

FINANCIAL ACCOUNTING SERIES



No. 2018-13
August 2018

Fair Value Measurement (Topic 820)

Disclosure Framework—Changes to the Disclosure
Requirements for Fair Value Measurement

An Amendment of the *FASB Accounting Standards Codification*®

Financial Accounting Standards Board

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Summary

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

The Board is issuing the amendments in this Update as part of the disclosure framework project. The disclosure framework project's objective and primary focus are to improve the effectiveness of disclosures in the notes to financial statements by facilitating clear communication of the information required by generally accepted accounting principles (GAAP) that is most important to users of each entity's financial statements. Achieving the objective of improving the effectiveness of the notes to financial statements includes:

1. The development of a framework that promotes consistent decisions by the Board about disclosure requirements
2. The appropriate exercise of discretion by reporting entities.

On March 4, 2014, the Board issued a proposed FASB Concepts Statement, *Conceptual Framework for Financial Reporting—Chapter 8: Notes to Financial Statements*, which the Board finalized on August 28, 2018. The Concepts Statement is intended to identify a broad range of possible information for the Board's consideration when deciding on the disclosure requirements for a particular topic. From that broad set, the Board will identify a narrower set of disclosures about that topic to be required on the basis of, among other considerations, an evaluation of whether the expected benefits of entities providing the information justify the expected costs. The Concepts Statement will be used by the Board as part of the process for establishing disclosure requirements in future accounting standards as well as for evaluating existing disclosure requirements, if and when the Board considers those requirements.

Before the Concepts Statement was finalized, the Board decided to test the concepts in the proposed Concepts Statement and improve the effectiveness of disclosure requirements on fair value measurement by using those concepts. The amendments in this Update are the result of the Board's final deliberations of the concepts in the Concepts Statement as they relate to fair value measurement disclosures.

Who Is Affected by the Amendments in This Update?

The amendments in this Update apply to all entities that are required, under existing GAAP, to make disclosures about recurring or nonrecurring fair value measurements.

Certain of the disclosures that are required by the amendments in this Update are not required for nonpublic entities.

What Are the Main Provisions?

The amendments in this Update modify the disclosure requirements on fair value measurements in Topic 820, Fair Value Measurement, based on the concepts in the Concepts Statement, including the consideration of costs and benefits.

Removals

The following disclosure requirements were removed from Topic 820:

1. The amount of and reasons for transfers between Level 1 and Level 2 of the fair value hierarchy
2. The policy for timing of transfers between levels
3. The valuation processes for Level 3 fair value measurements
4. For nonpublic entities, the changes in unrealized gains and losses for the period included in earnings for recurring Level 3 fair value measurements held at the end of the reporting period.

Modifications

The following disclosure requirements were modified in Topic 820:

1. In lieu of a rollforward for Level 3 fair value measurements, a nonpublic entity is required to disclose transfers into and out of Level 3 of the fair value hierarchy and purchases and issues of Level 3 assets and liabilities.
2. For investments in certain entities that calculate net asset value, an entity is required to disclose the timing of liquidation of an investee's assets and the date when restrictions from redemption might lapse *only* if the investee has communicated the timing to the entity or announced the timing publicly.
3. The amendments clarify that the measurement uncertainty disclosure is to communicate information about the uncertainty in measurement as of the reporting date.

Additions

The following disclosure requirements were added to Topic 820; however, the disclosures are not required for nonpublic entities:

1. The changes in unrealized gains and losses for the period included in other comprehensive income for recurring Level 3 fair value measurements held at the end of the reporting period

2. The range and weighted average of significant unobservable inputs used to develop Level 3 fair value measurements. For certain unobservable inputs, an entity may disclose other quantitative information (such as the median or arithmetic average) in lieu of the weighted average if the entity determines that other quantitative information would be a more reasonable and rational method to reflect the distribution of unobservable inputs used to develop Level 3 fair value measurements.

In addition, the amendments eliminate *at a minimum* from the phrase *an entity shall disclose at a minimum* to promote the appropriate exercise of discretion by entities when considering fair value measurement disclosures and to clarify that materiality is an appropriate consideration of entities and their auditors when evaluating disclosure requirements.

When Will the Amendments Be Effective?

The amendments in this Update are effective for all entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. The amendments on changes in unrealized gains and losses, the range and weighted average of significant unobservable inputs used to develop Level 3 fair value measurements, and the narrative description of measurement uncertainty should be applied prospectively for only the most recent interim or annual period presented in the initial fiscal year of adoption. All other amendments should be applied retrospectively to all periods presented upon their effective date. Early adoption is permitted upon issuance of this Update. An entity is permitted to early adopt any removed or modified disclosures upon issuance of this Update and delay adoption of the additional disclosures until their effective date.

Amendments to the *FASB Accounting Standards Codification*[®]

Introduction

1. The Accounting Standards Codification is amended as described in paragraphs 2–9. 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 820-10

2. Supersede paragraphs 820-10-50-1 through 50-1B, add paragraphs 820-10-50-1C through 820-10-50-1E, and 820-10-50-2G, and amend paragraphs 820-10-50-2, 820-10-50-2C, 820-10-50-2F, 820-10-50-3, 820-10-50-6A, and 820-10-50-10, with a link to transition paragraph 820-10-65-12, as follows:

Fair Value Measurement—Overall

Disclosure

~~820-10-50-1 Paragraph superseded by Accounting Standards Update No. 2018-13. A reporting entity shall disclose information that helps users of its financial statements assess both of the following:~~

- ~~a. For assets and liabilities that are measured at **fair value** on a recurring or nonrecurring basis in the statement of financial position after initial recognition, the valuation techniques and **inputs** used to develop those measurements~~
- ~~b. For recurring fair value measurements using significant **unobservable inputs** (Level 3), the effect of the measurements on earnings (or changes in net assets) or other comprehensive income for the period.~~

~~820-10-50-1A Paragraph superseded by Accounting Standards Update No. 2018-13. To meet the objectives in the preceding paragraph, a reporting entity shall consider all of the following:~~

- ~~a. The level of detail necessary to satisfy the disclosure requirements~~
- ~~b. How much emphasis to place on each of the various requirements~~

- ~~c. How much aggregation or disaggregation to undertake~~
- ~~d. Whether users of financial statements need additional information to evaluate the quantitative information disclosed.~~

~~If the disclosures provided in accordance with this Topic and other Topics are insufficient to meet the objectives in the preceding paragraph, a reporting entity shall disclose additional information necessary to meet those objectives. [Content amended and moved to paragraph 820-10-50-1D]~~

~~**820-10-50-1B** Paragraph superseded by Accounting Standards Update No. 2018-13. Paragraphs 820-10-55-99 through 55-107 illustrate disclosures about fair value measurements. [Content amended and moved to paragraph 820-10-50-1E]~~

~~**820-10-50-1C** The objective of the disclosure requirements in this Subtopic is to provide users of financial statements with information about assets and liabilities measured at **fair value** in the statement of financial position or disclosed in the notes to financial statements:~~

- ~~a. The valuation techniques and **inputs** that a reporting entity uses to arrive at its measures of fair value, including judgments and assumptions that the entity makes~~
- ~~b. The uncertainty in the fair value measurements as of the reporting date~~
- ~~c. How changes in fair value measurements affect an entity's performance and cash flows.~~

~~**820-10-50-1D** To meet the objectives in the preceding paragraph When complying with the disclosure requirements of this Subtopic, a reporting entity shall consider all the following:~~

- ~~a. The level of detail necessary to satisfy the disclosure requirements~~
- ~~b. How much emphasis to place on each of the various requirements~~
- ~~c. How much aggregation or disaggregation to undertake~~
- ~~d. Whether users of financial statements need additional information to evaluate the quantitative information disclosed.~~

~~If the disclosures provided in accordance with this topic and other Topics are insufficient to meet the objectives in the preceding paragraph, a reporting entity shall disclose additional information necessary to meet those objectives. [Content amended as shown and moved from paragraph 820-10-50-1A]~~

~~**820-10-50-1E** Paragraphs 820-10-55-99 through 55-107 illustrate disclosures about fair value cash measurements. [Content moved from paragraph 820-10-50-1B]~~

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 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 assets 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.
- 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).
 - 1. Subparagraph superseded by Accounting Standards Update No. 2011-04
 - 2. Subparagraph superseded by Accounting Standards Update No. 2011-04
 - 3. Subparagraph superseded by Accounting Standards Update No. 2011-04
- bb. ~~Subparagraph superseded by Accounting Standards Update No. 2018-13. For assets and liabilities held at the end of the reporting period that are measured at fair value on a recurring basis, the amounts of any transfers between Level 1 and Level 2 of the fair value hierarchy, the reasons for those transfers, and the reporting entity's policy for determining when transfers between levels are deemed to have occurred (see paragraph 820-10-50-2C). Transfers into each level shall be disclosed and discussed separately from transfers out of each level.~~
 - 1. Subparagraph superseded by Accounting Standards Update No. 2011-04

2. Subparagraph superseded by Accounting Standards Update No. 2011-04
 3. Subparagraph superseded by Accounting Standards Update No. 2011-04
- bbb. The information shall include:
1. For recurring and nonrecurring fair value measurements categorized within Level 2 and Level 3 of the fair value hierarchy, a description of the valuation technique(s) and the inputs used in the fair value measurement. If there has been a change in either or both a valuation approach and a valuation technique (for example, changing from matrix pricing to the binomial model or the use of an additional valuation technique), the reporting entity shall disclose that change and the reason(s) for making it.
 2. For recurring and nonrecurring fair value measurements categorized within Level 3 of the fair value hierarchy, a reporting entity shall provide quantitative information about the significant **{add glossary link}**unobservable inputs**{add glossary link}** used in the fair value measurement. A reporting entity is not required to create quantitative information to comply with this disclosure requirement if quantitative unobservable inputs are not developed by the reporting entity when measuring fair value (for example, when a reporting entity uses prices from prior transactions or third-party pricing information without adjustment). However, when providing this disclosure, a reporting entity cannot ignore quantitative unobservable inputs that are significant to the fair value measurement and are reasonably available to the reporting entity. Employee benefit plans, other than those plans that are subject to the U.S. Securities and Exchange Commission's (SEC) filing requirements, are not required to provide this disclosure for investments held by an employee benefit plan in their plan sponsor's own nonpublic equity securities, including equity securities of their plan sponsor's nonpublic affiliated entities.
 - i. In complying with (bbb)(2), a reporting entity shall provide the range and weighted average of significant unobservable inputs used to develop Level 3 fair value measurements. A reporting entity shall disclose how it calculated the weighted average (for example, weighted by relative fair value). For certain unobservable inputs, a reporting entity may disclose other quantitative information, such as the median or arithmetic average, in lieu of the weighted average, if such information would be a more reasonable and rational method to reflect the distribution of unobservable inputs used to develop the Level 3 fair value measurement. An entity does not need to disclose its reason for omitting the weighted average in these cases.

