Board Meeting Handout

Agenda Prioritization

May 8, 2019

Meeting Purpose

1. The May 8, 2019 Board meeting is a decision-making meeting. The purpose of the meeting is for the Board to consider adding six potential projects related to eight recent agenda requests and a related technical inquiry. The Board will decide whether these potential projects should be added to its technical agenda and addressed directly by the FASB or the EITF. The Board also will be asked to determine what the scope of each project added should be.

2. As it concerns the first potential project, if the Board chooses to add a project on clarifying the interaction between Topic 321 and Topic 323 and decides to address it directly, the Board also will be asked to make decisions on that project at this meeting.

Potential Projects Being Considered

3. The following table lists six potential projects that the Board will consider adding to the technical agenda:

	Potential Project
1	Financial Instruments—Clarifying the Interactions between Topic 321 and Topic 323
2	Subsequent Accounting for IPR&D Assets and Contingent Consideration Obligations Recognized upon Initial Consolidation of a VIE That Is Not a Business
3	Revenue Recognition: Contract Modifications of Licenses of Intellectual Property
4	Collective Defined Contribution Plans and the Definition of a Defined Contribution Plan
5	Share Repurchase Disclosures – Price and Earnings Per Share Effects
6	Accounting for Emissions Trading and Other Environmental Market Transactions

FINANCIAL INSTRUMENTS—CLARIFYING THE INTERACTION BETWEEN TOPIC 321 AND TOPIC 323

4. The questions for the Board on this potential project are as follows:

Questions for the Board
1. Does the Board want to add a project to its technical agenda to address the interactions between Topic 321 and Topic 323 (that is, Issues 1 through 3)? If not, is there additional research or outreach that the Board would like the staff to perform before the Board makes an agenda decision? Alternatively, the Board could add the project to the EITF's agenda.
If the Board decides to add this project to its technical agenda, the following questions apply:
2. Does the Board want to require entities to consider observable transactions for the purposes of the measurement alternative in accordance with Topic 321 both when entering and when exiting the equity method?
3. Does the Board want to require entities to apply unrealized gains resulting from an orderly transaction in accordance with the measurement alternative in Topic 321 to any accumulated equity method losses that have not been allocated to an investor's investments in the investee (that is, accumulated investee losses in the memo account) prior to recognition?
4. Does the Board want to clarify that forward contracts and purchased options (except those deemed to be in-substance common stock) on equity securities are not within the scope of Topic 323?
Cost and Benefits, Permission to Ballot
5. Has the Board received sufficient information and analysis to make an informed decision on the perceived costs of the changes? If not, what other information or analysis is needed?
6. Does the Board think that the benefits justify the costs? If so, does the Board authorize the staff to proceed to a proposed Accounting Standards Update for vote by written ballot?

7. What comment period does the Board select for the amendments in the proposed Accounting Standards Update?

Background Information

5. In July 2018, a large public-accounting firm submitted an agenda request asking the Board to consider adding a project to its technical agenda to clarify the accounting interactions between the guidance in Topic 321 and Topic 323.The agenda request raised two practice issues:

   Issue 1: The Accounting for Equity Securities upon the Application and Discontinuation of the Equity Method of Accounting

   Issue 2: Recognizing Investee Losses to Other Equity Investments in the Investee

6. In November 2018, a large public-accounting firm submitted an additional practice issue related to the accounting interactions between the guidance in Topic 321 and Topic 323:

   Issue 3: The Scope of Certain Forward Contracts and Purchased Call Options on Equity Securities

Issue 1: The Accounting for Equity Securities upon the Application and Discontinuation of the Equity Method of Accounting

7. Issue 1 pertains to an investor's investment in an equity security that is accounted for under the measurement alternative in accordance with paragraph 321-10-35-2 when an observable transaction is identified in the reporting period. The question is what the subsequent accounting of the investment should be if that observable transaction resulted in the investor either applying or discontinuing the equity method of accounting due to an investor gaining or losing significant influence over an investee.

Issue 2: Recognizing Investee Losses When an Investor Has Other Equity Investments in the Investee

8. Issue 2 relates to certain situations in which (a) an investor has additional investments in the equity method investee that do not qualify for the equity method of accounting and (b) the investee's equity method losses have resulted in a zero carrying value for the investor's equity method investment.

9. Under the equity method of accounting in Topic 323, an investor records its proportional share of an equity method investee's earnings or losses. In situations in which the investor's share of equity method losses equals or exceeds its equity method investment balance (plus any advances), equity method loss recognition generally should be discontinued (that is, the investor should stop reflecting equity method investee's losses in

its financial statements) unless (a) the investor has provided, or committed to provide, the investee with additional financial support or (b) the investor has guaranteed the investee's obligations.

10. However, the investor should continue to record its share of the equity method investee's losses even when its equity method investment balance has been reduced to zero when the investee's imminent return to profitability appears to be assured.

11. Paragraph 323-10-35-26 provides additional guidance for recognizing the investor's share of equity method losses when the investor has other investments in the investee that do not qualify for the equity method of accounting. For example, the equity method investor may also have an investment in preferred stock of the investee that does not qualify for in-substance common stock.[1]

12. In instances in which an investor does not have a requirement to advance additional funds to an investee and losses have reduced its equity method investment balance to zero, the investor should continue to record its share of equity method losses in the income statement as an adjustment to the adjusted basis of the other investments in the equity method investee.

13. Stakeholders asked for clarification on the application of the guidance when an investor has other investments in the investee that do not qualify for the equity method of accounting and applies the measurement alternative in Topic 321, and when an observable transaction occurs during the reporting period.

Issue 3: The Scope of Certain Forward Contracts and Purchased Call Options on Equity Securities

14. Issue 3 relates to the accounting for certain forward contracts and purchased options to purchase an equity instrument that does not meet the criteria for derivative accounting requirements in Topic 815, Derivatives and Hedging. The fact pattern presented was specific to forward contracts and purchased options that upon purchase of the equity investment under the forward contract or by exercising the option, the equity investment would be accounted for under the equity method. Additionally, the forward contracts and purchased options within the scope of this issue do not represent in-substance common stock.

15. The question raised by the stakeholder specifically relates to the evaluation of forward contracts and purchased options with the characteristics in paragraph 815-10-15-141;

[1] *In-substance common stock* is defined in the Master Glossary as "an investment in an entity that has risk and reward characteristics that are substantially similar to that entity's common stock."

specifically, Characteristic (a), which requires that “the contract is entered to purchase securities that *will* be accounted for under…Topic 321” (emphasis added). The stakeholder questioned whether Characteristic (a) would be met in circumstances in which the underlying equity investment would be accounted for under Topic 323 *instead* of Topic 321 upon the settlement of the forward or exercise of the option.

