Financial reporting developments

A comprehensive guide

Certain investments in debt and equity securities

August 2026

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To our clients and other friends

This Financial reporting developments (FRD) publication summarizes the guidance on the accounting for certain investments in debt and equity securities and includes excerpts from and references to the Accounting Standards Codification (ASC or Codification), interpretive guidance and examples.

The accounting for investments in debt and equity securities remains an area of focus by preparers, financial statement users, auditors and regulators. Questions continue to arise about the application of the measurement alternative for equity securities, accounting for sales of held-to-maturity debt securities, transfers between categories of debt securities and other topics.

We hope this publication will help you understand and apply the accounting for certain investments in debt and equity securities. We are also available to answer your questions and discuss any concerns you may have.

Ernst & Young LLP

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Notice to readers:

This publication includes excerpts from and references to the Financial Accounting Standards Board (FASB or Board) Accounting Standards Codification (Codification or ASC). The Codification uses a hierarchy that includes Topics, Subtopics, Sections and Paragraphs. Each Topic includes an Overall Subtopic that generally includes pervasive guidance for the Topic and additional Subtopics, as needed, with incremental or unique guidance. Each Subtopic includes Sections that in turn include numbered Paragraphs. Thus, a Codification reference includes the Topic (XXX), Subtopic (YY), Section (ZZ) and Paragraph (PP).

Throughout this publication references to guidance in the Codification are shown using these reference numbers. References are also made to certain pre-Codification standards (and specific sections or paragraphs of pre-Codification standards) in situations in which the content being discussed is excluded from the Codification.

This publication has been carefully prepared, but it necessarily contains information in summary form and is therefore intended for general guidance only; it is not intended to be a substitute for detailed research or the exercise of professional judgment. The information presented in this publication should not be construed as legal, tax, accounting, or any other professional advice or service. Ernst & Young LLP can accept no responsibility for loss occasioned to any person acting or refraining from action as a result of any material in this publication. You should consult with Ernst & Young LLP or other professional advisors familiar with your particular factual situation for advice concerning specific audit, tax or other matters before making any decisions.

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1 Overview

1.1 Overview (updated September 2025)

This publication addresses the financial accounting and reporting requirements for certain investments in debt and equity securities. ASC 320, *Investments — Debt Securities*, provides accounting and reporting guidance only for investments in debt securities, including those resulting from the securitization of other financial instruments. ASC 321, *Investments — Equity Securities*, provides accounting and reporting guidance for investments in equity securities and other ownership interests in an entity. This guidance applies to entities in almost all industries. ASC 325, *Investments — Other*, provides accounting and reporting guidance for investments in insurance contracts and beneficial interest in securitized financial assets.

This publication does not address the accounting for equity method investments and joint ventures under ASC 323, *Investments — Equity Method and Joint Ventures*. Our interpretive guidance on this topic can be found in our FRD publication, ***Equity method investments and joint ventures***.

This publication also does not address the accounting for credit impairment of debt securities under ASC 326, *Financial Instruments — Credit Losses*. Our interpretive guidance on the credit impairment of debt securities can be found in our FRD publication, ***Credit impairment under ASC 326***.

2 Accounting for investments in debt securities

2.1 Overview

ASC 320 addresses the financial accounting and reporting for investments in debt securities, including those resulting from the securitization of other financial instruments. The guidance applies to entities in almost all industries.

2.2 Scope and scope exceptions

2.2.1 Scope and scope exceptions — entities

Excerpt from Accounting Standards Codification

Investments — Debt Securities — Overall

Scope and Scope Exceptions

Entities

320-10-15-2

The guidance in the Investments — Debt Securities Topic applies to all entities, including the following entities that are not deemed to belong to specialized industries for purposes of this Topic:

a. Cooperatives and mutual entities (such as credit unions and mutual insurance entities)

b. Trusts that do not report substantially all of their debt securities at fair value.

320-10-15-3

The guidance in this Topic does not apply to the following entities:

a. Entities in certain specialized industries. Entities whose specialized accounting practices include accounting for substantially all investments in debt securities at fair value, with changes in value recognized in earnings (income) or in the change in net assets. Examples of those entities are:

    1. Brokers and dealers in securities (Topic 940)

    2. Defined benefit pension, other postretirement, and health and welfare plans (Topics 960, 962, and 965)

    3. Investment companies (Topic 946)

320-10-15-4

This Topic does not apply to not-for-profit entities (NFPs). Subtopic 958-320 establishes standards for investments in debt securities by NFPs.

Entities are subject to the guidance, unless they follow certain specialized industry guidance and are excluded from the scope of ASC 320. Entities in the scope of ASC 320 include commercial entities, financial institutions, cooperatives and mutual entities and trusts that do not report substantially all of their debt securities at fair value.

The following table lists some entities that follow certain specialized industry guidance and are excluded from the scope of ASC 320.

Industry	Applicable guidance
Brokers and dealers in securities	ASC 940-320, *Financial Services — Brokers and Dealers, Investments — Debt and Equity Securities*
Defined benefit pension plans	ASC 960-325, *Plan Accounting — Defined Benefit Pension Plans, Investments — Other*
Investment companies	ASC 946-320, *Financial Services — Investment Companies, Investments — Debt and Equity Securities*
Not-for-profit entities	*ASC 958-320, Not-for-Profit Entities, Investments — Debt Securities*

2.2.2 Scope and scope exceptions — instruments

ASC 320 applies to all investments in debt securities, including those resulting from the securitization of other financial instruments, and loans that meet the definition of a security.

2.2.2.1 Debt securities

The ASC Master Glossary defines a debt security as any security representing a creditor relationship with an entity and provides examples of instruments that meet this definition. It also lists certain instruments that do not meet the definition.

Excerpt from Accounting Standards Codification

Master Glossary

Debt Security

Any security representing a creditor relationship with an entity. The term debt security also includes all of the following:

a. Preferred stock that by its terms either must be redeemed by the issuing entity or is redeemable at the option of the investor

b. A collateralized mortgage obligation (or other instrument) that is issued in equity form but is required to be accounted for as a nonequity instrument regardless of how that instrument is classified (that is, whether equity or debt) in the issuer's statement of financial position

c. U.S. Treasury securities

d. U.S. government agency securities

e. Municipal securities

f. Corporate bonds

g. Convertible debt

h. Commercial paper

i. All securitized debt instruments, such as collateralized mortgage obligations and real estate mortgage investment conduits

j. Interest-only and principal-only strips.

The term debt security excludes all of the following:

a. Option contracts

b. Financial futures contracts

c. Forward contracts

d. Lease contracts

e. Receivables that do not meet the definition of security and, so, are not debt securities, for example:

   1. Trade accounts receivable arising from sales on credit by industrial or commercial entities

   2. Loans receivable arising from consumer, commercial, and real estate lending activities of financial institutions.

The definition of debt security in ASC 320 includes instruments beyond legal-form debt. For example, preferred stock that is either mandatorily redeemable or redeemable at the option of the investor is considered a debt security under ASC 320, even though preferred stock is considered an equity security in legal form.

2.2.2.1.1 Definition of a security

Excerpt from Accounting Standards Codification

Master Glossary

Security

A share, participation, or other interest in property or in an entity of the issuer or an obligation of the issuer that has all of the following characteristics:

a. It is either represented by an instrument issued in bearer or registered form or, if not represented by an instrument, is registered in books maintained to record transfers by or on behalf of the issuer.

b. It is of a type commonly dealt in on securities exchanges or markets or, when represented by an instrument, is commonly recognized in any area in which it is issued or dealt in as a medium for investment.

c. It either is one of a class or series or by its terms is divisible into a class or series of shares, participations, interests, or obligations.

Certain debt instruments must be evaluated carefully to determine whether they meet the definition of a security, which requires that they have all three characteristics listed in the Master Glossary. For example, while most certificates of deposit (CDs) do not meet the ASC 320 definition of a security, some negotiable "jumbo" CDs may meet it. Likewise, certain guaranteed investment contracts (GICs) meet the definition of a security, while others do not. When considering whether an instrument meets the ASC 320 definition of a security, entities should consider the following:

- While the definition of security in ASC 320 is modeled after the definition in the Uniform Commercial Code (UCC), the definitions are not the same because the UCC definition has changed since the issuance of the ASC 320 definition.

- The FASB indicated in the Background Information and Basis for Conclusions of FAS 115 (FAS 115 was codified as ASC 320) that when deciding how to define a security for US GAAP purposes, it decided not to use the definition in the Securities Exchange Act of 1934 because it considered that definition too broad. For example, that definition includes instruments such as notes for routine personal bank loans, which the FASB believed should not be included in the scope of ASC 320.
- The determination of whether an investment meets the definition of a security is not a legal determination and does not require a legal analysis.
- When considering whether an instrument is a security, there is rarely one overriding characteristic that is determinative. For example, an instrument could meet the second criterion in the ASC 320 definition (i.e., it is a medium for investment) even if it includes certain transfer restrictions. Therefore, all facts and circumstances should be considered.

