities) or (2) the debtor is legally released from being the primary obligor under the liability. FN49 If a customer has the unilateral right to receive both (1) the seller's substantial performance under the arrangement and (2) a cash refund of prepaid fees, then the refund obligation is not relieved upon performance of the service or delivery of the products. Rather, the seller's refund obligation is relieved only upon refunding the cash or expiration of the refund privilege.

FN49 FASB ASC paragraph 405-20-40-1 (Liabilities Topic).

Some have argued that there may be a limited exception to the general rule that revenue from membership or other service transaction fees should not be recognized in earnings prior to the refund privileges expiring. Despite the fact that FASB ASC Subtopic 605-15 expressly does not apply to the accounting for service revenue if part or all of the service fee is refundable under cancellation privileges granted to the buyer, FN50 they believe that in certain circumstances a potential refund of a membership fee may be seen as being similar to a right of return of products under FASB ASC Subtopic 605-15. They argue that revenue from membership fees, net of estimated refunds, may be recognized ratably over the period the services are performed whenever pertinent conditions of FASB ASC Subtopic 605-15 are met, namely, there is a large population of transactions that grant customers the same unilateral termination or cancellation rights and reasonable estimates can be made of how many customers likely will exercise those rights.

FN50 FASB ASC paragraph 605-15-15-3.

The staff believes that, because service arrangements are specifically excluded from the scope of FASB ASC Subtopic 605-15, the most direct authoritative literature to be applied to the extinguishment of obligations under such contracts is FASB ASC Topic 860 [See Editor's Note above.]. As noted above, because the refund privilege extends to the end of the contract term irrespective of the amount of the service performed, FASB ASC Topic 860 [See Editor's Note above.] indicates that the liability would not be extinguished (and therefore no revenue would be recognized in earnings) until the cancellation or termination and related refund privileges expire. Nonetheless, the staff recognizes that over the years the accounting for membership refunds evolved based on analogy to FASB ASC Subtopic 605-15 and that practice did not change when FASB ASC Topic 860 [See Editor's Note above.] became effective. Reasonable people held, and continue to hold, different views about the application of the accounting literature.

Pending further action in this area by the FASB, the staff will not object to the recognition of refundable membership fees, net of estimated refunds, as earned revenue over the membership term in the limited circumstances where all of the following criteria have been met: FN51

FN51 The staff will question further analogies to the guidance in FASB ASC Subtopic 605-15 for transactions expressly excluded from its scope.

The estimates of terminations or cancellations and refunded revenues are being made for a large pool of homogeneous items (e. g., membership or other service transactions with the same characteristics such as terms, periods, class of customers, nature of service, etc.).

Reliable estimates of the expected refunds can be made on a timely basis. FN52 Either of the following two items would be considered indicative of an inability to make reliable estimates: (1) recurring, significant differences between actual experience and estimated cancellation or termination rates (e.g., an actual cancellation rate of 40% versus an estimated rate of 25%) even if the impact of the difference on the amount of estimated refunds is not material to the consolidated financial statements FN53 or (2) recurring variances between the actual and estimated amount of refunds that are material to either revenue or net income in quarterly or annual financial statements. In addition, the staff believes that an estimate, for purposes of meeting this criterion, would not be reliable unless it is remote FN54 that material adjustments (both individually and in the aggregate) to previously recognized revenue would be required. The staff presumes that reliable estimates cannot be made if the customer's termination or cancellation and refund privileges exceed one year.

FN52 Reliability is defined in Concepts Statement 2 as "the quality of information that assures that information is reasonably free from error and bias and faithfully represents what it purports to represent." Paragraph 63 of Concepts Statement 5 reiterates the definition of reliability, requiring that "the information is representationally faithful, verifiable, and neutral."

FN53 For example, if an estimate of the expected cancellation rate varies from the actual cancellation rate by 100% but the dollar amount of the error is immaterial to the consolidated financial statements, some would argue that the estimate could still be viewed as reliable. The staff disagrees with that argument.

FN54 The term "remote" is used here with the same definition as used in the FASB ASC Master Glossary.

