Technical Corrections and Improvements to Financial Instruments—Overall (Subtopic 825-10)


An Amendment of the FASB Accounting Standards Codification®
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Technical Corrections and Improvements to Financial Instruments—Overall (Subtopic 825-10)


An Amendment of the FASB Accounting Standards Codification®

Financial Accounting Standards Board
Accounting Standards Update 2018-03

Technical Corrections and Improvements to Financial Instruments—Overall (Subtopic 825-10)


February 2018

CONTENTS

Page Numbers

Summary ........................................................................................................... 1–4
Amendments to the FASB Accounting Standards Codification® .....................5–17
Background Information and Basis for Conclusions .....................................18–23
Amendments to the XBRL Taxonomy .................................................................24
Summary

Why Is the FASB Issuing This Accounting Standards Update (Update)?

On January 5, 2016, the FASB issued Accounting Standards Update No. 2016-01, Financial Instruments—Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities, which retained the current framework for accounting for financial instruments in generally accepted accounting principles (GAAP) but made targeted improvements to address certain aspects of recognition, measurement, presentation, and disclosure of financial instruments. In addition to amending Topic 825, Financial Instruments, the Board added Topic 321, Investments—Equity Securities, and made a number of consequential amendments to the Codification.

The Board has an ongoing project on its agenda about improvements to clarify the Codification or to correct unintended application of guidance. Those items generally are not expected to have a significant effect on current accounting practice or to create a significant administrative cost for most entities. The amendments in this Update are of a similar nature to the items typically addressed in the Codification improvements project. However, the Board decided to issue a separate Update for technical corrections and improvements related to Update 2016-01 to increase stakeholders’ awareness of the amendments and to expedite the improvements.

The amendments in this Update include items brought to the Board’s attention by stakeholders. The amendments clarify certain aspects of the guidance issued in Update 2016-01 as described in the table below.

<table>
<thead>
<tr>
<th>Area for Correction or Improvement</th>
<th>Summary of Amendments</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Issue 1: Equity Securities without a Readily Determinable Fair Value—Discontinuation</strong></td>
<td>The amendment clarifies that an entity measuring an equity security using the measurement alternative may change its measurement approach to a fair value method in accordance with Topic 820, Fair Value Measurement, through an irrevocable election that would</td>
</tr>
<tr>
<td>Once an entity elects the measurement alternative in paragraph 321-10-35-2, the entity must continue to apply the alternative until the investment has a readily determinable fair value or becomes eligible for the net asset value practical expedient. Stakeholders raised questions about additional situations that may allow for an entity to discontinue the</td>
<td></td>
</tr>
</tbody>
</table>

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<table>
<thead>
<tr>
<th>Area for Correction or Improvement</th>
<th>Summary of Amendments</th>
</tr>
</thead>
<tbody>
<tr>
<td>measurement alternative in paragraph 321-10-35-2.</td>
<td>apply to that security and all identical or similar investments of the same issuer. Once an entity makes this election, the entity should measure all future purchases of identical or similar investments of the same issuer using a fair value method in accordance with Topic 820.</td>
</tr>
</tbody>
</table>

**Issue 2: Equity Securities without a Readily Determinable Fair Value—Adjustments**

When an observable transaction occurs for a similar security, paragraph 321-10-55-9 states that adjustments made should reflect the current fair value of the security. Stakeholders raised questions about whether adjustments should be made to reflect the fair value as of the observable transaction date or the current reporting date.

The amendment clarifies that the adjustments made under the measurement alternative are intended to reflect the fair value of the security as of the date that the observable transaction for a similar security took place.

**Issue 3: Forward Contracts and Purchased Options**

Forward contracts and purchased options on equity securities for which the measurement alternative is expected to be applied are accounted for on a look-through basis in accordance with paragraph 815-10-35-6. Stakeholders raised questions about whether a change in observable price or impairment of the underlying equity investment would result in remeasuring the entire value of the forward contract or purchased option.

The amendment clarifies that remeasuring the entire value of forward contracts and purchased options is required when observable transactions occur on the underlying equity securities.

**Issue 4: Presentation Requirements for Certain Fair Value Option Liabilities**

Stakeholders raised questions about whether certain hybrid financial liabilities for which the fair value option has been elected would be within the scope of the

The amendment clarifies that when the fair value option is elected for a financial liability, the guidance in paragraph 825-10-45-5 should be applied.
<table>
<thead>
<tr>
<th><strong>Area for Correction or Improvement</strong></th>
<th><strong>Summary of Amendments</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>presentation requirement in paragraph 825-10-45-5.</td>
<td>regardless of whether the fair value option was elected under either Subtopic 815-15, Derivatives and Hedging—Embedded Derivatives, or 825-10, Financial Instruments—Overall.</td>
</tr>
</tbody>
</table>

**Issue 5: Fair Value Option Liabilities Denominated in a Foreign Currency**

Paragraph 825-10-45-5 requires an entity to present separately the portion of the total change in the fair value of a liability attributable to a change in the instrument-specific credit risk within other comprehensive income. Stakeholders raised questions about how an entity should apply Topic 830, Foreign Currency Matters, when determining the amount of fair value changes that are attributable to instrument-specific credit risk for a foreign-currency-denominated liability for which the fair value option is elected.