The SEC staff has also reiterated that ASC 320 provides its own definition of a security and does not depend on whether the investment meets the UCC definition.[1]

2.2.2.1.1.1 Loans

Excerpt from Accounting Standards Codification

Master Glossary

Loan

A contractual right to receive money on demand or on fixed or determinable dates that is recognized as an asset in the creditor's statement of financial position. Examples include but are not limited to accounts receivable (with terms exceeding one year) and notes receivable. This definition encompasses loans accounted for as debt securities.

Only loans that meet the definition of a security are in the scope of ASC 320. Although certain loans can be readily converted into securities (e.g., loans insured by the Federal Housing Administration, conforming mortgage loans), a loan that does not meet the definition of a security is not in the scope of ASC 320 until it has been securitized.

For transferors, beneficial interests received as consideration for transferred loans may not be classified as investment securities, unless the transfer of the loans meets the criteria for sale accounting under ASC 860.

Loans that do not meet the definition of a security are generally in the scope of ASC 310-10, which applies to a variety of instruments and transactions, including trade account receivables, loans, loan syndications, factoring arrangements, standby letters of credit, financing receivables (e.g., notes receivables, credit cards) and rebates.

2.2.2.1.2 Preferred stock

An investment in preferred stock that must be redeemed by the issuing entity or is redeemable at the investor's option is considered a debt security under ASC 320, despite its legal form. This is the case regardless of how the issuer classified the instrument. If preferred stock is determined to be a debt security, ASC 320 would apply to the instrument.

If the preferred stock is not mandatorily redeemable (i.e., there is no stated redemption date) and the investor does not have the unilateral right to ultimately redeem it, the preferred stock is considered an equity security subject to the provisions of ASC 321.

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[1] Remarks by Robert Uhl, SEC staff, before the Twenty-Fifth AICPA National Conference on Current SEC Developments, 10 December 1997.

In some cases, the terms of a preferred stock give the investor the option to redeem it only after a certain amount of time has passed. Even if it does not yet have a present right to redeem, the investor is still considered to have a unilateral redemption right, and the stock would be classified as a debt security. In other cases, an investor may have the right to redeem preferred stock only when an event that is not certain to occur occurs. For example, an investor may have a right to redeem preferred stock only when a certain percentage (e.g., majority, two-thirds) of investors elects to redeem their preferred stock. The preferred stock generally would only be considered a debt security if and when the required percentage of interest is obtained, upon which the investor has a unilateral right to redeem the preferred stock. If an uncertain event is within the control of the investor, that fact should be considered in determining whether a unilateral redemption right exists.

Certain preferred shares may become redeemable at a future date if an event (e.g., a liquidity event) does not occur by a specified date. In these cases, we believe that the preferred stock would generally be classified as a debt security unless the issuer can control the occurrence of the event. Certain liquidity events are not in the control of the issuer or the investor, such as an initial public offering (IPO).

To further illustrate these concepts, assume an investor holds a preferred stock that becomes redeemable in five years by the investor unless an IPO of the issuer occurs before that date, in which case the preferred stock is automatically converted into common stock of the issuer. In this case, because the investor can redeem the preferred stock by passage of time in five years, the investor is considered to have a unilateral redemption right, and therefore, the preferred stock would be classified as a debt security. In contrast, if the issuer controls the occurrence of the event that prevents the preferred stock from becoming redeemable by the investor, that fact should be considered in the determination of whether a unilateral redemption right exists for the investor.

Preferred stock that is considered a debt security may be carried at amortized cost if it meets the held-to-maturity (HTM) criteria. For example, when preferred stock has a fixed redemption date and the investor has the intent and ability to hold the instrument until that redemption date, that instrument can be classified as HTM.

The following illustrate the determination of whether an investor has a unilateral right to redemption and the effect on whether preferred stock is classified as a debt or equity security.

Illustration 2-1: Preferred stock classified as an equity security

ABC Corporation is a publicly traded entity that issued preferred stock on 1 January 20X1. The preferred stock is not mandatorily redeemable by ABC Corporation (that is, there is no stated redemption date). However, beginning on 1 January 20X7, it may be redeemed if a majority of the preferred stockholders vote to do so.

Investor XYZ, which holds approximately 19% of the outstanding preferred stock, does not consider them to be debt securities because they are not mandatorily redeemable and may only be redeemed if a majority of preferred stockholders vote to do so, beginning on 1 January 20X7. Because Investor XYZ holds less than a majority of the outstanding preferred stock, it does not have the unilateral right to redeem them. Therefore, Investor XYZ classifies the preferred shares it holds as equity securities.

Illustration 2-2: Preferred stock classified as a debt security

Assume the same facts as above, except that Investor XYZ acquires an additional 40% of the outstanding preferred stock, so it now owns 59% of the outstanding preferred stock.

In this case, the preferred stock meets the definition of a debt security because Investor XYZ owns more than 50% of the outstanding preferred stock and therefore has the unilateral right to redeem its preferred stock, as long as it continues to hold a majority interest until 1 January 20X7. Therefore, Investor XYZ classifies the preferred shares it owns as debt securities as of the day it acquires the additional 40% of outstanding preferred shares.

Illustration 2-3: Preferred stock classified as a debt security

Company A is a private entity that issued preferred stock on 1 January 20X1. The preferred stock is redeemable at the option of the investor beginning on 31 December 20X5 if Company A has not completed an IPO before then. The preferred stock will automatically convert into common stock upon an IPO. Investor B invests in Company A's preferred shares on 1 January 20X2. Neither Company A nor Investor B can control the success of a Company A IPO.

Although a successful IPO by Company A would prevent Investor B from exercising the redemption right, Company A does not control its ability to successfully complete an IPO. Therefore, because the preferred stock will become redeemable by Investor B merely by the passage of time, Investor B is considered to have a unilateral redemption right and classifies the preferred stock as a debt security.

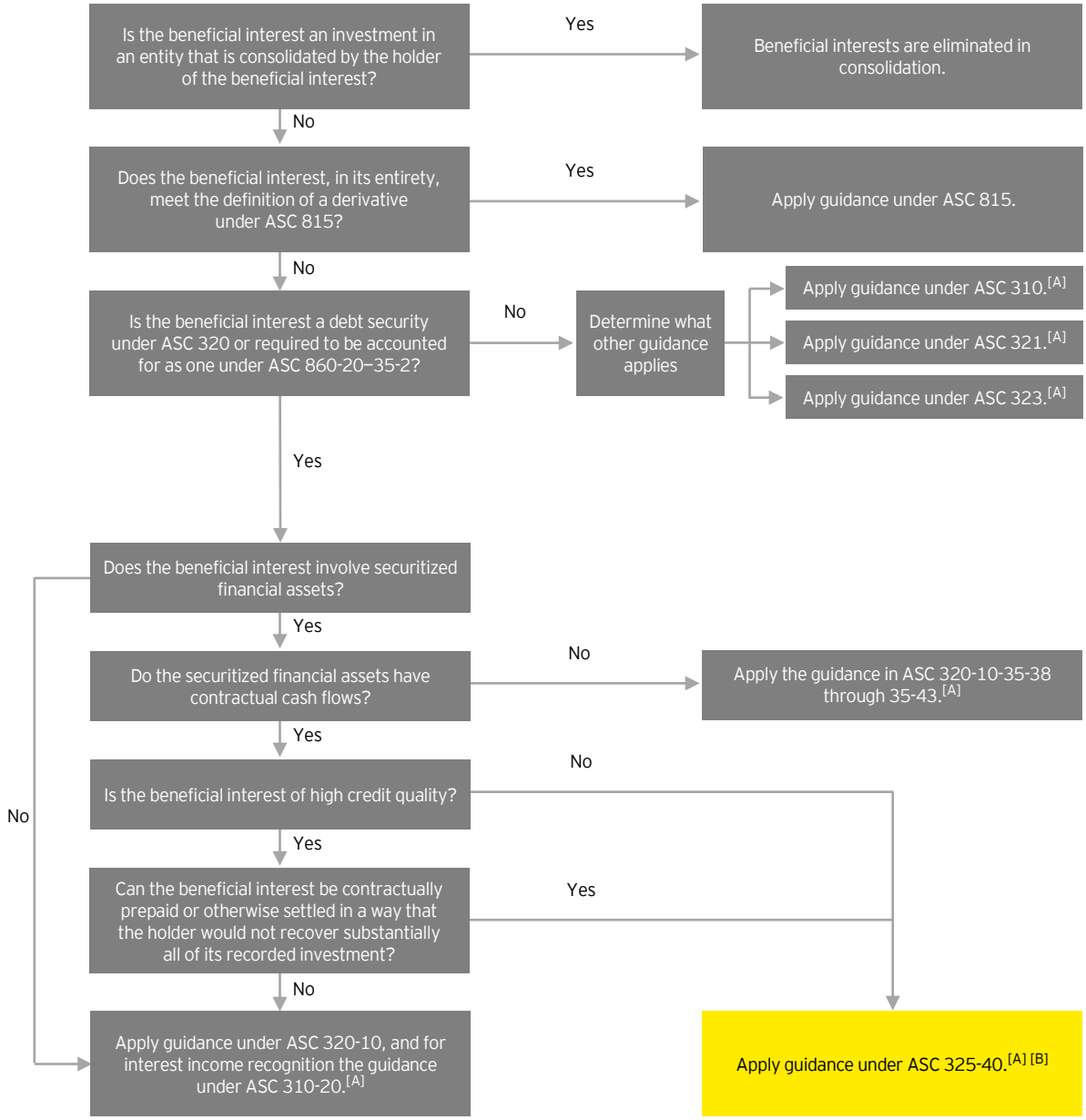
2.2.2.1.3 Beneficial interests in securitized financial assets