There is a sufficient company-specific historical basis upon which to estimate the refunds, FN55 and the company believes that such historical experience is predictive of future events. In assessing these items, the staff believes that estimates of future refunds should take into consideration, among other things, such factors as historical experience by service type and class of customer, changing trends in historical experience and the basis thereof (e.g., economic conditions), the impact or introduction of competing services or products, and changes in the customer's "accessibility" to the refund (i. e., how easy it is for customers to obtain the refund).

FN55 FASB ASC paragraph 605-15-25-3 notes various factors that may impair the ability to make a reasonable estimate of returns, including the lack of sufficient historical experience. The staff typically expects that the historical experience be based on the particular registrant's historical experience for a service and/or class of customer. In general, the staff typically expects a start-up company, a company introducing new services, or a company introducing services to a new class of customer to have at least two years of experience to be able to make reasonable and reliable estimates.

The amount of the membership fee specified in the agreement at the outset of the arrangement is fixed, other than the customer's right to request a refund.

If Company M does not meet all of the foregoing criteria, the staff believes that Company M should not recognize in earnings any revenue for the membership fee until the cancellation privileges and refund rights expire.

If revenue is recognized in earnings over the membership period pursuant to the above criteria, the initial amounts received from customer or subscribers (i. e., the $35 fee mentioned above) should be allocated to two liability accounts. The amount of the fee representing estimated refunds should be credited to a monetary liability account, such as "customers' refundable fees," and the remaining amount of the fee representing unearned revenue should be credited to a nonmonetary liability account, such as "unearned revenues." For each income statement presented, registrants should disclose in the footnotes to the financial statements the amounts of (1) the unearned revenue and (2) refund obligations as of the beginning of each period, the amount of cash received from customers, the amount of revenue recognized in earnings, the amount of refunds paid, other adjustments (with an explanation thereof), and the ending balance of (1) unearned revenue and (2) refund obligations.

If revenue is recognized in earnings over the membership period pursuant to the above criteria, the staff believes that adjustments for changes in estimated refunds should be recorded using a retrospective approach whereby the unearned revenue and refund obligations are remeasured and adjusted at each balance sheet date with the offset being recorded as earned revenue. FN56

> FN56 The staff believes deferred costs being amortized on a basis consistent with the deferred revenue should be similarly adjusted. Such an approach is generally consistent with the amortization methodology in FASB ASC paragraph 310-20-35-26.

Companies offering memberships often distribute membership packets describing and discussing the terms, conditions, and benefits of membership. Packets may include vouchers, for example, that provide new members with discounts or other benefits from third parties. The costs associated with the vouchers should be expensed when distributed. Advertising costs to solicit members should be accounted for in accordance with FASB ASC Subtopic 720-35, Other Expenses—Advertising Costs. Incremental direct costs incurred in connection with enrolling customers (e. g., commissions paid to agents) should be accounted for as follows: (1) if revenue is deferred until the cancellation or termination privileges expire, incremental direct costs should be either (a) charged to expense when incurred if the costs are not refundable to the company in the event the customer obtains a refund of the membership fee, or (b) if the costs are refundable to the company in the event the customer obtains a refund of the membership fee, recorded as an asset until the earlier of termination or cancellation or refund; or (2) if revenue, net of estimated refunds, is recognized in earnings over the membership period, a like percentage of incremental direct costs should be deferred and recognized in earnings in the same pattern as revenue is recognized, and the remaining portion should be either (a) charged to expense when incurred if the costs are not refundable to the company in the event the customer obtains a refund of the membership fee, or (b) if the costs are refundable to the company in the event the customer obtains a refund of the membership fee, recorded as an asset until the refund occurs. FN57 All costs other than incremental direct costs (e. g., indirect costs) should be expensed as incurred.

> FN57 FASB ASC paragraphs 310-20-25-2 and 605-20-25-4 both provide for the deferral of incremental direct costs associated with acquiring a revenue-producing contract. Even though the revenue discussed in this example is refundable, if a registrant meets the aforementioned criteria for revenue recognition over the membership period, the staff would analogize to this guidance. However, if neither a nonrefundable contract nor a reliable basis for estimating net cash inflows under refundable contracts exists to provide a basis for recovery of incremental direct costs, the staff believes that such costs should be expensed as incurred. See SAB Topic 13.A.3.f. Question 3.

Question 2.

Question: Will the staff accept an analogy to FASB ASC Subtopic 605-15 for service transactions subject to customer cancellation privileges other than those specifically addressed in the previous question?