SUBSEQUENT ACCOUNTING FOR IPR&D ASSETS AND CONTINGENT CONSIDERATION OBLIGATIONS RECOGNIZED UPON INITIAL CONSOLIDATION OF A VIE THAT IS NOT A BUSINESS

16. The questions for the Board on this potential project are as follows:

Questions for the Board
1. Does the Board want to take either of the following actions? (a) Add a narrow-scope project to the agenda that would address how a PB subsequently accounts for IPR&D recognized upon the initial consolidation of a VIE that is not a business (b) Expand the scope of the Board’s active project on improving the accounting for asset acquisitions and business combinations by addressing the accounting by a PB for IPR&D assets and contingent consideration obligations recognized upon the initial consolidation of a variable interest entity that is not a business. 2. Does the Board want the staff to perform additional research on a broader potential project to consider the initial recognition and measurement requirements for a VIE that is not a business?

Background Information

17. An agenda request asked the Board to address diversity in practice in the subsequent accounting for in-process research and development (IPR&D) intangible assets and contingent consideration obligations recognized upon the initial consolidation of a VIE that is not a business. Topic 810, Consolidation, provides guidance on the initial recognition and measurement of assets and liabilities of a VIE when a reporting entity becomes the primary beneficiary (PB) of a variable interest entity (VIE). The initial consolidation of a VIE by the PB can result from various circumstances including as a result of participating in an entity’s formation, the acquisition of a VIE, and the expiration of rights or changes in contractual arrangements.

18. Topic 810 states that for consolidation purposes, the PB should follow the initial recognition and measurement guidance in Topic 805, Business Combinations, specifically Sections

805-20-25 and 805-20-30. Topic 805 provides certain subsequent accounting guidance; however, that subsequent accounting guidance is specific to VIEs that are business combinations (see paragraphs 29 and 31 below). For acquisitions that are not a business, Subtopic 805-50 and Topic 730, Research and Development, provide some recognition and measurement guidance (see paragraphs 30 and 32 below); however, that guidance does not apply to VIEs and in fact was rejected when the Board initially considered the accounting for VIEs that are not businesses (see further discussion below in paragraph 25). The lack of subsequent accounting guidance for IPR&D assets and contingent consideration that is specific to a VIE that is not a business requires that an entity analogize to other guidance.

19. The current guidance for a VIE that is not a business has been in effect since 2003. However, the changes resulting from the amendments in Accounting Standards Update No. 2017-01, *Business Combinations (Topic 805): Clarifying the Definition of a Business*, has increased the number of transactions that are deemed acquired sets of assets and activities that do not meet the definition of a business. The definition of a business affects many areas including acquisitions, disposals, and consolidations. The increase in the volume of transactions that do not meet the definition of a business has led to more questions in practice about how to account for a VIE that is not a business.

20. The initial accounting for a VIE that is not a business is discussed in consolidation and business combinations guidance. Specifically, the guidance states the following:

> **810-10-30-3** When a reporting entity becomes the primary beneficiary of a VIE that is not a business, no goodwill shall be recognized. The primary beneficiary initially shall measure and recognize the assets (except for goodwill) and liabilities of the VIE in accordance with Sections 805-20-25 and 805-20-30. However, the primary beneficiary initially shall measure assets and liabilities that it has transferred to that VIE at, after, or shortly before the date that the reporting entity became the primary beneficiary at the same amounts at which the assets and liabilities would have been measured if they had not been transferred. No gain or loss shall be recognized because of such transfers.
>
> **810-10-30-4** The primary beneficiary of a VIE that is not a business shall recognize a gain or loss for the difference between (a) and (b):
>
> 1. The sum of:
>   i. The fair value of any consideration paid
>   ii. The fair value of any noncontrolling interests
>   iii. The reported amount of any previously held interests
> 2. The net amount of the VIE's identifiable assets and liabilities recognized and measured in accordance with Topic 805.

21. Subsequently, paragraph 810-10-35-3 states that the assets, liabilities, and noncontrolling interests of a consolidated VIE should be accounted for in consolidated financial statements as if the entity were consolidated on the basis of voting interests.

22. The agenda request noted that Topic 805 requires that IPR&D and contingent consideration be recognized at fair value at the date that the PB initially consolidates the VIE. However, diversity in practice exists because GAAP is silent on the subsequent accounting for those assets and liabilities. Some entities continue to follow the accounting requirements for business combinations in Topic 805 and Topic 350, Intangibles—Goodwill and Other, while other entities apply the guidance for acquisitions that are not businesses (Topic 450, Contingencies, Topic 730, and Subtopic 805-50).

VIE Guidance

23. VIE guidance was originally issued in 2003 in FASB Interpretation No. 46, *Consolidation of Variable Interest Entities*. Except for enterprises under common control and assets and liabilities that are consolidated shortly after transfer from a PB to a VIE, FIN 46 required that the PB of a VIE initially measure the assets, liabilities, and noncontrolling interests of the newly consolidated entity at fair value at the date that the enterprise first became a PB.

24. After the issuance of FIN 46, the Board modified FIN 46 to address certain technical corrections and implementation issues. The Board reconsidered various aspects of VIE guidance and issued FASB Interpretation No. 46 (revised December 2003), *Consolidation of Variable interest Entities*.

25. In 2004, when the Board was redeliberating its proposed Statement on business combinations, the Board considered the interaction between the initial measurement requirements of the proposed Statement and the initial measurement guidance in FIN 46(R). For the initial consolidation of VIEs that were not businesses, the Board considered and rejected the view that those VIEs should be accounted for consistent with other asset acquisitions. The Board considered an alternative to require the application of the general asset acquisition guidance (now codified in Subtopic 805-50). That guidance required that the cost of a group of acquired assets be allocated to the individual assets based on their relative fair values and did not give rise to goodwill. At the time, the Board weighed whether consistency with the accounting for asset acquisitions was preferable to consistency with its decisions in FIN 46(R). The Board decided not to make changes to the PB's accounting for VIEs that are not a business because it would be inappropriate to allocate a loss to increase newly acquired assets because so many of those assets were expected to be financial assets. Given the subsequent accounting for financial assets, if a loss were allocated to the acquired financial assets (which increases the book value of those assets) the PB would likely be required to recognize an accounting loss on Day 2.

