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Accounting Journal Entry

# FASB Issues Final Standard on Classification and Measurement of Financial Instruments

**January 5, 2016** — Today, the FASB issued ASU 2016-01,[1] which makes limited amendments to the guidance in U.S. GAAP on the classification and measurement of financial instruments. The new standard significantly revises an entity's accounting related to (1) the classification and measurement of investments in equity securities and (2) the presentation of certain fair value changes for financial liabilities measured at fair value. It also amends certain disclosure requirements associated with the fair value of financial instruments. Some of the major changes as a result of the ASU are summarized below.

## Classification and Measurement of Equity Investments

The amendments require equity investments (excluding those accounted for under the equity method or those that result in consolidation) to be measured at fair value, with changes in fair value recognized in net income. An entity may elect to measure at cost equity investments for which fair value is not readily determinable, minus impairment, if any, plus or minus the change as a result of an observable price change.

The amendments also simplify the impairment assessment of equity investments for which fair value is not readily determinable by requiring an entity to perform a qualitative assessment to identify impairment. If qualitative indicators are identified, the entity will be required to measure the investment at fair value.

## Presentation of Certain Fair Value Changes for Financial Liabilities Measured at Fair Value

For financial liabilities that an entity has elected to measure at fair value in accordance with the fair value option guidance in ASC 825,[2] the amendments require an entity to present separately in other comprehensive income the portion of the change in fair value that results from a change in instrument-specific credit risk.

## Certain Disclosures Associated With the Fair Value of Financial Instruments

For public business entities (PBEs), the amendments (1) eliminate the requirement to disclose the method(s) and significant assumptions used to estimate fair value for financial instruments measured at amortized cost and (2) require, for disclosure purposes, the use of an exit price notion in the determination of the fair value of financial instruments measured at amortized cost.

For non-PBEs, the amendments eliminate the requirement to disclose fair value of financial instruments measured at amortized cost.

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[1] FASB Accounting Standards Update No. 2016-01, *Recognition and Measurement of Financial Assets and Financial Liabilities*.

[2] For titles of *FASB Accounting Standards Codification* (ASC) references, see Deloitte's "Titles of Topics and Subtopics in the *FASB Accounting Standards Codification*."

## Effective Date and Transition

The new standard is effective for PBEs for fiscal years beginning after December 15, 2017, including interim periods therein. For all other entities, including not-for-profit entities and employee benefit plans within the scope of ASC 960 through ASC 965 on plan accounting, the new standard is effective for fiscal years beginning after December 15, 2018, and interim reporting periods within fiscal years beginning after December 15, 2019. Upon adoption, entities will be required to make a cumulative-effect adjustment to the statement of financial position as of the beginning of the first reporting period in which the guidance is effective. The guidance on equity securities without readily determinable fair value will be applied prospectively to all equity investments that exist as of the date of adoption of the standard.

## Early Application

Early adoption is permitted for all entities whose financial statements have yet not been issued or have not yet been made available for issuance with respect to the following changes made to ASC 825:

- For financial liabilities measured under the fair value option, fair value changes resulting from a change in instrument-specific credit risk would be presented separately in other comprehensive income.
- The fair value disclosure requirements for financial instruments would be eliminated for non-PBEs.

Non-PBEs are permitted to early adopt the new standard when it becomes effective for PBEs (i.e., fiscal years beginning after December 15, 2017, including interim periods therein).

More information about the new standard will be available in Deloitte's upcoming *Heads Up* newsletter.