Interpretive Response: The staff has accepted the analogy in limited circumstances due to the existence of a large pool of homogeneous transactions and satisfaction of the criteria in the previous question. Examples of other arrangements involving customer cancellation privileges and refundable service fees that the staff has addressed include the following:

A leasing broker whose commission from the lessor upon a commercial tenant's signing of a lease agreement is refundable (or in some cases, is not due) under lessor cancellation privileges if the tenant fails to move into the leased premises by a specified date.

A talent agent whose fee receivable from its principal (i. e., a celebrity) for arranging a celebrity endorsement for a five-year term is cancelable by the celebrity if the celebrity breaches the endorsement contract with its customer.

An insurance agent whose commission received from the insurer upon selling an insurance policy is refundable in whole for the 30-day period that state law permits the consumer to repudiate the contract and then refundable on a declining pro rata basis until the consumer has made six monthly payments.

In the first two of these cases, the staff advised the registrants that the portion of revenue subject to customer cancellation and refund must be deferred until no longer subject to that contingency because the registrants did not have an ability to make reliable estimates of customer cancellations due to the lack of a large pool of homogeneous transactions. In the case of the insurance agent, however, the particular registrant demonstrated that it had a sufficient history of homogeneous transactions with the same characteristics from which to reliably estimate contract cancellations and satisfy all the criteria specified in the previous question. Accordingly, the staff did not object to that registrant's policy of recognizing its sales commission as revenue when its performance was complete, with an appropriate allowance for estimated cancellations.

Question 3.

Question: Must a registrant analogize to FASB ASC Subtopic 605-15, or may it choose to defer all revenue until the refund period lapses as suggested by FASB ASC Topic 860 [See Editor's Note above.] even if the criteria above for analogy to FASB ASC Subtopic 605-15 are met?

Interpretive Response: The analogy to FASB ASC Subtopic 605-15 is presented as an alternative that would be acceptable to the staff when the listed conditions are met. However, a registrant may choose to defer all revenue until the refund period lapses. The policy chosen should be disclosed and applied consistently.

Question 4.

Question: May a registrant that meets the above criteria for reliable estimates of cancellations choose at some point in the future to change from the FASB ASC Subtopic 605-15 method to the FASB ASC Topic 860 [See Editor's Note above.] method of accounting for these refundable fees? May a registrant change from the FASB ASC Topic 860 [See Editor's Note above.] method to the FASB ASC Subtopic 605-15 method?

Interpretive Response: The staff believes that FASB ASC Topic 860 [See Editor's Note above.] provides a preferable accounting model for service transactions subject to potential refunds. Therefore, the staff would not object to a change from the FASB ASC Subtopic 605-15 method to the FASB ASC Topic 860 [See Editor's Note above.] method. However, if a registrant had previously chosen the FASB ASC Topic 860 [See Editor's Note above.] method, the staff would object to a change to the FASB ASC Subtopic 605-15 method.

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

Amendments to Status Sections

119. Amend paragraph 105-10-00-1, by adding the following item to the table, as follows:

105-10-00-1 The following table identifies the changes made to this Subtopic.

Paragraph	Action	Accounting Standards Update	Date
105-10-65-3	Added	2015-10	06/12/2015

120. Amend paragraph 205-20-00-1, by adding the following item to the table, as follows:

205-20-00-1 The following table identifies the changes made to this Subtopic.

Paragraph	Action	Accounting Standards Update	Date
205-20-45-1D	Amended	2015-10	06/12/2015

121. 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
230-10-45-20	Amended	2015-10	06/12/2015

122. Amend paragraph 255-10-00-1, by adding the following item to the table, as follows:

255-10-00-1 The following table identifies the changes made to this Subtopic.

Paragraph	Action	Accounting Standards Update	Date
255-10-55-2	Amended	2015-10	06/12/2015

123. Add paragraph 274-10-00-1 as follows:

274-10-00-1 The following table identifies the changes made to this Subtopic.

Paragraph	Action	Accounting Standards Update	Date
274-10-55-11	Amended	2015-10	06/12/2015

Paragraph	Action	Accounting Standards Update	Date
274-10-65-1	Added	2015-10	06/12/2015

124. Amend paragraph 310-10-00-1, by adding the following items to the table, as follows:

310-10-00-1 The following table identifies the changes made to this Subtopic.