Other Relevant Generally Accepted Accounting Principles (GAAP)

Definition of a Business

26. Initially, the definition of a business was established in EITF Issue No. 98-3, "Determining Whether a Nonmonetary Transaction Involves Receipt of Productive Assets or of a Business." During the development of FASB Statement No. 141 (revised 2007), *Business Combinations*, that definition was deemed to be too narrow because stakeholders had said that too many transactions that represented a business economically did not meet the EITF definition. As a result, the definition of a business was amended by Statement 141(R).

27. Some of the changes made to the definition of a business in Statement 141(R) led to very broad interpretations that swung the pendulum in the other direction—too many transactions that stakeholders considered to be the acquisition of assets (examples included the acquisition of a single fully leased building and the acquisition of development and commercialization rights of a drug candidate) were accounted for as a business.

28. The Board amended the definition of a business in Phase 1 of the FASB's project on the definition of a business, which resulted in the issuance of the amendments in Update 2017-01. The amendments in Update 2017-01 narrowed the definition of a business, resulting in more transactions not being a business (see additional detail about the current phase of this project below in paragraphs 33-34).

Accounting for IPR&D Assets—Not in a VIE

29. For business combinations, Topic 805 requires an acquirer to recognize all tangible and intangible research and development assets acquired at fair value. After initial recognition, tangible assets acquired in a business combination that are used in research and development activities are accounted for in accordance with their nature. Intangible assets acquired in a business combination that are used in research and development activities (that is, IPR&D) are capitalized as indefinite-lived intangible assets and remain on the balance sheet until the completion or abandonment of the associated research and development project. During the period that intangible assets are considered indefinite lived, they are tested for impairment (in accordance with the guidance in paragraphs 350-30-35-18 through 35-20). The impairment guidance requires an entity to compare the fair value of the indefinite-lived intangible asset with its carrying value both annually and more frequently if there is an indication that the intangible asset is impaired. Entities are required to recognize additional costs to complete the associated research and development project as an expense in accordance with Topic 730.

30. If the acquisition is not a business, preparers look to paragraph 730-10-25-2, which requires the acquirer to expense acquired tangible and intangible research and

development assets unless the assets have alternative future uses. In practice, the costs of intangibles that are purchased from others rarely have an alternative future use.

Accounting for Contingent Consideration—Not in a VIE

31. For business combinations, some contingent consideration arrangements are required to be accounted for as derivatives (under Topic 815). For those arrangements that are not accounted for as derivatives and are part of the consideration transferred in exchange for a business, Topic 805 requires that obligations and rights associated with those arrangements be measured and recognized at their acquisition-date fair values. For contingent consideration classified as an asset or as a liability, Topic 805 requires that subsequent changes in the fair value of that asset or liability be recognized through earnings. Contingent consideration classified as equity is not remeasured after initial measurement. Settlement of equity-classified contingent consideration is accounted for within equity.

32. For asset acquisitions, if contingent consideration is not accounted for as a derivative, there is diversity in how entities account for contingent consideration at the acquisition date because there is no guidance specifically on point. Once Statement 141(R) did away with the requirements of Statement 141, which required that contingent consideration be recorded when the contingency is resolved, the accounting varied. If contingent consideration does not meet the definition of a derivative, some entities:

    (a) Apply Topic 450. Under Topic 450, an entity is required to recognize a liability if the contingent event is deemed probable and the amount can be reasonably estimated. Under Topic 450, an entity is prohibited from recognizing contingently returnable consideration (an asset) at the acquisition date (irrespective of whether it is probable and can be reasonably estimated).

    (b) Recognize contingent consideration once the contingency is resolved (consistent with Statement 141).

    (c) Analogize to Topic 323. That is, the acquirer would recognize a liability when the fair value of the net assets acquired exceeds the consideration paid. The amount of the liability would be equal to the lesser of either the maximum amount of contingent consideration or the amount in which the fair value of the net assets acquired exceeds the consideration paid (that is, the bargain purchase).

FASB Project on Improving the Accounting for Asset Acquisition and Business Combinations (Phase 3 of the Definition of a Business Project)

33. The Phase 3 project was added to the agenda because of the significant differences in the accounting for the acquisition of a business and asset acquisitions, which motivate some

companies to push to get their preferred accounting. The project is expected to improve the accounting and narrow or eliminate the differences in three areas, including contingent consideration, IPR&D, and acquisition-related costs. Currently, the scope of the project does not include the accounting for IPR&D or contingent consideration in a VIE that is not a business.

34. The Board also decided to consider potential improvements to Subtopic 805-50 by addressing whether certain recognition or measurement exceptions in the acquisition of businesses (such as the reassessment of lease contracts, reacquired rights, indemnification assets, and the measurement of acquired leases) should be extended to asset acquisitions for purposes of the allocation of cost on a relative fair value basis.

REVENUE RECOGNITION: CONTRACT MODIFICATIONS OF LICENSES OF INTELLECTUAL PROPERTY

35. The questions for the Board on this potential project are as follows:

Questions for the Board
1. Does the Board want to add a project to its technical agenda on accounting for modifications of licenses of intellectual property?
2. Do Board members have feedback on the project objective or scope? Which issues would the Board like to include in the scope of the project if added?
3. If the answer to Question 1 is Yes, does the Board want the project to be a Board project or an EITF Issue?
4. Do Board members have feedback on the potential alternatives discussed in this handout? Are there additional alternatives the Board would like to pursue? Are there any alternatives that the Board would like to exclude from the project?
5. Is there additional information that the Board would like the staff to research?

Issue Background

36. The staff has identified the following three issues derived from two agenda requests on revenue recognition.

Issue 1: Accounting for contract modifications where the contract term for existing rights is extended, while also adding rights

Issue 2: Accounting for the revocation of licensing rights (including conversion of term software licenses to software as a service (SaaS) arrangements)

Issue 3: Determining when a contract termination should be accounted for as a contract modification.

37. These issues relate to the accounting for licenses of intellectual property (IP) and the questions primarily relate to functional IP. Functional IP is defined in Topic 606 as IP that has significant standalone functionality (for example, the ability to process a transaction, perform a function or task, or be played or aired). Topic 606 requires that revenue for functional IP be recognized at a point in time. Although the issues described in the agenda request are in the context of software, the issues that will be discussed at the May 8, 2019 Board meeting could be applicable to any functional IP (for example, media, pharma, and so forth).

