

<b>Title:</b>	Disclosures: Interaction of the Disclosure Requirements of Statement 133 and Statement 47
<b>Paragraph references:</b>	44, <u>44A–44E</u> , 45
<b>Date cleared by Board:</b>	May 17, 2000
<b><u>Date revision posted to website:</u></b>	<u>April 21, 2008</u>
<b><u>Affected by:</u></b>	<u>FASB Statement No. 161, <i>Disclosures about Derivative Instruments and Hedging Activities</i></u>
	<u>Revised March 19, 2008</u>

## QUESTION

Does Statement 133 effectively supersede the disclosure requirements of FASB Statement No. 47, *Disclosure of Long-Term Obligations*, for an unconditional purchase obligation that is subject to the requirements of Statement 47 but accounted for as a derivative under Statement 133 and, thus, subject to the disclosure requirements of Statement 133?

## BACKGROUND

Paragraph 6 of Statement 47 defines *unconditional purchase obligation* as “...an obligation to transfer funds in the future for fixed or minimum amounts or quantities of goods or services at fixed or minimum prices (for example, as in take-or-pay contracts or throughput contracts).” Paragraph 7 of Statement 47 requires an obligor to make certain disclosures about unconditional purchase obligations that have the characteristics specified in paragraph 6 of Statement 47 and *have not* been recognized on the balance sheet. Separately, paragraph 10 of Statement 47 requires an obligor to make other less extensive disclosures about unconditional purchase obligations that have the characteristics specified in paragraph 6 of Statement 47 and *have* been recognized on the balance sheet.

Certain unconditional purchase obligations (for example, a power purchase agreement entered into in connection with the financing of a generation facility) subject to the disclosure requirements of Statement 47 may also meet the definition of *derivative instrument* in paragraphs 6–9 of Statement 133 and are accounted for as derivatives at fair value in the balance sheet. (The determination of whether an unconditional purchase obligation meets the definition of a derivative instrument is beyond the scope of this issue.)

Statement 133 requires certain disclosures by an entity that holds or issues derivative instruments (or nonderivative instruments that are designated and qualify as hedging instruments). Paragraphs 44 through 45 of Statement 133 contain the disclosure requirements—requires disclosure of objectives for holding or issuing such instruments, the context needed to understand those objectives, and the entity’s strategies for achieving those objectives. For those derivatives that are designated as hedging instruments, paragraph 45 of Statement 133 requires disclosures

~~based on the hedging activities (fair value, cash flow, net investment) and encourages similar disclosures about other financial instruments or nonfinancial assets and liabilities to which the derivative instruments are related by activity.~~

## RESPONSE

No. If an unconditional purchase obligation is subject to the requirements of both Statement 47 and Statement 133, the entity must comply with the disclosure requirements of each Statement, including paragraph 7 of Statement 47, as discussed below.

If an unconditional purchase obligation meets the definition of a derivative instrument, it will be recorded on the purchaser's balance sheet at fair value under Statement 133. However, that recognition at fair value is insufficient to exempt the unconditional purchase obligation from the disclosure requirements of paragraph 7 of Statement 47, whose primary objective is to disclose the fixed and determinable amount of the gross obligation and provide information on the significance of those obligations. Therefore, since the accounting and disclosure requirements of Statement 47 and Statement 133 are each based on different objectives, the purchaser must comply with the disclosure requirements of both paragraph 7 of Statement 47 and paragraphs 44 ~~and through~~ 45 of Statement 133 for an unconditional purchase obligation that meets the definition of a derivative instrument.

*The above response has been authored by the FASB staff and represents the staff's views, although the Board has discussed the above response at a public meeting and chosen not to object to dissemination of that response. Official positions of the FASB are determined only after extensive due process and deliberation.*

**Title:** Miscellaneous: Income Statement Classification of Hedge Ineffectiveness and the Component of a Derivative's Gain or Loss Excluded from the Assessment of Hedge Effectiveness

**Paragraph references:** 22, 30, ~~44C(b)(1)~~-~~44((b)(4)~~, ~~45(a)(1)~~, ~~45(b)(1)~~, 63

**Date cleared by Board:** December 6, 2000

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**Affected by:** [FASB Statement No. 161, \*Disclosures about Derivative Instruments and Hedging Activities\*](#)

[Revised March 19, 2008](#)

## QUESTION

May an entity classify as part of interest income or interest expense in its income statement (a) the amount of hedge ineffectiveness and (b) the component of the derivative instrument's gain or loss, if any, excluded from the assessment of hedge effectiveness arising from qualifying fair value hedges of its existing interest-bearing assets and interest-bearing liabilities or qualifying cash flow hedges of the forecasted receipt or payment of interest or forecasted acquisitions of debt securities or forecasted borrowings?