Paragraph	Action	Accounting Standards Update	Date
Recorded Investment	Amended	2015-10	06/12/2015
310-10-35-2	Amended	2015-10	06/12/2015
310-10-35-4 through 35-7	Amended	2015-10	06/12/2015
310-10-35-12 through 35-14	Amended	2015-10	06/12/2015
310-10-35-16	Amended	2015-10	06/12/2015
310-10-35-20	Amended	2015-10	06/12/2015
310-10-35-31 through 35-33	Amended	2015-10	06/12/2015
310-10-35-37	Amended	2015-10	06/12/2015
310-10-45-14	Amended	2015-10	06/12/2015

125. Amend paragraph 310-20-00-1, by adding the following items to the table, as follows:

310-20-00-1 The following table identifies the changes made to this Subtopic.

Paragraph	Action	Accounting Standards Update	Date
Recorded Investment	Amended	2015-10	06/12/2015
310-20-35-6	Amended	2015-10	06/12/2015
310-20-50-4	Amended	2015-10	06/12/2015

126. Amend paragraph 310-30-00-1, by adding the following item to the table, as follows:

310-30-00-1 The following table identifies the changes made to this Subtopic.

Paragraph	Action	Accounting Standards Update	Date
310-30-35-10	Amended	2015-10	06/12/2015

127. Amend paragraph 310-40-00-1, by adding the following item to the table, as follows:

310-40-00-1 The following table identifies the changes made to this Subtopic.

Paragraph	Action	Accounting Standards Update	Date
Recorded Investment	Amended	2015-10	06/12/2015

128. Amend paragraph 320-10-00-1, by adding the following items to the table, as follows:

320-10-00-1 The following table identifies the changes made to this Subtopic.

Paragraph	Action	Accounting Standards Update	Date
Readily Determinable Fair Value	Amended	2015-10	06/12/2015
Recorded Investment	Amended	2015-10	06/12/2015
320-10-15-7	Amended	2015-10	06/12/2015
320-10-25-20	Amended	2015-10	06/12/2015
320-10-40-3	Amended	2015-10	06/12/2015

129. Amend paragraph 320-10-S00-1, by adding the following item to the table, as follows:

320-10-S00-1 The following table identifies the changes made to this Subtopic.

Paragraph	Action	Accounting Standards Update	Date
320-10-S99-2	Amended	2015-10	06/12/2015

130. Amend paragraph 325-40-00-1, by adding the following item to the table, as follows:

325-40-00-1 The following table identifies the changes made to this Subtopic.

Paragraph	Action	Accounting Standards Update	Date
325-40-55-1	Amended	2015-10	06/12/2015

131. Amend paragraph 405-20-00-1, by adding the following item to the table, as follows:

405-20-00-1 The following table identifies the changes made to this Subtopic.

Paragraph	Action	Accounting Standards Update	Date
405-20-55-4	Amended	2015-10	06/12/2015

132. Amend paragraph 410-30-00-1, by adding the following item to the table, as follows:

410-30-00-1 The following table identifies the changes made to this Subtopic.

Paragraph	Action	Accounting Standards Update	Date
410-30-35-7	Superseded	2015-10	06/12/2015

133. Amend paragraph 460-10-00-1, by adding the following items to the table, as follows:

460-10-00-1 The following table identifies the changes made to this Subtopic.

Paragraph	Action	Accounting Standards Update	Date
460-10-05-3	Amended	2015-10	06/12/2015
460-10-60-35	Superseded	2015-10	06/12/2015

134. Amend paragraph 470-30-00-1, by adding the following items to the table, as follows:

470-30-00-1 The following table identifies the changes made to this Subtopic.

Paragraph	Action	Accounting Standards Update	Date
470-30-25-1	Amended	2015-10	06/12/2015
470-30-35-4	Amended	2015-10	06/12/2015
470-30-35-4A	Added	2015-10	06/12/2015

135. Amend paragraph 480-10-S00-1, by adding the following item to the table, as follows:

480-10-S00-1 The following table identifies the changes made to this Subtopic.

Paragraph	Action	Accounting Standards Update	Date
480-10-S99-3A	Amended	2015-10	06/12/2015

136. Amend paragraph 505-10-00-1, by adding the following item to the table, as follows:

505-10-00-1 The following table identifies the changes made to this Subtopic.