Issue 1: Additional Rights are Granted to the Licensee

38. The agenda request describes diversity in practice in the interpretation and application of the contract modification guidance in paragraphs 606-10-25-12 through 25-13 and the license renewal guidance in paragraph 606-10-55-58C in cases in which a modification to a software license arrangement involves extensions of the original license term that are not solely a renewal of the same terms and conditions of the original license. The diversity described in the agenda request is primarily about whether the revenue resulting from the modification should be recognized at the date of the modification (for example, if the modification results in the termination of the existing contract and the creation of a new contract) or at the start of the renewal period (because of the guidance on license renewals).

39. The Board will not be asked to vote on alternatives at this agenda prioritization meeting. However, the staff will be asking the Board for feedback on the project direction and the following preliminary alternatives.

Alternative 1: Define “renewals.” The guidance in paragraph 606-10-55-58C states that “an entity would recognize revenue from a license renewal no earlier than the beginning of the renewal period.” One option under this alternative would be to define a renewal narrowly as a modification of a contract that only results in the extension of the time attribute of a license. That is, a modification that extends the time attribute of a license and adds or removes other rights would not be a renewal because those changes are substantive. Another option under this alternative would be to define a renewal as an extension of time applied to *existing rights*.

Alternative 2: Modification Implementation Guidance for Licenses. The Board could consider providing implementation guidance on how the contract modification guidance applies to licenses of intellectual property. For example, the Board could develop implementation guidance about how to determine whether the modification adds distinct goods or services and how to assess whether those goods or services are at standalone selling prices (SSP).

Alternative 3: Modifications Presumption. The Board could include a presumption about whether the modification is a separate contract or the termination of the existing contract and the creation of a new contract.

Alternative 4: Combination of Alternatives 1 and 3. This approach would include a presumption in the guidance that a modification to a license is the termination of the existing contract and the creation of a new contract unless the modified contract meets the definition of a renewal, which would need to be defined narrowly.

Issue 2: Rights Are Revoked from the Licensee

40. One of the agenda requests presents an example in which new rights are added while some existing rights are also revoked. During outreach, stakeholders indicated three different views in practice about whether revoking rights should result in the reversal of revenue. First, some stakeholders suggested that the potential for future revocation of rights results in variable consideration in the original contract and that a returns reserve should be established at contract inception. Second, other stakeholders observed that the licensor has enforceable rights and obligations for the rights granted for the term of the contract, so there is no variable consideration. However, when those rights are revoked, revenue for the rights should be reversed. Third, other stakeholders observed that control of a license to functional IP was transferred to the customer at the inception of the original contract and that changes to the attributes of that transferred license at a later date should not result in a revenue reversal.

41. Additionally, stakeholders have indicated that questions have arisen about the accounting for the following scenarios.

    (a) Contract modifications that result in a switch from a software license to SaaS

    (b) Contract modifications that add an option to switch from an existing software license to SaaS

    (c) Contracts that include an option to switch from a software license to a SaaS.

Issue 3: Contract Terminations

42. Other questions in practice about accounting for contract terminations were raised by stakeholders when discussing Issues 1 and 2. The primary question on this issue is about when a contract termination should be accounted for as a contract modification. That is, if a contract is legally terminated but it is done in conjunction with the negotiation of a new contract, should that be considered a modification.

43. Illustration 1 in one of the agenda requests is a scenario in which an existing contract for 100 seats is terminated and a new contract for 150 seats is entered into. The question is whether that arrangement should be accounted for differently than a scenario in which the entity enters into a contract for 100 seats and then modifies the contract to add 50 more seats (for a total of 150 seats). The example in the agenda request presumes that this is a modification.

44. This issue would not solely relate to contracts for licenses of IP because this scenario could exist in any industry. Additionally, this question is not unique to Topic 606 and this scenario would have existed even when applying prior revenue recognition guidance.

COLLECTIVE DEFINED CONTRIBUTION PLANS AND THE DEFINITION OF A DEFINED CONTRIBUTION PLAN

45. The questions for the Board on this potential project are as follows:

Questions for the Board
1. Should a narrow-scope project be added to the technical agenda to address an employer's accounting under Topic 715 for collective defined contribution plans as it relates to the definition of a defined contribution plan? 2. If yes, should the project be addressed by the FASB or the EITF?

Issue Background

46. An agenda request from the Pension and Benefits Accounting Committee of the International Actuarial Association (IAA) recommends that the Board add a project to its technical agenda to clarify the accounting for certain pension plans that are neither purely defined benefit (DB) plans nor purely defined contribution (DC) plans, but, specifically, collective defined contribution (CDC) plans.

47. The IAA describes a specific type of plan that is akin to a DC plan but would not be classified and accounted for as a DC plan under GAAP because of certain provisions in GAAP.

48. The agenda request indicated that multinational companies in other countries that are developing or considering developing this type of plan would determine that this type of plan could be classified as a DC plan under IFRS and a DB plan under GAAP.

How a CDC Plan Works?

49. The IAA explains that CDC plans have emerged in European countries, such as the Netherlands, Denmark, Germany, and United Kingdom, as well as in Canada and Japan, and that those plans are different from hybrid plans. The primary difference between the two kinds of plans is that in a typical hybrid plan, the risk is shared between the sponsor and the employee. Under the emerging CDC plans, there is no risk sharing between the sponsor and participant. Instead, risks, such as investment performance and longevity, are shared among the pool of plan participants.

50. CDC plans could be thought of as DC plans that are managed like DB plans. However, instead of an individual account that each participant manages, a CDC plan's investments are managed by a trustee.

51. Advantages of CDC plans include investment leverage, reduced costs, and pooling of risks.

Overview of Current GAAP

52. The Codification's Master Glossary defines the term *Defined Contribution Plan* as follows:

> A plan that provides an **individual account for each participant** and provides benefits that are based on all of the following: **amounts contributed to the participant's account by the employer** or employee; investment experience; and any forfeitures allocated to the account, less any administrative expenses charged to the plan…. The benefits a plan participant will receive are **limited to the amount contributed to the participant's account**, investment experience, expenses, and any forfeitures allocated to the participant's account. [Emphasis added.]