- ii. A nonpublic entity is not required to provide the information described in (bbb)(2)(i), but is required to provide quantitative information about the significant unobservable inputs used in the fair value measurement in accordance with (bbb)(2).
- c. For recurring fair value measurements categorized within Level 3 of the fair value hierarchy, a reconciliation from the opening balances to the closing balances, disclosing separately changes during the period attributable to the following:
 - 1. Total gains or losses for the period recognized in earnings (or changes in net assets), and the line item(s) in the statement of income (or activities) in which those gains or losses are recognized
 - 1a. Total gains or losses for the period recognized in other comprehensive income, and the line item(s) in other comprehensive income in which those gains or losses are recognized
 - 2. Purchases, sales, issues, and settlements (each of those types of changes disclosed separately)
 - 3. The amounts of any transfers into or out of Level 3 of the fair value hierarchy, hierarchy and the reasons for those transfers, ~~and the reporting entity's policy for determining when transfers between levels are deemed to have occurred (see paragraph 820-10-50-2C).~~ Transfers into Level 3 shall be disclosed and discussed separately from transfers out of Level 3. See paragraph 820-10-50-2C for additional guidance.
 - i. Subparagraph superseded by Accounting Standards Update No. 2011-04
 - ii. Subparagraph superseded by Accounting Standards Update No. 2011-04
 - iii. Subparagraph superseded by Accounting Standards Update No. 2011-04
- d. For recurring fair value measurements categorized within Level 3 of the fair value hierarchy, the amount of the total gains or losses for the period in (c)(1) included in earnings (or changes in net assets) and in (c)(1a) included in other comprehensive income that is attributable to the change in unrealized gains or losses relating to those assets and liabilities held at the end of the reporting period, and the line item(s) in the ~~statement~~ statement(s) of comprehensive income (or activities) in which those unrealized gains or losses are recognized.
- e. Subparagraph superseded by Accounting Standards Update No. 2011-04
- f. Subparagraph superseded by Accounting Standards Update No. 2018-13. For recurring and nonrecurring fair value measurements categorized within Level 3 of the fair value hierarchy, a description of the valuation processes used by the reporting entity (including, for example, how an entity decides its valuation policies and procedures and analyzes changes in fair value measurements from period to period). See paragraph 820-10-55-105 for further guidance.

- g. For recurring fair value measurements categorized within Level 3 of the fair value hierarchy, a narrative description of the ~~uncertainty sensitivity~~ of the fair value measurement ~~to changes in unobservable inputs if from the use of significant unobservable inputs if those inputs reasonably could have been different at the reporting date.~~ For example, how a change in those significant unobservable inputs to a different amount might result in a significantly higher or lower fair value measurement at the reporting date. If there are interrelationships between those inputs and other unobservable inputs used in the fair value measurement, a reporting entity shall also provide a description of those interrelationships and of how they might magnify or mitigate the effect of changes in the unobservable inputs on the fair value measurement. To comply with that disclosure requirement, the narrative description of the ~~sensitivity to changes in uncertainty~~ of the fair value measurement that would result from using unobservable inputs shall include ~~include, at a minimum,~~ the unobservable inputs disclosed when complying with paragraph 820-10-50-2(bbb).
- h. For recurring and nonrecurring fair value measurements, if the **highest and best use** of a nonfinancial asset differs from its current use, a reporting entity shall disclose that fact and why the nonfinancial asset is being used in a manner that differs from its highest and best use.

820-10-50-2C A reporting entity shall ~~disclose and~~ consistently follow its policy for determining when transfers between levels of the fair value hierarchy are deemed to have occurred ~~in accordance with paragraph 820-10-50-2(bb) and (c)(3).~~ The policy about the timing of recognizing transfers shall be the same for transfers into the levels as for transfers out of the levels. Examples of policies for determining the timing of transfers include the following:

- a. The date of the event or change in circumstances that caused the transfer
- b. The beginning of the reporting period
- c. The end of the reporting period.

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)(1), and (h). However, a reporting entity is not required to provide the quantitative disclosures about significant unobservable inputs used in fair value measurements categorized within Level 3 of the fair value hierarchy required by paragraph 820-10-50-2(bbb)(2). For such assets and liabilities, a reporting entity does not need to provide the other disclosures required by this Topic.

820-10-50-2F A **nonpublic entity** is not required to disclose the information required by ~~paragraph 820-10-50-2(bb) and (g)~~ paragraph 820-10-50-2(bbb)(2)(i), (d), and (g) and paragraph 820-10-50-2E unless required by another Topic.

820-10-50-2G In lieu of paragraph 820-10-50-2(c), a nonpublic entity shall disclose separately changes during the period attributable to the following:

- a. Purchases and issues (each of those types of changes disclosed separately)
- b. The amounts of any transfers into or out of Level 3 of the fair value hierarchy and the reasons for those transfers. Transfers into Level 3 shall be disclosed and discussed separately from transfers out of Level 3. See paragraph 820-10-50-2C for additional guidance.

820-10-50-3 For derivative assets and liabilities, the reporting entity shall present both of the following:

- a. The fair value disclosures required by paragraph 820-10-50-2(a) through ~~(b)~~ ~~(bb)~~ on a gross basis (which is consistent with the requirement of paragraph 815-10-50-4B(a))
- b. The reconciliation disclosure required by paragraph 820-10-50-2(c) through (d) on either a gross or a net basis.

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

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

- a. The fair value measurement (as determined by applying paragraphs 820-10-35-59 through 35-62) of the investments in the class at the reporting date and a description of the significant investment strategies of the investee(s) in the class.
- b. For each class of investment that includes investments that can never be redeemed with the investees, but the reporting entity receives distributions through the liquidation of the underlying assets of the investees, ~~the reporting entity's estimate of the period of time over which the underlying assets are expected to be liquidated by the investees~~ if the investee has communicated the timing to the reporting entity or announced the timing publicly. If the timing is unknown, the reporting entity shall disclose that fact.

- c. The amount of the reporting entity's unfunded commitments related to investments in the class.
- d. A general description of the terms and conditions upon which the investor may redeem investments in the class (for example, quarterly redemption with 60 days' notice).
- e. The circumstances in which an otherwise redeemable investment in the class (or a portion thereof) might not be redeemable (for example, investments subject to a lockup or gate). Also, for those otherwise redeemable investments that are restricted from redemption as of the reporting entity's measurement date, the reporting entity shall disclose its estimate of when the restriction from redemption might lapse if the investee has communicated that timing to the reporting entity or announced the timing publicly. If the timing is unknown an estimate cannot be made, the reporting entity shall disclose that fact and how long the restriction has been in effect.
- f. Any other significant restriction on the ability to sell investments in the class at the measurement date.
- g. Subparagraph superseded by Accounting Standards Update No. 2015-07.
- h. If a group of investments would otherwise meet the criteria in paragraph 820-10-35-62 but the individual investments to be sold have not been identified (for example, if a reporting entity decides to sell 20 percent of its investments in private equity funds but the individual investments to be sold have not been identified), so the investments continue to qualify for the practical expedient in paragraph 820-10-35-59, the reporting entity shall disclose its plans to sell and any remaining actions required to complete the sale(s).

> Tabular Format Required

820-10-50-10 Plan assets of a defined benefit pension or other postretirement plan that are accounted for in accordance with Topic 715 are not subject to the disclosure requirements in paragraphs 820-10-50-1C through 50-8 ~~820-10-50-4 through 50-9~~. Instead, the disclosures required in paragraphs 715-20-50-1(d)(iv) and 715-20-50-5(c)(iv) shall apply for fair value measurements of plan assets of a defined benefit pension or other postretirement plan.

3. Amend paragraphs 820-10-55-99, 820-10-55-101, 820-10-55-103 through 55-104, 820-10-55-106 through 55-107 and the related heading and supersede paragraph 820-10-55-105 and its related heading, with a link to transition paragraph 820-10-65-12, as follows:

Implementation Guidance and Illustrations

> Illustrations

> > Example 9: Fair Value Disclosures

820-10-55-99 The disclosures required by paragraphs 820-10-50-1D, 820-10-50-2(a) through (b), (bbb) through (d), and (g) ~~820-10-50-1A, 820-10-50-2(a) through (b) and (bbb) through (g)~~, 820-10-50-6A, and 820-10-50-8 are illustrated by the following Cases:

- a. Assets measured at fair value (Case A)
- b. Reconciliation of fair value measurements categorized within Level 3 of the fair value hierarchy (Case B)
- c. Information about fair value measurements categorized within Level 3 of the fair value hierarchy (Case C)
- d. Fair value measurements of investments ~~in certain entities that calculate that are measured at~~ net asset value per share (or its equivalent) as a practical expedient (Case D).

> > > Case B: Disclosure—Reconciliation of Fair Value Measurements Categorized within Level 3 of the Fair Value Hierarchy

820-10-55-101 For recurring fair value measurements categorized within Level 3 of the fair value hierarchy, this Topic requires a reconciliation from the opening balances to the closing balances for each class of assets and liabilities, except for derivative assets and liabilities, which may be presented net. A reporting entity might disclose the following for assets to comply with paragraph 820-10-50-2(c) through (d).