The amendments clarify that for financial liabilities for which the fair value option is elected, the amount of change in fair value that relates to the instrument-specific credit risk should first be measured in the currency of denomination when presented separately from the total change in fair value of the financial liability. Then, both components of the change in the fair value of the liability should be remeasured into the functional currency of the reporting entity using end-of-period spot rates.

**Issue 6: Transition Guidance for Equity Securities without a Readily Determinable Fair Value**

Stakeholders raised a question about whether a prospective transition approach is required for all equity securities without a readily determinable fair value, including those for which the measurement alternative is not applied upon transition.

The amendment clarifies that the prospective transition approach for equity securities without a readily determinable fair value in the amendments in Update 2016-01 is meant only for instances in which the measurement alternative is applied. An insurance entity subject to the guidance in Topic 944, Financial Services—Insurance, should apply a prospective transition method.
When Will the Amendments Be Effective?

To provide a period of time to allow entities to continue their current adoption plans for Update 2016-01, the Board concluded that for public business entities the amendments in this Update are effective for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years beginning after June 15, 2018. Public business entities with fiscal years beginning between December 15, 2017, and June 15, 2018, are not required to adopt these amendments until the interim period beginning after June 15, 2018, and public business entities with fiscal years beginning between June 15, 2018, and December 15, 2018, are not required to adopt these amendments before adopting the amendments in Update 2016-01. For all other entities, the effective date is the same as the effective date in Update 2016-01. All entities may early adopt these amendments for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years, as long as they have adopted Update 2016-01.
Amendments to the
FASB Accounting Standards Codification®

Summary of Amendments to the Accounting Standards Codification

1. The following table summarizes the amendments to the Accounting Standards Codification. The amendments are organized by area.

<table>
<thead>
<tr>
<th>Areas for Improvement</th>
<th>Related Paragraphs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Issue 1: Equity Securities without a Readily Determinable Fair Value—Discontinuation</td>
<td>3 and 4</td>
</tr>
<tr>
<td>Issue 2: Equity Securities without a Readily Determinable Fair Value—Adjustments</td>
<td>5 and 6</td>
</tr>
<tr>
<td>Issue 3: Forward Contracts and Purchased Options</td>
<td>7 and 8</td>
</tr>
<tr>
<td>Issue 4: Presentation Requirements for Certain Fair Value Option Liabilities</td>
<td>9–11</td>
</tr>
<tr>
<td>Issue 5: Fair Value Option Liabilities Denominated in a Foreign Currency</td>
<td>12–14</td>
</tr>
<tr>
<td>Issue 6: Transition Guidance for Equity Securities without a Readily Determinable Fair Value</td>
<td>15 and 16</td>
</tr>
<tr>
<td>Transition and Open Effective Date Information</td>
<td>17</td>
</tr>
</tbody>
</table>

Introduction

2. The Accounting Standards Codification is amended as described in paragraphs 3–22. 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*. 
Issue 1—Equity Securities without a Readily Determinable Fair Value—Discontinuation

3. The amendments to paragraph 321-10-35-2 relate to the measurement alternative for equity securities without a readily determinable fair value. The amendments clarify that an entity measuring equity securities using the measurement alternative may change its measurement approach to fair value in accordance with Topic 820, Fair Value Measurement, through an election that applies to that security and all identical or similar investments of the same issuer, including future purchases of identical or similar investments of the same issuer. The amendments allow an entity the option to determine a more precise measurement under Topic 820, but once an election is made to measure the securities in accordance with Topic 820, it is irrevocable for the investment selected and all identical or similar investments of the same issuer, including future purchases of identical or similar investments of the same issuer.

Amendments to Subtopic 321-10

4. Amend paragraph 321-10-35-2, with a link to transition paragraph 825-10-65-3, as follows:

Investments—Equity Securities—Overall

Subsequent Measurement

> Equity Securities without Readily Determinable Fair Values

321-10-35-2 An entity may elect to measure an equity security without a readily determinable fair value that does not qualify for the practical expedient to estimate fair value in accordance with paragraph 820-10-35-59 at its cost minus impairment, if any, plus or minus changes resulting from observable price changes in orderly transactions for the identical or a similar investment of the same issuer. An election to measure an equity security in accordance with this paragraph shall be made for each investment separately. Once an entity elects to measure an equity security in accordance with this paragraph, the entity shall continue to apply the measurement guidance in this paragraph until the investment does not qualify to be measured in accordance with this paragraph (for example, if the investment has a readily determinable fair value or becomes eligible for the practical expedient to estimate fair value in accordance with paragraph 820-10-35-59). The entity shall reassess at each reporting period whether the equity investment without a readily determinable fair value qualifies to be measured in accordance with this paragraph. If an entity measures an equity security in accordance with this paragraph (and the security continues to qualify for measurement in accordance with this paragraph), the entity may subsequently elect to measure the equity...
security at fair value. If an entity subsequently elects to measure an equity security at fair value, the entity shall measure all identical or similar investments of the same issuer, including future purchases of identical or similar investments of the same issuer, at fair value. The election to measure those securities at fair value shall be irrevocable. Any resulting gains or losses on the securities for which that election is made shall be recorded in earnings at the time of the election.

