FASB issues new guidance on the recognition and measurement of financial instruments

On 5 January 2016, The Financial Accounting Standards Board (FASB) issued an Accounting Standards Update (ASU) intended to improve the recognition and measurement of financial instruments. The ASU affects public and private companies, not-for-profit organisations, and employee benefit plans that hold financial assets or owe financial liabilities.

The new standard significantly revises an entity's accounting related to:

1. the classification and measurement of investments in equity securities; and
2. the presentation of certain fair value changes for financial liabilities measured at fair value.

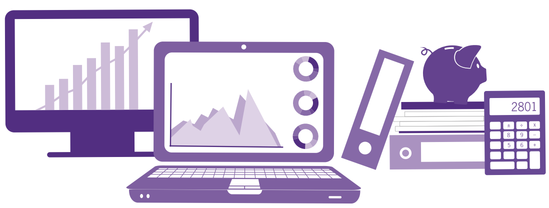
It also amends certain disclosure requirements associated with the fair value of financial instruments. Some of the major changes as a result of the ASU are summarised below.

The new guidance makes targeted improvements to existing US GAAP by:

- requiring equity investments (except those accounted for under the equity method of accounting, or those that result in consolidation of the investee) to be measured at fair value with changes in fair value recognised in net income;
- requiring public business entities to use the exit price notion when measuring the fair value of financial instruments for disclosure purposes;
- requiring separate presentation of financial assets and financial liabilities by measurement category and form of financial asset (that is, securities or loans and receivables) on the balance sheet or the accompanying notes to the financial statements;
- eliminating the requirement to disclose the fair value of financial instruments measured at amortised cost for organisations that are not public business entities;
- eliminating the requirement for public business entities to disclose the method(s) and significant assumptions used to estimate the fair value that is required to be disclosed for financial instruments measured at amortised cost on the balance sheet; and
- requiring a reporting organisation to present separately in other comprehensive income the portion of the total change in the fair value of a liability resulting from a change in the instrument-specific credit risk (also referred to as "own credit") when the organisation has elected to measure the liability at fair value in accordance with the fair value option for financial instruments.

The new standard is effective for public business entities for fiscal years beginning after 15 December 2017, including interim periods therein. For all other entities, the new standard is effective for fiscal years beginning after 15 December 2018, and interim reporting periods within fiscal years beginning after 15 December 2019.

It is important to note, upon adoption, entities will be required to make a cumulative-effect adjustment to the statement of financial position as of the beginning of the first reporting period in which the guidance is effective. The guidance on equity securities without readily determinable fair value will be applied prospectively to all equity investments that exist as of the date of adoption of the standard.



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Click here to register for further updates on this new guidance.

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