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## FASB Issues Guidance on Management's Assessment of Subsequent Events.

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### Background

On May 28, 2009, the FASB issued Statement 165,<sup>1</sup> which provides guidance on management's assessment of subsequent events. Historically, management had relied on U.S. auditing literature for guidance on assessing and disclosing subsequent events. Statement 165 represents the inclusion of guidance on subsequent events in the accounting literature and is directed specifically to management, since management is responsible for preparing an entity's financial statements.

Statement 165 is not expected to significantly change practice because its guidance is similar to that in AU Section 560,<sup>2</sup> with some important modifications (discussed below). The new standard clarifies that management must evaluate, as of each reporting period, events or transactions that occur after the balance sheet date "through the date that the financial statements are issued or are available to be issued." Management must perform its assessment for both interim and annual financial reporting periods.

### Effective Date

Statement 165 is effective prospectively for interim or annual financial periods ending after June 15, 2009. Therefore, for calendar-year entities, it would be effective for the second quarter of 2009.

**Editor's Note:** Subsequent events for which other existing U.S. GAAP already provide accounting and disclosure guidance are outside the scope of Statement 165. This scope exception was particularly necessary for some of the existing guidance that conflicted with Statement 165 (e.g., Statement 5,<sup>3</sup> Interpretation 48,<sup>4</sup> and Statement 128<sup>5</sup>).

### New Concept of "Available to Be Issued"

Statement 165 defines subsequent events as "events or transactions that occur after the balance sheet date but before financial statements are issued **or are available to be issued**" (emphasis added). According to paragraph 6 of Statement 165, "Financial statements are considered available to be issued when they are complete in a form and format that complies with GAAP and all approvals necessary for issuance have been obtained, for example, from management, the board of directors, and/or significant shareholders."

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<sup>1</sup> FASB Statement No. 165, *Subsequent Events*.

<sup>2</sup> AICPA *Professional Standards*, AU Section 560, "Subsequent Events."

<sup>3</sup> FASB Statement No. 5, *Accounting for Contingencies*.

<sup>4</sup> FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* — an interpretation of FASB Statement No. 109.

<sup>5</sup> FASB Statement No. 128, *Earnings per Share*.

Statement 165  
requires  
management to  
disclose the date  
through which  
subsequent events  
have been evaluated.

In paragraph A11 of Statement 165, the Board indicates that the concept of “available to be issued” typically applies **to entities that do not expect to widely distribute their financial statements to third parties** upon completion (e.g., smaller nonpublic entities). Because the financial statements of such entities may not be issued or widely distributed for some time after they are prepared, these entities are not required to “continue to evaluate subsequent events for an extended period of time following the completion of the financial statements.” Such entities, however, must evaluate subsequent events that have occurred on or before the available-to-be-issued date.

Statement 165 clarifies that **public entities<sup>6</sup> and other entities that expect to widely distribute financial statements** to shareholders and other financial statement users should evaluate subsequent events through the date on which the financial statements are issued. The Statement further clarifies that SEC registrants should also consider the guidance in Topic D-86.<sup>7</sup>

## Two Types of Subsequent Events

Statement 165 does not change the recognition and disclosure requirements in AU Section 560 for Type I and Type II subsequent events; however, Statement 165 refers to them as recognized (Type I) and nonrecognized subsequent events (Type II).

## Disclosures

Statement 165 requires management to disclose, in addition to the disclosures in AU Section 560, the date through which subsequent events have been evaluated and whether that is the date on which the financial statements were issued or were available to be issued. The Board believes this disclosure is particularly important because it indicates to users that the entity’s financial statements do not reflect events or transactions that have occurred after the disclosed date. This disclosure requirement is similar to that under IFRSs.<sup>8</sup>

Statement 165 clarifies that when an entity may have to reissue its financial statements (e.g., in reports filed with the SEC or other regulatory agencies), the entity should **not** recognize the effects of events or transactions occurring between the original issuance (or date the financial statements were available to be issued) and reissuance of the financial statements, unless the adjustment is required by U.S. GAAP (e.g., a correction of an error) or by regulatory requirements. However, if financial statements are reissued, management “shall disclose the date through which subsequent events have been evaluated in both the originally issued financial statements and the reissued financial statements.”

Statement 165 also indicates that management should consider supplementing historical financial statements with the pro forma impact of nonrecognized subsequent events if the event is so significant that disclosure of the event could be best made through the use of pro forma financial data.

<sup>6</sup> For the definition of a public entity, see paragraph 7 of Statement 165.

<sup>7</sup> EITF Topic No. D-86, “Issuance of Financial Statements.”

<sup>8</sup> For guidance on subsequent events in IFRSs, see IAS 10, *Events After the Reporting Period*.

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