Classification of CDC Plans

53. CDC plans typically do not have individual accounts. As a result, they would be classified as DB plans under GAAP. Stakeholders have stated that they are unable to overcome the prescriptive nature of the definition of a DC plan by looking to the substance of the arrangement because the SEC staff has indicated that individual accounts are a prerequisite to classification as a DC plan. In an SEC staff speech at the 2006 AICPA National Conference, Joe Ucuzoglu stated, "Statement[s] 87 [Subtopic 715-30] and 106 [Subtopic 715-60] are clear that a plan shall be considered a defined contribution plan only if several criteria are satisfied, one of which is the existence of an individual account for each participant. In the arrangements brought to the staff, even though the employer was at risk only for the amounts contributed to the plan, the absence of individual participant

accounts resulted in a conclusion that the new plan should be accounted for as a defined benefit plan."

54. The agenda request indicates that the focus of the definition of a DC plan under IFRS Standards was changed in 1998 to whether there is downside cost risk faced by the employer. IAS 19, *Employee Benefits*, defines a DC plan as follows:

> A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity (a fund) and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods.

55. The strict requirement in GAAP that a DC plan must have individual accounts to qualify as a DC plan may cause some plans for which the sponsor has no ongoing cost or risk to be classified as DB plans, while under IFRS, those same plans are classified as DC plans.

SHARE REPURCHASE DISCLOSURES – PRICE AND EARNINGS PER SHARE EFFECTS

56. The questions for the Board on this potential project are as follows:

Questions for the Board
1. Should a disclosure project be added to the technical agenda to provide increased transparency when an entity repurchases its own shares to disclose the effect of the repurchase on EPS and the purchase price of the shares?
2. If yes, should the project be addressed by the FASB or the EITF?

Issue Background

57. The Board received two unsolicited agenda requests on this issue; one from an investor and one from a former practitioner. Both agenda requests assert that the current disclosure requirements for when an entity repurchases its own shares are insufficient. One request asserts that public companies manipulate their EPS by repurchasing their own shares and asks the Board to consider requiring an entity to disclose the effect of the repurchase on EPS in subsequent periods. The other request asks the Board to consider requiring an entity to disclose the price of the repurchase in subsequent periods so that an investor or other user can evaluate whether the entity's repurchase was a good investment compared to investments in other entities.

GAAP Requirements

58. Topic 260, Earnings Per Share, requires that an entity present both basic EPS and diluted EPS on the face of its income statement. The computation of basic EPS is done by dividing income available to common stockholders by the weighted-average number of common shares outstanding during the period. Diluted EPS is calculated by dividing income available to common shareholders by the diluted potential common shares outstanding during the period. The repurchase of a company's outstanding shares would cause a decrease in the number of shares outstanding in both the basic and diluted EPS calculations.

59. Subparagraph 260-10-50-1(a) includes the following disclosure requirement for each period for which an income statement is presented:

> A reconciliation of the numerators and the denominators of the basic and diluted per-share computations for income from continuing operations. The reconciliation shall include the individual income and share amount effects of all securities that affect earnings per share (EPS). Example 2 (see paragraph 260-10-55-51) illustrates that disclosure. (See paragraph 260-10-45-3.) An entity is encouraged to refer to pertinent information about securities included in the EPS computations that is provided elsewhere in the financial statements as prescribed by Subtopic 505-10.

SEC Requirements

60. The SEC requires that an entity disclose in Item 5 of its Form 10-K, as required by Item 703 of Regulation S-K, *Purchases of equity securities by the issuer and affiliated purchasers*, and Item 2 of its Form 10-Q, the total number of shares repurchased during the past quarter, the average price paid per share, the number of shares that were purchased as part of a publicly announced repurchase plan, and the maximum number (or approximate dollar value) of shares that may yet be purchased under the plans or programs. The SEC also requires that an entity disclose the principal terms of publicly announced repurchase plans or programs, including: the date of announcement, the share or dollar amount approved, the expiration date (if any) of the plans or programs, each plan or program that has expired during the period, and each plan or program that the entity has determined to terminate prior to expiration or under which the entity does not intend to make further purchases.

61. In addition, Item 303 of Regulation S-K, *Management's Discussion and Analysis (MD&A) of Financial Condition and Results of Operations,* requires that an entity disclose any information management deems important for investors to know in order to understand the company's current and prospective financial position.

ACCOUNTING FOR EMISSIONS TRADING AND OTHER ENVIRONMENTAL MARKET TRANSACTIONS

62. The questions for the Board on this potential project are as follows:

Questions for the Board
1. Should a project be added to the technical agenda related to accounting for emissions trading and other environmental market transactions?
2. If yes, should the project be addressed by the FASB or the EITF?

Issue Background

63. The Board received an unsolicited agenda request to address the accounting for environmental allowances and credits related to emissions trading and other environmental markets (for example, a cap and trade scheme). The agenda request indicates that an entity currently must determine an accounting treatment and valuation method for free allowances that are granted by an emissions trading scheme administrator, purchased allowances, allowances sold, and liabilities for lack of compliance with the policy of the emissions trading scheme. The agenda request indicates that the price of allowances in these markets fluctuate significantly, so the recognition and valuation method selected can have a material effect on financial statements. Additionally, the agenda request indicates that there is diversity in practice in accounting for emissions trading schemes and some entities do not account for the allowances and liabilities until payments are made.

64. The agenda request notes that the FASB previously removed a project on emissions trading schemes from its agenda in 2014, but it also notes that emissions trading schemes have increased in pervasiveness since that time.

History of the FASB's Previous Project on Emissions Trading Schemes

65. The IASB undertook a project in December 2007 to address emissions trading schemes because it withdrew IFRIC 3, *Emissions Rights*, in June 2005. That project became a joint project with the FASB in 2008.

66. The objective of the joint project was to provide comprehensive guidance on the accounting issues related to emissions trading schemes, including asset recognition, measurement, and impairment; liability recognition and measurement; timing of profit and loss recognition; accounting for vintage year swaps; presentation; and disclosure.

67. The scope of the project was broad and included all emissions trading schemes and tradable rights. Accordingly, the project was expected to cover both cap and trade and

baseline and credit schemes (whether government mandated or voluntary), as well as project-based certificates and renewable energy certificates. The guidance was expected to apply to participants in a scheme and non-participants who buy and sell tradable rights.

68. The Boards made certain tentative decisions on that project, including the following:

    (a) The Boards tentatively decided that purchased and allocated allowances should be recognized as assets. The Boards tentatively decided that the allocation of allowances creates an obligating event that meets the definition of a liability and should be recognized as such in the statement of financial position.