(\$ in millions) Fair Value Measurements Using Significant Unobservable Inputs (Level 3)

	Available-for-Sale Debt Securities					Hedge Fund Investments		Other Investments			Derivatives	
	Residential Mortgage-Backed Securities	Commercial Mortgage-Backed Securities	Collateralized Debt Obligations	High-Yield Debt Securities	Private Equity Fund	Private Equity Fund	Healthcare	Direct Venture Capital: Energy	Direct Venture Capital: Energy	Credit Contracts	Total	
Opening balance	\$ 105	\$ 39	\$ 25	\$ 145	\$ 20	\$ 49	\$ 28	\$ 30	\$ 441		\$ 60	
Transfers into Level 3	60 ^(a)											
Transfers out of Level 3	(5)										(5)	
Total gains or losses for the period included in earnings (or changes in net assets)	(8)			7	5	3	1				5	
Included in other comprehensive income	(15)	(5)	(7)								(5)	
Purchases, issues, sales, and settlements												
Purchases		16	17						5	3	18	
Issues												
Sales	(12)			(62)		(4)					(78)	
Settlements												
Closing balance	\$ 125	\$ 50	\$ 35	\$ 90	\$ 25	\$ 53	\$ 32	\$ 38	\$ 448		\$ 448	
Change in unrealized gains or losses for the period included in earnings (or changes in net assets) for assets held at the end of the reporting period				(6)							(6)	
Change in unrealized gains or losses for the period included in other comprehensive income for assets held at the end of the reporting period												

(a) Transferred from Level 2 to Level 3 because of a lack of observable market data, resulting from a decrease in market activity for the securities.

(b) Footnote superseded by Accounting Standards Update No. 2018-13. The reporting entity's policy is to recognize transfers into and transfers out of Level 3 as of the date of the event or change in circumstances that caused the transfer.

(c) Transferred from Level 3 to Level 2 because observable market data became available for the securities.

(Note: For liabilities, a similar table should be presented.)

>>> Case C: Disclosure—Information about Fair Value Measurements Categorized within Level 3 of the Fair Value Hierarchy

>>> Valuation Techniques and Inputs

820-10-55-103 For fair value measurements categorized within Level 2 and Level 3 of the fair value hierarchy, this Topic requires a reporting entity to disclose a description of the valuation technique(s) and the inputs used in the fair value measurement. For fair value measurements categorized within Level 3 of the fair value hierarchy, information about the significant unobservable inputs used must be quantitative. A reporting entity might disclose the following for assets to comply with the requirement to disclose the significant unobservable inputs used in the fair value measurement in accordance with paragraph 820-10-50-2(bbb).

Quantitative Information about Level 3 Fair Value Measurements				
(\$ in millions)	Fair Value at 12/31/09	Valuation Technique(s)	Unobservable Input	Range (Weighted Average) ^(a)
Residential mortgage-backed securities	125	Discounted cash flow	Constant prepayment rate Probability of default Loss severity	3.5% – 5.5% (4.5%) 5% – 50% (10%) 40% – 100% (60%)
Commercial mortgage-backed securities	50	Discounted cash flow	Constant prepayment rate Probability of default Loss severity	3.0% – 5.0% (4.1%) 2% – 25% (5%) 10% – 50% (20%)
Collateralized debt obligations	35	Consensus pricing	Offered quotes Comparability adjustments (%)	20 – 45 (30) -10% – +15% (+5%)
Direct venture capital investments: healthcare	53	Discounted cash flow	Weighted average cost of capital Long-term revenue growth rate Long-term pretax operating margin Discount for lack of marketability ^(a) Control premium ^(a)	7% – 16% (12.1%) 2% – 5% (4.2%) 3% – 20% (10.3%) 5% – 20% (17%) 10% – 30% (20%)
		Market comparable companies	EBITDA multiple ^(b) Revenue multiple ^(b) Discount for lack of marketability ^(a) Control premium ^(a)	10 – 13 (11.3) 1.5 – 2.0 (1.7) 5% – 20% (17%) 10% – 30% (20%)
Direct venture capital investments: energy	32	Discounted cash flow	Weighted average cost of capital Long-term revenue growth rate Long-term pretax operating margin Discount for lack of marketability ^(a) Control premium ^(a)	8% – 12% (11.1%) 3% – 5.5% (4.2%) 7.5% – 13% (9.2%) 5% – 20% (10%) 10% – 20% (12%)
		Market comparable companies	EBITDA multiple ^(b) Revenue multiple ^(b) Discount for lack of marketability ^(a) Control premium ^(a)	6.5 – 12 (9.5) 1.0 – 3.0 (2.0) 5% – 20% (10%) 10% – 20% (12%)
Credit contracts	38	Option model	Annualized volatility of credit ^(c) Counterparty credit risk ^(d) Own credit risk ^(d)	10% – 20% (13%) 0.5% – 3.5% (2.2%) 0.3% – 2.0% (0.7%)

(a) Represents amounts used when the reporting entity has determined that market participants would take into account these premiums and discounts when pricing the investments.

(b) Represents amounts used when the reporting entity has determined that market participants would use such multiples when pricing the investments.

(c) Represents the range of the volatility curves used in the valuation analysis that the reporting entity has determined market participants would use when pricing the contracts.

(d) Represents the range of the credit default swap spread curves used in the valuation analysis that the reporting entity has determined market participants would use when pricing the contracts.

(e) Unobservable inputs were weighted by the relative fair value of the instruments. For credit contracts, the average represents the arithmetic average of the inputs and is not weighted by the relative fair value or notional amount.

(Note: For liabilities, a similar table should be presented.)

820-10-55-104 In addition, a reporting entity should provide additional information that will help users of its financial statements to evaluate the quantitative information disclosed. A reporting entity might disclose some or all of the following to comply with paragraph 820-10-50-1D ~~820-10-50-1A~~:

- a. The nature of the item being measured at fair value, including the characteristics of the item being measured that are taken into account in the determination of relevant inputs. For example, for residential mortgage-backed securities, a reporting entity might disclose the following:
 1. The types of underlying loans (for example, prime loans or subprime loans)
 2. Collateral
 3. Guarantees or other credit enhancements
 4. Seniority level of the tranches of securities
 5. The year of issue
 6. The weighted-average coupon rate of the underlying loans and the securities
 7. The weighted-average maturity of the underlying loans and the securities
 8. The geographical concentration of the underlying loans
 9. Information about the credit ratings of the securities.
- b. How third-party information such as broker quotes, pricing services, net asset values, and relevant market data was taken into account when measuring fair value.

>>>> Valuation Processes

820-10-55-105 ~~Paragraph superseded by Accounting Standards Update No. 2018-13. For fair value measurements categorized within Level 3 of the fair value hierarchy, this Topic requires a reporting entity to disclose a description of the valuation processes used by the reporting entity. A reporting entity might disclose the following to comply with paragraph 820-10-50-2(f):~~

- a. ~~For the group within the reporting entity that decides the reporting entity's valuation policies and procedures:~~
 1. ~~Its description~~
 2. ~~To whom that group reports~~
 3. ~~The internal reporting procedures in place (for example, whether and, if so, how pricing, risk management, or audit committees discuss and assess the fair value measurements).~~
- b. ~~The frequency and methods for calibration, back testing, and other testing procedures of pricing models.~~

- c. ~~The process for analyzing changes in fair value measurements from period to period.~~
- d. ~~How the reporting entity determined that third-party information, such as broker quotes or pricing services, used in the fair value measurement was developed in accordance with this Topic.~~
- e. ~~The methods used to develop and substantiate the unobservable inputs used in a fair value measurement.~~

> > > Information about Uncertainty of Fair Value Measurements Sensitivity to Changes in Significant Unobservable Inputs

820-10-55-106 For recurring fair value measurements categorized within Level 3 of the fair value hierarchy, this Topic requires a reporting entity to provide a narrative description of the ~~uncertainty sensitivity~~ of the fair value measurement to ~~changes in~~ at the reporting date from the use of significant unobservable ~~inputs~~ inputs, if those inputs reasonably could have been different at the reporting date, and a description of any interrelationships ~~between those among the~~ unobservable inputs used in the fair value measurement, which might magnify or mitigate the effect of changes in the unobservable inputs on the fair value measurement. A reporting entity might disclose the following about its residential mortgage-backed securities to comply with paragraph 820-10-50-2(g).

The significant unobservable inputs used in the fair value measurement of the reporting entity's residential mortgage-backed securities are prepayment rates, probability of default, and loss severity in the event of default. Significant increases (decreases) in any of those inputs in isolation would ~~result~~ have resulted in a significantly lower (higher) fair value measurement. Generally, a change in the assumption used for the probability of default ~~is~~ would have been accompanied by a directionally similar change in the assumption used for the loss severity and a directionally opposite change in the assumption used for prepayment rates.

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

820-10-55-107 For investments that are within the scope of paragraphs 820-10-15-4 through 15-5 and that are measured at fair value using net asset value per share as a practical expedient, this Topic requires a reporting entity to disclose information that helps users to understand the nature, characteristics, and risks of the investments by class and whether the investments, if sold, are probable of being sold at amounts different from net asset value per share (or its equivalent, such as member units or an ownership interest in partners' capital to which a proportionate share of net assets is attributed) (see paragraph 820-10-50-6A).

That information may be presented as follows. (The classes presented below are provided as examples only and are not intended to be treated as a template. The classes disclosed should be tailored to the nature, characteristics, and risks of the reporting entity's investments.)

	Fair Value (in millions)	Unfunded Commitments	Redemption Frequency (If Currently Eligible)	Redemption Notice Period
Equity long/short hedge funds ^(a)	\$ 55		quarterly	30–60 days
Event driven hedge funds ^(b)	45		quarterly, annually	30–60 days
Global opportunities hedge funds ^(c)	35		quarterly	30–45 days
Multi-strategy hedge funds ^(d)	40		quarterly	30–60 days
Real estate funds ^(e)	47	\$ 20		
Total	\$ 222	\$ 20		

- a. This class includes investments in hedge funds that invest both long and short primarily in U.S. common stocks. Management of the hedge funds has the ability to shift investments from value to growth strategies, from small to large capitalization stocks, and from a net long position to a net short position. The fair values of the investments in this class have been estimated using the net asset value per share of the investments. Investments representing approximately 22 percent of the value of the investments in this class cannot be redeemed because the investments include restrictions that do not allow for redemption in the first 12 to 18 months after acquisition. The remaining restriction period for these investments ranged from three to seven months at December 31, 20X3.
- b. This class includes investments in hedge funds that invest in approximately 60 percent equities and 40 percent bonds to profit from economic, political, and government driven events. A majority of the investments are targeted at economic policy decisions. The fair values of the investments in this class have been estimated using the net asset value per share of the investments.
- c. This class includes investments in hedge funds that hold approximately 80 percent of the funds' investments in non-U.S. common stocks in the healthcare, energy, information technology, utilities, and telecommunications sectors and approximately 20 percent of the funds' investments in diversified currencies. The fair values of the investments

in this class have been estimated using the net asset value per share of the investments. For one investment, valued at \$8.75 million, a gate has been imposed by the hedge fund manager and no redemptions are currently permitted. This redemption restriction has been in place for six months and the time at which the redemption restriction might lapse is unknown cannot be estimated.