Paragraph	Action	Accounting Standards Update	Date
505-10-45-2	Amended	2015-10	06/12/2015

137. Amend paragraph 605-10-S00-1, by adding the following item to the table, as follows:

605-10-S00-1 The following table identifies the changes made to this Subtopic.

Paragraph	Action	Accounting Standards Update	Date
605-10-S99-1	Amended	2015-10	06/12/2015

138. Amend paragraph 605-25-00-1, by adding the following item to the table, as follows:

605-25-00-1 The following table identifies the changes made to this Subtopic.

Paragraph	Action	Accounting Standards Update	Date
605-25-15-3A	Amended	2015-10	06/12/2015

139. Amend paragraph 715-30-00-1, by adding the following item to the table, as follows:

715-30-00-1 The following table identifies the changes made to this Subtopic.

Paragraph	Action	Accounting Standards Update	Date
715-30-55-63	Amended	2015-10	06/12/2015

140. Amend paragraph 715-80-00-1, by adding the following item to the table, as follows:

715-80-00-1 The following table identifies the changes made to this Subtopic.

Paragraph	Action	Accounting Standards Update	Date
715-80-50-5	Amended	2015-10	06/12/2015

141. Add paragraph 718-40-00-1 as follows:

718-40-00-1 The following table identifies the changes made to this Subtopic.

Paragraph	Action	Accounting Standards Update	Date
Fair Value (1st def.)	Superseded	2015-10	06/12/2015
Fair Value (2nd def.)	Added	2015-10	06/12/2015
718-40-25-2	Amended	2015-10	06/12/2015
718-40-25-14	Amended	2015-10	06/12/2015
718-40-30-2	Amended	2015-10	06/12/2015
718-40-30-4	Amended	2015-10	06/12/2015
718-40-30-5	Amended	2015-10	06/12/2015
718-40-40-2	Amended	2015-10	06/12/2015
718-40-45-7	Amended	2015-10	06/12/2015
718-40-50-1	Amended	2015-10	06/12/2015

Paragraph	Action	Accounting Standards Update	Date
718-40-55-4	Amended	2015-10	06/12/2015
718-40-65-1	Added	2015-10	06/12/2015

142. Amend paragraph 718-740-00-1, by adding the following items to the table, as follows:

718-740-00-1 The following table identifies the changes made to this Subtopic.

Paragraph	Action	Accounting Standards Update	Date
718-740-25-6	Amended	2015-10	06/12/2015
718-740-25-9	Amended	2015-10	06/12/2015
718-740-45-5	Amended	2015-10	06/12/2015

143. Amend paragraph 740-10-00-1, by adding the following items to the table, as follows:

740-10-00-1 The following table identifies the changes made to this Subtopic.

Paragraph	Action	Accounting Standards Update	Date
740-10-15-2AA	Amended	2015-10	06/12/2015
740-10-50-18	Amended	2015-10	06/12/2015

144. Amend paragraph 740-30-00-1, by adding the following items to the table, as follows:

740-30-00-1 The following table identifies the changes made to this Subtopic.

Paragraph	Action	Accounting Standards Update	Date
Subsidiary	Superseded	2015-10	06/12/2015
740-30-05-4	Amended	2015-10	06/12/2015
740-30-25-2	Amended	2015-10	06/12/2015
740-30-45-2	Amended	2015-10	06/12/2015

145. Amend paragraph 805-10-00-1, by adding the following item 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
805-10-50-6	Superseded	2015-10	06/12/2015

146. Amend paragraph 805-20-00-1, by adding the following items to the table, as follows:

805-20-00-1 The following table identifies the changes made to this Subtopic.

Paragraph	Action	Accounting Standards Update	Date
805-20-50-4	Amended	2015-10	06/12/2015
805-20-50-4A	Added	2015-10	06/12/2015

147. Amend paragraph 815-10-00-1, by adding the following item to the table, as follows:

815-10-00-1 The following table identifies the changes made to this Subtopic.

Paragraph	Action	Accounting Standards Update	Date
815-10-15-63	Amended	2015-10	06/12/2015

148. Amend paragraph 815-20-00-1, by adding the following items to the table, as follows:

815-20-00-1 The following table identifies the changes made to this Subtopic.

