

FINANCIAL ACCOUNTING SERIES



ACCOUNTING STANDARDS UPDATE

No. 2018-04
March 2018

Investments—Debt Securities (Topic 320) and Regulated Operations (Topic 980)

Amendments to SEC Paragraphs Pursuant to
SEC Staff Accounting Bulletin No. 117 and
SEC Release No. 33-9273

An Amendment of the *FASB Accounting Standards Codification*®

Financial Accounting Standards Board

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Amendments to the *FASB Accounting Standards Codification*[®]

Securities and Exchange Commission (SEC) Content

Introduction

1. The Accounting Standards Codification is amended as described in paragraphs 2–8. In some cases, to put the change in context, not only are the amended paragraphs shown but also the preceding and following paragraphs. Terms from the Master Glossary are in **bold** type. Added text is underlined, and deleted text is ~~struck out~~.

Amendments Pursuant to SEC Staff Accounting Bulletin No. 117

This Accounting Standards Update supersedes various SEC paragraphs and adds an SEC paragraph pursuant to the issuance of Staff Accounting Bulletin No. 117.

Amendments to Subtopic 320-10

2. Supersede paragraph 320-10-S55-1 and its related heading, with a link to transition paragraph 825-10-65-2, as follows:

Investments—Debt Securities—Overall

Implementation Guidance and Illustrations

~~> Impairment of Individual Available-for-Sale and Held-to-Maturity Securities~~

~~**320-10-S55-1** Paragraph superseded by Accounting Standards Update No. 2018-04. See paragraph 320-10-S99-1, SAB Topic 5.M, for SEC Staff views on the meaning of the phrase “other than temporary” as used in Topic 320 and factors to consider in an evaluation of impairment.~~

3. Supersede paragraph 320-10-S99-1 and its related headings, with a link to transition paragraph 825-10-65-2, as follows:

SEC Materials

> SEC Staff Guidance

>> Staff Accounting Bulletins

>>> SAB Topic 5.M, Other Than Temporary Impairment of Certain Investments in Equity Securities

320-10-S99-1 Paragraph superseded by Accounting Standards Update No. 2018-04. The following is the text of SAB Topic 5.M, Other Than Temporary Impairment of Certain Investments in Equity Securities.

~~Facts: FASB ASC paragraph 320-10-35-33 (Investments—Debt and Equity Securities—Topic) does not define the phrase “other than temporary” for available-for-sale equity securities. For its available-for-sale equity securities, Company A has interpreted “other than temporary” to mean permanent impairment. Therefore, because Company A’s management has not been able to determine that its investment in Company B’s equity securities is permanently impaired, no realized loss has been recognized even though the market price of Company B’s equity securities is currently less than one-third of Company A’s average acquisition price.~~

~~Question: For equity securities classified as available for sale, does the staff believe that the phrase “other than temporary” should be interpreted to mean “permanent”?~~

~~Interpretive Response: No. The staff believes that the FASB consciously chose the phrase “other than temporary” because it did not intend that the test be “permanent impairment,” as has been used elsewhere in accounting practice. FN8~~

~~FN8 [Original footnote removed by SAB 114.]~~

~~The value of investments in equity securities classified as available for sale may decline for various reasons. The market price may be affected by general market conditions which reflect prospects for the economy as a whole or by specific information pertaining to an industry or an individual company. Such declines require further investigation by management. Acting upon the premise that a write-down may be required, management should consider all available evidence to evaluate the realizable value of its investment in equity securities classified as available for sale.~~

~~There are numerous factors to be considered in such an evaluation and their relative significance will vary from case to case. The staff believes that the following are only a few examples of the factors which, individually or in combination, indicate that a decline in value of an equity security classified as available for sale is other than temporary and that a write-down of the carrying value is required:~~

~~a. The length of the time and the extent to which the market value has been less than cost;~~

~~b. The financial condition and near term prospects of the issuer, including any specific events which may influence the operations of the issuer such as changes in technology that may impair the earnings potential of the investment or the discontinuance of a segment of the business that may affect the future earnings potential; or~~

~~c. The intent and ability of the holder to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in market value.~~

~~Unless evidence exists to support a realizable value equal to or greater than the carrying value of the investment in equity securities classified as available for sale, a write down to fair value accounted for as a realized loss should be recorded. Such loss should be recognized in the determination of net income of the period in which it occurs and the written down value of the investment in the company becomes the new cost basis of the investment.~~

Amendments Pursuant to SEC Release No. 33-9273

This Accounting Standards Update supersedes various SEC paragraphs and amends one SEC paragraph pursuant to the issuance of SEC Release No. 33-9273.