    (b) The Boards discussed how an entity should determine the quantity of allowances that would be returned under the liability for the allocation, as well as when an entity should recognize an obligation for emissions in excess of the liability for the allocation, but no decisions were made. Some Board members at the time supported recognizing the excess liability throughout the compliance period as an entity emits, while others supported recognizing the excess liability when the entity's emissions exceed the liability for the allocation. The Boards asked the staff to seek feedback from stakeholders on both views. The Boards also asked the staff to seek feedback from stakeholders on both models of applying the views, the expected return model, and the derecognition model. (This outreach was discontinued, as discussed in paragraph 69.)

    (c) The Boards tentatively decided that the measurement of the allocated allowances and the liability for the allocation should be consistent and that the allocated allowances and liability for the allocation should be initially and subsequently measured at fair value. The Boards also tentatively decided that purchased allowances should be initially and subsequently measured at fair value.

    (d) The IASB preferred gross presentation of the assets and liabilities on the balance sheet; however, it indicated that it would not object to a linked presentation. A linked presentation would present the assets and liabilities gross, but the amounts would be presented together and total to a net emission asset or net emission liability. The FASB tentatively decided that the assets and liabilities should be presented on the balance sheet using a form of linked presentation. However, the FASB also indicated that it did not believe that an entity needed to have the intention of offsetting the assets and liabilities to be able to present the items using a linked presentation.

69. In late 2010, the Boards asked the staff to perform outreach on the tentative decisions and present them with feedback in the second half of 2011. The Boards also discussed in late 2010 issues related to the development of an exposure draft addressing accounting for

emissions trading schemes. However, in late 2010, the Boards decided to focus their resources on higher-priority projects (that is, the memorandum of understanding projects). The FASB did not dedicate any substantive resources to the project after that decision was made and it was subsequently removed from the agenda.

70. The IASB subsequently decided to seek feedback on emissions trading schemes as part of its agenda consultation process in 2011 and 2015. On the basis of that feedback, the IASB put its project on hold until its revised Conceptual Framework for Financial Reporting is closer to being finalized.

FASB FINANCIAL ACCOUNTING STANDARDS BOARD

Board Meeting Handout

Codification Improvements—Hedge Accounting

May 8, 2019

Meeting Purpose

1. The May 8, 2019 meeting is a decision-making meeting to discuss proposed amendments to the Codification as a result of stakeholder feedback on Accounting Standards Update No. 2017-12, *Derivatives and Hedging (Topic 815) Targeted Improvements to Accounting for Hedging Activities*.

2. The handout is organized as follows:

   (a) Issue 1: Change in Hedged Risk in a Cash Flow Hedge

   (b) Issue 2: Contractually Specified Component

   (c) Issue 3: Dual Fair Value and Net Investment Hedges

   (d) Issue 4: Use of the Word *Prepayable* under the Shortcut Method

   (e) Effective Date and Transition.

Questions for the Board
1. For Issue 1, which alternative does the Board support for the application of the change in hedged risk guidance? 2. If the Board agrees with the staff's recommendation regarding Alternative 1A for the application of the change in hedged risk guidance, does the Board support the staff's recommendation for:
a. Allowing entities to identify hedged transactions that affected earnings in a prior reporting period, reversing the Board's tentative decision made on March 28, 2018 b. Allowing entities to establish an accounting policy to identify hedged forecasted transactions using hindsight c. Scoping out hedges of foreign exchange risk and hedges of credit risk, subject to feedback received on the Exposure Draft?
3. Does the Board believe that clarifications should be made to address Issues 2 through 4, and does the Board support the staff's recommended clarifications? 4. Does the Board agree with the staff's recommendation for the effective date, transition method, and transition disclosures for the proposed amendments, subject to feedback received on the Exposure Draft?

Issue 1: Change in Hedged Risk in a Cash Flow Hedge

3. In the March 28, 2018 Board meeting, the Board asked the staff to obtain external review feedback on Codification improvements to clarify the Board's intent related to the change in hedged risk guidance for cash flow hedges in paragraph 815-30-35-37A. The Board's tentative decisions from that meeting are as follows:

   (a) The hedged forecasted transaction and hedged risk are distinct.

   (b) The hedged risk may change, and an entity may retain hedge accounting if the revised hedging relationship is highly effective even if a distinction is not made between the hedged forecasted transaction and the hedged risk in an entity's documentation.

   (c) The hedged forecasted transaction may not be documented so broadly such that if a change in hedged risk occurs, it does not share the same risk exposure as the originally designated forecasted transaction.

   (d) If the revised hedging relationship based on the revised hedged risk is not highly effective, the entity must cease hedge accounting, but amounts recorded in accumulated other comprehensive income remain until the hedged forecasted transaction affects earnings if the forecasted transaction is still probable of occurring. [That wording already is included in Example 9 of Subtopic 815-30 but may be added to other Sections of that Subtopic.]

   (e) Hindsight may be applied in identifying transactions as hedged transactions. However, an entity must first identify transactions as hedged transactions based on the originally documented hedged risk. Only when there are no transactions or insufficient transactions based on the originally documented hedged risk may the entity consider transactions based on other risks. If a transaction occurred in a prior reporting period, it may be retrospectively identified as a hedged transaction if it has not yet affected reported earnings.

Application of Change in Hedged Risk Using Hindsight

4. The staff has identified three alternatives for the Board's consideration regarding the objective of clarifying the application of the change in hedged risk guidance included in the amendments in Update 2017-12. The three alternatives describe how and when amounts deferred in accumulated other comprehensive income should be reclassified to earnings when hindsight is applied to identify forecasted transactions that occurred with a revised hedged risk that would not have achieved a highly effective hedging relationship. The three alternatives are as follows:

(a) Alternative 1A:

(i) Amounts deferred in accumulated other comprehensive income associated with a revised hedged risk that results in a revised hedging relationship that would not have tested highly effective remain in accumulated other comprehensive income until the associated forecasted transaction affects earnings.

(ii) Amounts reclassified from accumulated other comprehensive income to earnings are recognized in the same income statement line item as the earnings effect of the hedged forecasted transaction.

(iii) The change in hedged risk does not count as a missed forecast.

(b) Alternative 1B:

(i) Amounts deferred in accumulated other comprehensive income associated with a revised hedged risk that results in a hedging relationship that would not have tested highly effective are immediately recognized in earnings when an entity identifies that the hedged risk has changed.