- d. This class invests in hedge funds that pursue multiple strategies to diversify risks and reduce volatility. The hedge funds' composite portfolio for this class includes investments in approximately 50 percent U.S. common stocks, 30 percent global real estate projects, and 20 percent arbitrage investments. The fair values of the investments in this class have been estimated using the net asset value per share of the investments. Investments representing approximately 15 percent of the value of the investments in this class cannot be redeemed because the investments include restrictions that do not allow for redemption in the first year after acquisition. The remaining restriction period for these investments ranged from four to six months at December 31, 20X3.
- e. This class includes several real estate funds that invest primarily in U.S. commercial real estate. The fair values of the investments in this class have been estimated using the net asset value of the Company's ownership interest in partners' capital. These investments can never be redeemed with the funds. Distributions from each fund will be received as the underlying investments of the funds are liquidated. ~~It is estimated that the underlying assets of the fund will be liquidated over the next 7 to 10 years.~~ Twenty percent of the total investment in this class is planned to be sold within the next three years. However, the individual investments that will be sold have not yet been determined. Because it is not probable that any individual investment will be sold, the fair value of each individual investment has been estimated using the net asset value of the Company's ownership interest in partners' capital. Once it has been determined which investments will be sold and whether those investments will be sold individually or in a group, the investments will be sold in an auction process. The investee fund's management must approve of the buyer before the sale of the investments can be completed.
- f. Footnote superseded by Accounting Standards Update No. 2015-07.

4. Add paragraph 820-10-65-12 and its related heading as follows:

Transition and Open Effective Date Information

> Transition Related to Accounting Standards Update No. 2018-13, Fair Value Measurement (Topic 820): Disclosure Framework—Changes to the Disclosure Requirements for Fair Value Measurement

820-10-65-12 The following represents the transition and effective date information related to Accounting Standards Update No. 2018-13, *Fair Value Measurement (Topic 820): Disclosure Framework—Changes to the Disclosure Requirements for Fair Value Measurement*.

- a. The pending content that links to this paragraph shall be effective for all entities for fiscal years, and interim periods within those years, beginning after December 15, 2019.
- b. An entity shall apply the pending content that links to this paragraph retrospectively to all periods presented, except for the changes in unrealized gains and losses required by paragraph 820-10-50-2(d), the range and weighted-average disclosure required by paragraph 820-10-50-2(bbb)(2)(i), and the narrative description of measurement uncertainty in accordance with paragraph 820-10-50-2(g) that are required to be applied prospectively for only the most recent interim or annual period presented in the initial fiscal year of adoption.
- c. Early adoption of the pending content that links to this paragraph is permitted (an entity is permitted to early adopt the removed or modified disclosures in paragraph 820-10-50-2(bb), (c)(3), (f), and (g), paragraph 820-10-50-2G, and paragraph 820-10-50-6A(b) and (e) and adopt the additional disclosures in paragraph 820-10-50-2(bbb)(2)(i) and (d) upon their effective date), including adoption in any interim period for:
 1. **Public business entities** for periods in which financial statements have not yet been issued
 2. All other entities for periods in which financial statements have not yet been made available for issuance.

Amendments to Subtopic 958-30

5. Amend paragraph 958-30-50-1, with a link to transition paragraph 820-10-65-12, as follows:

Not-for-Profit Entities—Split-Interest Agreements

Disclosure

958-30-50-1 The notes to financial statements shall include all of the following disclosures related to **split-interest agreements**:

- a. A description of the general terms of existing split-interest agreements
- b. Assets and liabilities recognized under split-interest agreements, if not reported separately from other assets and liabilities in a statement of financial position

- c. The basis used (for example, cost, lower of cost or fair value, **fair value**) for recognized assets
- d. The discount rates and actuarial assumptions used, if present value techniques are used in reporting the assets and liabilities related to split-interest agreements
- e. **Contribution** revenue recognized under such agreements, if not reported as a separate line item in a statement of activities
- f. Changes in the value of split-interest agreements recognized, if not reported as a separate line item in a statement of activities
- g. The disclosures required by the Fair Value Option Subsections of Subtopic 825-10, if a **not-for-profit entity** (NFP) elects the fair value option pursuant to paragraph 958-30-35-2(b) or 958-30-35-2(c)
- h. The disclosures required by paragraphs ~~820-10-50-4~~ 820-10-50-1C through 50-2 and 820-10-50-2B through 50-2E in the format described in paragraph 820-10-50-8, if the assets and liabilities of split-interest agreements are measured at fair value on a recurring basis in periods after initial recognition.

Amendments to Subtopic 958-310

- 6. Amend paragraph 958-310-50-3, with a link to transition paragraph 820-10-65-12, as follows:

Not-for-Profit Entities—Receivables

Disclosure

958-310-50-3 If unconditional promises to give are subsequently measured at **fair value**, the notes to financial statements shall also include the following disclosures:

- a. Disclosures required by paragraphs ~~820-10-50-4~~ 820-10-50-1C through 50-2 and 820-10-50-2B through 50-2E in the format described in paragraph 820-10-50-8
- b. Disclosures required by paragraphs 825-10-50-28 through 50-31
- c. Disclosures required by paragraph 825-10-50-32, if an election to report unconditional promises to give is made after initial recognition pursuant to paragraph 825-10-25-4(e).

Amendments to Status Sections

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

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

Paragraph	Action	Accounting Standards Update	Date
820-10-50-1 through 1B	Superseded	2018-13	08/28/2018
820-10-50-1C through 1E	Added	2018-13	08/28/2018
820-10-50-2	Amended	2018-13	08/28/2018
820-10-50-2C	Amended	2018-13	08/28/2018
820-10-50-2F	Amended	2018-13	08/28/2018
820-10-50-2G	Added	2018-13	08/28/2018
820-10-50-3	Amended	2018-13	08/28/2018
820-10-50-6A	Amended	2018-13	08/28/2018
820-10-50-10	Amended	2018-13	08/28/2018
820-10-55-99	Amended	2018-13	08/28/2018
820-10-55-101	Amended	2018-13	08/28/2018
820-10-55-103	Amended	2018-13	08/28/2018
820-10-55-104	Amended	2018-13	08/28/2018
820-10-55-105	Superseded	2018-13	08/28/2018
820-10-55-106	Amended	2018-13	08/28/2018
820-10-55-107	Amended	2018-13	08/28/2018
820-10-65-12	Added	2018-13	08/28/2018

8. Amend paragraph 958-30-00-1, by adding the following item to the table, as follows:

958-30-00-1 The following table identifies the changes made to this Subtopic.

Paragraph	Action	Accounting Standards Update	Date
958-30-50-1	Amended	2018-13	08/28/2018

9. Amend paragraph 958-310-00-1, by adding the following item to the table, as follows:

958-310-00-1 The following table identifies the changes made to this Subtopic.

Paragraph	Action	Accounting Standards Update	Date
958-310-50-3	Amended	2018-13	08/28/2018

The amendments in this Update were adopted by the affirmative vote of six members of the Financial Accounting Standards Board. Mr. Schroeder dissented.

Mr. Schroeder dissents from the issuance of the guidance in this Update. His primary objection is with the Board's decision to not require a rollforward of information about financial instruments classified as Level 1 and Level 2 of the fair value hierarchy. The Board's basis for the decision is its belief that the benefits would not justify the costs. In drawing this conclusion, he believes that the Board adopted a blunt-instrument approach that leans toward requiring disclosures only when "broadly relevant to all entities" (paragraph BC12). He believes that the Board's cost-benefit assessment did not fully consider each entity's ability to assess materiality.

The notion of materiality is discussed in Chapter 3, *Qualitative Characteristics of Useful Financial Information*, of FASB Concept Statement No. 8, *Conceptual Framework for Financial Reporting*, which was revised concurrent with the release of this Update. Specifically, paragraph QC11 of the revised chapter states that "relevance and materiality are defined by what influences or makes a difference to an investor or other decision maker; however, the two concepts can be distinguished from each other. Relevance is a general notion about what type of information is useful to investors. *Materiality is entity specific*" (emphasis added). Furthermore, paragraph 105-10-05-6 of the Codification reinforces this notion by clearly stating that its provisions "need not be applied to immaterial items." Therefore, Mr. Schroeder believes that each entity can most cost-effectively communicate with existing and potential investors only by applying the notion of materiality. In doing so, each entity could mitigate disclosure costs, when justified, by concluding which information not to disclose because it is immaterial.

Mr. Schroeder acknowledges that there are real barriers to applying a materiality notion in the current financial reporting ecosystem that includes auditors and regulators. Those barriers make it costlier for an entity to exclude specific immaterial disclosures, even though that information would not prove decision useful. He also accepts that certain of those barriers are outside the Board's authority to unilaterally address. However, he believes that limiting disclosures, as done in this Update, is not the best long-term path for achieving the Board's mission of improving financial reporting. He believes that the financial reporting ecosystem will be more effective and efficient only when entities are able to use greater discretion in providing disclosures that best fit the needs of each entity's present and potential investors. Therefore, he believes that the Board should make every effort to work with others within the ecosystem to remove both real and perceived barriers.

Focusing on the Board's process for establishing disclosure requirements, the basis for conclusions states that this Update was "developed using the relevant decision questions from the Concepts Statement" (paragraph BC12). Mr. Schroeder believes that without contemplating each entity's ability to apply a reasonable and rational assessment of materiality, a generic-questions approach too often can result in investors being provided with collectively less information. More important, because most analysis is performed by industry specialists, investors' needs are not being met. This is particularly true for investors focused on specific industries or on conglomerates operating in a diverse set of industries (often including both financial activities and nonfinancial activities). Therefore, Mr. Schroeder more broadly takes exception to the way the Board evaluated those generic questions in its cost-benefit assessment.

Members of the Financial Accounting Standards Board:

Russell G. Golden, *Chairman*
James L. Kroeker, *Vice Chairman*
Christine A. Botosan
Marsha L. Hunt
Harold L. Monk, Jr.
R. Harold Schroeder
Marc A. Siegel

Background Information and Basis for Conclusions

Introduction

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 Board is issuing the amendments in this Update as part of the disclosure framework project. The disclosure framework project's objective and primary focus are to improve the effectiveness of disclosures in the notes to financial statements by facilitating clear communication of the information required by GAAP that is most important to users of each entity's financial statements. Achieving the objective of improving the effectiveness of the notes to financial statements includes:

- a. The development of a framework that promotes consistent decisions by the Board about disclosure requirements
- b. The appropriate exercise of discretion by reporting entities.