Paragraph	Action	Accounting Standards Update	Date
Probable (2nd def.)	Added	2015-10	06/12/2015
815-20-25-2	Amended	2015-10	06/12/2015
815-20-25-15	Amended	2015-10	06/12/2015

149. Amend paragraph 815-25-00-1, by adding the following items to the table, as follows:

815-25-00-1 The following table identifies the changes made to this Subtopic.

Paragraph	Action	Accounting Standards Update	Date
Recorded Investment	Amended	2015-10	06/12/2015
815-25-35-11	Amended	2015-10	06/12/2015

150. 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
Readily Determinable Fair Value	Amended	2015-10	06/12/2015
820-10-15-3	Amended	2015-10	06/12/2015
820-10-35-36D	Amended	2015-10	06/12/2015
820-10-50-2	Amended	2015-10	06/12/2015

151. Amend paragraph 860-10-00-1, by adding the following items to the table, as follows:

860-10-00-1 The following table identifies the changes made to this Subtopic.

Paragraph	Action	Accounting Standards Update	Date
860-10-40-21	Amended	2015-10	06/12/2015
860-10-50-2	Amended	2015-10	06/12/2015
860-10-50-7	Amended	2015-10	06/12/2015
860-10-55-14	Amended	2015-10	06/12/2015

152. Amend paragraph 860-20-00-1, by adding the following item to the table, as follows:

860-20-00-1 The following table identifies the changes made to this Subtopic.

Paragraph	Action	Accounting Standards Update	Date
860-20-25-4	Amended	2015-10	06/12/2015

153. Amend paragraph 944-30-00-1, by adding the following item to the table, as follows:

944-30-00-1 The following table identifies the changes made to this Subtopic.

Paragraph	Action	Accounting Standards Update	Date
944-30-25-8	Amended	2015-10	06/12/2015

154. Amend paragraph 944-40-00-1, by adding the following item to the table, as follows:

944-40-00-1 The following table identifies the changes made to this Subtopic.

Paragraph	Action	Accounting Standards Update	Date
Readily Determinable Fair Value	Amended	2015-10	06/12/2015

155. Amend paragraph 944-325-00-1, by adding the following item to the table, as follows:

944-325-00-1 The following table identifies the changes made to this Subtopic.

Paragraph	Action	Accounting Standards Update	Date
Readily Determinable Fair Value	Amended	2015-10	06/12/2015

156. Amend paragraph 944-470-00-1, by adding the following item to the table, as follows:

944-470-00-1 The following table identifies the changes made to this Subtopic.

Paragraph	Action	Accounting Standards Update	Date
Readily Determinable Fair Value	Amended	2015-10	06/12/2015

157. Amend paragraph 958-10-00-1, by adding the following item to the table, as follows:

958-10-00-1 The following table identifies the changes made to this Subtopic.

Paragraph	Action	Accounting Standards Update	Date
958-10-05-1	Amended	2015-10	06/12/2015

158. Amend paragraph 958-205-00-1, by adding the following items to the table, as follows:

958-205-00-1 The following table identifies the changes made to this Subtopic.

Paragraph	Action	Accounting Standards Update	Date
958-205-45-10	Amended	2015-10	06/12/2015
958-205-45-10A	Added	2015-10	06/12/2015

159. Amend paragraph 958-230-00-1, by adding the following items to the table, as follows:

958-230-00-1 The following table identifies the changes made to this Subtopic.

Paragraph	Action	Accounting Standards Update	Date
Agency Transaction	Added	2015-10	06/12/2015
Agency Transactions (Not for Profits)	Superseded	2015-10	06/12/2015
958-230-55-4	Amended	2015-10	06/12/2015

160. Amend paragraph 958-320-00-1, by adding the following items to the table, as follows:

958-320-00-1 The following table identifies the changes made to this Subtopic.

Paragraph	Action	Accounting Standards Update	Date
Agency Transaction	Added	2015-10	06/12/2015
Agency Transactions (Not for Profits)	Superseded	2015-10	06/12/2015
Readily Determinable Fair Value	Amended	2015-10	06/12/2015
958-320-35-3	Amended	2015-10	06/12/2015

161. Amend paragraph 958-325-00-1, by adding the following items to the table, as follows:

958-325-00-1 The following table identifies the changes made to this Subtopic.