Beneficial interests are defined as rights to receive all or portions of specified cash inflows received by a trust or other entity. They include senior and subordinated shares of interest, principal or other cash inflows to be passed through or paid through, and residual interests. Beneficial interests may be created in connection with securitization transactions, such as those involving collateralized debt obligations or collateralized loan obligations.

Entities must determine whether beneficial interests are in the scope of ASC 325-40. Beneficial interests subject to the guidance in ASC 325-40 can be either (1) beneficial interests retained in securitization transactions and accounted for as sales under ASC 860 or (2) purchased beneficial interests in securitized financial assets.

The following flowchart provides a framework for determining whether ASC 325-40 applies to an asset:

Illustration 2-4: Determining whether an asset is in the scope of ASC 325-40



[A] If the beneficial interest is not subsequently measured at fair value through earnings, evaluate whether the beneficial interest has embedded derivatives that require bifurcation in accordance with ASC 815-15.

[B] If the criteria are met for a beneficial interest to be in the scope of ASC 325-40 and the asset meets the definition of a PCD asset, the PCD model in ASC 326 should be followed. Refer to section 5 of our FRD publication, ***Credit Impairment under ASC 326***, for additional information.

2.2.2.1.3.1 *Securities in the scope of ASC 325-40*

Excerpt from Accounting Standards Codification

Investments — Other — Beneficial Interests in Securitized Financial Assets

Scope and Scope Exceptions

Instruments

325-40-15-3

The guidance in this Subtopic applies to beneficial interests that have all of the following characteristics:

a. Are either debt securities under Subtopic 320-10 or required to be accounted for like debt securities under that Subtopic pursuant to paragraph 860-20-35-2.

b. Involve securitized financial assets that have contractual cash flows (for example, loans, receivables, debt securities, and guaranteed lease residuals, among other items). Thus, the guidance in this Subtopic does not apply to securitized financial assets that do not involve contractual cash flows (for example, common stock equity securities, among other items). See paragraph 320-10-35-38 for guidance on beneficial interests involving securitized financial assets that do not involve contractual cash flows.

c. Do not result in consolidation of the entity issuing the beneficial interest by the holder of the beneficial interests.

d. Subparagraph superseded by Accounting Standards Update No. 2016-13.

e. Are not beneficial interests in securitized financial assets that have both of the following characteristics:

   1. Are of high credit quality (for example, guaranteed by the U.S. government, its agencies, or other creditworthy guarantors, and loans or securities sufficiently collateralized to ensure that the possibility of credit loss is remote)

   2. Cannot contractually be prepaid or otherwise settled in such a way that the holder would not recover substantially all of its recorded investment.

ASC 325-40 does not apply to beneficial interests that are both (1) of high credit quality and (2) cannot be contractually prepaid or otherwise settled in such a way that the holder would not recover substantially all of its recorded investment. The following table provides examples of how the guidance may be applied to certain securities based on the scoping criteria noted above.

Security type	AAA-rated senior security	Agency[2] interest-only strip	BBB-rated subordinated interest	Residual interest
High credit quality	Yes	Yes	No	No
Cannot be contractually prepaid or otherwise settled in a way that the holder would not recover substantially all of its recorded investment	Yes	No	Yes	No
In the scope of ASC 325-40	No	Yes	Yes	Yes

[2] Refers to US government agencies and government-sponsored enterprises, including Government National Mortgage Association (Ginnie Mae), Federal National Mortgage Association (Fannie Mae) and Federal Home Loan Mortgage Corporation (Freddie Mac).

ASC 325-40 states that beneficial interests guaranteed by the US government, its agencies or other creditworthy guarantors and loans or securities that are sufficiently collateralized to make sure that the possibility of credit loss is remote are considered to be of high credit quality.

Although ASC 325-40 does not specify a minimum credit rating, the SEC staff believes that only beneficial interests rated AA or higher should be considered of "high credit quality."[3]

There are situations when a beneficial interest may have a so-called split rating, in which one credit rating agency has rated the instrument as AA or higher, but another credit rating agency has rated it below AA. In these situations, we understand the SEC staff would expect a registrant to consider the lower rating to determine whether the beneficial instrument is of high credit quality for purposes of applying ASC 325-40 (i.e., the instrument would be in the scope of ASC 325-40).

To evaluate whether an investor might not recover substantially all its recorded investment due to a prepayment or other settlement, an entity considers the contractual terms of the beneficial interest, rather than the likelihood of prepayments or other settlements occurring. If the underlying borrowers (i.e., the debtors in the securitized debt instruments) could exercise contractual rights permitting them to prepay or otherwise settle their debt instruments in a way that would cause the holder of a beneficial interest in those underlying debt instruments to not recover substantially all of its recorded investment, this criterion is met. The likelihood of the event occurring that could cause the investor in the beneficial interest to not recover substantially all of its recorded investment is not considered.

For example, an interest-only strip could meet the definition of "high credit quality" if the structure is supported by a guarantee from a creditworthy guarantor (e.g., a government-sponsored enterprise). However, because the holder of the strip only receives cash flows when underlying loans are outstanding, loan prepayments could result in the holder of the security not recovering substantially all of its recorded investment.

How we see it

ASC 325-40 does not address whether an entity should reevaluate the scope criteria, including the evaluation of whether a beneficial interest is of high credit quality, after the acquisition date of the beneficial interest. Some entities evaluate the ASC 325-40 scope criteria at acquisition, while others perform a continual reassessment. An entity should apply its elected accounting policy consistently.

2.2.2.1.3.2 *Applicability of ASC 325-40 to trading securities*

Excerpt from Accounting Standards Codification

Investments — Other — Beneficial Interests in Securitized Financial Assets

Scope and Scope Exceptions

Instruments

Beneficial Interests Classified as Trading

325-40-15-7

For income recognition purposes, beneficial interests classified as trading are included in the scope of this Subtopic because it is practice for certain industries (such as banks and investment companies) to report interest income as a separate item in their income statements, even though the investments are accounted for at fair value.

[3] Remarks by John M. James, SEC staff, before the Thirty-First AICPA National Conference on Current SEC Developments, 11 December 2003.

Host Contract Portion of a Hybrid Beneficial Interest

325-40-15-8

Included in the scope of this Subtopic are the host contract portion of a hybrid beneficial interest that requires separate accounting for an embedded derivative under paragraphs 815-15-25-1; 815-15-25-11 through 25-14; and 815-15-25-26 through 25-29 when the host contract otherwise meets the scope of this Subtopic. The issue of when and how a hybrid contract is to be separated into its component parts is an implementation issue of Topic 815 and, therefore, not within the scope of this Subtopic.

325-40-15-9

The guidance in this Subtopic does not apply to hybrid beneficial interests measured at fair value pursuant to paragraphs 815-15-25-4 through 25-6 for which the transferor does not report interest income as a separate item in its income statements.

ASC 325-40 applies to beneficial interests that are classified as trading or that have been designated to be measured at fair value with changes in fair value recognized in earnings under the fair value option in ASC 825-10 (not the fair value option in ASC 815-15, which is discussed below) or that are accounted for that way under industry-specific guidance. For example, investment companies are generally required by ASC 946 to report their investments at fair value with changes in fair value reported in earnings. Some of those entities elect to report interest income separately from other changes in fair value in a separate line item in their income statements.