Background Information

BC3. The existing fair value measurement disclosure requirements have been developed through numerous projects over the past 12 years, which resulted in the following pronouncements:

- a. FASB Statement No. 157, *Fair Value Measurements*
- b. FASB Staff Position No. 157-4, *Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly*
- c. Accounting Standards Update No. 2009-12, *Fair Value Measurements and Disclosures (Topic 820): Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)*
- d. Accounting Standards Update No. 2010-06, *Fair Value Measurements and Disclosures (Topic 820): Improving Disclosures about Fair Value Measurements*
- e. 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*

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

BC4. On March 4, 2014, the Board issued a proposed FASB Concepts Statement, *Conceptual Framework for Financial Reporting—Chapter 8: Notes to Financial Statements*, which the Board finalized on August 28, 2018. The Concepts Statement is intended to identify a broad range of possible information for the Board’s consideration when deciding on the disclosure requirements for a particular topic. From that broad set, the Board will identify a narrower set of disclosures about that topic to be required on the basis of, among other considerations, an evaluation of whether the expected benefits of entities providing the information justify the expected costs. The Concepts Statement will be used by the Board as part of the process for establishing disclosure requirements in future accounting standards as well as for evaluating existing disclosure requirements, if and when the Board reconsiders those requirements.

BC5. Before the Concepts Statement was finalized, the Board decided to test the concepts in the proposed Concepts Statement and improve the effectiveness of disclosure requirements on fair value measurement by using those concepts. In developing the amendments in this Update, the Board utilized the concepts in the Concepts Statement as a guide. The Board did not use the concepts rigidly. In other words, the Board rejected certain disclosures that might be indicated by the Concepts Statement because it concluded that the benefits of the information did not justify the expected costs, as discussed in paragraph BC27. The Board also retained a disclosure that might not be indicated by the Concepts Statement because the benefits of the information justified the costs.

BC6. On December 3, 2015, the Board issued proposed Accounting Standards Update, *Fair Value Measurement (Topic 820): Disclosure Framework—Changes to the Disclosure Requirements for Fair Value Measurement*, for public comment. The Board received 51 comment letters on the proposed Update. Overall, respondents supported the Board’s efforts to improve the effectiveness of disclosures related to fair value measurement, although feedback was mixed on certain amendments in the proposed Update. The amendments in this Update are the result of the Board’s consideration of the concepts in the Concepts Statement as they relate to fair value measurement disclosures, which included consideration of the expected costs and benefits and of feedback received during the comment period and redeliberations phases.

BC7. The mixed feedback on the amendments in the proposed Update was most commonly caused by disagreement with the proposed amendments to require public entities to disclose (a) a disaggregation of the changes in unrealized gains and losses included in other comprehensive income and earnings (or changes in net assets) for recurring Level 1 and Level 2 fair value measurements

held at the end of the reporting period and (b) the time period used to disclose significant unobservable inputs for fair value measurements categorized within Level 3 of the fair value hierarchy. The Board ultimately decided not to require entities to provide those disclosures because the expected benefits would not justify the expected costs on the basis of the feedback from the comment letters as well as feedback received from preparers and financial statement users during redeliberations.

BC8. The Board consulted extensively with stakeholders on the amendments in this Update. The Board discussed the staff's preliminary recommendations at the 2014 Forum on Financial Disclosure, which included users, preparers, and others. This forum permitted participants to engage in a constructive dialogue on the current state of financial disclosure and some of the current efforts that are under way to improve the effectiveness of those disclosures. There was general support for the types of information that are included in the amendments in this Update. The most significant area of concern was with the Board's consideration of the measurement uncertainty disclosure. The Board had previously considered a quantitative disclosure of measurement uncertainty in the Exposure Drafts of Updates 2010-06 and 2011-04. The responses from preparers of financial statements on those Exposure Drafts indicated that the benefits to users from that disclosure would not justify the costs after the information had been aggregated by class of asset or liability. Although some investors continue to request a quantitative measurement uncertainty disclosure, recent outreach with preparers has indicated that the previous concerns are still valid. Additionally, the Board considered the Financial Accounting Foundation's *Post-Implementation Review Report on FASB Statement No. 157, Fair Value Measurements* (PIR Report). The Board also considered feedback received from the Private Company Council (PCC) and the FASB Advisory Groups.

BC9. In December 2013, the Board issued the *Private Company Decision-Making Framework: A Guide for Evaluating Financial Accounting and Reporting for Private Companies*, which assists the Board and the PCC in determining, among other things, whether and in what circumstances to provide alternative disclosure requirements for private companies reporting under GAAP. The Board also used that framework, in conjunction with feedback on the Board's decisions received from the PCC and stakeholders from various nonpublic entities, including nonpublic employee benefit plans and not-for-profit organizations, to determine whether the disclosures discussed as part of the disclosure framework review of fair value measurements should be applied to nonpublic entities.

Basis for Conclusions

Disclosure Objectives and Immaterial Disclosures

BC10. On September 24, 2015, the Board issued the proposed Accounting Standards Update, *Notes to Financial Statements (Topic 235): Assessing Whether Disclosures Are Material*, which was intended to promote use of discretion by reporting entities when evaluating disclosure requirements set forth by the Board. Appropriate application of the amendments in that proposed Update would have resulted in a reporting entity providing material information while explicitly providing that the exclusion of any disclosure requirement that is immaterial is not considered an accounting error. The Board considered the amendments in that proposed Update in developing the amendments in the proposed Update on Topic 820. However, at the March 21, 2018 meeting, the Board decided not to finalize the amendments in the proposed Update on Topic 235, noting that paragraph 105-10-05-6 already clearly states that the provisions of the Codification need not be applied to immaterial items. As a result, this Update does not incorporate any such references to Topic 235.

BC11. However, the amendments in this Update remove the phrase *at a minimum* from the phrase *an entity shall disclose at a minimum* to promote the appropriate exercise of discretion by entities when considering fair value measurement disclosures. Furthermore, as noted above, paragraph 105-10-05-6 states that “the provisions of the Codification need not be applied to immaterial items.” Therefore, the Board acknowledged that, at present, materiality is an appropriate consideration of entities and their auditors when evaluating disclosure requirements.

BC12. The disclosure objective for fair value measurement disclosures in this Update was developed using the relevant decision questions from the Concepts Statement. The Board concluded that the disclosure objective is important for stakeholders to understand the set of the disclosure requirements. The objective is intended to provide preparers with insight on why the Board deemed the disclosure requirements to be broadly relevant to all entities. The Board did not intend that the disclosure objective would represent additional disclosure requirements for entities.

Industry-Specific Disclosures

BC13. Many nonfinancial entities told the Board that it is costly to provide fair value measurement disclosures and that their users are not interested in those disclosures. In contrast, during user outreach, users that analyze various industries indicated that although fair value measurement disclosures may not be analyzed

in detail every quarter, these disclosures can become important to analyses depending on the market cycle and/or if an entity measures a high percentage of assets and/or liabilities in a certain level of the fair value hierarchy, such as Level 3.

BC14. Because of this feedback, during redeliberations of the proposed Update, the Board considered requiring industry-specific disclosures for Topic 820. Specifically, the Board considered requiring a different set of disclosure requirements for financial and nonfinancial entities based on the Financial Services Topics in the Codification. The concepts in the Concepts Statement do not preclude the Board from setting industry-specific disclosures. Specifically, the concepts indicate that disclosures should have the potential to apply to a broad range of entities *or to a broad range of entities within an identified subset of entities*. There are currently specific disclosure requirements within those Topics. Therefore, adding disclosure requirements within these Topics would not be unprecedented or inconsistent with the concepts.

BC15. The Board considered an approach that would have added certain disclosures only for entities within scope of the Financial Services Topics in the Codification. The Board considered this approach because certain Board members thought that a rollforward of Level 1 and Level 2 assets and liabilities is important to users' analyses of financial entities. The Board rejected this approach because it concluded that the particular disclosures that would have been applied only to financial entities, specifically, a rollforward of Level 1 and Level 2 assets and liabilities, would not be cost beneficial.

BC16. The Board also considered an approach that would have removed certain fair value measurement disclosures for nonfinancial entities. The Board considered this approach because certain Board members thought that fair value measurement disclosures may not be cost beneficial for nonfinancial entities because assets and liabilities measured at fair value are not a core operation for those entities. The Board rejected this approach because it was concerned that industry-specific disclosures for fair value measurement would reduce comparability across entities with similar transactions and would exclude useful information for financial statement users.

BC17. Ultimately, the Board decided not to pursue industry-specific disclosures for Topic 820 because the set of fair value measurement disclosures is broadly relevant to all entities that measure assets and liabilities at fair value. The Board concluded that the Topic 820 disclosures, including the amendments in this Update, are cost beneficial for all entities and are relevant to users that analyze various industries depending on certain factors, such as market conditions and the percentage of assets and liabilities in each level of the fair value hierarchy to an entity's total assets and liabilities.

Investments Measured at Net Asset Value Using the Practical Expedient

BC18. The amendments in this Update require an entity to disclose the timing of liquidation of an investee's assets and the date when restrictions from redemption might lapse only if the investee has communicated the timing to the entity or announced the timing publicly for investments measured at net asset value using the practical expedient.

BC19. Disclosing estimates of timing of future events is consistent with the concepts of the Concepts Statement only if used as an input to a measurement in the financial statements or notes. An entity's estimate of the timing of liquidation of an investee's assets and the date when restrictions from redemption might lapse is irrelevant to the measurement of investments measured at net asset value using the practical expedient. Therefore, although the estimated timing may be useful information to users, it does not explain an input for investments measured at net asset value using the practical expedient and, therefore, the concepts indicate that this information should not be included in notes to financial statements. However, because the timing is useful information to users, the Board concluded that an entity should continue to disclose this timing when it has been communicated to the entity.

BC20. Because an entity can use net asset value as a practical expedient to value investments that are within the scope of paragraphs 820-10-15-4 through 15-5, users want certain information that may influence the assessments of cash flows on those investments. Respondents agreed with the modification and acknowledged that other disclosure requirements exist to assess the effect of these investments on future cash flows. To assist with those assessments, paragraph 820-10-50-6A requires a number of disclosures that are consistent with the concepts in the Concepts Statement, including a description of the significant investment strategies of the investees, the amount of an entity's unfunded commitments, a general description of the terms and conditions upon which an investor may redeem investments, the circumstances in which an otherwise redeemable investment might not be redeemable, and any other significant restriction on the ability to sell investments at the measurement date.