Paragraph	Action	Accounting Standards Update	Date
Agency Transaction	Added	2015-10	06/12/2015
Agency Transactions (Not for Profits)	Superseded	2015-10	06/12/2015
Readily Determinable Fair Value	Amended	2015-10	06/12/2015
958-325-35-16	Amended	2015-10	06/12/2015

162. Amend paragraph 958-605-00-1, by adding the following items to the table, as follows:

958-605-00-1 The following table identifies the changes made to this Subtopic.

Paragraph	Action	Accounting Standards Update	Date
Agency Transaction	Added	2015-10	06/12/2015

Paragraph	Action	Accounting Standards Update	Date
Agency Transactions (Not for Profits)	Superseded	2015-10	06/12/2015
Control (1st def.)	Superseded	2015-10	06/12/2015
958-605-25-33	Amended	2015-10	06/12/2015
958-605-55-1	Amended	2015-10	06/12/2015

163. Amend paragraph 958-805-00-1, by adding the following item to the table, as follows:

958-805-00-1 The following table identifies the changes made to this Subtopic.

Paragraph	Action	Accounting Standards Update	Date
958-805-50-16	Amended	2015-10	06/12/2015

164. Amend paragraph 958-810-00-1, by adding the following item to the table, as follows:

958-810-00-1 The following table identifies the changes made to this Subtopic.

Paragraph	Action	Accounting Standards Update	Date
958-810-25-3	Amended	2015-10	06/12/2015

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

BC1. Paragraphs BC2–BC11 summarize the Board's considerations in reaching the conclusions in this Update. For clarity and ease of understanding, the basis for conclusions for each amendment precedes each amendment.

Amendments to Topic 470, Debt

BC2. The Board determined that some of the guidance for two types of participating mortgages—those related to results of operations and those related to market value appreciation—is condensed within the same paragraph, which makes the guidance unclear. To clarify the guidance, the Board decided to amend Topic 470 by separating the requirements for participating mortgages that are related to results of operations from those that are related to market value appreciation.

Amendments to Subtopic 718-40, Compensation—Stock Compensation—Employee Stock Ownership Plans

BC3. The Master Glossary contains two definitions of the term *fair value*. The first glossary definition (Definition 1) originates from FASB Statement No. 123 (revised 2004), *Share-Based Payment*, and the second glossary definition (Definition 2) originates from FASB Statement No. 157, *Fair Value Measurements*, which is now codified in Topic 820, Fair Value Measurement. Statement 123(R) established fair value as the measurement objective in accounting for share-based payment arrangements and requires all entities to apply a fair-value-based measurement method in accounting for share-based payment transactions with employees, except for equity instruments held by employee stock ownership plans. Statement 123(R) referred to AICPA Statement of Position 93-6, *Employers' Accounting for Employee Stock Ownership Plans*, for employee stock ownership plan guidance. Statement 123(R) also established fair value as the measurement objective for transactions in which an entity acquires goods or services from nonemployees in share-based payment transactions. When Statement 157 was codified, a conforming amendment to link the definition of *fair value* in Subtopic 718-40 to Definition 2 was not made. The Board decided to amend Subtopic 718-40 to correct the link to the term *fair value* as used in that Subtopic to the definition in Topic 820 instead of the definition of *fair value* from Statement 123(R).

Amendments to the Master Glossary Term *Subsidiary* (Subtopic 740-30, Income Taxes—Other Considerations or Special Areas)

BC4. The Board concluded that the broad Master Glossary definition of the term *subsidiary* could create confusion when referring to the guidance in Subtopic 740-30 and should not be linked to the glossary in that Subtopic.

BC5. Subtopic 740-30 addresses whether or not deferred taxes should be recorded on outside basis differences (differences between a parent's financial statement/book basis and tax basis of an investment in a subsidiary) associated with a parent's investment in a foreign operation resulting from undistributed earnings of the subsidiary (commonly referred to as the APB Opinion No. 23, *Accounting for Income Taxes—Special Areas*, exception). This exception to recognizing deferred taxes is not applicable for partnerships (or other pass-through entities) because the income flows to the parent for tax purposes. Because the guidance on the Opinion 23 exception in Subtopic 740-30 uses the term *subsidiary* and the definition of *subsidiary* in the Subtopic includes the term *partnership*, some may find the guidance confusing; thus, the Board decided that *subsidiary* should be removed from the glossary of Subtopic 740-30.