The host contract portion of a hybrid beneficial interest that requires separate accounting for the embedded derivative under ASC 815 may be in the scope of ASC 325-40. However, this guidance does not apply to a hybrid beneficial interest if the entire instrument is measured at fair value with changes in fair value recognized in earnings under the fair value option in ASC 815-15 and the entity does not separately report interest income. An entity that presents interest income separately for these hybrid beneficial interests applies ASC 325-40, consistent with assets measured at fair value with changes in fair value recognized in earnings, as discussed in the preceding paragraph.

2.2.2.1.4 Certain purchased options and forward contracts

Excerpt from Accounting Standards Codification

Derivatives and Hedging — Overall

Instruments

Certain Contracts on Debt and Equity Securities

815-10-15-141

The guidance in the Certain Contracts on Debt and Equity Securities Subsections applies only to those forward contracts and purchased options having all of the following characteristics:

a. The contract is entered into to purchase securities that will be accounted for under either Topic 320 or Topic 321.

b. The contract's terms require physical settlement of the contract by delivery of the securities.

c. The contract is not a derivative instrument otherwise subject to this Subtopic.

d. The contract, if a purchased option, has no intrinsic value at acquisition.

Recognition

Certain Contracts on Debt and Equity Securities

815-10-25-17

Forward contracts and purchased options on debt securities within the scope of this Subsection (see the Certain Contracts on Debt and Equity Securities Subsection of Section 815-10-15) shall, at inception, be designated as held to maturity, available for sale, or trading in a manner consistent with the accounting prescribed by Topic 320 for debt securities. Such forward and option contracts are not eligible to be hedging instruments.

Although not in the scope of ASC 320, certain physically settled purchased options and forward contracts to acquire debt securities must be accounted for in a manner consistent with the guidance in ASC 320. Purchased options and forward contracts often meet the definition of a derivative, and those that do are in the scope of ASC 815's guidance on derivative financial instruments. However, an option or forward contract to acquire a debt security that is not considered to be a derivative should be evaluated based on the criteria in ASC 815-10-15-141 (see above). If the option or forward contracts meet the criteria, the contracts are required to be classified and measured in a manner similar to debt securities. Refer to section 2.3.6, *Forward contracts and purchased options on debt securities*, for additional information.

2.2.3 Instruments that are not in the scope of ASC 320

Excerpt from Accounting Standards Codification

Investments — Debt Securities — Overall

Scope and Scope Exceptions

Instruments

320-10-15-7

The guidance in this Topic does not apply to any of the following:

a. Derivative instruments that are subject to the requirements of Topic 815, including those that have been separated from a host contract as required by Section 815-15-25. If an investment would otherwise be in the scope of this Topic and it has within it an embedded derivative that is required by that Section to be separated, the host instrument (as described in that Section) remains within the scope of this Topic.

b. Subparagraph superseded by Accounting Standards Update No. 2016-01.

c. Subparagraph superseded by Accounting Standards Update No. 2016-01.

d. Investments in consolidated subsidiaries.

2.2.3.1 Derivatives

Hybrid financial instruments should be analyzed to determine whether any embedded derivatives should be bifurcated under ASC 815-15. This analysis includes (1) determining whether the host instrument is considered a debt or equity host and (2) evaluating whether the economic characteristics and risks of the embedded feature are clearly and closely related to the economic characteristics and risks of the host instrument and, if not, whether the embedded feature meets the definition of a derivative on a freestanding basis. The analysis does not need to be performed for hybrid financial instruments that are remeasured at fair value (i.e., classified as trading or when the fair value option is elected) since the entire instrument is marked to market through earnings. For more information on analyzing embedded derivatives, see our FRD publication, ***Derivatives and hedging***.

Any embedded derivative that is bifurcated is not in the scope of ASC 320. However, when a hybrid financial instrument would otherwise be in the scope of ASC 320 (because it is a debt security), the host instrument that remains after an embedded derivative is bifurcated remains subject to ASC 320.

Refer to section 2.3.6, *Forward contracts and purchased options on debt securities*, for additional information.

2.2.3.2 Other common issues related to scope

2.2.3.2.1 Cash and cash equivalents

Cash equivalents are short-term, highly liquid investments that are both:

- Readily convertible to known amounts of cash
- So close to maturity that they present insignificant risk of changes in value because of changes in interest rates

Generally, only short-term, highly liquid investments with original maturities of three months or less qualify for treatment as cash equivalents. Examples include US Treasury bills, commercial paper and federal funds sold (for an entity with banking operations).

Even if determined to be cash equivalents, investments in debt securities that are in the scope of ASC 320-10 are subject to all of the accounting and disclosure requirements in ASC 320-10. However, since cash equivalents represent short-term, highly liquid investments that are readily convertible to known amounts of cash, the amortized cost is generally expected to approximate the fair value.

2.2.3.2.2 Short sales of debt securities

Short sales of debt securities represent obligations to deliver securities and are not investments. However, such transactions are generally marked to market, with changes in fair value recorded in earnings, under either certain industry guidance (e.g., ASC 940, *Financial Services — Brokers and Dealers*) or ASC 815-10-55-57 (if they meet the definition of a derivative).

2.2.3.2.3 Contractual prepayment or settlement in such a way that the holder would not recover substantially all of its recorded investment

Financial assets (except those that are derivatives under ASC 815-10) that can contractually be prepaid or otherwise settled in a way that the holder would not recover substantially all of its recorded investment (e.g., interest-only strips) should be measured like investments in debt securities classified as available for sale or trading (and not held to maturity), even if they do not meet the definition of a security (ASC 860-20-35-2; ASC 320-10-25-5a). However, if the financial assets are not in the form of securities, only the recognition and measurement provisions of ASC 320 apply, not the disclosure requirements (ASC 860-20-35-3). ASC 320 disclosure requirements apply if the financial assets meet the definition of a security.

2.2.3.2.4 Look-through not permitted

When determining whether an investment is in the scope of ASC 320, an entity should not look through the form of its investment to the nature of the securities held by the investee. For example, an investment in equity shares of a mutual fund that holds solely debt securities should not be classified as a debt security because the legal form of the investment is equity.

Refer to section 3.1.4.1 for further discussions on look-through guidance relating to equity securities.

2.3 Classification and measurement

At acquisition, an entity must classify each acquired debt security in the scope of ASC 320 into one of three categories:

- Trading — debt securities bought and held primarily to be sold in the near term

- Held to maturity — debt securities for which management has both the positive intent and ability to hold until the maturity of the security
- Available for sale — the residual category for debt securities not classified as held to maturity or trading

The classification of each security determines the subsequent measurement basis (i.e., amortized cost basis versus fair value) of the security and how it is presented and disclosed in the financial statements.

An entity should carefully consider how it classifies its investment securities based on future business plans or opportunities that may affect the classification. For example, an entity should consider the possibility that it might need to sell securities to take advantage of potential business or investment opportunities.

Other factors to consider include regulatory capital requirements for certain financial institutions and the potential volatility in earnings or OCI that could result from temporary fluctuations in the market value of securities classified as trading or available for sale, respectively. For example, certain regulated financial institutions may be subject to additional regulatory capital requirements depending on the amount of securities classified as trading. In addition, volatility in OCI could result in debt covenant violations arising from unrealized holding losses when shareholders' equity is included in debt covenant computations. To address this issue, many entities' loan agreements exclude OCI from debt covenant computations.

2.3.1 Summary table of classification and measurement

The table below summarizes the three classifications of investments in debt securities as defined in ASC 320 and the accounting treatment for each category:

	Description	Carrying value in the statement of financial position	Classification in the statement of financial position	Unrealized gains and losses
Trading	Debt securities bought and held principally for the purpose of selling in the near term[4]	Fair value	Classified as current or noncurrent,[5] as appropriate (see section 2.3.3.1)	Included in earnings immediately
Held-to-maturity	Debt securities that the entity has both the positive intent and ability to hold to maturity	Amortized cost basis[6]	Classified as current or noncurrent, based on maturity or redemption date	Disclosed in the notes to the financial statements but not recognized until realized
Available-for-sale	Debt securities not classified as either held to maturity or trading	Fair value	Classified as current or noncurrent, as appropriate (see section 2.3.5.1)	Included in accumulated other comprehensive income (for the portion related to factors other than credit loss), net of tax effect, until realized

[4] Classification of debt securities as trading is not precluded because the entity does not intend to sell in the near term.

[5] Trading securities maturing more than one year after the reporting date should be classified as noncurrent assets if the company has no intention of selling those securities in the next 12 months.

[6] Amortized cost basis is the amount at which a financing receivable or investment is originated or acquired, adjusted for applicable accrued interest, accretion, or amortization of premium, discount, and net deferred fees or costs, collections of cash, writeoffs, foreign exchange and fair value hedge accounting adjustments.

