Financial Instruments

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The Financial Accounting Standards Board (FASB) has 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 organizations, and employee benefit plans that hold financial assets or owe financial liabilities.

"The new standard is intended to provide users of financial statements with more useful information on the recognition, measurement, presentation, and disclosure of financial instruments," stated FASB Chairman Russell G. Golden. "It improves the accounting model to better meet the requirements of today's complex economic environment."

The new guidance makes targeted improvements to existing 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 recognized 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

a change in the instrument-specific credit risk (also referred to as "own credit") when the organization has elected to measure the liability at fair value in accordance with the fair value option for financial instruments.

The ASU on recognition and measurement will take effect for public companies for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. For private companies, not-for-profit organizations, and employee benefit plans, the standard becomes effective for fiscal years beginning after December 15, 2018, and for interim periods within fiscal years beginning after December 15, 2019.

The ASU permits early adoption of the own credit provision (referenced above). Additionally, it permits early adoption of the provision that exempts private companies and not-for-profit organizations from having to disclose fair value information about financial instruments measured at amortized cost.

More information about the ASU—including a high-level *FASB in Focus* overview—is available at www.fasb.org.

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