BC21. A few practitioner and preparer respondents supported the modification but requested clarification on what constitutes a public communication of lapse of redemption restriction, as described in paragraph 820-10-50-6A(b) and (e). One practitioner respondent suggested that the Board clarify whether the requirement is intended to be interpreted literally or if an entity should make a reasonable attempt to contact the investee in this regard. The Board decided that clarifying what constitutes a public communication of lapse of redemption restriction was

unnecessary. If an entity knows the timing, it must be disclosed. The Board noted that the entity would ask an investee about this information in the normal course of business for its own cash flow purposes.

Change in Unrealized Gains and Losses

BC22. The amendments in this Update require entities (excluding nonpublic entities) to disclose the changes in unrealized gains and losses for the period included in other comprehensive income for recurring Level 3 fair value measurements held at the end of the reporting period.

BC23. The concepts in the Concepts Statement indicate that the Board should consider whether disclosure of the relationship between financial statement line items should be provided when the relationship is not otherwise apparent. Fair value measurement changes may be presented in several different lines on the statement(s) of comprehensive income (or activities), often as aggregated amounts. During development of the proposed Update, the Board determined that even reasonably informed users may find it difficult to track changes in the fair value of assets and liabilities to the appropriate line(s) in the statement(s) of comprehensive income (or activities). However, on the basis of feedback received on the amendments in the proposed Update, the Board understands that this disclosure may not add to a user's knowledge of the relationship between line items because the relationship between changes in fair value measurement and unrealized gains and losses is already apparent. Even if the changes in fair value measurement and unrealized gains and losses are apparent, the Board determined that this disclosure is still supported by the concepts because it also helps users understand components of a line item that affect prospects for net cash flows differently.

BC24. The Board considered requiring disclosure of the change in unrealized gains and losses for the period included in earnings (or changes in net assets) and other comprehensive income for recurring Level 1 and Level 2 fair value measurements held at the end of the period. During initial deliberations, the Board expected that the cost to provide those disclosures would be minimal because entities had been required to provide this disclosure for Level 3 since the implementation of Statement 157. Users indicated that this disclosure for Level 1 and Level 2 would be useful in varying degrees to assess earnings quality. Those users explained that they consider unrealized gains and losses to be a lower quality (compared with realized gains and losses) because management has made a conscious decision not to lock in the gains and losses, leaving them subject to future volatility. Those users view this disclosure for Level 3 to be as important for all levels of the fair value hierarchy because that disclosure is not about the observability of the inputs, but rather the differential quality of realized versus unrealized gains and losses.

BC25. However, feedback in response to the proposed Update indicated that requiring that disclosure for Level 1 and Level 2 of the fair value hierarchy would impose a significant cost to most preparers because it would require significant reworking of current systems and/or manually intensive calculations, in addition to creating new policies. Preparers explained that management does not typically analyze assets and liabilities by unrealized gains and losses or levels of the fair value hierarchy and, therefore, their systems do not automatically generate unrealized gains and losses or classify assets and liabilities by level of the fair value hierarchy. While preparing the Level 3 disclosures is a manually intensive process for most entities today, the amount of work would significantly increase if it had to be duplicated for Level 1 and Level 2, considering that most entities have significantly more volume of Level 1 and Level 2 fair value measurements when compared with Level 3 fair value measurements.

BC26. In the development of Statement 157, the Board concluded that information about unrealized gains and losses included in earnings would allow users to broadly assess the quality of reported earnings. Some respondents to the Exposure Draft that led to Statement 157 said that disclosing unrealized gains and losses would not be cost beneficial and could be misleading. At that time, the Board decided to require only unrealized gains and losses for Level 3 fair value measurements to balance users' needs with respondents' concerns. Recent outreach with stakeholders confirmed that the same is true today—disclosure of unrealized gains and losses is viewed by users as useful, while practitioners and preparers are wary of such a requirement. Since the implementation of Statement 157, the unrealized gains and losses disclosure has not been automated by most companies because of the inherent subjectivity in Level 3 fair value measurements, the fair value hierarchy, and the disaggregation of realized and unrealized gains and losses. Therefore, the Board decided that the conclusion in Statement 157 about the cost-benefit analysis of this disclosure for Level 1 and Level 2 remains true because systems have not been developed in the past 12 years to overcome the significant costs of providing this income statement information.

BC27. Although users were able to articulate how and why this disclosure for Level 1 and Level 2 of the fair value hierarchy could be useful, the costs to provide these disclosures appear to be significantly more than the Board had anticipated during initial deliberations. Therefore, the Board concluded that the expected benefits of this disclosure would not justify the expected costs and decided not to require entities to disclose the changes in unrealized gains and losses for the period included in other comprehensive income and earnings (or changes in net assets) for recurring Level 1 and Level 2 fair value measurements held at the end of the reporting period. The Board concluded that disclosure of the changes in unrealized gains and losses for the period included in other comprehensive income for recurring Level 3 fair value measurements will provide users with additional information without a significant cost because entities already perform detailed

analyses for Level 3 fair value measurements, as well as disclose the changes in unrealized gains and losses for the period included in earnings for recurring Level 3 fair value measurements held at the end of the reporting period.

Level 3 Rollforward

BC28. The Board decided to retain the requirement for entities (excluding nonpublic entities) with recurring Level 3 fair value measurements to present a reconciliation of the opening balances to the closing balances, disclosing separately (a) total gains or losses for the period recognized in earnings or comprehensive income, (b) purchases, sales, issues, and settlements, and (c) amounts of any transfers into or out of Level 3 (referred to as the Level 3 rollforward).

BC29. The concepts in the Concepts Statement indicate that the Board should consider whether disclosure of the causes of changes from the prior period (such as major inflows and outflows summarized by type or a detailed rollforward) should be provided if the causes of the changes in an entity's line item of an asset or liability are not easily understood because there are numerous causes to the changes or because the line item is subject to nonroutine changes. The Board understands that a reasonably informed user would understand that items within each level of the fair value hierarchy are affected by purchases, sales, transfers, and changes in fair value measurements. However, a user would not know, for example, whether assets in a particular level increased because of purchases of additional assets or because of gains from an increase in the fair value measurement of those assets. Furthermore, there could be a lack of transparency because of offsetting purchases and sales.

BC30. Most users stated that the Level 3 rollforward is useful because it allows them to gain insight into management's decisions, especially across different economic cycles. Practitioners and preparers have acknowledged that they analyze Level 3 assets and liabilities in detail for measurement purposes. On the basis of this, the Board concluded that a Level 3 rollforward is cost beneficial and should be retained as a required disclosure.

BC31. The Board considered whether a rollforward of Level 1 and Level 2 assets and liabilities also should be required because users said that the information provided in the Level 3 rollforward is decision useful. Although during initial deliberations a few users indicated this would be helpful, most users, at that time, indicated that the Level 3 rollforward is more important to their analyses because Level 3 is based on unobservable inputs as compared with Level 1 and Level 2, which are based on observable inputs. Therefore, the Board concluded at that time that a rollforward of Level 1 and Level 2 assets and liabilities is not as useful as a rollforward of Level 3 assets and liabilities. However, during redeliberations, several users indicated that a rollforward of Level 1 and Level 2 fair value

measurements would be very helpful to their analyses, because the rollforward would allow users to perform trend analysis over each period and identify red flags to prompt them to ask management for more information.

BC32. In response to this, the Board sought additional feedback from preparers and practitioners on the costs of providing a Level 1 and Level 2 rollforward. Practitioners and preparers stated that most current systems do not track assets and liabilities by level of the fair value hierarchy and creating the Level 3 rollforward is a manually intensive process. Therefore, while entities would be able to pull the data required for a rollforward of each level, it would be very costly, especially considering that most entities have a higher volume of Level 1 and Level 2 assets and liabilities as compared with Level 3 assets and liabilities. Entities do not have systems that automate leveling because it is a subjective process and the leveling is not used for internal analysis.

BC33. Therefore, in considering the feedback from users, practitioners, and preparers, the Board decided not to require a rollforward of Level 1 and Level 2 of the fair value hierarchy because the benefits would not justify the costs.

Measurement Uncertainty

Narrative Description of the Measurement Uncertainty of Level 3 Fair Value Measurements

BC34. The amendments in this Update require an entity to disclose a narrative description of the uncertainty of its fair value measurements from the use of significant unobservable inputs, if those inputs reasonably could have been different at the reporting date, for example, how a change in those significant unobservable inputs to a different amount might result in a significantly higher or lower fair value measurement at the reporting date.

BC35. The concepts in the Concepts Statement indicate that the Board should consider whether an entity should disclose the level of uncertainty inherent in fair value measurements and how significantly fair value measurements might have differed if the inputs had been different if the carrying amount of a line item is an estimate that requires assumptions, judgments, or other internal inputs that reasonably could have been different. Even though the narrative description does not quantify how significantly the fair value measurement might have differed at the reporting date, it is consistent with the concepts because the narrative description provides information about the measurement uncertainty of recurring Level 3 fair value measurements to differences in unobservable inputs at the reporting date.

BC36. Stakeholders said that there was confusion about what the terms *sensitivity analysis* and *measurement uncertainty analysis* meant, specifically, whether each analysis is intended to convey changes in unobservable inputs either at the reporting date or in the future. On the one hand, measurement uncertainty generally describes the distribution of values that an entity considers in developing the fair value measurement as of the reporting date because of the subjectivity of the unobservable inputs. Sensitivity analysis, on the other hand, is typically more forward looking and often involves estimating what the effect would be on the fair value measurement if one or more of the significant unobservable inputs were expected to change in the future. The purpose of this amendment is to clarify that the narrative description should convey measurement uncertainty because of the use of significant unobservable inputs that reasonably could have been different at the reporting date, as opposed to future-oriented information about the possible effect of expected future changes in unobservable inputs.

BC37. Preparers and practitioners observed that a narrative description of the uncertainty of Level 3 fair value measurements can result in a disclosure that may be obvious to a reasonably informed user. However, most users indicated that there is some incrementally useful information disclosed. Additionally, many stakeholders agreed that clarifying this disclosure would reduce diversity in the application and interpretation of the requirement.