Issue 2—Equity Securities without a Readily Determinable Fair Value—Adjustments

5. The amendments to paragraph 321-10-55-9 clarify the Board’s intended application of the measurement alternative for equity securities without a readily determinable fair value. The amendments clarify that the adjustments made under the measurement alternative are intended to reflect the fair value of the security as of the date that the observable transaction for a similar security took place.

Amendments to Subtopic 321-10

6. Amend paragraph 321-10-55-9, with a link to transition paragraph 825-10-65-3, as follows:

Investments—Equity Securities—Overall

Implementation Guidance and Illustrations

> Implementation Guidance

>> Equity Securities without Readily Determinable Fair Values

>>> Identifying Similar Investment of Same Issuer

321-10-55-9 To identify whether a security issued by the same issuer is similar to the equity security held by the entity, the entity should consider the different rights and obligations of the securities. Differences in rights and obligations could include characteristics such as voting rights, distributions rights and preferences, and conversion features. The entity should adjust the observable price of a similar security for the different rights and obligations to determine the amount that should be recorded as an upward or downward adjustment in the carrying value of the security measured in accordance with paragraph 321-10-35-2 to reflect the current fair value of the security as of the date that the observable transaction for the similar security took place.
Issue 3—Forward Contracts and Purchased Options

7. Certain amendments made in Accounting Standards Update No. 2016-01, Financial Instruments—Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities, to Topic 815, Derivatives and Hedging, relate to the accounting for forward contracts and purchased options on equity securities for which the guidance in the Certain Contracts on Debt and Equity Securities Subsections apply. The amendments clarify that when remeasuring forward contracts and purchased options on equity securities that do not have a readily determinable fair value, for which the measurement alternative in paragraph 321-10-35-2 is applied, an entity is required to update all inputs to the fair value calculation and not just the input related to the change in the value of the underlying security.

Amendments to Subtopic 815-10

8. Amend paragraph 815-10-35-6, with a link to transition paragraph 825-10-65-3, as follows:

Derivatives and Hedging—Overall

Subsequent Measurement

Certain Contracts on Debt and Equity Securities

815-10-35-6 Changes in the fair value of forward contracts and purchased options on equity securities within the scope of this Subsection shall be recognized in earnings as they occur. Changes in observable price or impairment of forward contracts and purchased options on equity securities without readily determinable fair value within the scope of this Subsection measured in accordance with paragraph 321-10-35-2 shall be recognized in earnings as they occur. A change in observable price or impairment of the underlying securities of forward contracts and purchased options on equity securities shall result in a remeasurement of the entire fair value of the forward contracts and purchased options as of the date that the observable transaction took place. Equity securities within the scope of this Subsection purchased under a forward contract or by exercising an option shall be recorded at their fair values at the settlement date.
Issue 4—Presentation Requirements for Certain Fair Value Option Liabilities

9. Before the issuance of the amendments in Update 2016-01, instrument-specific credit risk was required to be disclosed for financial liabilities recognized at fair value under the fair value option for which the fair value has been significantly affected by changes in instrument-specific credit risk. Update 2016-01 was meant to amend only how to present instrument-specific credit risk and not how it should be measured. The amendment clarifies that when the fair value option is elected for a financial liability, the guidance in paragraph 825-10-45-5 should be applied, regardless of whether the fair value option was elected under either Subtopic 815-15, Derivatives and Hedging—Embedded Derivatives, or Subtopic 825-10, Financial Instruments—Overall. The amendment adds an explanatory paragraph to Subtopic 815-15 and adds appropriate references to Subtopics 815-15 and 825-10.

Amendments to Subtopic 815-15

10. Amend paragraph 815-15-25-4 and add paragraph 815-15-45-2, with a link to transition paragraph 825-10-65-3, as follows:

Derivatives and Hedging—Embedded Derivatives

Recognition

> Fair Value Election for Hybrid Financial Instruments

815-15-25-4 An entity that initially recognizes a hybrid financial instrument that under paragraph 815-15-25-1 would be required to be separated into a host contract and a derivative instrument may irrevocably elect to initially and subsequently measure that hybrid financial instrument in its entirety at fair value (with changes in fair value recognized in earnings and, if paragraph 825-10-45-5 is applicable, other comprehensive income). A financial instrument shall be evaluated to determine that it has an embedded derivative requiring bifurcation before the instrument can become a candidate for the fair value election.

