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FASB Approves Changing U.S. GAAP Presentation and Disclosure Requirements if Related SEC Regulations Are Removed

Introduction

On October 9, 2023, the FASB issued [ASU 2023-06](#),¹ which amends the disclosure or presentation requirements related to various subtopics in the FASB Accounting Standards Codification (the “Codification”). The ASU was issued in response to the SEC’s August 2018 [final rule](#)² that updated and simplified disclosure requirements that the SEC believed were “redundant, duplicative, overlapping, outdated, or superseded.” The new guidance is intended to align U.S. GAAP requirements with those of the SEC and to facilitate the application of U.S. GAAP for all entities.

ASU 2023-06 applies to all reporting entities within the scope of the amended subtopics; therefore, one or more of the amendments may affect a large number of entities. Note that some of the amendments introduced by the ASU are technical corrections or clarifications of the FASB’s current disclosure or presentation requirements.

Background

In July 2016, as part of an overall disclosure effectiveness review initiative, the SEC proposed amendments that would update and simplify its disclosure requirements. The purpose of those amendments was to eliminate disclosure requirements that were “redundant,

¹ FASB Accounting Standards Update (ASU) No. 2023-06, *Disclosure Improvements: Codification Amendments in Response to the SEC’s Disclosure Update and Simplification Initiative*.

² SEC Final Rule Release No. 33-10532, *Disclosure Update and Simplification*.

duplicative, overlapping, outdated, or superseded” as a result of subsequent changes to SEC disclosure requirements, U.S. GAAP, IFRS® Accounting Standards, or technology. After evaluating the comment letters received from an array of stakeholders, the SEC issued its final rule in August 2018. In the final rule, the SEC identified 27 disclosure requirements that were incremental to those in the Codification and referred them to the FASB “for potential incorporation into U.S. GAAP.” To avoid duplication, the SEC intended to eliminate those disclosure requirements from existing SEC regulations if the FASB incorporated them into the relevant Codification subtopics. The disclosure requirements are currently included in either SEC Regulation S-X or SEC Regulation S-K.

ASU 2023-06 adds 14 of the 27 identified disclosure or presentation requirements to the Codification. However, each amendment in the ASU will only become effective if the SEC removes the related disclosure or presentation requirement from its existing regulations by June 30, 2027 (see [Effective Dates](#)).

Almost all of the amendments introduced by ASU 2023-06 would also affect the financial statements of entities that are *not* subject to the SEC’s existing disclosure or presentation requirements since the ASU incorporates requirements from Regulation S-X and Regulation S-K into the Codification.

Main Provisions of ASU 2023-06

The table below summarizes the amendments to the Codification introduced by ASU 2023-06. For each subtopic, the table includes cross-references to (1) the specific Codification paragraph(s) affected by the applicable amendment and (2) the relevant disclosure requirement in Regulation S-X or Regulation S-K.

Codification Subtopic	Codification Paragraph(s)	SEC Rule	Summary of Amendment
ASC 230-10 Statement of Cash Flows: Overall	ASC 230-10-50-9	Regulation S-X, Rule 4-08(n)	In annual periods, requires disclosure of an entity’s accounting policy related to where in the statement of cash flows the entity presents cash flows associated with derivative instruments and the related gains and losses.
ASC 250-10 Accounting Changes and Error Corrections: Overall	ASC 250-10-50-6	Regulation S-X, Rule 10-01(b)(7)	When there has been a change in the reporting entity, requires disclosure of “any material prior-period adjustment and the effect of the adjustment on retained earnings in interim financial statements.”

(Table continued)

Codification Subtopic	Codification Paragraph(s)	SEC Rule	Summary of Amendment
ASC 260-10 Earnings per Share: Overall	ASC 260-10-50-1 ASC 260-10-55-51 and 55-52	Regulation S-X, Rule 10-01(b)(2)	"Requires disclosure of the methods used in the diluted earnings-per-share computation for each dilutive security and clarifies that certain disclosures should be made during interim periods." "Amends illustrative guidance to illustrate disclosure of the methods used in the diluted earnings-per-share computation."
ASC 270-10 Interim Reporting: Overall	ASC 270-10-45-12 ASC 270-10-45-19 ASC 270-10-50-1	Regulation S-X, Rule 10-01(b)(7)	Amends this subtopic to incorporate interim disclosure requirements upon a change in the reporting entity in the context of the changes made to ASC 250, as described previously.
ASC 440-10 Commitments: Overall	ASC 440-10-50-1	Regulation S-X, Rule 4-08(b)	"Requires disclosure of assets mortgaged, pledged, or otherwise subject to lien and the obligations collateralized."
ASC 470-10 Debt: Overall	ASC 470-10-15-1 ³ ASC 470-10-50-6 and 50-7 ⁴	Regulation S-X, Rule 5-02.19(b)	"Requires disclosure of amounts and terms of unused lines of credit and unfunded commitments and the weighted-average interest rate on outstanding short-term borrowings. Entities that are not public business entities are not required to provide information about the weighted-average interest rate."
ASC 505-10 Equity: Overall	ASC 505-10-50-4	Regulation S-X, Rule 4-08(d)	"Requires entities that issue preferred stock to disclose preference in involuntary liquidation if the liquidation preference is other than par or stated value."

³ The amendments to this paragraph apply to public business entities only.

⁴ See footnote 3.