Amendments to Subtopic 810-10

4. Amend paragraph 810-10-S99-4, with no link to a transition paragraph, as follows:

Consolidation—Overall

SEC Materials

> **SEC Rules, Regulations, and Interpretations**

> > **Regulation S-X**

> > > **Regulation S-X Rule 3A-04**

810-10-S99-4 The following is the text of Regulation S-X Rule 3A-04, Intercompany Items and Transactions (17 CFR 210.3A-04).

In general, there shall be eliminated intercompany items and transactions between persons included in the (a) consolidated financial statements being filed and, as appropriate, (b) unrealized intercompany profits and losses on transactions between persons for which financial statements are being filed and persons the investment in which is presented in such statements by the equity method.

If such eliminations are not made, a statement of the reasons and the methods of treatment shall be made.

[37 FR 14597, July 21, 1972. Redesignated at 46 FR 56179, Nov. 16, 1981]

~~The text of Regulation S-X Rule 3A-05 can be found at 980-810-S99-1.~~

Amendments to Subtopic 980-810

5. Supersede paragraphs 980-810-S45-1 and 980-810-S99-1 and their related headings, with no link to a transition paragraph, as follows:

Regulated Operations—Consolidation

Other Presentation Matters

> Balance Sheet

~~980-810-S45-1 Paragraph superseded by Accounting Standards Update No. 2018-04. See paragraph 980-810-S99-1, Regulation S-X Rule 3A-05, for requirements for the consolidated balance sheet of a public utility holding company.~~

SEC Materials

> SEC Rules, Regulations, and Interpretations

>> Regulation S-X

>>> Regulation S-X Rule 3A-05, Special Requirements as to Public Utility Holding Companies

~~980-810-S99-1 Paragraph superseded by Accounting Standards Update No. 2018-04. The following is the text of Regulation S-X Rule 3A-05, Special Requirements as to Public Utility Holding Companies.~~

~~There shall be shown in the consolidated balance sheet of a public utility holding company the difference between the amount at which the parent's~~

investment is carried and the underlying book equity of subsidiaries as at the respective dates of acquisition.

[37 FR 14597, July 21, 1972. Redesignated at 45 FR 63687, Sept. 25, 1980, and 46 FR 56179, Nov. 16, 1981]

Amendments to Status Sections

6. Amend paragraph 320-10-S00-1, by adding the following items to the table, as follows:

320-10-S00-1 The following table identifies the changes made to this Subtopic.

Paragraph	Action	Accounting Standards Update	Date
320-10-S55-1	Superseded	2018-04	03/09/2018
320-10-S99-1	Superseded	2018-04	03/09/2018

7. Amend paragraph 810-10-S00-1, by adding the following item to the table, as follows:

810-10-S00-1 The following table identifies the changes made to this Subtopic.

Paragraph	Action	Accounting Standards Update	Date
810-10-S99-4	Amended	2018-04	03/09/2018

8. Add paragraph 980-810-S00-1 as follows:

980-810-S00-1 The following table identifies the changes made to this Subtopic.

Paragraph	Action	Accounting Standards Update	Date
980-810-S45-1	Superseded	2018-04	03/09/2018
980-810-S99-1	Superseded	2018-04	03/09/2018

Amendments to the XBRL Taxonomy

The amendments to the *FASB Accounting Standards Codification*[®] in this Accounting Standards Update require improvements to the U.S. GAAP Financial Reporting Taxonomy (Taxonomy). Those improvements, which will be incorporated into the proposed 2019 Taxonomy, are available at [Taxonomy Improvements](#) provided at www.fasb.org, and finalized as part of the annual release process.