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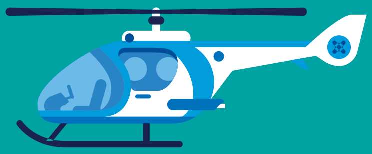

Defining Issues®

FASB amends fair value measurement disclosure requirements

August 30, 2018

As part of its disclosure framework project, the FASB has eliminated, amended and added disclosure requirements for fair value measurements.[1]

Applicability

All companies that are required to make disclosures about fair value measurements. Nonpublic companies continue to be exempt from some of the disclosure requirements.

Key facts and impacts

- The amended fair value disclosures are part of the FASB's disclosure review project that tests the effectiveness of its disclosure framework.[2]
- The FASB also made changes to its defined benefit pension and other postretirement benefit plan disclosure requirements.[3] It is continuing its review of disclosures in interim periods, inventory, income taxes and government grants.
- The ASU eliminates, amends and adds disclosure requirements for fair value measurements. These amendments are expected to reduce costs for preparers while providing more decision-useful information for financial statement users.

Testing the disclosure framework

To test the disclosure framework, the FASB applied it to its disclosure requirements for fair value measurements. The FASB concluded that these changes improve the overall usefulness of the disclosure requirements for financial statement users, and reduce costs by eliminating disclosures that may not be decision-useful.

The FASB concluded that most of the existing disclosure requirements were appropriate when applied against the disclosure framework and therefore, most of the existing disclosure requirements remain unchanged by the ASU.

Eliminated disclosures

Based on its review and input provided by a variety of stakeholders, the FASB eliminated four disclosures. The FASB concluded that these disclosures do not provide information that is beneficial given the costs to prepare them.

[1] ASU 2018-13, Disclosure Framework – Changes to the Disclosure Requirements for Fair Value Measurement, August 28, 2018

[2] FASB Concepts Statement 8, Conceptual Framework for Financial Reporting – Chapter 8, Notes to Financial Statements, August 28, 2018

[3] ASU 2018-14, Disclosure Framework -- Changes to the Disclosure Requirements for Defined Benefit Plans, August 28, 2018

Table 1: Eliminated disclosure requirements	
Disclosures	**Why?**
Amount of, and reasons for, transfers between Level 1 and Level 2 of the fair value hierarchy.	Most financial statement users do not find this information useful and removing it significantly reduces costs for preparers.
The policy of timing of transfers between levels of the fair value hierarchy.	This disclosure does not provide cost-beneficial information.
The valuation processes for Level 3 fair value measurements.	This disclosure does not provide cost-beneficial information.
For nonpublic companies, the changes in unrealized gains and losses for the period included in earnings for recurring Level 3 fair value measurements for instruments held at the end of the reporting period.	Based on the Private Company Decision-Making Framework[4], private companies should generally be exempt from providing disaggregated information. The FASB decided to remove this disclosure requirement for nonpublic companies.

Amended disclosures

The FASB amended and clarified disclosures that it believes will be decision-useful to financial statement users.

Table 2: Amended disclosure requirements	
Disclosures	**Why?**
Nonpublic companies are required to disclose transfers into and out of Level 3 assets and liabilities, as well as purchases and issues of Level 3 assets and liabilities instead of providing a detailed roll-forward.	The FASB decided that nonpublic companies did not need to provide a detailed roll-forward. However, the FASB said that the other disclosures were important, because users needed to know if Level 3 assets or liabilities have changed.
For investments in certain companies that calculate net asset value, disclosures are only required for the timing of liquidation of an investee's assets, and the date when restrictions from redemption might lapse, if the investee has communicated the timing to the investor or has publicly announced it.	— The FASB concluded that the estimated timing does not explain an input for investments measured at net asset value and does not need to be disclosed. — However, the FASB acknowledged that the timing is useful information, and decided to continue with this disclosure when a company has knowledge of the timing.
The measurement uncertainty disclosure communicates information about the uncertainty as of the reporting date.	Stakeholders indicated that there was confusion about the terms 'sensitivity analysis' and 'measurement uncertainty'. The FASB clarified that the disclosure relates to significant unobservable inputs as of the measurement date, and does not relate to their possible future changes.

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Table 2: Amended disclosure requirements	
Disclosures	**Why?**
Removed the term 'at a minimum' from the disclosure requirements.	The FASB wanted to make it clear that materiality is an appropriate consideration and promote the appropriate exercise of discretion.

New disclosure requirements for public companies

The FASB added new disclosure requirements for Level 3 measurements that it believes will be decision-useful to financial statement users that can be provided cost effectively. These new disclosures are **not** required for nonpublic companies.

Table 3: New disclosure requirements for public companies	
Disclosures	**Why?**
Changes in unrealized gains and losses for the period included in other comprehensive income (OCI).	This disclosure helps users understand components of a line item that affect net cash flows.
— The range and weighted average of significant unobservable inputs used. — Alternatively, a company may choose to disclose other quantitative information (e.g. median or arithmetic average) if it determines that is a more reasonable and rational method that reflects the distribution of unobservable inputs used.	— Financial statements users said that this information can be used as a starting point in their analyses, and is used to assess the reasonableness of management's assumptions. — The FASB allowed the disclosure of other quantitative information as a substitute based on feedback received from practitioners and preparers that this information would be more meaningful.

Effective dates and transition

	All companies
Annual periods – Fiscal years beginning after	December 15, 2019
Interim periods – Fiscal years beginning after	December 15, 2019
Early adoption allowed?	— Yes, for any period for which financial statements have not yet been issued or have not yet been made available for issuance. — Furthermore, an entity is permitted to early adopt any eliminated or modified disclosure requirements and delay adoption of the additional disclosure requirements until their effective date.

	All companies
Retrospective transition required?	Yes for all amendments except: — changes in unrealized gains and losses included in OCI for Level 3 instruments; — the range and weighted average of significant unobservable inputs; and — the narrative description of measurement uncertainty. These amendments are required to be applied prospectively for only the most recent interim or annual period presented in the initial fiscal year of adoption.

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KPMG's Financial Reporting View

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