Other Presentation Matters

815-15-45-2 If an entity has designated a financial liability under the fair value election in accordance with paragraphs 815-15-25-4 through 25-6, the entity shall apply the guidance in paragraph 825-10-45-5 on the presentation of changes in the liability’s fair value that result from changes in instrument-specific credit risk.
Amendments to Subtopic 825-10

11. Amend paragraph 825-10-45-5, with a link to transition paragraph 825-10-65-3, as follows:

Financial Instruments—Overall

Other Presentation Matters

Fair Value Option

> Statement of Comprehensive Income

> > Financial Liabilities for Which Fair Value Option Is Elected

825-10-45-5 If an entity has designated a financial liability under the fair value option in accordance with this Subtopic or Subtopic 815-15 on embedded derivatives, the entity shall measure the financial liability at fair value with qualifying changes in fair value recognized in net income. The entity shall present separately in other comprehensive income the portion of the total change in the fair value of the liability that results from a change in the instrument-specific credit risk. The entity may consider the portion of the total change in fair value that excludes the amount resulting from a change in a base market risk, such as a risk-free rate or a benchmark interest rate, to be the result of a change in instrument-specific credit risk. Alternatively, an entity may use another method that it considers to faithfully represent the portion of the total change in fair value resulting from a change in instrument-specific credit risk. The entity shall apply the method consistently to each financial liability from period to period.

Issue 5—Fair Value Option Liabilities Denominated in a Foreign Currency

12. The amendments to Topic 825 and Topic 830, Foreign Currency Matters, relate to how an entity should measure and present changes in fair value of a foreign-currency-denominated financial liability for which the entity has elected the fair value option. The amendments clarify that for foreign-currency-denominated financial liabilities for which the entity has elected the fair value option, the amount of the change in fair value that relates to instrument-specific credit risk first should be measured in the currency of denomination when presented separately from the total change in fair value of the financial liability. Both components of the change in fair value of the liability should then be remeasured into the functional currency of the reporting entity using end-of-period spot rates. The remeasurement of the
change in fair value of the instrument-specific credit risk should be presented in accumulated other comprehensive income.

Amendments to Subtopic 825-10

13. Add paragraph 825-10-45-5A, with a link to transition paragraph 825-10-65-3, as follows:

Financial Instruments—Overall

Other Presentation Matters

Fair Value Option

> Statement of Comprehensive Income

> > Financial Liabilities for Which Fair Value Option Is Elected

825-10-45-5 If an entity has designated a financial liability under the fair value option in accordance with this Subtopic or Subtopic 815-15 on embedded derivatives, the entity shall measure the financial liability at fair value with qualifying changes in fair value recognized in net income. The entity shall present separately in other comprehensive income the portion of the total change in the fair value of the liability that results from a change in the instrument-specific credit risk. The entity may consider the portion of the total change in fair value that excludes the amount resulting from a change in a base market risk, such as a risk-free rate or a benchmark interest rate, to be the result of a change in instrument-specific credit risk. Alternatively, an entity may use another method that it considers to faithfully represent the portion of the total change in fair value resulting from a change in instrument-specific credit risk. The entity shall apply the method consistently to each financial liability from period to period. [Note: This paragraph was amended in Issue 4.]

825-10-45-5A When changes in instrument-specific credit risk are presented separately from other changes in fair value of a liability denominated in a currency other than an entity’s functional currency, the component of the change in fair value of the liability resulting from changes in instrument-specific credit risk shall first be measured in the liability’s currency of denomination, and then the cumulative amount shall be adjusted to reflect the current exchange rate in accordance with paragraph 830-20-35-2. The remeasurement of the component of the change in fair value of the liability resulting from the cumulative changes in instrument-specific credit risk shall be presented in accumulated other comprehensive income.
Amendments to Subtopic 830-20

14. Add paragraph 830-20-35-7A and its related heading, with a link to transition paragraph 825-10-65-3, as follows:

**Foreign Currency Matters—Foreign Currency Transactions**

**Subsequent Measurement**

> Transaction Gains and Losses

**> > Financial Liabilities for Which the Fair Value Option Is Elected**

830-20-35-7A Paragraph 825-10-45-5A requires that for a financial liability for which the fair value option is elected, the change in the liability’s fair value resulting from changes in instrument-specific credit risk shall be presented separately in other comprehensive income from other changes in the liability’s fair value presented in current earnings. The component of the change in fair value of the liability resulting from changes in instrument-specific credit risk shall first be measured in the liability’s currency of denomination, and then the cumulative amount shall be adjusted to reflect the current exchange rate in accordance with paragraph 830-20-35-2. The remeasurement of the component of the change in fair value of the liability resulting from the cumulative changes in instrument-specific credit risk shall be presented in accumulated other comprehensive income.

