FASB Updates Fair Value Disclosures

On August 28, 2018, the Financial Accounting Standards Board (FASB) released Accounting Standards Update (ASU) 2018-13, *Fair Value Measurement (Topic 820): Disclosure Framework—Changes to the Disclosure Requirements for Fair Value Measurement*, refreshing the fair value disclosure requirements. The ASU eliminates disclosures FASB felt relied too heavily on subjective information that may have been misinterpreted and strengthens remaining disclosures to provide investors with increased transparency for the estimates and assumptions used in valuation.

FASB has developed early adoption guidance that companies should consider for financial statements that have not been issued or made available for issuance. An entity can early adopt any removed or modified disclosures and delay adoption of the new disclosures until their effective date in 2020.

**Effective Date**

**ASU 2018-13**

**All Entities**

Annual and interim reporting periods beginning after December 15, 2019

**Background**

The standard is the culmination of a project that started in 2015. FASB considered footnote reporting on fair value measurements as part of its multifaceted disclosure framework project, which also includes inventory, defined benefit plans and income taxes. The project is in response to criticism that quarterly and annual reports are increasing in length because of repetitive footnotes that can bury essential information.

Current guidance in Accounting Standards Codification 820, *Fair Value Measurement*, formerly Statement of Financial Accounting Standards No. 157, lays out how companies should estimate the fair value of assets and liabilities by using available, quantifiable data such as market prices, as well as judgments and estimates. The guidance separates the measurements into a three-tier fair value “hierarchy” depending on the level of judgment used to determine the fair value. Instruments valued as Level 1 rely on price quotes in active markets. Level 2 valuations use a broader range of information and can rely on price quotes from inactive markets, interest rates and a variety of methods used to price options and other derivative contracts. Level 3 valuations rely on information that is not publicly available, and the values are typically considered the least reliable.

**Flexible Disclosure Requirements**

The objective for the disclosures in Topic 820, *Fair Value Measurement*, is to provide financial statement users with information useful in assessing the following:

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

FASB considered—but ultimately rejected—industry-specific guidance that would have required financial institutions to provide more detail than other entities. The updated guidance applies to all industries and management’s judgment will be required to determine the appropriate level of detail. The ASU eliminates “at a minimum” from the phrase “an entity shall disclose at a minimum” to make it easier for an entity to justify omitting immaterial disclosures.
The ASU eliminates the following disclosures:

- The amount of and reasons for transfers between Level 1 and Level 2 of the fair value hierarchy
- The timing policy for transfers between levels. Currently, an entity is required to disclose and follow a consistent policy for the timing of transfers between fair value levels, e.g., event date, beginning or end of the period. An entity must still apply a consistent policy for the timing of transfers. However, it would no longer have to disclose the policy
- The valuation processes for Level 3 fair value measurements
- For nonpublic entities1, the change in unrealized gains and losses for the period included in earnings for Level 3 recurring measurements held at the end of the reporting period

The following disclosure requirements are modified:

- Nonpublic entities are no longer required to prepare a rollforward for Level 3 instruments. However, they will be required to disclose transfers into and out of Level 3 and purchases and issues—disclosed separately—of Level 3 assets
- For investments in certain entities that calculate net asset value, companies will be required to disclose the estimated timing of liquidation of an investee’s assets and the date when redemption restrictions might lapse only if the investee has communicated that information to the reporting entity or announced the time publicly. The reporting entity will only disclose if the timing is unknown
- The measurement uncertainty disclosure relates to uncertainty in measurement as of the reporting date rather than sensitivity to changes in the future. The disclosure intends 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

New disclosures for public business entities:

- The changes in unrealized gains and losses for the period included in earnings and other comprehensive income for recurring Level 3 fair value measurements held at the end of the reporting period (in a departure from the proposal, Level 1 and 2 rollforwards are not required)
- For recurring Level 3 instruments, the range, weighted average and time period used to develop significant unobservable inputs. For certain unobservable inputs, a company may disclose other quantitative information, such as the median or arithmetic average, in lieu of the weighted average, if it is a more reasonable and rational method to reflect the distribution of unobservable inputs. For example, the notional value of a derivative may skew a weighted average calculation. An entity does not need to disclose its reason for omitting the weighted average in these cases

Transition & Effective Date

These amendments should be applied prospectively for disclosure of the changes in unrealized gains and losses, the range and the weighted average used to develop significant unobservable inputs for Level 3 instruments and the narrative description of measurement uncertainty. All other changes should be applied retrospectively.

The amendments are effective for all entities for interim and annual reporting periods beginning after December 15, 2019. Early adoption is permitted for all entities. An entity is permitted to early adopt any removed or modified

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1 Nonpublic entities include private companies, nonpublic employee benefit plans and not-for-profit organizations.
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disclosures upon issuance of this ASU for which financial statements have not been issued or made available for issuance and delay adoption of the additional disclosures until their effective date.

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