



EXPOSURE DRAFT

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*Proposed Accounting Standards Update*

Issued: January 7, 2013  
Comments Due: January 22, 2013

Financial Instruments (Topic 825)

Clarifying the Scope and Applicability of  
a Particular Disclosure to Nonpublic Entities

This Exposure Draft of a proposed Accounting Standards Update of Topic 825 is issued by the Board for public comment. Comments can be provided using the electronic feedback form available on the FASB website. Written comments should be addressed to:

Technical Director  
File Reference No. 2013-200

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Financial Accounting Standards Board  
of the Financial Accounting Foundation

The *FASB Accounting Standards Codification*<sup>®</sup> 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.

### **Notice to Recipients of This Exposure Draft of a Proposed Accounting Standards Update**

The Board invites comments on all matters in this Exposure Draft and is requesting comments by January 22, 2013. Interested parties may submit comments in one of three ways:

- Using the electronic feedback form available on the FASB website at [Exposure Documents Open for Comment](#)
- Emailing a written letter to [director@fasb.org](mailto:director@fasb.org), File Reference No. 2013-200
- Sending written comments to “Technical Director, File Reference No. 2013-200, FASB, 401 Merritt 7, PO Box 5116, Norwalk, CT 06856-5116.”

Do not send responses by fax.

All comments received are part of the FASB’s public file. The FASB will make all comments publicly available by posting them to the online public reference room portion of its website.

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**Financial Accounting Standards Board**  
of the Financial Accounting Foundation  
401 Merritt 7, PO Box 5116, Norwalk, Connecticut 06856-5116

# Proposed Accounting Standards Update

## Financial Instruments (Topic 825)

### Clarifying the Scope and Applicability of a Particular Disclosure to Nonpublic Entities

January 7, 2013

Comment Deadline: January 22, 2013

#### CONTENTS

	Page Numbers
Summary and Questions for Respondents.....	1–2
Amendments to the <i>FASB Accounting Standards Codification</i> ® .....	3–4
Background Information and Basis for Conclusions .....	5–7
Amendments to the XBRL Taxonomy .....	8



# Summary and Questions for Respondents

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

The main objective of this proposal is to clarify the scope and applicability of a particular disclosure to nonpublic entities that resulted from the issuance of 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*.

## What Are the Main Provisions?

The proposed amendment would clarify that the requirement to disclose “the level of the fair value hierarchy within which the fair value measurements are categorized in their entirety (Level 1, 2, or 3)” does not apply to nonpublic entities for items that are not measured at fair value in the statement of financial position but for which fair value is disclosed.

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

The amendments in this proposed Update would generally affect nonpublic entities, particularly those that have total assets of \$100 million or more or have one or more derivative instruments. Several stakeholders expressed concern that contrary to the stated intent of Update 2011-04, its amendments to Topic 825 suggest that nonpublic entities that do not meet the criteria in paragraph 825-10-50-3 would not qualify for the intended exemption.

## How Would the Main Provisions Differ from Current U.S. Generally Accepted Accounting Principles (GAAP) and Why Would They Be an Improvement?

The proposed amendments would clarify the intended scope of the disclosures required by Update 2011-04. This clarification will update the Accounting Standards Codification as intended and resolve the ambiguity that currently exists in practice.

## When Would the Amendments Be Effective?

The proposed amendment would be effective upon issuance.

## Questions for Respondents

The Board invites individuals and organizations to comment on all matters raised by this proposed Update, particularly on the issues and questions below. Comments are requested from those who agree with the proposed guidance as well as from those who do not agree. Comments are most helpful if they identify and clearly explain the issue or question to which they relate. Those who disagree with the proposed guidance are asked to describe their suggested alternatives, supported by specific reasoning.

**Question 1:** The proposed amendment would clarify the scope and applicability of Topic 825 to make clear that the requirement of paragraph 825-10-50-10(d) to disclose “the level of the fair value hierarchy within which the fair value measurements are categorized in their entirety (Level 1, 2, or 3)” does not apply to nonpublic entities for items that are not measured at fair value in the statement of financial position but for which fair value is disclosed. Do you agree with this clarification?

**Question 2:** Do you agree that the proposed amendment should be effective upon issuance?

# Amendments to the *FASB Accounting Standards Codification*<sup>®</sup>

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## Summary of Proposed Amendments to the Accounting Standards Codification

1. The following table provides a summary of the proposed amendments to the Accounting Standards Codification.

<b>Codification Section</b>	<b>Description of Changes</b>
Disclosure (825-10-50)	The proposed amendments would amend the scope of the related disclosures.

## Introduction

2. The Accounting Standards Codification is amended as described in paragraph 3. In some cases, to put the change in context, not only are the amended paragraphs shown but also the preceding and following paragraphs. Terms from the Master Glossary are in **bold** type. Added text is underlined, and deleted text is ~~struck out~~.

## Amendments to Subtopic 825-10

3. Amend paragraph 825-10-50-3 and add paragraph 825-10-50-3A, with no link to a transition paragraph, as follows:

### **Financial Instruments—Overall**

#### **Disclosure**

##### **> Applicability of This Subsection**

**825-10-50-2** This guidance discusses the applicability of the disclosure requirements in this Subsection to entities and transactions.

> > **Entities**

**825-10-50-2A** For interim reporting periods, the disclosure guidance in this Subsection applies to all entities but is optional for those entities that do not meet the definition of a **publicly traded company**.

