

# FINANCIAL ACCOUNTING SERIES



## ACCOUNTING STANDARDS UPDATE

No. 2013-03  
February 2013

### Financial Instruments (Topic 825)

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

An Amendment of the *FASB Accounting Standards Codification*®

Financial Accounting Standards Board  
of the Financial Accounting Foundation

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401 MERRITT 7, PO BOX 5116, NORWALK, CONNECTICUT 06856-5116



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# Summary

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

The main objective of this Update 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*. Contrary to the stated intent of Update 2011-04 to exempt all nonpublic entities for a particular disclosure, that Update's amendments to Topic 825 suggested that nonpublic entities that have total assets of \$100 million or more or that have one or more derivative instruments would not qualify for the intended exemption.

## What Are the Main Provisions?

The amendments 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 Is Affected by the Amendments in This Update?

The amendments in this Update affect nonpublic entities that have total assets of \$100 million or more or that have one or more derivative instruments.

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

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

## When Will the Amendments Be Effective?

The amendments will be effective upon issuance.



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

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## Introduction

1. The Accounting Standards Codification is amended as described in paragraphs 2 and 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

2. 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.

3. Amend paragraph 825-10-00-1, by adding the following items to the table, as follows:

**825-10-00-1** The following table identifies the changes made to this Subtopic.

<b>Paragraph Number</b>	<b>Action</b>	<b>Accounting Standards Update</b>	<b>Date</b>
825-10-50-3	Amended	2013-03	02/07/2013
825-10-50-3A	Added	2013-03	02/07/2013

*The amendments in this Update were adopted 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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BC1. The following summarizes the Board's considerations in reaching the conclusions in this 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 Update clarify the scope and applicability of a particular disclosure required by Section 825-10-50 to nonpublic entities. The amendments do not affect the effective date of the disclosures required by Section 825-10-50.

## Background Information

BC3. 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 public meeting on 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" (from the meeting minutes).

BC4. That disclosure requirement and the related exemption were reflected in Sections 820-10-50 and 825-10-50 of the Codification. 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.

BC5. The Board issued an Exposure Draft of a proposed Update, *Financial Instruments (Topic 825): Clarifying the Scope and Applicability of a Particular Disclosure to Nonpublic Entities*, on January 7, 2013. The Board received 13 comment letters on the Exposure Draft. All respondents who commented on the proposed clarifying amendments agreed with the amendments. All respondents who commented on the proposed effective date agreed that the amendments should be effective upon issuance. At a public meeting on January 31, 2013, the Board considered those comments during its redeliberations of the Exposure Draft and agreed to make the amendments effective upon issuance so that the guidance could be used in practice as soon as possible.

## Clarification

BC6. Sections 820-10-50 and 825-10-50 had provided the following scope exemptions and disclosure guidance related to the decision noted in paragraph BC3 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 they found confusing. First, they noted that including disclosure requirements in both Topic 820 and Topic 825 created 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 suggested 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 stated 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 indicated 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 the 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). The Board concluded that the benefits of a timely resolution of the ambiguity outweigh the costs that stakeholders could incur if the clarification were delayed. 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 Update.