**Issue 6—Transition Guidance for Equity Securities without a Readily Determinable Fair Value**

15. The transition guidance in Update 2016-01 generally requires a modified retrospective transition approach, but a prospective transition approach is required for equity securities without a readily determinable fair value. The Board decided to allow a prospective transition approach for equity securities without a readily determinable fair value because it may be difficult for entities to determine the last observable transaction price that is required under the new measurement alternative described in paragraph 321-10-35-2. The Board received feedback asking whether a prospective transition approach would be applied to equity securities without a readily determinable fair value for which the measurement alternative is not applied upon transition (instead, the equity securities would be measured at fair value under Topic 820). The Board concluded that the transition approach was meant only for instances in which the measurement alternative is applied; therefore, the Board decided to clarify the transition guidance. The Board also clarified that (a) insurance entities subject to Topic 944 on insurance should
use a prospective transition approach for equity securities without readily determinable fair value and (b) that approach should be applied consistently to the entity’s entire population of equity securities for which the measurement alternative is selected.

Amendments to Subtopic 825-10

16. Amend paragraph 825-10-65-2(e), with a link to transition paragraph 825-10-65-3, as follows:

Financial Instruments—Overall

Transition and Open Effective Date Information


The following represents the transition and effective date information related to Accounting Standards Update No. 2016-01, Financial Instruments—Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities:

e. An entity shall apply the pending content that links to this paragraph by means of a cumulative-effect adjustment to the statement of financial position as of the beginning of the fiscal year in which the pending content that links to this paragraph is applied. The pending content that links to this paragraph related to equity securities without readily determinable fair values (including disclosure requirements) shall be applied prospectively to all equity investments for which an entity elects the measurement alternative in accordance with paragraph 321-10-35-2 that exist as of the date of adoption of the pending content that links to this paragraph. An insurance entity subject to the guidance in Topic 944 on financial services—insurance shall apply a prospective transition method when applying the pending content that links to this paragraph related to equity securities without readily determinable fair values. The insurance entity shall apply the selected prospective transition method consistently to the entity’s entire population of equity securities for which the measurement alternative is elected.
17. Add paragraph 825-10-65-3 and its related heading, with no link to a transition paragraph, as follows:

Transition and Open Effective Date Information


825-10-65-3 The following represents the transition and effective date information related to Accounting Standards Update No. 2018-03, Technical Corrections and Improvements to Financial Instruments—Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities:

a. A public business entity shall apply the pending content that links to this paragraph for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years beginning after June 15, 2018. Public business entities with fiscal years beginning in the period between December 15, 2017, and June 15, 2018, are not required to adopt the pending content that links to this paragraph until the interim period beginning after June 15, 2018. Early adoption, including adoption in an interim period, of the pending content that links to this paragraph by a public business entity is permitted.

b. All other entities shall apply the pending content that links to this paragraph for fiscal years beginning after December 15, 2018, and interim periods within fiscal years beginning after December 15, 2019, in accordance with paragraph 825-10-65-2(b). Early adoption is not permitted unless the entity has early adopted the amendments in Update 2016-01 in accordance with paragraph 825-10-65-2(b).

c. Public business entities with fiscal years beginning in the period between December 15, 2017, and June 15, 2018, or other entities that have early adopted the amendments in Update 2016-01 in accordance with paragraph 825-10-65-2(b) and that choose to adopt the pending content that links to this paragraph at the required adoption date or in an interim period before the required adoption date, shall apply the pending content that links to this paragraph by means of a cumulative-effect adjustment to the statement of financial position from the beginning of the fiscal year in which the pending content that links to this paragraph is applied to the adoption date of the pending content that links to this paragraph.

d. All other entities that have not adopted the amendments in Update 2016-01 shall follow the transition guidance in paragraph 825-10-65-2(e) as amended.

e. Public business entities with fiscal years beginning in the period between December 15, 2017, and June 15, 2018, or other entities that have early adopted the amendments in Update 2016-01 in accordance with
paragraph 825-10-65-2(b) and that choose to adopt the pending content that links to this paragraph at the required adoption date or in an interim period before the required adoption date shall disclose the following, in accordance with Topic 250 on accounting changes and error corrections, in the period that the entity adopts the pending content that links to this paragraph:

1. The effect of the adoption on any line item in the statement of financial position, if material, as of the beginning of the fiscal year for which the pending content that links to this paragraph is applied. Presentation of the effect on financial statement subtotals is not required.

2. The cumulative effect of the change on retained earnings or other components of equity in the statement of financial position from the beginning of the fiscal year in which the pending content that links to this paragraph is applied to the adoption date of the pending content that links to this paragraph.

Amendments to Status Sections

18. Amend paragraph 321-10-00-1, by adding the following items to the table, as follows:

**321-10-00-1** The following table identifies the changes made to this Subtopic.

<table>
<thead>
<tr>
<th>Paragraph</th>
<th>Action</th>
<th>Accounting Standards Update</th>
<th>Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>321-10-35-2</td>
<td>Amended</td>
<td>2018-03</td>
<td>02/28/2018</td>
</tr>
<tr>
<td>321-10-55-9</td>
<td>Amended</td>
<td>2018-03</td>
<td>02/28/2018</td>
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</table>

19. Amend paragraph 815-10-00-1, by adding the following item to the table, as follows:

**815-10-00-1** The following table identifies the changes made to this Subtopic.

<table>
<thead>
<tr>
<th>Paragraph</th>
<th>Action</th>
<th>Accounting Standards Update</th>
<th>Date</th>
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<tbody>
<tr>
<td>815-10-35-6</td>
<td>Amended</td>
<td>2018-03</td>
<td>02/28/2018</td>
</tr>
</tbody>
</table>

20. Amend paragraph 815-15-00-1, by adding the following items to the table, as follows:
815-15-00-1 The following table identifies the changes made to this Subtopic.