**825-10-50-3** Except as noted in the following paragraph, for~~For~~ annual reporting periods, the disclosure guidance related to fair value of financial instruments in paragraphs 825-10-50-10 through 50-19 applies to all entities but is optional for an entity that meets all of the following criteria:

- a. The entity is a **nonpublic entity**.
- b. The entity's total assets are less than \$100 million on the date of the financial statements.
- c. The entity has no instrument that, in whole or in part, is accounted for as a derivative instrument under Topic 815 other than commitments related to the origination of mortgage loans to be held for sale during the reporting period.

**825-10-50-3A** A nonpublic entity is not required to provide the disclosure in paragraph 825-10-50-10(d) for items disclosed at fair value but not measured at fair value in the statement of financial position.

*The amendments in this proposed Update were approved for publication by the unanimous vote of the seven members of the Financial Accounting Standards Board:*

Leslie F. Seidman, *Chairman*  
Daryl E. Buck  
Russell G. Golden  
Thomas J. Linsmeier  
R. Harold Schroeder  
Marc A. Siegel  
Lawrence W. Smith

# Background Information and Basis for Conclusions

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## Introduction

BC1. The following summarizes the Board's considerations in reaching the conclusions in this proposed Update. It includes reasons for accepting certain approaches and rejecting others. Individual Board members gave greater weight to some factors than to others.

BC2. The amendments in this proposed Update would clarify the scope and applicability of a particular disclosure required by Section 825-10-50 to nonpublic entities.

BC3. The proposed amendments would not affect the effective date of the disclosures required by Section 825-10-50.

## Background Information

BC4. In May 2011, the Board issued Update 2011-04 as a result of a joint project with the IASB directed at achieving common fair value measurement and disclosure requirements. At its meeting of December 21, 2010, the Board "decided that, as a result of the amendments to Topic 820 [made by the Update], nonpublic entities will not be required to disclose [among other things] the level in which a fair value measurement would be categorized within the fair value hierarchy for assets and liabilities not recognized at fair value but for which disclosure of fair value is required."

BC5. Currently, that disclosure requirement and the related exemption are reflected in two Sections of the Accounting Standards Codification—Sections 820-10-50 and 825-10-50. In December 2012, several stakeholders advised the FASB staff that the Update's amendments as codified in Section 825-10-50 seemed inconsistent with the Board's intent. Because the particular exemption relates to nonpublic entities that will soon be issuing financial statements for calendar year 2012, they requested a timely clarification. This Update is being issued to provide that timely clarification.

## Clarification

BC6. Currently, Sections 820-10-50 and 825-10-50 provide the following scope exemptions and disclosure guidance related to the decision noted in paragraph BC4 of this Update:

**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: . . .

- b. For recurring and nonrecurring fair value measurements, the level of the fair value hierarchy within which the fair value measurements are categorized in their entirety (Level 1, 2, or 3).

**820-10-50-2E** For each class of assets and liabilities not measured at fair value in the statement of financial position but for which the fair value is disclosed, a reporting entity shall disclose the information required by paragraph 820-10-50-2(b), (bbb), and (h). . . .

**820-10-50-2F** A **nonpublic entity** is not required to disclose the information required by paragraph 820-10-50-2(bb) and (g) and paragraph 820-10-50-2E *unless required by another Topic*. [Emphasis added.]

**825-10-50-3** For annual reporting periods, the disclosure guidance related to fair value of financial instruments in paragraphs 825-10-50-10 through 50-19 applies to all entities but is optional for an entity that meets all of the following criteria:

- a. The entity is a **nonpublic entity**.
- b. The entity's total assets are less than \$100 million on the date of the financial statements.
- c. The entity has no instrument that, in whole or in part, is accounted for as a derivative instrument under Topic 815 other than commitments related to the origination of mortgage loans to be held for sale during the reporting period.

**825-10-50-10** A reporting entity shall disclose all of the following: . . .

- d. The level of the fair value hierarchy within which the fair value measurements are categorized in their entirety (Level 1, 2, or 3).

For financial instruments recognized at fair value in the statement of financial position, the disclosure requirements of Topic 820 also apply.

BC7. Stakeholders noted several factors that led to confusion. First, they noted that inclusion of disclosure requirements in both Topic 820 and Topic 825 creates the potential for overlap and unnecessary redundancy. Second, the open-ended phrase *unless required by another Topic* at the conclusion of paragraph 820-10-50-2F suggests that the guidance in Section 820-10-50 is overridden by Section 825-10-50 despite the Board's original intent. Third, unlike the exemption for all nonpublic entities in Section 820-10-50, paragraph 825-10-50-3 states that the exemption for paragraph 825-10-50-10(d) applies to only those nonpublic entities that also meet conditions (b) and (c) of paragraph 825-10-50-3. Stakeholders noted that Update 2011-04 indicates that the Board did not intend to require those additional conditions.

BC8. The Board agreed with those observations and concluded that a timely amendment should be issued to clarify and correct the inconsistent guidance. The Board concluded that the amendment to paragraph 825-10-50-3 and addition of paragraph 825-10-50-3A will accomplish that objective in the most direct and timely way.

BC9. The Board also acknowledges the concern raised by stakeholders about the overlap and potential redundancy between Topic 820 and Topic 825. However, the Board decided not to address the issue now because it would involve a comprehensive review that would require considerably more time and effort.

## Effective Date

BC10. The Board considered but rejected delaying this specific clarification to its broader project on technical corrections and improvements because the amendments in Update 2011-04 are effective for nonpublic entities for annual periods beginning after December 15, 2011 (for example, calendar year 2012). Accordingly, the Board decided to accomplish this clarification as expeditiously as possible under its due process procedures and to make it effective upon issuance.

## Amendments to the XBRL Taxonomy

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There are no proposed amendments to the XBRL taxonomy as a result of the amendments in this proposed Update.