BC38. Some respondents said that the disclosure requirement and related implementation guidance need to be further refined to avoid boilerplate disclosures and that the amendments are not adequate to make the disclosure more meaningful. However, practitioners indicated that it would be challenging to improve the disclosure requirement without adding a quantitative disclosure of measurement uncertainty. The Board considered a quantitative disclosure to supplement the qualitative disclosure, as described in the section below, but decided not to pursue such a disclosure as part of this project.

BC39. The Board did not intend that this amendment would require an entity to significantly change its narrative description disclosure. The Board wanted to clarify that the disclosure's intent is to convey measurement uncertainty because of the use of unobservable inputs that reasonably could have been different at the reporting date, rather than *sensitivity* to expected future changes. The Board expects that if an entity is currently disclosing uncertainty at the reporting date and not sensitivity to expected future changes, its disclosure should be unaffected by the amendment in this Update. However, if an entity had misinterpreted the disclosure because of the term *sensitivity* and was disclosing sensitivity to expected future changes, the Board expects that an entity no longer would disclose that forward-looking information in complying with the requirement.

Effect of Reasonably Possible Alternative Level 3 Inputs

BC40. During the discussion of the amendments to the narrative description disclosure, the Board considered a quantitative disclosure of measurement uncertainty of Level 3 assets and liabilities, specifically the effect of reasonably possible alternative inputs on the Level 3 fair value measurement of those items. The Board had previously considered a similar quantitative disclosure in the Exposure Drafts of Updates 2010-06 and 2011-04. The responses from preparers of financial statements on those Exposure Drafts indicated that the benefits of that disclosure to users would not justify the costs after the information had been aggregated by class of asset or liability. As an alternative to the proposal, those respondents suggested that the Board should require a qualitative assessment of the subjectivity of fair value measurements categorized within Level 3 of the fair value hierarchy, as well as an alternative quantitative approach that would be less costly to prepare. Paragraph BC96 of the basis for conclusions in Update 2011-04 states that the Board would assess the operability of that quantitative disclosure again at a later date.

BC41. Users consistently indicated that an analysis of quantitative measurement uncertainty would provide useful information in analyzing an entity's Level 3 measurement uncertainty. Users stated that they would use the disclosure to understand the subjectivity of the fair value measurements, adjust reported values, and compare ranges of measurements across similar entities in a sector. Additionally, users said that a quantitative disclosure allows them to study changes in the ranges over time and analyze the changes relative to the current economic cycle.

BC42. Preparers and practitioners noted operability, auditability, and cost concerns with providing the disclosure, which are similar to those expressed during the Board's previous considerations of disclosure about quantitative measurement uncertainty. Preparers and practitioners noted operability challenges in determining the reasonably possible range and correlation of inputs. Preparers and practitioners also noted cost concerns and auditability concerns on leveraging information from third-party service providers.

BC43. Preparers and practitioners cited difficulty with using the term *reasonably possible* as defined in the Master Glossary of the Codification to define the range of inputs used in the disclosure. They stated that the information provided would not be decision useful because the range of reasonably possible Level 3 fair values would be extremely wide and, thus, would be meaningless and possibly confusing to users. The Board noted that although it could refine the definition of the range to alleviate those concerns, there were other significant operability, auditability, and cost concerns.

BC44. Operability concerns arose about whether reporting entities should consider the interrelationships between inputs when performing the measurement uncertainty analysis. The Board considered including this interrelationship in the calculation; however, preparers noted that they would need detailed implementation guidance and examples to implement the disclosure requirement and promote uniformity across entities. The Board noted that because of the volume of valuation techniques, significant inputs, and correlation, specific implementation guidance and examples would be overly complicated and may be impossible to develop.

BC45. In assessing the costs associated with preparing that disclosure, the Board inquired about whether readily available information, such as fair value ranges, could be leveraged by reporting entities for disclosure. Fair value measurements are based on a common framework, although the valuation techniques vary. Preparers would need to create processes and the related internal controls by valuation technique or, at a lower level of aggregation, to prepare the disclosures about related quantitative measurement uncertainty. The implementation and ongoing costs of preparing and auditing that quantitative information would be significant.

BC46. Some preparers noted that they utilize quoted prices provided by third parties to value Level 3 assets and liabilities. To comply with a quantitative disclosure, the third-party valuation service would need to provide additional information at an additional cost to the preparer.

BC47. On the basis of feedback received on operability and costs, the Board concluded that a quantitative disclosure could not be designed for which the expected benefits would justify the expected costs. The Board decided to consider other qualitative and quantitative disclosures on measurement uncertainty, including the degree of measurement uncertainty of Level 3 fair value measurements and other quantitative data about significant unobservable inputs, including the range, weighted average, and time period used to develop inputs.

Degree of Measurement Uncertainty of Level 3 Fair Value Measurements

BC48. After hearing feedback on the operability and cost concerns associated with disclosing a quantitative measurement uncertainty analysis, the Board considered whether disclosing the degree of measurement uncertainty, specifically designations of either high or low variability as defined qualitatively, would add to a user's understanding of the level of uncertainty inherent in Level 3 fair value measurements. For example, a low degree of measurement uncertainty would be designated if the fair value measurement could not reasonably have been

significantly different at the reporting date, and a high degree of measurement uncertainty would be designated if the fair value measurement reasonably could have been significantly different at the reporting date.

BC49. Most users said that this disclosure would not provide incremental information because of the high level of aggregation by class of asset and the qualitative and subjective nature of the disclosure. Users said that a quantitative measurement uncertainty disclosure that provides a range of values would be used to adjust the reported fair values and to study fair values over time to understand how they change during different points of an economic cycle and compare them across entities in a sector. The degree of measurement uncertainty disclosure would not provide them with this type of information.

BC50. Practitioners said that the qualitative degree of measurement uncertainty would be difficult to audit and that the preparers and practitioners would need to define high and low in a quantitative way to operationalize and audit. Some preparers said that they could put into practice the disclosure but that it would be too highly aggregated to convey useful information. Because of stakeholders' concerns about the usefulness of the degree of measurement uncertainty, the Board decided not to add the requirement.

Range and Weighted Average Used to Develop Level 3 Fair Value Measurements

BC51. The amendments in this Update require entities (excluding nonpublic entities) to disclose the range and weighted average of significant unobservable inputs used to develop fair value measurements categorized within Level 3 of the fair value hierarchy. Along with this requirement, the amendments require entities to disclose how they calculated the weighted average. However, the Board decided that if an entity determines for certain unobservable inputs (for example, unobservable inputs used to develop fair value measurements of derivative instruments) that other quantitative information (such as the median or arithmetic average) would be a more reasonable and rational method to reflect the distribution of significant unobservable inputs used to develop Level 3 fair value measurements than the weighted average, the entity may disclose that quantitative information in lieu of the weighted average. In those cases, the Board decided that the entity does not have to disclose its reason for omitting the weighted average.

BC52. This disclosure is supported by the concepts in the Concepts Statement because it provides detail about the significant estimates, assumptions, judgments, and inputs to help users understand how the fair value measurement was determined. Many entities currently disclose the range and weighted average to comply with the requirement in paragraph 820-10-50-2(bbb).

BC53. Users said that the weighted average of significant unobservable inputs can be used as a starting point in their analyses, especially because the range of unobservable inputs can be wide because of the high level of aggregation by class of asset. Overall, users agreed that disclosing the range and weighted average is useful to their analyses and is used to assess the reasonableness of the assumptions, inputs, and techniques used by the entity to develop the significant unobservable inputs for Level 3 fair value measurements. The disclosure helps users identify red flags and ask an entity's management additional questions.

BC54. Preparers and practitioners questioned the usefulness of the range and weighted-average disclosure. They observed that this information only includes unobservable inputs and is not a complete roadmap to how fair value is calculated. These preparers and practitioners also observed that Level 3 fair value measurements are diverse in nature across all companies, and, therefore, the disclosure is not comparable across companies. Preparers also explained that disclosing the range and weighted average of unobservable inputs today is a significant ongoing cost because the amounts are typically calculated manually and aggregated for disclosure purposes. However, practitioners and preparers noted that disclosure of the range and weighted average was feasible and agreed that most public companies already provide the range and weighted average. The Board decided to require this disclosure because it is useful for users' analyses, and although preparers explained that the disclosure is costly for them to provide, based on feedback received from stakeholders about current practice, the Board concluded that most public companies already have processes and policies in place to provide the information at a reasonable cost.

BC55. Some respondents expressed concern about the lack of a consistent method for calculating weighted average. Several of those respondents requested guidance on how the weighted average should be calculated to increase comparability across entities. Users said that it would help their analyses if an entity disclosed how it calculated the weighted average. The Board decided to require entities to disclose how they calculated the weighted average to address respondents' concerns about consistency in determining the weighted average disclosure and to provide additional transparency for users.

BC56. Respondents also were concerned that there is no way to meaningfully calculate a weighted average for numerous unobservable inputs, particularly unobservable inputs used to develop fair value measurements of derivative instruments. Practitioners and preparers said that most entities do not disclose the weighted average for unobservable inputs used to develop fair value measurements of derivative instruments because it is not a meaningful disclosure. This is because weighting by notional value may distort the weighted average. Notional values are not directly linked to fair values and weighting by fair value

creates variability in the weighted average from period to period, even if the Level 3 inputs have not changed because of the variability of any observable inputs used in the fair value measurement. Those respondents suggested that entities should be exempt from disclosing the weighted average of unobservable inputs for those instruments. Users acknowledged that a weighted average may not be meaningful for certain inputs, such as those used to develop fair value measurements of derivative instruments. Therefore, the Board decided that if for certain unobservable inputs (for example, unobservable inputs used to develop fair value measurements of derivative instruments) an entity determined that other quantitative information (for example, the median or arithmetic average) would be a more reasonable and rational method to reflect the distribution of unobservable inputs used to develop Level 3 fair value measurements than the weighted average, the entity may disclose that quantitative information in lieu of the weighted average.

Time Period Used to Develop Significant Unobservable Inputs

BC57. In discussing Level 3 fair value measurements, the Board considered whether disclosing a narrative description of the basis for the quantitative information about significant unobservable inputs used in the fair value measurement would add to a user's understanding. For example, if the unobservable input for a commercial mortgage-backed security was a constant prepayment rate, an entity would describe the basis for the constant prepayment rate as that of prepayment rates on similar portfolios of securities collected between 19X0 and 20X9. As another example, if the unobservable input for a direct venture capital investment was the weighted-average cost of capital, an entity would describe management's basis for its estimate of the weighted-average cost of capital as management's view of the riskiness of the investment. Most users indicated that this information about the basis would be obvious and would not be used in their analyses. However, some users indicated that although it would be obvious that prepayment rates were the basis from which to develop the fair value of commercial mortgage-backed securities, the time period of the prepayment rates that was used to develop the fair value measurement potentially could be useful in their analyses. The Board decided not to require this narrative description.