2.3.2 Recognition and initial measurement

ASC 320 addresses the subsequent measurement of securities but is silent on recognition and initial measurement.

Generally, in practice, securities are initially measured at the transaction price plus transaction costs. In many cases, the transaction price (excluding transaction costs discussed below) equals the fair value at acquisition.

2.3.2.1 Premiums and discounts

Securities are often purchased at a discount to or at a premium above the instruments' par amount or face value. Premiums and discounts on debt securities classified as available for sale or held to maturity are generally accounted for as yield adjustments over the life of the related security, in accordance with ASC 310-20. Premiums and discounts on debt securities classified as trading are not in the scope of ASC 310-20 and are generally considered part of the security's fair value.

ASC 310-20 provides guidance for certain callable debt securities held at a premium. It defines a premium for these callable debt securities as the amount by which the amortized cost basis of the security exceeds the amount repayable at the earliest call date. The premium on purchased debt securities that have explicit, noncontingent call features and are callable at a fixed price and on a preset date should be amortized to the next call date, unless the entity applies the guidance in ASC 310-20 allowing it to consider estimated prepayments. The entity should perform a reassessment at each call date. If the call option is not exercised at the next call date, the effective yield is reset prospectively. That is, after the first call date, the entity amortizes any excess of the amortized cost basis over the next call price to the next call date. If there are no other call dates, or if the amortized cost basis does not exceed the next call price, the entity amortizes any excess of the amortized cost basis over par to maturity. Discounts should be amortized to maturity (i.e., over the contractual life of the security).

ASC 310-20 further clarifies that an entity should reevaluate whether a callable debt security is within the scope of this guidance each reporting period. That is, the conclusion about whether a callable debt security is subject to this guidance can change from one period to the next. The guidance also clarifies that the next call date is the first date when a call option at a specified price becomes exercisable. When that date has passed, the next call date is when the next call option at a specified price becomes exercisable, if applicable.

Municipal bonds are often callable at a fixed price "on or after" a specific date. In response to a technical inquiry, the FASB staff said that the guidance in ASC 310-20 for callable debt securities held at a premium applies if the amortized cost basis of municipal bonds is above the call amount at the next call date. The following example illustrates this point.

Illustration 2-5: Municipal bonds callable at a fixed price on or after a specific date

An entity purchases 10-year municipal bonds with a par value of $100 for $110 on 1 January 20X1 that are callable at $105 on or after 31 December 20X2 and at $103 on or after 31 December 20X5.

The entity amortizes the excess of the amortized cost basis over the next call price (i.e., $5 ($110 - $105)) over the first two years, ending 31 December 20X2. If the first call is not exercised, the entity amortizes the excess of the amortized cost basis over the next call price (i.e., $2 ($105 - $103)) over the next three years, ending 31 December 20X5. If the bonds are not called on the second call date, the entity must amortize the remaining $3 ($103 - $100) premium, which represents the excess of the amortized cost basis over par, over the remaining five years (i.e., to maturity).

2.3.2.2 Transaction costs

ASC 320 does not provide guidance on how entities account for transaction costs related to investments in debt securities. For debt securities classified as available for sale or held to maturity, some entities may have a policy of applying the guidance in ASC 310-20 to account for these costs, which results in them being deferred and accounted for as yield adjustments over the life of the related securities. Generally, transaction costs for trading securities are recognized in net income in the first reporting period after the acquisition as a result of the period-end adjustment to measure trading securities at fair value.

While there is diversity in practice in the treatment of transaction costs, entities should account for them consistently for all investments in debt securities. The Codification provides certain industry-specific guidance on the treatment of these costs. For example, ASC 946-320-30-1, which provides guidance for investment companies, states that the transaction price of a debt security should include commissions and other charges that are part of the purchase transaction. Because investment companies are required to subsequently measure all investments at fair value and recognize changes in fair value in earnings, they immediately recognize transaction costs as unrealized losses.

2.3.2.3 Recognition date

ASC 320 does not provide guidance on when an entity should recognize the acquisition of a security. Entities recognize purchased securities on either the trade date or the settlement date. Agreements to purchase or sell a security should be evaluated to determine whether they are derivatives under ASC 815.

In general, ASC 815 provides a scope exception for regular-way securities trades, which are defined as contracts that provide for delivery of a security within a period of time (after the trade date) generally established by regulations or conventions in the marketplace or exchange in which the transaction is being executed. For example, in the US, most corporate securities are regularly settled in one business day. The regular settlement cycle length may vary by country, exchange, instrument or issuer. Refer to section 3.2.2, *Recognition date*, for additional information.

The following example illustrates the difference between recognizing an investment on the trade date and on the settlement date.

Illustration 2-6: Trade-date accounting versus settlement-date accounting

Assume an entity purchases $10,000 of corporate bonds. The trade settles one business day after the trade order is submitted, and the fair value remains at $10,000.

Journal entries on the:	Trade-date accounting			Settlement-date accounting		
Trade date	Dr. Trading securities	$ 10,000		No entry.		
	Cr. Payable to broker		10,000			
Settlement date	Dr. Payable to broker	10,000		Dr. Trading securities	$ 10,000	
	Cr. Cash		10,000	Cr. Cash		10,000

2.3.3 Trading securities

Excerpt from Accounting Standards Codification

Investments — Debt Securities — Overall

Recognition

Classification of Debt Securities

320-10-25-1

At acquisition, an entity shall classify debt securities into one of the following three categories:

a. Trading securities. If a security is acquired with the intent of selling it within hours or days, the security shall be classified as trading. However, at acquisition an entity is not precluded from classifying as trading a security it plans to hold for a longer period. Classification of a security as trading shall not be precluded simply because the entity does not intend to sell it in the near term.

Subsequent Measurement

320-10-35-1

Investments in debt securities shall be measured subsequently as follows:

a. Trading securities. Investments in debt securities that are classified as trading shall be measured subsequently at fair value in the statement of financial position. Unrealized holding gains and losses for trading securities shall be included in earnings.

Trading securities include debt securities bought and held primarily to be sold in the near term. Trading activities typically involve active and frequent buying and selling to generate profits on short-term movements in market prices or spreads. ASC 320 does not specify how long securities in this category can be held because the length of time will vary between investors and the nature of the securities.

The Master Glossary defines trading securities as those that are sold in the near term and held for only a short period of time. This definition contemplates a holding period generally measured in hours and days rather than months or years. Thus, if a security is acquired with the intent of selling it within hours or days, the security should be classified as trading.

However, at acquisition, an entity is not precluded from classifying as trading a security it plans to hold for a longer period or one it acquires without the intent to sell in the near term. The terms "generally" and "principally" were deliberately used to describe the trading category. However, the decision to classify a security as trading should be made and documented at acquisition. If an entity elects to classify a security in the trading category, it should be prepared to maintain that classification until the security is sold or matures. Transfers into or out of the trading category should be rare.

The classification as trading for securities not anticipated to be sold in the near term may be appropriate for entities that want to better match changes in the fair value of any liabilities required to be measured at fair value with changes in the fair value of their debt security investments.

2.3.3.1 Entities with classified balance sheets

An entity that presents a classified statement of financial position should report all trading securities as either current or noncurrent. Investments in debt securities classified as trading are often presented as current assets because they represent the investment of cash available for current operations. However, an entity may hold certain debt securities (including those maturing more than one year after the reporting date) in its trading portfolio that it does not intend to sell in the next 12 months. In these situations, the trading securities should be reported as noncurrent.

2.3.3.2 Subsequent measurement

Trading securities should be subsequently measured at fair value. The entire change in the fair value of a security classified as trading should be reported in net income in the period the change occurs. Because unrealized holding losses are included in earnings, it is not necessary to evaluate trading securities for impairment.

Dividends, interest income and unrealized holding gains and losses should be included in earnings.

2.3.3.2.1 Interest income

ASC 320 does not provide guidance on determining and reporting interest income for trading securities. Except for investments subject to ASC 325-40, which provides a consistent interest income recognition model for certain beneficial interests classified as held to maturity, available for sale and trading, there is little guidance in US GAAP for determining interest income for assets measured at fair value with changes reported in earnings. The interest income recognition models in ASC 310 exclude loans and debt securities measured at fair value with changes reported in earnings.

An interest recognition model based solely on the stated coupon rate of the instrument would not be prohibited, and we believe this approach is commonly applied in practice. Alternatively, a method that takes into account the effective yield of a debt instrument may better portray the economic substance of the transaction. Because of the lack of specific guidance, entities have some flexibility in determining the effective yield on an interest-bearing trading security.

