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Fair Value Measurement (Topic 820) – Changes to the Disclosure Requirements for Fair Value Measurement

FASB Accounting Standards Update No. 2018-13 (Issue Date: August 2018)
Link to Standard: Update No. 2018-13.

Overview

The Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2018-13, Fair Value Measurement (Topic 820): Disclosure Framework – Changes to the Disclosure Requirements for Fair Value Measurement, in August 2018.

This update is part of the FASB's overall disclosure framework project, which is primarily focused on improving the effectiveness of required Generally Accepted Accounting Principles (GAAP) disclosures for users of the financial statements. The update modifies required fair value disclosures related primarily to level 3 investments. In their endeavor to improve disclosure quality, Topic 820 has been revised by removing, modifying and adding certain requirements. This ASU applies to all entities that are required to provide disclosures about recurring or nonrecurring fair value measurements. Non-public companies are exempt from certain existing and revised requirements of the standard.

ASU 2018-13 eliminates disclosures that the FASB believed were too heavily reliant on subjective information that may have been misinterpreted and strengthens existing disclosures to provide financial statement users with a firmer understanding surrounding the estimates and assumptions used in valuations.

Background

A summary of changes to Topic 820 is included below. The following disclosure requirements were removed, as the cost of preparing and maintaining these disclosures was deemed to be greater than the resulting usefulness of the information.

- The amount of and reasons for transfers between Level 1 and Level 2 of the fair value hierarchy.
- The policy for timing of transfers between levels.
- The valuation processes for Level 3 fair value measurements.
- 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.

The following disclosure requirements were modified.

- 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.

- 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.
- The amendments clarify that the measurement uncertainty disclosure is to communicate information about the uncertainty, not necessarily the sensitivity, in measurement as of the reporting date.

The following disclosure requirements were added, because it was deemed to be cost-beneficial and enhanced disclosure usefulness and transparency. These new disclosures are not required for non-public companies.

- 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.
- 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.

The words "at a minimum" were eliminated from the phrase "an entity shall disclose at a minimum" throughout the guidance 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.

Insights

We believe this ASU balances the needs of financial statement users and the cost of compliance by the financial statement preparers. Topic 820 continues to provide those aspects of requirements that are most meaningful to users, while eliminating areas that had become burdensome to preparers and deemed to be less valuable to users of the statements.

The Topic also maintains reasonable exemptions for non-public companies.

Further, 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 is maintained and provides these users with insights as to the reasonableness of management's assumptions.

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Final Thoughts

Entities will need to consider their current fair value reporting, and make a decision as to whether they should early adopt this ASU. 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.

	Effective Date Public Entity	Non-Public Entity
Interim Periods	Beginning after December 15, 2019	Beginning after December 15, 2019
Annual Periods	Beginning after December 15, 2019	Beginning after December 15, 2019

The amendments relating to 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.

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Please look for future updates on other technical accounting matters at www.fidatopartners.com

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