BC58. On the basis of this feedback from users, the Board considered requiring an entity to disclose the time period used to develop significant unobservable inputs for fair value measurements categorized within Level 3 of the fair value hierarchy. This requirement was included in the proposed Update because users said that the time period of the unobservable inputs that was used to develop the fair value measurement could be helpful in their analyses. Additionally, the Board noted that the disclosure was indicated by the concepts because it provides detail about the significant estimates, assumptions, judgments, and inputs to help users understand how the fair value measurement was determined.

BC59. Some preparer and practitioner respondents agreed with the disclosure of the time period and said it would provide context to help users understand the weighted average of significant unobservable inputs. During additional outreach, users indicated that the time period might be interesting information because the disclosure would allow them to gain a deeper understanding of management's assumptions. However, users indicated that this disclosure would not be a critical piece to their analyses.

BC60. Most respondents disagreed with the proposed disclosure. Those respondents said that the time period is not a distinct variable in systems and would require substantial analysis and management judgment to provide, which would be time consuming and costly. Respondents also said that the disclosure would not inform users on how the time period was weighted or adjusted in the development of Level 3 fair value measurements, which would be misleading because fair value measurements are commonly adjusted to management's discretion to estimate exit prices at the reporting date.

BC61. On the basis of feedback from preparers, practitioners, and users, the Board acknowledges that the expected incremental benefit provided to users from the disclosure would not justify the expected cost for preparers to aggregate the information. Therefore, the Board decided not to require entities to disclose the time period used to develop significant unobservable inputs for fair value measurements categorized within Level 3 of the fair value hierarchy.

Transfers between Level 1 and Level 2 of the Fair Value Hierarchy

BC62. The Board decided to remove the requirement to disclose the amounts of and reasons for transfers between Level 1 and Level 2 of the fair value hierarchy.

BC63. The concepts in the Concepts Statement indicate that the Board should consider whether disclosure of uncertainty in measurement should be provided; however, generally, the only reason for a transfer from Level 1 to Level 2 or vice versa is a change in the availability of market prices, which is embedded within the definitions of Level 1 and Level 2 of the fair value hierarchy.

BC64. Although some users indicated that transfers between levels indicate strengthening of or deterioration in markets; this is not frequently the case. Most users do not find this disclosure useful because the fair value measurements for each level are based on observable market prices and these users agreed that the removal would not result in eliminating decision-useful information about fair value measurements. Respondents supported removing this requirement because it could result in significant cost savings for entities.

BC65. The Board notes the lack of a clear distinction between less active Level 1 fair value measurements and Level 2 fair value measurements based on prices of instruments trading in an active market. Therefore, the Board removed this disclosure requirement because it is not cost beneficial and it also can be misleading about the liquidity of the securities in an entity's portfolio.

Other Disclosures That Are Not Indicated by the Concepts in the Concepts Statement

BC66. The Board decided to remove other disclosure requirements that are not indicated by the concepts in the Concepts Statement and/or are not deemed to provide cost-beneficial information. Those disclosure requirements include (a) the policy for timing of transfers between levels and (b) the valuation processes for Level 3 fair value measurements. Respondents supported those removals.

Disclosure Exemptions

BC67. In accordance with the amendments in this Update, nonpublic entities are exempt from providing the following disclosures:

- a. The changes in unrealized gains and losses for the period included in earnings (or changes in net assets) and other comprehensive income for recurring Level 3 fair value measurements held at the end of the reporting period
- b. The range and weighted average of significant unobservable inputs used to develop fair value measurements categorized within Level 3 of the fair value hierarchy
- c. A reconciliation of the opening balances to the closing balances of recurring Level 3 fair value measurements.

BC68. In lieu of the Level 3 rollforward disclosure requirement, the amendments in this Update require nonpublic entities to separately disclose changes during the period attributable to the following:

- a. Purchases and issues
- b. The amounts of any transfers into or out of Level 3 of the fair value hierarchy and the reasons for those transfers. Transfers into Level 3 should be disclosed and discussed separately from transfers out of Level 3.

BC69. The Private Company Decision-Making Framework indicates that private companies should generally be exempt from disclosing disaggregated information such as quantitative details about the composition of certain income statement or balance sheet items and a tabular reconciliation of the beginning and ending balances of balance sheet accounts, even if the reconciliation provides information

on common areas of focus of typical users of private company financial statements. Private company users have indicated that the public accountant's report is sufficient confirmation that the inputs and assumptions underlying the information recognized in financial statements, such as fair value measurements, are reasonable and that they can obtain details, if necessary, from management.

BC70. Respondents noted that all nonpublic entities should have the benefit of the same exemptions as private companies. Respondents to the proposed Update and members of the PCC agreed that users of nonpublic entities generally have greater access to management and, accordingly, may be able to obtain additional information they may require. Respondents said that the benefits do not justify the costs of these disclosures for nonpublic entities and observed that the exemptions would not remove or exclude cost-beneficial information for nonpublic entity financial statements.

BC71. The Board concluded that users of the financial statements of nonpublic entities, including private companies and nonpublic employee benefit plans and not-for-profit organizations, possess different characteristics than the users of financial statements of public entities. Nonpublic entity users do not seek the same level of detailed information as users of public company financial statements, especially regarding disaggregated information and inputs and assumptions underlying the information recognized in financial statements. On this basis, the Board decided that all nonpublic entities should be extended the same exemptions as private companies. The Board decided that nonpublic entities should be required to disclose purchases, issues, and transfers into or out of Level 3 of the fair value hierarchy in lieu of the Level 3 rollforward because it is important for nonpublic entity users to be able to identify when the entity has either increased its Level 3 assets and liabilities or transferred assets or liabilities into or out of Level 3, which could signal an increase or decrease in uncertainty of the fair value measurements.

Effective Date and Transition

BC72. The amendments in this Update are effective for all entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019.

BC73. The Board decided that entities should apply a prospective method of transition for disclosure of (a) changes in unrealized gains and losses, (b) the range and weighted average of significant unobservable inputs used to develop fair value measurements categorized within Level 3 of the fair value hierarchy, and (c) the narrative description of measurement uncertainty. All other amendments

should be applied retrospectively. Early adoption is permitted upon issuance of this Update. An entity is permitted to early adopt any removed or modified disclosures upon issuance of this Update and delay adoption of the additional disclosures until their effective date.

BC74. The Board concluded that the benefits of retrospective application would not justify the costs for the amendments that would require entities to disclose new quantitative information. In regard to the measurement uncertainty disclosure, the Board concluded that qualitatively discussing measurement uncertainty for more than a year in the past seemed outdated, especially because entities no longer may hold those assets and liabilities that are part of the discussion. Therefore, the Board decided to require a prospective method of transition for those disclosures.

BC75. For all other amendments in this Update, the Board decided that retrospective application would improve comparability of financial information across all periods presented. Retrospective application removes disclosures that have been deemed by the Board not to be sufficiently decision useful, and the benefits of retrospective application justify the costs for those disclosures. Additionally, the Board does not expect that retrospective application will result in significant costs for entities.

BC76. The Board decided that the amendments in this Update should be effective for all entities on the same date. The amendments are narrow in scope and most of them would remove disclosures that the Board has deemed to no longer be cost beneficial. Because the amendments do not add any new disclosures for nonpublic entities, the Board decided that it was unnecessary to delay the effective date for entities other than public business entities.

Comparison with International Financial Reporting Standards (IFRS Standards)

BC77. International Financial Reporting Standards No. 13, *Fair Value Measurement*, defines fair value, sets out a single framework for measuring fair value, and requires disclosures about fair value measurements for financial statements prepared in conformity with international accounting standards. The FASB and the International Accounting Standards Board (IASB) previously worked together on a project finalized in 2011 to develop common fair value measurement and disclosure requirements in GAAP and IFRS Standards and improve their understandability. The amendments in this Update do not change the guidance on measuring fair value; therefore, the Boards' previous work on developing common measurement requirements remains effective.

BC78. The amendments in this Update relate to disclosures only and remove disclosures that are no longer considered cost beneficial, clarify the specific requirements of disclosures, and add disclosure requirements identified as broadly relevant. The amendments create differences in disclosures based on the FASB's and the IASB's differing assessments on financial statement users' needs and the application of the concepts in the Concepts Statement to the disclosures required by Topic 820.

Benefits and Costs

BC79. The objective of financial reporting is to provide information that is useful to present and potential investors, creditors, donors, and other capital market participants in making rational investment, credit, and similar resource allocation decisions. However, the benefits of providing information for that purpose should justify the related costs. Present and potential investors, creditors, donors, and other users of financial information benefit from improvements in financial reporting, while the costs to implement new guidance are borne primarily by present investors. The Board's assessment of the costs and benefits of issuing new guidance is unavoidably more qualitative than quantitative because there is no method to objectively measure the costs to implement new guidance or to quantify the value of improved information in financial statements.

BC80. The objective and primary focus of the disclosure framework project are to improve the effectiveness of disclosures in notes to financial statements by clearly communicating the information that is most important to users of each entity's financial statements. Financial statement users indicated that the new disclosure requirements will provide information that is meaningful to their analyses. The clarifications to existing disclosures will improve the effectiveness of existing disclosures by more clearly communicating the disclosure requirements. The majority of the amendments remove disclosures that are not deemed cost beneficial.

BC81. The Board anticipates that entities will not incur significant costs because of the amendments in this Update. The amendments do not create new accounting requirements other than the additional quantitative disclosures for which entities can most likely leverage already available information. The decision-useful information available to users for analysis of fair value measurements will be maintained and potentially improved. Therefore, the Board decided that the expected benefits of the amendments justify the expected costs.

Amendments to the XBRL Taxonomy

The amendments to the *FASB Accounting Standards Codification*[®] in this Accounting Standards Update require improvements to the U.S. GAAP Financial Reporting Taxonomy (Taxonomy). Those improvements, which will be incorporated into the proposed 2019 Taxonomy, are available through Taxonomy Improvements provided at www.fasb.org, and finalized as part of the annual release process.