2.3.3.3 Foreign currency gains and losses

For investments in securities denominated in a currency other than the entity's functional currency, unrealized gains and losses recorded under ASC 320 include changes resulting from movements in both foreign exchange rates and other market factors. A holder may report the entire change in fair value of a foreign currency-denominated trading security in a single line item in the income statement, without separately reporting any foreign exchange component of the overall change in the fair value of the security.

2.3.3.4 Hedging securities classified as trading

ASC 815 prohibits hedge accounting if the hedged item is remeasured (or will be remeasured subsequent to acquisition) to fair value with changes in fair value attributable to the hedged risk reported in earnings. Therefore, entities aren't permitted to use fair value or cash flow hedge accounting for securities classified as trading, and they aren't permitted to use cash flow hedge accounting for forecasted acquisitions of securities that will be classified as trading upon acquisition. For more information related to hedging, refer to our FRD publication, ***Derivatives and hedging***.

2.3.3.5 Considerations for mortgage banking entities

A mortgage banking entity should classify as trading any mortgage-backed securities that it commits to sell before or during the securitization process. Mortgage-backed securities held for investment should be classified into one of the three debt security categories under ASC 320.

2.3.4 Held-to-maturity securities

Excerpt from Accounting Standards Codification

Investments — Debt Securities — Overall

Recognition

Classification of Debt Securities

320-10-25-1

At acquisition, an entity shall classify debt securities into one of the following three categories:

c. Held-to-maturity securities. Investments in debt securities shall be classified as held-to-maturity only if the reporting entity has the positive intent and ability to hold those securities to maturity.

Subsequent Measurement

320-10-35-1

Investments in debt securities shall be measured subsequently as follows:

c. Held-to-maturity securities. Investments in debt securities classified as held to maturity shall be measured subsequently at amortized cost in the statement of financial position. A transaction gain or loss on a held-to-maturity foreign-currency-denominated debt security shall be accounted for pursuant to Subtopic 830-20.

2.3.4.1 Ability and intent to hold to maturity

Individual debt securities should be classified as held to maturity only if, at acquisition, management has both the positive intent and ability to hold the individual debt securities until maturity. A positive intent and ability to hold a security to maturity is different from the mere absence of an intent to sell. If an entity is uncertain of its intention to hold a debt security to maturity, it should not classify that investment as held to maturity.

The FASB believes use of the amortized cost basis must be justified for each investment in a debt security. The highly restrictive guidance on held-to-maturity debt securities has resulted in relatively few debt securities being classified in this category.

The held-to-maturity category does not include securities an entity intends to hold for only an indefinite period. As a result, an entity may not classify a security as held to maturity if, for example, it considers that the security would be available for sale in response to changes in any of the following:

- Market interest rates
- Prepayment risk
- Liquidity needs
- Availability of and the yield on alternative investments
- Funding sources and terms
- Foreign currency risk

In establishing intent, an entity should consider its historical experience, such as sales and transfers of debt securities classified as held to maturity. Past sales or transfers of held-to-maturity debt securities are inconsistent with an expressed intent to hold debt securities to maturity. Refer to section 4, *Transfers between categories and sales of debt securities*, for further discussion of sales and transfers of held-to-maturity securities that would call into question or "taint" an entity's assertion that it has the intent and ability to hold the remaining portfolio to maturity.

When an entity assesses whether it has the intent and ability to hold debt securities to maturity, it does not need to consider remote scenarios that it could not have anticipated, such as a run on a bank. We believe that very few events would qualify for this exception.

2.3.4.1.1 Considerations for regulated entities

Regulators of financial institutions can, under certain circumstances, conclude that the continued ownership of any asset represents an undue safety and soundness risk to an institution and, accordingly, require a financial institution to dispose of that asset. The federal banking regulatory agencies note that only in rare circumstances have examiners required a financial institution to dispose of mortgage securities that have become high risk after acquisition. However, an examiner has the authority to require a financial institution to dispose of any security or asset.

The FASB did not intend that a regulator's overall divestiture authority be considered as an automatic constraint of an institution's ability to hold a debt security to maturity, because such a conclusion would have precluded any use of the held-to-maturity category by regulated financial institutions. However, the FASB recognized that facts and circumstances could indicate that an institution does not have the ability to hold a debt security to maturity. Refer to section 4, *Transfers between categories and sales of debt securities*, for a discussion of sales of held-to-maturity securities that would call into question (i.e., "taint") an entity's assertion that it has the intent and ability to hold the remaining portfolio to maturity.

2.3.4.1.2 Considerations for specific instruments

2.3.4.1.2.1 Pledged securities

Companies often pledge debt securities as collateral to borrow funds at reduced interest rates. Such a pledge can be consistent with an entity's assertion that it has the intent and ability to hold the security to maturity if the transaction is not considered a sale under ASC 860-10, and the entity intends and expects to satisfy the obligation without surrendering the debt security. An entity should make an ongoing assessment of the probability that the securities will be used to repay the related obligation. If the entity determines that the securities will not be needed to repay the related obligation, the securities can be classified as held to maturity, as long as the entity has the positive intent and ability to hold them to maturity.

If the transaction is considered a sale under ASC 860-10-40-5 and the held-to-maturity security is transferred for a reason other than those specified in ASC 320-10-25-6, ASC 320-10-25-9 and ASC 320-10-25-14, the transfer would taint the held-to-maturity portfolio. Refer to section 4, *Transfers between categories and sales of debt securities*, for further guidance.

2.3.4.1.2.2 Repurchase agreements and similar arrangements

A held-to-maturity security can be subject to a repurchase agreement or a securities lending agreement as long as the transaction is accounted for as a secured borrowing under ASC 860-20, and the entity intends and expects to be able to satisfy the obligation and recover access to its collateral (ASC 320-10-25-18(e)).

A repurchase agreement that does not meet the criteria to be treated as a sale under ASC 860 is treated as a collateralized borrowing (secured) transaction. ASC 320-10-25-18(e) states that a seller-borrower can classify a debt security subject to a repurchase agreement accounted for as a secured borrowing under ASC 860-20 as a held-to-maturity security, as long as the institution has the positive intent and ability to repay the borrowing and recover access to its collateral.

Additional guidance related to ASC 860 can be found in our FRD publication, ***Transfers and servicing of financial assets***.

2.3.4.1.2.3 *Convertible debt*

Convertible debt securities should not be classified as held to maturity. When an entity classifies a security as held to maturity, it means that the entity is indifferent to future opportunities to profit from changes in the security's fair value and intends to accept its stipulated contractual cash flows, including the repayment of principal at maturity. Convertible debt securities generally bear a lower interest rate because the investor hopes to benefit from the appreciation in the value of the option embedded in the debt security. Given the unique opportunities for profit embedded in a convertible security, it generally would be contradictory to assert the positive intent and ability to hold a convertible debt security to maturity and forgo the opportunity to exercise the conversion feature.

If convertible debt is bifurcated into an equity option and a host debt instrument under the requirements of ASC 815-15, it still would be contradictory to assert the positive intent and ability to hold the debt host contract to maturity and forgo the opportunity to exercise the conversion feature because the entire hybrid instrument (including the host contract) would be tendered in the conversion.

2.3.4.1.2.4 *Prepayable debt securities*

A debt security should not be classified as held to maturity if it can contractually be prepaid or otherwise settled in a way that its holder would not recover substantially all of the recorded investment. While the term "substantially all" is not defined in ASC 320, it has been defined elsewhere in US GAAP. As a result of its use in other US GAAP, "substantially all" is generally interpreted in practice to mean 90% of the recorded investment.

Securities with these types of characteristics should be evaluated under ASC 815-15 to determine whether they have embedded derivatives that must be accounted for separately. If a security with those characteristics does not contain an embedded derivative that must be accounted for separately, it should be subsequently classified as available for sale or trading. Refer to section 2.2.3.2.3, *Contractual prepayment or settlement in such a way that the holder would not recover substantially all of its recorded investment*, for additional information.

2.3.4.1.2.5 *Put and call features*

A debt security with a put feature (i.e., one that allows the holder to redeem the instrument for cash at a specified price) may be classified as held to maturity only if the entity determines at acquisition that the security meets the requirements, including expected recovery of substantially all of the entity's recorded investment in the security. However, exercising the put feature on a security classified as held to maturity would call into question the entity's stated intent to hold other debt securities to maturity in the future. As a result, management should carefully consider whether to classify such securities as held to maturity. We believe that the maturity date of the instrument should not be considered the date the put feature becomes exercisable. Rather, it should be the instrument's stated maturity date.