(ii) Amounts reclassified from accumulated other comprehensive income to earnings are recognized in the same income statement line item as the earnings effect of the hedged forecasted transaction.

(iii) The change in hedged risk does not count as a missed forecast.

(c) Alternative 2:

(i) Amounts deferred in accumulated other comprehensive income associated with a revised hedged risk that results in a hedging relationship that would not have tested highly effective are immediately recognized in earnings when an entity identifies that the hedged risk has changed.

(ii) The change in hedged risk counts as a missed forecast. There is no required income statement presentation for missed forecasts.

Consequential Proposed Amendments

5. The following are consequential proposed amendments if the Board supports Alternative 1A. If the Board does not support Alternative 1A, the following proposed amendments will need to be redeliberated under the preferred alternative (that is, either Alternative 1B or Alternative 2).

6. Pervasive throughout the proposed amendments is the concept that the hedged forecasted transaction and the hedged risk are distinct. Accordingly, the proposed amendments would clarify that an entity should document at hedge inception its "best estimate" of the hedged risk that it expects will cause the variability in cash flows in the forecasted transaction when it occurs. The "best estimate" is a concept in current GAAP in paragraph 815-20-25-16(d) related to timing of when the forecasted transaction is expected to occur. The proposed amendments would clarify that all potential hedged risks are not required to be designated at hedge inception, and an entity would be required to reevaluate its best estimate of the expected hedged risk at each subsequent assessment period at a minimum. The proposed amendments would clarify that an entity is required to update its hedge documentation if the best estimate of its hedged risk has changed from the previous assessment period.

7. The proposed amendments would clarify that for the hedge effectiveness assessment, an entity needs to test only its best estimate of the hedged risk for the periods in which it was the entity's best estimate. For example, if an entity identifies at the end of the effectiveness assessment period that the hedged risk changed, the entity would evaluate retrospective hedge effectiveness using its previously documented hedged risk, which was its good faith best estimate of its hedged risk over the course of the previous assessment period. Prospectively, if any assessment periods remain, an entity would assess hedge effectiveness with the revised hedged risk because that would be its best estimate for future periods. If the hedging relationship continued to test highly effective on a prospective basis with the revised hedge risk, then retrospective testing performed for periods beginning after the entity identified that the hedged risk changed would be performed using the revised hedge risk. In that circumstance, an entity only would perform the retrospective effectiveness test with the revised hedged risk back to the date on which the change in hedged risk was identified.

8. The proposed amendments would reinstate the requirement that forecasted transactions hedged in a group with a single derivative share the same risk exposure after hedge inception. However, the proposed amendments would allow the hedged risk to change after hedge inception. The proposed guidance would accomplish this by requiring an entity to prospectively reassess whether the forecasted transactions hedged in the group continue to share the same risk exposure after the hedged risk associated with one or more forecasted transactions changes. Forecasted transactions assessed prospectively would be those included in the revised group.

9. The proposed amendments would clarify that for an entity to identify transactions that occurred with a revised hedged risk as hedged, it must first identify a shortfall in transactions that occurred with the documented hedged risk. In other words, an entity cannot identify a

change in hedged risk until all transactions based on the documented hedged risk are considered. If an entity is applying the change in hedged risk guidance using hindsight, the proposed amendments would allow an entity to identify transactions that occurred with an undocumented hedged risk as hedged transactions in a consistent manner for similar hedges. Under this proposal, an entity may establish an accounting policy to identify hedged transactions using hindsight that most closely corresponds to its risk management strategies. If an entity identifies a hedged transaction that affected earnings in a prior reporting period using hindsight, the proposed amendments would require an entity to immediately reclassify the amounts associated with the hedged transaction from accumulated other comprehensive income to earnings in the current period. Those amounts would be required to be presented in the same income statement line item as the earnings effect of the hedged forecasted transaction. This proposed amendment would be a reversal of a tentative decision from the March 28, 2018 Board meeting.

10. The proposed amendments would add Implementation Guidance to clarify the above.

Scope—Exclusion of Foreign Exchange Risk and Credit Risk

11. The proposed amendments would not allow the change in hedged risk guidance to be used for cash flow hedges of foreign exchange risk or credit risk.

12. Update 2017-12 did not amend the designation or documentation requirements for foreign exchange hedges. That resulted in inconsistencies in GAAP because the documentation requirements for a hedge of foreign exchange risk require an entity to specify the foreign currency (that is, the hedged risk) when documenting the forecasted transaction. That requirement conflicts with the change in hedged risk guidance that indicates that the forecasted transaction is distinct from the hedged risk.

13. Contractually specified credit risk is not an eligible hedged risk under GAAP, and, therefore, an entity should not be in a situation in which credit risk would change.

14. The proposed Update would include a question on the scope of the change in hedged risk guidance.

Issue 2: Contractually Specified Component

15. Update 2017-12 expanded component hedging for forecasted purchases or sales of nonfinancial assets by allowing an entity to designate as the hedged risk the variability in a contractually specified component in a cash flow hedge.

16. Following the issuance of Update 2017-12, stakeholders asked for clarification regarding the following two matters:

    (a) Clarification on the guidance regarding a contractually specified component in paragraphs 815-20-25-22A through 25-22B

    (b) Clarification on whether a forecasted purchase or sale of a nonfinancial asset in a contract accounted for as a derivative under Topic 815 can be an eligible forecasted transaction in a cash flow hedge.

17. The proposed amendments would clarify and provide examples of the types of agreements that support the price at which a nonfinancial asset is purchased or sold in which a contractually specified component may be evidenced. The proposed Codification improvements also would emphasize that the contractually specified component must be explicitly referenced in those agreements.

18. The proposed amendments would reflect the Board's tentative decision from the March 28, 2018 Board meeting to indicate that an entity may rely on its experience to support its expectation that a contractually specified component will be explicitly referenced in a not-yet-existing agreement.

19. The proposed amendments would clarify that the *normal purchases and normal sales* scope exception would not need to be applied for an entity to designate the variability in a contractually specified component as the hedged risk in either of the following cases:

    (a) When the agreement is not a derivative in its entirety

    (b) When the agreement is a derivative in its entirety, but the following two conditions apply:

        (i) Physical settlement is probable

        (ii) The nonfinancial asset purchased will not subsequently be recorded at fair value with changes in fair value recorded in earnings.

    In those cases, only the *clearly and closely underlying* related guidance of that scope exception would need to be applied.