Amendments to Topic 860, Transfers and Servicing

BC6. The disclosure requirements in FASB Statement No. 166, *Accounting for Transfers of Financial Assets*, applied to all entities. However, due to an error during the Codification process, the word *public* was added, which gave the appearance that the scope of the guidance was narrower than the Board intended. The Board's intent for this guidance to apply to all entities is clear in the original guidance. Therefore, the amendments in this Update correct the disclosure requirements to reflect the Board's original intent. The Board decided to include transition guidance for entities that may have relied on the incorrect wording.

Amendments to SEC Materials

BC7. The amendments to the SEC section of the Codification are meant to provide correct references within the Codification. Those amendments do not amend SEC rules or guidance and are not authoritative. Content in the SEC section is expected to change over time in accordance with the SEC's normal procedures for making changes to SEC rules, regulations, interpretive releases, and staff guidance. The SEC's normal update procedures are not changed by the inclusion of SEC content in the Codification, and, accordingly, there may be delays between the release of the SEC's changes and updates to the Codification. Therefore, the Board does not know when the corrections will be made in the SEC guidance, and even though there will be a period of time between the amendments to the Codification and the actual correction of the relevant SEC guidance, the Board decided to move forward with the amendments in an effort to maintain consistency within the Codification.

Transition

BC8. The Board does not expect the majority of the amendments to change current practice. The Board is giving transition guidance for a number of other amendments because an entity may have relied on guidance that may have had incorrect or unclear wording or references. Those amendments requiring transition guidance will be effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015. Additionally, the cumulative effect of the change in accounting principle related to the amendments that have transition guidance will be recognized as an adjustment to the opening balance of retained earnings (or other appropriate components of equity or net assets in the statement of financial position) of the fiscal year in which those amendments will first be applied. This transition guidance will not apply to changes that represent correction of errors, which should be disclosed in accordance with the disclosure requirements of Topic 250, Accounting Changes and Error Corrections, because they apply to corrections of errors.

BC9. The nature of the amendments to Topic 274, Personal Financial Statements, and Subtopic 718-40 requires transition guidance specific to each of those amendments. The amendment to Topic 274 potentially involves changes to prior valuation amounts for real estate. The Board did not want the amendment to cause a remeasurement of these previously reported amounts using a fair-value-based methodology because doing so would necessitate the use of hindsight. The Board decided that hindsight will not provide relevant information and is considered inappropriate.

BC10. When considering the amendment to Subtopic 718-40, the Board was aware that employee stock ownership plans have specific valuation guidance that is required by the Department of Labor and the Internal Revenue Service (IRS). Plan sponsors are required to report plan measurements in accordance with the fair value framework in Topic 820. The framework in Topic 820 is different from the valuation guidance required by the Department of Labor and the IRS. Research and outreach performed by the staff indicated that the difference between the GAAP requirements and the Department of Labor and IRS requirements were not an issue in practice. However, a possibility that some plan sponsors may not be using the framework in Topic 820 for financial reporting purposes concerned the Board. Because of this possibility, the Board decided to provide transition guidance for this amendment and require plan sponsors that were not reporting employee stock ownership plan valuations in accordance with Topic 820 to provide additional disclosures to help financial statement users understand any changes to the plan sponsor's employee stock ownership plan valuation as a result of this amendment.

If a plan sponsor was not using the valuation framework in Topic 820 in prior valuations, the entity is required to disclose that fact and provide a qualitative description of how the valuation methodology that was used differs from that of Topic 820 and the possible effect on prior valuations. Restatement of the previously reported amounts is costly and most likely necessitates the use of hindsight, which is not appropriate. The Board added that the required disclosures will provide financial statement users with relevant information that is also cost effective for the plan sponsors to provide.

Benefits and Costs

BC11. The Board does not anticipate that entities will incur significant costs as a result of the amendments in this Update. The amendments will provide the benefit of improving consistent application of GAAP by clarifying or simplifying guidance that already exists within GAAP. The amendments will not create new accounting requirements, and the Board does not expect that the amendments will result in significant changes in practice. Therefore, the Board concluded that the cost of implementing the amendments will not be significant.

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.