A debt security with a call feature that allows the issuer to repurchase the security at a specified price can generally be classified as held to maturity. The issuer's exercise of a call feature effectively accelerates the debt security's maturity and should not be viewed as inconsistent with classification in the held-to-maturity category. However, a callable debt security purchased by the investor at a significant premium might be precluded from held-to-maturity classification under ASC 860-20-35-2 if it can be prepaid or otherwise settled in a way that the holder of the security would not recover substantially all of its investment.

2.3.4.1.2.6 *Interest-only securities and other securities with principal risk*

Securitized debt instruments, including interest-only strips and principal-only strips, are in the scope of ASC 320. A security cannot be designated as held to maturity if it can be prepaid or otherwise settled in a way that the holder of the security would not recover substantially all of its recorded investment. Interest-only securities and securities that have principal risk (e.g., some structured notes) should not be classified as held to maturity because of the inherent prepayment uncertainty and potential loss of principal.

For example, a holder of an interest-only strip on a mortgage-backed security may not recover its entire investment if the underlying mortgages prepay at a faster rate than anticipated. Accordingly, mortgage-backed interest-only certificates are prohibited from being classified as held to maturity by ASC 320-10-25-5(a). In addition, certain interest-only securities and other securities with principal risk may be hybrid instruments that are required to be accounted for under ASC 815. For more information on analyzing embedded derivatives, see our FRD publication, ***Derivatives and hedging***.

2.3.4.1.2.7 Structured notes

Excerpt from Accounting Standards Codification

Master Glossary

Structured Note

A debt instrument whose cash flows are linked to the movement in one or more indexes, interest rates, foreign exchange rates, commodities prices, prepayment rates, or other market variables. Structured notes are issued by U.S. government-sponsored enterprises, multilateral development banks, municipalities, and private entities. The notes typically contain embedded (but not separable or detachable) forward components or option components such as caps, calls, and floors. Contractual cash flows for principal, interest, or both can vary in amount and timing throughout the life of the note based on nontraditional indexes or nontraditional uses of traditional interest rates or indexes.

Most structured notes are subject to the bifurcation requirements of ASC 815-15 because they often contain embedded components that are not clearly and closely related to a debt instrument and that meet the definition of a derivative. As a result, the embedded derivative component would be bifurcated in accordance with ASC 815, and the host instrument would be subject to ASC 320. For any structured notes not subject to ASC 815-15, an entity should follow ASC 320-10-35-40 and classify them into one of the three categories of debt securities.

Because of their terms, some structured notes can contractually be prepaid or otherwise settled in a way that the holder of the security would not recover substantially all of its recorded investment. Such securities should not be classified as held to maturity.

If structured note securities are issued together to achieve a certain strategic investment result for the investor (e.g., two structured notes with opposite interest rate reset provisions), the investor should follow ASC 320-10-25-19 and 25-20 and account for the securities as a single unit of account until one of the securities is sold. Upon the sale, the previous carrying amount should be allocated between the security sold and the security retained, based on the relative fair values of the notes at the sale date.

2.3.4.2 Additional considerations when assessing whether held-to-maturity classification is appropriate

2.3.4.2.1 Asset-liability management programs

An entity's decision to classify a security as held to maturity means that, during the term of the security, the entity's intentions with respect to that security will not be affected by interest rate changes or prepayment expectations. Thus, entities that use an active asset-liability management program to manage interest rate risk will find it difficult to classify securities as held to maturity if those securities are subject to sale to satisfy the objectives of the asset-liability program. ASC 320 requires management to classify as available for sale or trading all securities that might be sold to achieve the desired mix of asset and liability maturity dates and interest rates. An entity may decide that it can achieve that desired mix without having all of its debt securities available for disposition. Debt securities designated as unavailable to be sold could still qualify for held-to-maturity classification.

2.3.4.2.2 Hedging programs

An entity that maintains a dynamic hedging program in which changes in external factors require that certain securities be sold to maintain an effective hedge would not have the intent and ability to hold those securities to maturity. However, entities may designate certain debt securities as unavailable to be sold to accomplish those ongoing adjustments deemed necessary under its dynamic hedging program, thereby enabling these debt securities to be accounted for at amortized cost because the entity has a positive intent and ability to hold them to maturity. For more information related to hedging, refer to our FRD publication, ***Derivatives and hedging***.

2.3.4.2.3 Investment management policies

When an entity is evaluating whether it has an intent to hold a security to maturity, it should consider its operating policies regarding investments. For example, a policy to consider selling any security 24 months before maturity, regardless of its previous classification, would be inconsistent with an entity's assertion that it had the intent to hold a security to maturity. Therefore, such a policy would preclude an entity from classifying any debt security as held to maturity.

2.3.4.2.4 Future business plans

An entity should also consider future business plans and expected cash flow needs. For example, assume that an entity holds a $10 million debt security that matures in five years and has outstanding an $8 million long-term note payable that matures in three years. If the entity intends to sell the security to extinguish the debt, it should not classify the security as held to maturity. Furthermore, if the entity classifies the security as held to maturity, it should be able to demonstrate an alternative means of repayment.

2.3.4.2.5 Tax-planning strategies

An entity may also consider certain securities available for sale to implement tax-planning strategies (e.g., a strategy to generate capital gains so existing capital losses can be used) to support the assertion that a valuation allowance is not necessary for a deferred tax asset. Securities that are available for sale to implement tax-planning strategies now or in the future should not be classified as held to maturity.

2.3.4.3 Entities with classified balance sheets

Held-to-maturity securities should be classified as current or noncurrent based on the maturity date (or call date[7] if it is probable that the call will be exercised within the next operating period or fiscal year) of the individual debt securities. The classification of a held-to-maturity security as current that does not have a maturity or redemption date within the next year would be inconsistent with an entity's ability and intent to hold the security until maturity.

The balance sheet classification for held-to-maturity securities generally should agree with the disclosure of maturities included in the notes to the financial statements. However, differences might result if an entity uses expected repayments (i.e., expected call option exercise) in the balance sheet classification and contractual maturities in the notes to the financial statements.

2.3.4.4 Subsequent measurement

Investments in debt securities classified as held to maturity should be subsequently measured at their amortized cost basis in the statement of financial position. Dividend and interest income, including amortization of any premium or discount arising from acquisition, should be included in earnings. Entities should also consider the current expected credit loss for held to maturity debt securities. Refer to section 2.9 of our FRD publication, ***Credit impairment under ASC 326***, for further guidance on interest income for HTM debt securities.

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[7] A callable debt security purchased at a significant premium may be precluded from held-to-maturity classification under ASC 860-20-35-2 if it can be prepaid or otherwise settled in such a way that the holder of the security would not recover substantially all of its recorded investment.

2.3.4.5 Foreign currency considerations

Foreign currency-denominated debt securities classified as held to maturity are considered monetary assets because their settlement amounts are fixed and do not depend on future prices. Any change in exchange rates between the functional currency of the holder of the debt security and the currency in which the debt security is denominated will cause an increase or decrease in expected functional currency cash flows. Under ASC 830-20-35-1, this represents a foreign currency transaction gain or loss, which generally should be included in net income for the period in which the exchange rate changes.

2.3.4.6 Hedging securities classified as held to maturity (updated August 2026)

ASC 815 prohibits hedges of interest rate risk for held-to-maturity securities. However, a held-to-maturity security can be hedged for credit risk or foreign currency risk. For more information related to hedging, refer to our FRD publication, ***Derivatives and hedging***.

FASB update

In response to feedback received through its 2025 Invitation to Comment, *Agenda Consultation*, the FASB issued proposed amendments to ASC 815[8] in June 2026 that would allow entities to hedge interest rate risk for HTM debt securities in fair value and cash flow hedges. See our To the Point publication, ***FASB proposes targeted improvements to accounting for certain interest rate and net investment hedges***, for more information. Refer to the **FASB website** for the current status of this project.

2.3.5 Available-for-sale securities

Excerpt from Accounting Standards Codification

Investments — Debt Securities — Overall

Recognition

Classification of Debt Securities

320-10-25-1

At acquisition, an entity shall classify debt securities into one of the following three categories:

b. Available-for-sale securities. Investments in debt securities not classified as trading securities or as held-to-maturity securities shall be classified as available-for-sale securities.

Subsequent Measurement

320-10-35-1

Investments in debt securities shall be measured subsequently as follows:

b. Available-for-sale securities. Investments in debt securities that are classified as available for sale shall be measured subsequently at fair value in the statement of financial position. Unrealized holding gains and losses for available-for-sale securities (including those classified as current assets) shall be excluded from earnings and reported in other comprehensive income until realized except as indicated in the following sentences. All or a portion of the unrealized holding gain and loss of an available-for-sale security that is designated as being hedged in a fair value hedge that is not a portfolio layer method hedge shall be recognized in earnings during the period of the hedge, pursuant to paragraphs 815-25-35-1(b), 815-25-35-4, and 815-25-35-6. The portion of the unrealized holding gain and loss of a closed portfolio that includes an available-for-

[8] Proposed Accounting Standards Update (ASU), *Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Interest Rate Risk Hedging and Net Investment Hedging*

> sale security or securities that is designated as being hedged in a portfolio layer method hedge pursuant to paragraph 815-20-25-12A shall be recognized in earnings during the period of the hedge pursuant to paragraphs 815-25-35-1(c), 815-25-35-4, and 815-25-35-6.