<table>
<thead>
<tr>
<th>Paragraph</th>
<th>Action</th>
<th>Accounting Standards Update</th>
<th>Date</th>
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<tbody>
<tr>
<td>Financial Liability</td>
<td>Added</td>
<td>2018-03</td>
<td>02/28/2018</td>
</tr>
<tr>
<td>815-15-25-4</td>
<td>Amended</td>
<td>2018-03</td>
<td>02/28/2018</td>
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<tr>
<td>815-15-45-2</td>
<td>Added</td>
<td>2018-03</td>
<td>02/28/2018</td>
</tr>
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21. Amend paragraph 825-10-00-1, by adding the following items to the table, as follows:

825-10-00-1 The following table identifies the changes made to this Subtopic.

<table>
<thead>
<tr>
<th>Paragraph</th>
<th>Action</th>
<th>Accounting Standards Update</th>
<th>Date</th>
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<tbody>
<tr>
<td>825-10-45-5</td>
<td>Amended</td>
<td>2018-03</td>
<td>02/28/2018</td>
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<td>825-10-45-5A</td>
<td>Added</td>
<td>2018-03</td>
<td>02/28/2018</td>
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<td>2018-03</td>
<td>02/28/2018</td>
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<tr>
<td>825-10-65-3</td>
<td>Added</td>
<td>2018-03</td>
<td>02/28/2018</td>
</tr>
</tbody>
</table>

22. Amend paragraph 830-20-00-1, by adding the following item to the table, as follows:

830-20-00-1 The following table identifies the changes made to this Subtopic.

<table>
<thead>
<tr>
<th>Paragraph</th>
<th>Action</th>
<th>Accounting Standards Update</th>
<th>Date</th>
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<tr>
<td>830-20-35-7A</td>
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The amendments in this Update were adopted by the unanimous vote of the seven members of the Financial Accounting Standards Board:

Russell G. Golden, Chairman
James L. Kroeker, Vice Chairman
Christine A. Botosan
Marsha L. Hunt
Harold L. Monk, Jr.
R. Harold Schroeder
Marc A. Siegel
Background Information and
Basis for Conclusions

Introduction

BC1. The following summarizes the Board’s considerations in reaching the conclusions in this Update. It includes reasons for accepting certain approaches and rejecting others. Individual Board members gave greater weight to some factors than to others.

Background Information

BC2. On January 5, 2016, the FASB issued Update 2016-01, which retained the current framework for accounting for financial instruments in GAAP but made targeted improvements to address certain aspects of recognition, measurement, presentation, and disclosure of financial instruments. In addition to amending Topic 825, the Board added Topic 321 and made a number of consequential amendments to the Codification.

BC3. The Board has an ongoing project on its agenda about improvements to the Codification. The amendments in this Update are of a similar nature to the items typically addressed in that project. However, the Board decided to issue a separate Update for technical corrections related to Update 2016-01 to increase stakeholders’ awareness of the amendments and to expedite the improvements.

BC4. In September 2017, the FASB issued two proposed Accounting Standards Updates, Technical Corrections and Improvements to Recently Issued Standards: I. Accounting Standards Update No. 2016-01, Financial Instruments—Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities, and II. Accounting Standards Update No. 2016-02, Leases (Topic 842), as one document. During redeliberations, the FASB decided to separate the amendments to Update 2016-01 from the proposed amendments to Update 2016-02 to expedite the improvements.

BC5. The amendments in this Update include items brought to the Board’s attention by stakeholders. The amendments clarify certain aspects of the guidance issued in the amendments in Update 2016-01, and they do not change any of the principles of that guidance. Therefore, the Board does not anticipate that entities will incur significant costs as a result of the amendments. The amendments should provide the benefit of improving consistent application of GAAP by clarifying current or pending guidance within the Codification.
Basis for Conclusions

Issue 1—Equity Securities without a Readily Determinable Fair Value—Discontinuation

BC6. Paragraph 321-10-35-2 provides a measurement alternative that can be elected for individual equity securities that do not have a readily determinable fair value and do not qualify for the net asset value practical expedient in accordance with paragraph 820-10-35-59. Under the measurement alternative, the security is measured on the basis of its cost minus impairment, plus or minus changes resulting from observable price changes. Once elected, an entity must continue to apply the measurement alternative until the investment no longer qualifies for the measurement alternative, for example, if the investment has a readily determinable fair value or becomes eligible for the net asset value practical expedient. Stakeholders asked whether there are additional situations that may allow an entity to discontinue the measurement alternative.