## BACKGROUND

In defining how hedge effectiveness will be assessed, an entity may specify whether it will include in that assessment all of the gain or loss on a hedging instrument. Paragraph 63 of Statement 133 permits an entity to exclude all or a part of the hedging instrument's time value from the assessment of hedge effectiveness. When an entity excludes all or a part of the hedging instrument's time value from the assessment of hedge effectiveness, changes in the excluded component of the hedging instrument's value are recorded in earnings. In addition, any hedge ineffectiveness that results under the entity's defined method of assessing effectiveness is recognized in current earnings.

With respect to financial institutions, analysis of the financial statements of those institutions considers various measures of performance that take into account the institutions' reported interest income and interest expense. In addition, certain financial institutions are subject to regulatory disclosure requirements that include the average yield for each major category of interest-bearing asset, the average rate paid for each major category of interest-bearing liability, the average yield on all interest-earning assets, the average effective rate paid on all interest-bearing liabilities, and the net yield on interest-earning assets. This suggests that there should be comparability in the income statement category in which financial institutions report the amount of their hedges' ineffectiveness and the excluded component of their derivative instruments' gains or losses.

## RESPONSE

Statement 133 does not provide guidance on the required income statement classification of the amount of hedge ineffectiveness and the component of a derivative instrument's gain or loss, if any, excluded from the assessment of hedge effectiveness. While Statement 133 does not specify whether certain income statement categories are either permitted or appropriate, the Statement does contain specific disclosure requirements for those items.

Paragraph 44C of Statement 133 states, in part:

An entity that holds or issues derivative instruments (and nonderivative instruments that are designated and qualify as hedging instruments pursuant to paragraphs 37 and 42)<sup>12a2</sup> shall disclose for every annual and interim reporting period for which a statement of financial position and statement of financial performance are presented:...

- a. The location and amount of the gains and losses reported in the statement of financial performance (or when applicable, the statement of financial position, for example, gains and losses initially recognized in other comprehensive income [OCI]) on derivative instruments and related hedged items. Gains and losses shall be presented separately for:
- (1) Derivative instruments designated and qualifying as hedging instruments in fair value hedges and related hedged items designated and qualifying in fair value hedges.
  - (2) The effective portion of gains and losses on derivative instruments designated and qualifying in cash flow hedges and net investment hedges that was recognized in OCI during the current period.
  - (3) The effective portion of gains and losses on derivative instruments designated and qualifying in cash flow hedges and net investment hedges recorded in accumulated other comprehensive income during the term of the hedging relationship and reclassified into earnings during the current period.
  - (4) The portion of gains and losses on derivative instruments designated and qualifying in cash flow hedges and net investment hedges representing (a) the amount of the hedges' ineffectiveness and (b) the amount, if any, excluded from the assessment of hedge effectiveness....

Paragraph 45 of Statement 133 states, in part:

—An entity's disclosures for every reporting period for which a complete set of financial statements is presented also shall include the following:

*Fair value hedges*

- a. For derivative instruments...that have been designated and have qualified as fair value hedging instruments and for the related hedged items:

~~(1) The net gain or loss recognized in earnings during the reporting period representing (a) the amount of the hedges' ineffectiveness and (b) the component of the derivative instruments' gain or loss, if any, excluded from the assessment of hedge effectiveness, and a description of where the net gain or loss is reported in the statement of income or other statement of financial performance... [Emphasis added.]~~

*Cash flow hedges*

~~b. For derivative instruments that have been designated and have qualified as cash flow hedging instruments and for the related hedged transactions:~~

~~(1) The net gain or loss recognized in earnings during the reporting period representing (a) the amount of the hedges' ineffectiveness and (b) the component of the derivative instruments' gain or loss, if any, excluded from the assessment of hedge effectiveness, and a description of where the net gain or loss is reported in the statement of income or other statement of financial performance.... [Emphasis added.]~~

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