

## Heads Up

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## Level With Me

# FASB Proposes to Clarify the Applicability of a Fair Value Disclosure for Nonpublic Entities

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On January 7, 2013, the FASB issued a [proposed ASU](#)<sup>1</sup> to clarify the applicability of a fair value disclosure requirement under ASC 825<sup>2</sup> as amended by ASU 2011-04.<sup>3</sup> The proposed ASU would clarify that **all nonpublic entities**<sup>4</sup> are exempt from having to disclose the fair value hierarchy level (i.e., Level 1, 2, or 3) for fair value measurements of financial assets and financial liabilities that are disclosed in the footnotes to the financial statements but not reported at fair value in the statement of financial position.

**Editor's Note:** An entity's own debt measured at amortized cost in the statement of financial position is an example of a financial liability that is not reported at fair value in the statement of financial position and whose fair value is disclosed in the footnotes to the financial statements.

The proposal's 15-day comment period ends on January 22, 2013.

## Background

ASU 2011-04, issued in May 2011, is effective for interim and annual periods beginning after December 15, 2011, for public entities and for annual periods beginning after December 15, 2011, for nonpublic entities. Recently, some nonpublic constituents have expressed concerns about duplication and potential conflicts in the guidance in ASC 820-10-50 and ASC 825-10-50, as amended by ASU 2011-04. As noted in the proposed ASU, these constituents observed that (1) the existence of similar disclosure requirements in both Codification topics creates "the potential for overlap and unnecessary redundancy" and (2) the cross-referencing between ASC 820-10-50 and ASC 825-10-50 is potentially confusing because the nonpublic entity exemptions appear to conflict with one another and with the Board's objectives in issuing ASU 2011-04. Many nonpublic entities will adopt the guidance in ASU 2011-04 for the first time when preparing their December 31, 2012, financial statements and have requested clarification about their disclosure requirements.

<sup>1</sup> FASB Proposed Accounting Standards Update, *Financial Instruments: Clarifying the Scope and Applicability of a Particular Disclosure to Nonpublic Entities*.

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

<sup>3</sup> FASB Accounting Standards Update No. 2011-04, *Fair Value Measurement: Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs*.

<sup>4</sup> The Codification Master Glossary defines a nonpublic entity as follows:

"Any entity that does not meet any of the following conditions:

- a. Its debt or equity securities trade in a public market either on a stock exchange (domestic or foreign) or in the over-the-counter market, including securities quoted only locally or regionally.
- b. It is a conduit bond obligor for *conduit debt securities* that are traded in a public market (a domestic or foreign stock exchange or an over-the-counter market, including local or regional markets).
- c. It files with a regulatory agency in preparation for the sale of any class of debt or equity securities in a public market.
- d. It is controlled by an entity covered by the preceding criteria."

When deliberating ASU 2011-04, the FASB concluded that some fair value disclosures should not be required for nonpublic entities “because of the characteristics of the users of their financial statements.”

## Proposed Clarification

When deliberating ASU 2011-04, the FASB concluded that some fair value disclosures should not be required for nonpublic entities “because of the characteristics of the users of their financial statements.”<sup>5</sup> For example, for items not reported in the statement of financial position at fair value, ASC 820-10-50-2F exempts nonpublic entities from the requirement to disclose the level of the fair value hierarchy “unless required by another Topic.”

**Editor’s Note:** The phrase “unless required by another Topic” is the source of constituent confusion because ASC 825 requires such disclosure; however, it also exempts some nonpublic entities but not those with assets greater than \$100 million or have derivative instruments.<sup>6</sup>

To clarify the Board’s original intent in ASU 2011-04, the proposed ASU would add ASC 825-10-50-3A, which states that a “nonpublic entity is **not required** to provide the disclosure in paragraph 825-10-50-10(d) for items disclosed at fair value but not measured at fair value in the statement of financial position” (emphasis added). Under ASC 825-10-50-10(d), entities must disclose the “level of the fair value hierarchy within which the fair value measurements are categorized in their entirety (Level 1, 2, or 3).”

**Editor’s Note:** The proposed ASU does not address other redundancies under ASC 820 and ASC 825 (e.g., both require a description of the valuation method and inputs to the fair value measurement). The FASB noted that reviewing such guidance would require a separate comprehensive project and that it did not want to delay issuing the proposed ASU.

## Effective Date and Transition

The amendments in the proposed ASU do not contain transition guidance and would be effective upon issuance of a final ASU. Thus, a nonpublic entity with a December 31, 2012, year-end would apply the amendments to its 2012 annual financial statements.

**Editor’s Note:** The FASB deliberated the merits of including these amendments in its next round of technical corrections and improvements; however, because many nonpublic entities are adopting ASU 2011-04 now, the FASB decided to issue the amendments separately as a proposed ASU.

<sup>5</sup> See paragraph BC106 of ASU 2011-04.

<sup>6</sup> See ASC 825-10-50-3.

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