(Table continued)

Codification Subtopic	Codification Paragraph(s)	SEC Rule	Summary of Amendment
ASC 815-10 Derivatives and Hedging: Overall	ASC 815-10-50-8C	Regulation S-X, Rule 4-08(n)	Adds a cross-reference to the Codification paragraph regarding the disclosure of cash flows associated with derivative instruments and related gains and losses in the statement of cash flows in ASC 230.
ASC 860-30 Transfers and Servicing: Secured Borrowing and Collateral	ASC 860-30-15-1 ASC 860-30-45-2 through 45-3 ASC 860-30-50-7 ⁵ ASC 860-30-50-9 through 50-12 ASC 860-30-55-4	Regulation S-X, Rule 4-08(m)	Requires the following: <ul style="list-style-type: none">• The inclusion of accrued interest “in the disclosure of liabilities incurred in securities borrowing or repurchase or resale transactions.”• “Separate presentation of the aggregate carrying amount of reverse repurchase agreements on the face of the balance sheet if that amount exceeds 10 percent of total assets.”• “Disclosure of the weighted-average interest rates of repurchase liabilities for public business entities.”• “Disclosure of amounts at risk with an individual counterparty if that amount exceeds more than 10 percent of stockholder’s equity.”• For reverse repurchase agreements that exceed 10 percent of total assets, disclosure of “whether there are any provisions in a reverse repurchase agreement to ensure that the market value of the underlying assets remains sufficient to protect against counterparty default and, if so, the nature of those provisions.”

⁵ The amendments to ASC 860-30-50-7(d) apply to public business entities only.

(Table continued)

Codification Subtopic	Codification Paragraph(s)	SEC Rule	Summary of Amendment
ASC 932-235 Extractive Activities — Oil and Gas: Notes to Financial Statements	ASC 932-235-50-2A	Regulation S-K, Item 302(b)	Clarifies that disclosure requirements in ASC 932-235-50-3 through 50-36 must be applied to each annual period presented in the financial statements.
ASC 946-20 Financial Services — Investment Companies: Investment Company Activities	ASC 946-20-50-11	Regulation S-X, Rule 6-04.17	Requires investment companies to “disclose the components of capital on the balance sheet.”
ASC 974-10 Real Estate — Real Estate Investment Trusts: Overall	ASC 974-10-50-1	Regulation S-X, Rule 3-15(c)	For annual reporting periods, requires disclosure “of the tax status of distributions per unit (for example, ordinary income, capital gain, and return of capital) for a real estate investment trust.”



Connecting the Dots

Although ASU 2023-06 incorporates certain existing or incremental requirements of Regulation S-X into the Codification, those amendments do not affect the information that is already included in the audited financial statements of entities subject to the SEC’s current disclosure or presentation requirements. However, for oil- and gas-producing entities, the Codification amendments that incorporate existing Regulation S-K requirements *could* affect the audited financial statements of such entities if they currently disclose such information outside the financial statements.

Paragraph BC24 of the ASU’s Background Information and Basis for Conclusions states:

Regulation S-K Item 302(b) provides requirements for supplemental financial information for oil- and gas-producing activities for SEC registrants. Regulation S-K Item 302(b) indicates that the disclosures should be presented in accordance with Subtopic 932-235, Extractive Activities — Oil and Gas — Notes to Financial Statements. Regulation S-K Item 302(b) states that disclosures that relate to annual periods should be presented for each annual period for which a specified financial statement is required. The Board decided that clarifying that the supplemental information in Subtopic 932-235 is required for each annual period for which a specified financial statement is required will improve GAAP by removing any ambiguity. The Board also noted that the clarification will not be costly for preparers because they should have the information from when it was disclosed in prior periods.

Entities within the scope of Regulation S-K, Item 302(b), will need to ensure that they are providing the necessary supplemental information for all required periods as part of the notes to the financial statements.

Adoption and Transition

Effective Dates

The effective dates of ASU 2023-06 will depend, in part, on whether an entity is already subject to the SEC’s current disclosure requirements. For such entities and those that must “file or furnish financial statements with or to the SEC in preparation for the sale of or for purposes of issuing securities that are not subject to contractual restrictions on transfer,” the effective date for each amendment will be the date on which the SEC’s removal of that related disclosure

requirement from Regulation S-X or Regulation S-K becomes effective, with early adoption prohibited. For all other entities, the amendments will be effective two years after the date of such removal.

Entities must apply the amended content to financial statements issued after the ASU's effective date.



Connecting the Dots

As noted in paragraph BC8 of the ASU's Background Information and Basis for Conclusions, the FASB believes "that aligning disclosure requirements improves consistency between public and private companies, which benefits users of other than public business entity financial statements and may reduce costs if a nonpublic entity decides to become a public entity."

For SEC registrants and entities "required to file or furnish financial statements with or to the SEC in preparation for the sale of or for purposes of issuing securities that are not subject to contractual restrictions on transfer," each amendment will be effective on the date on which the SEC removes the related disclosure requirement from Regulation S-X or Regulation S-K.

The amendments will be effective two years later for all other public business entities and private companies. These would include, for example, public business entities that are "required to file or furnish financial statements with a foreign or domestic regulatory agency in preparation for the sale of or for purposes of issuing securities that are not subject to contractual restrictions on transfer."

Transition

Entities would apply the amendments in ASU 2023-06 prospectively after the effective dates.

For all entities within the scope of the affected Codification subtopics, if by June 30, 2027, the SEC has *not* removed the applicable requirement from Regulation S-X or Regulation S-K, the pending content of the associated amendment will be removed from the Codification and will not become effective for any entities.

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