BC7. The amendment in this Update clarifies that an entity measuring an equity security using the measurement alternative may change its measurement approach to a fair value method in accordance with Topic 820 through an irrevocable election that would apply to that security and all identical or similar investments of the same issuer, including future purchases of identical or similar investments of the same issuer. The Board’s intent was not to prohibit an entity from using a more precise measurement method; therefore, the amendment allows an entity to apply a more precise measurement method if it subsequently elects to do so. The Board concluded that any resulting gains or losses on the securities for which that election is made should be recorded in earnings at the time of the election. The Board decided that concerns about potential earnings manipulation related to discontinuing the measurement alternative noted by some stakeholders during the comment letter process are mitigated by the benefit of allowing entities to use a more precise measurement method. The Board acknowledged some stakeholders’ concerns raised during the comment letter process that applying the guidance to the “same type” of equity security, as was included in the proposed Update, may present a number of operational questions.

BC8. Consequently, during redeliberations, the Board decided to replace the term same type with the concept of all identical or similar investments of the same issuer. The Board concluded that doing so will alleviate the operability concerns and diversity in practice issues noted by some stakeholders because this same concept is used by an entity to adjust the fair value of an equity security measured under the measurement alternative. Additionally, the Board concluded that once an entity discontinues the measurement alternative and measures an equity security and all identical or similar investments of the same issuer at fair value, the entity should measure all future purchases of identical or similar investments of the same issuer at fair value. The Board reached this conclusion based on the view
that there is no sufficient reasoning for allowing a practical expedient for a security when identical or similar securities of the same issuer are already measured at fair value. Additionally, the Board noted that there is no basis to allow for an expedient that results in the measurement of the same equity security in different ways simply because of differences in the timing of the purchases. Finally, the Board decided that the subsequent election to measure equity securities at fair value in accordance with Topic 820 should be irrevocable to address stakeholders’ concerns about misunderstandings regarding policy elections.

Issue 2—Equity Securities without a Readily Determinable Fair Value—Adjustments

BC9. Paragraph 321-10-55-9 provides implementation guidance on the measurement alternative for equity securities without a readily determinable fair value permitted by paragraph 321-10-35-2. This implementation guidance states that when an observable transaction occurs for a similar security, adjustments may be needed to reflect the current fair value of the security on the basis of different rights and obligations. Stakeholders asked whether adjustments should be made to reflect the fair value as of the observable transaction date or the current reporting date (for example, quarter end) because those two dates may differ.

BC10. The Board intended for any adjustments to the price of an observable transaction for a similar security to reflect fair value as of the observable transaction date. The Board understands that the current language in paragraph 321-10-55-9 referencing “current fair value” could be misinterpreted to mean not only should the price be adjusted as of the transaction date for differences in rights and obligations, but it also should be adjusted to reflect events or other circumstances that occurred from the transaction date to the reporting date.

BC11. The amendment in this Update clarifies that the adjustments made under the measurement alternative should reflect the security’s fair value as of the date that the observable transaction for a similar security took place. The basis of the guidance is to remeasure when the similar transaction is observed; therefore, it would be inappropriate to perform the remeasurement on another date because that date would not reflect the same market conditions.

Issue 3—Forward Contracts and Purchased Options

BC12. Before the issuance of the amendments in Update 2016-01, paragraph 815-10-35-5 required certain forward contracts and purchased options to be accounted for on a look-through basis in which the instrument is accounted for consistent with the future classification of the securities. The amendments in Update 2016-01 changed the look-through guidance in paragraph 815-10-35-5 to apply only to debt securities because the amendments require all equity securities to be accounted for at fair value through net income. The amendments in Update
2016-01 also added paragraph 815-10-35-6, which states that the changes in the fair value of forward contracts and purchased options on equity securities measured in accordance with Topic 815, Derivatives and Hedging, must be recognized in earnings as they occur. Changes in observable price or impairment of the underlying referenced equity securities should result in a remeasurement of the entire fair value of the forward contracts or purchased options on equity securities without readily determinable fair values for which the measurement alternative in paragraph 321-10-35-2 is applied.

BC13. Stakeholders questioned whether a look-through approach for forward contracts and purchased options on equity securities for which the measurement alternative is expected to be applied would result in a complete remeasurement of the forward or option (which would involve updating all inputs to the valuation) or only an update to the input related to the fair value of the underlying security (as determined by applying the measurement alternative).

BC14. The amendments in this Update clarify that when measuring a forward contract or purchased option, an entity is required to update all inputs to the valuation and not just the input related to the change in the value of the underlying security.