20. The proposed amendments would reflect the Board's tentative decisions from the March 28, 2018 Board meeting that the pricing formula that contains the contractually specified component determines the price of the nonfinancial asset.

Issue 3: Dual Fair Value and Net Investment Hedges

21. The situation in which a debt instrument is both a hedging instrument in a net investment hedge of a foreign entity and a hedged item in a fair value hedge of interest rate risk is referred to as a "dual hedge."

22. As a result of the changes in Update 2017-12 regarding the recognition and presentation guidance for ineffective amounts in hedging relationships, a dual hedge that was perfectly effective at offsetting changes attributable both interest rate risk and foreign exchange risk is presented to appear otherwise. The presentation mismatch created by Update 2017-12 for dual hedges was an unintended consequence.

23. The proposed amendment would align the recognition and presentation of dual hedges to that before the amendments in Update 2017-12 were issued. The proposed amendments would require an entity to exclude the foreign-currency-denominated debt's fair value hedge basis adjustment from the effectiveness assessment of the net investment hedge. Therefore, the foreign currency transaction gain or loss on the debt's fair value hedge basis adjustment would be recognized immediately in earnings. If the fair value hedge is dedesignated, the proposed amendments would require that an entity begin including the fair value hedge basis adjustment in the net foreign investment hedge's effectiveness assessment as of the date of dedesignation of the fair value hedge to align the testing of the net investment hedge formerly in the dual hedging relationship with that of other standalone net investment hedges.

24. The proposed amendments would explicitly state that the guidance cannot be applied by analogy to any fact pattern outside a dual hedge relationship.

Issue 4: Use of the Word *Prepayable* under the Shortcut Method

25. The term *prepayble* is defined in the Master Glossary as "able to be settled by either party before its scheduled maturity." The use of that word under the shortcut method guidance differs from its usage in the amended guidance in Update 2017-12 related to fair value hedges of interest rate risk, the last-of-layer method, and the application of the transition guidance that allows an entity to transfer financial instruments from the held-to-maturity category to the available-for-sale category.

26. The proposed amendments would provide clarification that a different meaning is intended in those two sections of the guidance by replacing the words *prepayable* or *prepayment* with *early settlement* and replacing the word *prepaid* with *settled early* in the shortcut method

guidance. The proposed amendments would not change the application of the shortcut method in practice.

Effective Date and Transition

27. The proposed amendments would have effective date and transition guidance as follows:

    (a) For entities that have not yet adopted the amendments in Update 2017-12 before the issuance of a final Update of these proposed amendments, the effective date would be the same as the adoption date of Update 2017-12.

    (b) For entities that have adopted the amendments in Update 2017-12 before the issuance of a final Update of these proposed amendments, the effective date would be as of the beginning of the first annual reporting period beginning after the date of issuance of an Update. Early adoption would be permitted on any date on or after the issuance of an Update.

    The staff also proposes to ask a question in the proposed Update if this effective date guidance provides sufficient time to implement the proposed amendments.

28. The proposed amendments would allow either prospective or retrospective application of all of the amendments in that Update to the date of adoption of Update 2017-12 with the exception of Issue 3 (discussed further in (c) below).

    (a) For Issue 1 on change in hedged risk, an entity would be allowed to apply the proposed amendments on a prospective or retrospective basis. For retrospective application, if an entity reclassified amounts from accumulated other comprehensive income to earnings because of a missed forecast between the adoption date of Update 2017-12 and the adoption date of these proposed amendments, it may apply the change in hedged risk guidance to those hedges to determine if the forecasted transaction was fulfilled by a revised hedged risk. In those cases, the entity would then have to adjust the effect on earnings, retained earnings, and accumulated other comprehensive income in each period since the adoption of Update 2017-12.

    (b) For Issue 2 on contractually specified components:

        (i) Entities that adopt the amendments in the proposed Update on a retrospective basis would be permitted to switch additional hedging relationships existing as of the date of adoption of Update 2017-12 from hedges of overall price risk to hedges of contractually specified component risk for those hedges that have been clarified to qualify for contractually specified component risk hedging in accordance with the proposed amendments.

(ii) Entities that adopt the amendments on a retrospective basis would be permitted to amend hedge documentation without dedesignation from hedging overall price risk to contractually specified component risk that were designated between the date of adoption of Update 2017-12 and the date of adoption of these proposed amendments that have been clarified to qualify for contractually specified component risk hedging under the proposed amendments.

(iii) For entities that adopt the proposed amendments on a prospective basis, entities would be allowed to amend their documentation without dedesignation for existing hedges as of the date of adoption of these proposed amendments from hedging overall price risk to contractually specified component risk for hedging relationships that qualify for contractually specified component risk hedging.

(iv) Entities would be permitted to retroactively designate hedging relationships for hedging instruments and forecasted purchases or sales of nonfinancial assets that have been clarified to qualify for contractually specified component hedging in accordance with the proposed amendments that existed between the date of adoption of Update 2017-12 and the date of adoption of these proposed amendments.

(c) For Issue 3 on dual hedges, the proposed amendments would require that any amounts recorded in accumulated other comprehensive income related to the foreign exchange remeasurement of the fair value hedge basis adjustment in the net investment hedge since the date of initial application of Update 2017-12 be reclassified to retained earnings or earnings, as appropriate, in the appropriate periods. The proposed amendments would require entities to amend their documentation of dual hedging relationships without dedesignation to exclude the fair value hedge basis adjustment from the assessment of effectiveness in the net investment hedge. The proposed amendments would permit entities to retroactively designate dual hedges for hedging instruments and hedged items that existed between the date of adoption of Update 2017-12 and the date of adoption of these proposed amendments.

(d) For Issue 4 on the use of the word *prepayable* under the shortcut method, the proposed amendments would have no transition guidance because the proposal does not change the application of the shortcut method.

29. The proposed amendments would include transition disclosures as follows:

(a) An entity would disclose the following in the period that the entity adopts these amendments:

(i) The nature of and reason for the change in accounting principle.

(ii) The method of applying the change.

(iii) The effect of the adoption on any line item in the statement of financial position, if material, as of the beginning of the first period for which the amendments are effective. Presentation of the effect on financial statement subtotals is not required.

(iv) The cumulative effect of the change on retained earnings or other components of equity in the statement of financial position as of the beginning of the first period for which the amendments are effective.

(b) An entity that issues interim financial statements would provide the disclosures in each interim financial statement of the fiscal year of change and the annual financial statements of the fiscal year of change.