Issue 4—Presentation Requirements for Certain Fair Value Option Liabilities

BC15. Paragraph 825-10-45-5 requires an entity that has elected to measure a financial liability at fair value with changes in fair value recognized in net income (that is, the fair value option) in accordance with Subtopic 825-10 to present separately the portion of the total change in the fair value of a liability attributable to a change in instrument-specific credit risk within other comprehensive income. Some stakeholders questioned whether hybrid financial liabilities for which the fair value option has been elected in accordance with paragraph 815-15-25-4 would be within the scope of this requirement or whether the guidance in paragraph 825-10-45-5 is limited to financial liabilities for which the fair value option has been elected in accordance with Subtopic 825-10.

BC16. Before the issuance of the amendments in Update 2016-01, instrument-specific credit risk was required to be disclosed for financial liabilities recognized at fair value under the fair value option for which the fair value has been significantly affected by changes in instrument-specific credit risk. As described in paragraph BC112 of Update 2016-01, the Board did not intend to amend practice on how instrument-specific credit risk should be measured. Therefore, when the fair value option is elected for a financial liability, the Board concluded that the liability should be considered to have instrument-specific credit risk if it is a general obligation of the entity, regardless of whether the fair value option was elected under either Subtopic 815-15 or Subtopic 825-10. The amendments provide that
clarification in paragraphs 815-15-25-4 and 825-10-45-5 and add a paragraph in Section 815-15-45 to provide similar guidance.

Issue 5—Fair Value Option Liabilities Denominated in a Foreign Currency

BC17. Paragraph 825-10-45-5 requires an entity to present separately the portion of the total change in the fair value of a liability attributable to a change in instrument-specific credit risk within other comprehensive income. Some stakeholders asked how an entity should determine the amount of the fair value change attributable to instrument-specific credit risk for a foreign-currency-denominated liability for which the fair value option is elected.

BC18. The Board did not intend for the amendments in Update 2016-01 to change current practice on the measurement of liabilities in which the fair value option was elected or the measurement of instrument-specific credit risk (which is required to be disclosed under current GAAP). Therefore, the Board concluded that for financial liabilities for which the fair value option is elected, the amount of the change in fair value that relates to instrument-specific credit risk should first be measured in the currency of denomination when presented separately from the total change in fair value of the financial liability. Then, both components of the change in fair value of the liability should be remeasured into the functional currency of the reporting entity using end-of-period spot rates. The Board understands that this approach is consistent with current practice in this area on the basis of outreach with stakeholders that have fair value option liabilities for which they currently measure instrument-specific credit risk. The amendments in this Update to Topic 825 and Topic 830 clarify that this is the approach that should be applied.

BC19. Furthermore, the Board notes that accounting for the change in the fair value of the liability because of changes in instrument-specific credit risk through the approach described in paragraph BC18 above is similar to accounting for changes in the fair value of foreign-currency-denominated available-for-sale securities, in accordance with paragraphs 320-10-35-36 and 830-20-35-6. The Board considers this reasonable because those are only two instances within GAAP, excluding hedge accounting, for which changes in value of financial assets and liabilities are measured through other comprehensive income.

Issue 6—Transition Guidance for Equity Securities without a Readily Determinable Fair Value

BC20. The transition guidance in Update 2016-01 generally requires a modified retrospective approach; however, a prospective transition approach is required for equity securities without a readily determinable fair value. The Board decided to require a prospective transition approach for equity securities without a readily
determinable fair value because it may be difficult for entities to determine the last observable transaction price that would be required under the new measurement alternative described in paragraph 321-10-35-2. Stakeholders asked the Board whether a prospective transition approach is required for all equity securities without a readily determinable fair value, including those in which the measurement alternative guidance is not applied upon transition (instead, the equity securities would be measured at fair value under Topic 820).

BC21. The Board noted that the transition approach was meant only for instances in which the measurement alternative is applied because of operability concerns that could arise if an entity needed to evaluate historical observable transactions. These same operability concerns would not exist if an entity elected to measure the security at fair value under Topic 820.

BC22. Stakeholders also asked the Board whether there is an appropriate way for insurance entities subject to the guidance in Topic 944 on insurance to prospectively recognize amounts in accumulated other comprehensive income for equity securities for which the measurement alternative is elected at transition. The Board clarified that there is not one prescribed methodology to prospectively recognize these amounts. Additionally, the Board decided that an insurance entity should apply its selected prospective transition method consistently to the entity’s entire population of equity securities for which the measurement alternative is elected.

**Effective Date and Transition**

BC23. To provide a period of time to allow entities to continue their current adoption plans for Update 2016-01, the Board concluded that for public business entities the amendments in this Update should be effective for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years beginning after June 15, 2018. Public business entities with fiscal years beginning between December 15, 2017, and June 15, 2018, are not required to adopt these amendments until the interim period beginning after June 15, 2018, and public business entities with fiscal years beginning between June 15, 2018, and December 15, 2018, are not required to adopt these amendments before adopting the amendments in Update 2016-01. For all other entities, the effective date is the same as the effective date in Update 2016-01. All entities may early adopt these amendments for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years, as long as they have adopted Update 2016-01.
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 through Taxonomy Improvements provided at [www.fasb.org](http://www.fasb.org), and finalized as part of the annual release process.