The available-for-sale category is the default or residual security classification. That is, debt securities that are not classified as either held to maturity or trading should be classified as available for sale.

The intent of management and the existence of trading activity are factors that should be considered in determining whether a security should be classified as trading or available for sale, not the type of security or the period of time it is expected to be held (although, as discussed in section 2.3.3, *Trading securities*, an intent to trade is not required in order to classify a security as trading). Securities should not be classified as available for sale if the entity intends to trade those securities. If an entity decides to sell a security that it has classified as available for sale, it should not transfer the security to trading before disposition. Available-for-sale securities should also not be transferred to a trading category because the passage of time has caused the maturity date to be within one year.

2.3.5.1 Entities with classified balance sheets

Available-for-sale debt securities generally should be classified as current or noncurrent, based on maturities and the entity's expectations of sales and redemptions in the following year. ASC 210-10-45-1(f) states that entities should generally classify as current assets marketable securities that are available to be converted into cash to fund current operations. Thus, we believe that if an entity views its available-for-sale portfolio as available for use in its current operations, it may classify marketable securities as current, even if it does not necessarily intend to dispose of the securities in the following year.

Because the classifications of available-for-sale securities are based on management's intentions rather than actual maturity dates, the balance sheet classification may not be consistent with the disclosure of contractual maturities of debt securities included in the notes to the financial statements. Management should consider disclosing material differences between the balance sheet and the notes to the financial statements to help readers understand the information presented.

To facilitate the preparation of the required disclosures in the notes to the financial statements (see section 5, *Presentation and disclosure*) and to track the components of a security's carrying amount, entities should consider maintaining separate accounts for the par value, fair value adjustments and unamortized discount or premium. In the statement of financial position, the fair value adjustment is a component of the carrying amount of the security, not a separate line item.

2.3.5.2 Subsequent measurement

Available-for-sale securities are subsequently measured at fair value. Any unrealized gains and losses on available-for-sale securities are included in OCI. The deferred income tax consequences of unrealized holding gains and losses on available-for-sale securities are also reported in OCI, resulting in a net presentation within OCI.

Dividend and interest income, including amortization of the premium or discount arising at acquisition, as well as realized gains and losses, should be included in earnings. Refer to section 3.7 of our FRD publication, ***Credit impairment under ASC 326***, for further detail on accounting for interest income on AFS debt securities.

While available-for-sale securities are carried at fair value, entities still need to consider if a credit loss should be recognized when the fair value falls below the amortized cost basis. Refer to section 3 of our FRD publication, ***Credit impairment under ASC 326***, for further detail on the AFS debt security impairment model.

2.3.5.3 Foreign currency considerations

For investments in securities denominated in a foreign currency, unrealized gains and losses recorded under ASC 320 include changes resulting from movements in foreign exchange rates and movements in other market factors. A holder of an available-for-sale security should account for the entire change in fair value of a foreign currency-denominated security in accordance with ASC 320 (i.e., include it in OCI, net of tax effects), without separating any foreign exchange component of the change in the fair value of the security.

2.3.5.4 Hedging securities classified as available for sale

Available-for-sale securities are eligible to be designated as hedged items under ASC 815. The prohibition in ASC 815 on hedge accounting for items that are measured at fair value with changes in fair value reported in net income does not apply to an available-for-sale security because changes in fair value of those securities are recognized in OCI (except for impairment due to credit-related factors that is recognized in the income statement), net of deferred taxes, not in net income.

If an available-for-sale security is designated as a hedged item in a fair value hedge, the changes in fair value of the security attributable to the hedged risk are reflected in net income (i.e., not in OCI) while hedge accounting is applied. However, the changes in fair value of the available-for-sale security attributable to other risks not being hedged continue to be recognized in OCI. By contrast, the entire change in fair value of an available-for-sale security that is designated as a hedged item in a cash flow hedge is reflected in OCI (except for impairment due to credit-related factors that is recognized in the income statement). For more information related to hedging, refer to our FRD publication, ***Derivatives and hedging***.

If an available-for-sale security has a bifurcated derivative (e.g., the conversion feature in an available-for-sale convertible bond), the host security is accounted for under ASC 320, but the bifurcated derivative is accounted for under ASC 815.

2.3.5.5 Effect of available-for-sale security unrealized gains and losses on certain insurance-related assets and liabilities of insurance companies

ASC 944 requires the measurement of certain insurance-related assets and liabilities to take into consideration investment returns. These assets and liabilities include deferred policy acquisition costs (DPACs), intangible assets arising from insurance contracts acquired in business combinations (i.e., present value of future profits (PVFP)) and certain policyholder liabilities. The investment returns included in the measurement of these assets and liabilities are those gains and losses recorded in the income statement, such as realized gains and losses from sale of securities and unrealized gains and losses from trading securities. However, the effect of unrealized gains and losses from available-for-sale securities is not addressed in ASC 944.

ASC 320-10-S99-2[9] provides SEC staff guidance that says these insurance-related assets and liabilities should be adjusted as if the unrealized gains and losses on available-for-sale securities were actually realized. An entity that makes such an adjustment would also make an offsetting adjustment to OCI for the movement in the carrying value of the insurance-related assets and liabilities.

As an example, DPACs for universal-life type contracts are amortized using estimated gross profits over the life of the contracts, and unrealized gains and losses from available-for-sale securities are not included in the amortization model. In this circumstance, the insurance entity would update the estimated gross profits as if the unrealized gains and losses from the available-for-sale securities were realized and re-estimate the balance sheet amount with the corresponding adjustment recorded in OCI.

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[9] SEC Staff Announcement, *Adjustments in Assets and Liabilities for Holding Gains and Losses as Related to the Implementation of Subtopic 320-10*.

While the guidance does not address this point, we believe that these adjustments cannot result in the DPACs or PVFP exceeding their original levels, plus accrued interest.

2.3.6 Forward contracts and purchased options on debt securities

Purchased options or forward contracts to acquire debt securities that are not considered to be derivatives and meet the criteria in ASC 815-10-15-141 are required to be classified and measured in a manner similar to debt securities. At inception, the contracts are designated as either held to maturity, available for sale or trading in a manner consistent with ASC 320.

The following table summarizes the guidance in ASC 815-10-35-5 on subsequent measurement and other considerations for these types of purchased options and forward contracts.

Held-to-maturity securities	Available-for-sale securities	Trading securities
▸ Changes in the fair value of the forward contract or purchased option should not be recognized. Credit losses on the underlying securities in a forward contract should be recorded through an allowance for credit losses in accordance with ASC 326-20 on financial instruments measured at amortized cost. Credit losses on the underlying securities in a purchased option should be recorded through an allowance for credit losses in accordance with ASC 326-20 and shall be limited by the amount of the option premium. ▸ Debt securities purchased under a forward contract should be recorded at the forward contract price at the settlement date. ▸ Debt securities purchased by exercising an option should be recorded at the option strike price, plus any remaining carrying amount for the option premium at the exercise date. ▸ If an option expires worthless and the same debt security is purchased in the market, the security should be recorded at its market price, plus any remaining carrying amount for the option premium. ▸ If an entity does not take delivery under the forward contract or purchase the same debt security in the market if the option expires worthless, the entity's intent to hold other debt securities to maturity will be questioned.	▸ Changes in the fair value of the forward contract or purchased option should be recognized in OCI (separate component of shareholders' equity) as they occur. Credit losses on the underlying securities in a forward contract should be recorded through an allowance for credit losses in accordance with ASC 326-30 on measuring credit losses on available-for-sale debt securities. Credit losses on the underlying securities in a purchased option should be recorded through an allowance for credit losses in accordance with ASC 326-30 and limited by the amount of the option premium. ▸ Debt securities purchased under a forward contract should be recorded at fair value on the settlement date. ▸ Debt securities purchased by exercising an option should be recorded at the option strike price, plus the fair value of the option at the exercise date. ▸ If the option expires worthless and the same debt security is purchased in the market, the security should be recorded at its market price, plus any remaining carrying amount for the option premium.	▸ Changes in the fair value of the forward contract or purchased option should be recognized in earnings as they occur. ▸ Debt securities purchased under a forward contract or by exercising an option should be recorded at fair values on the settlement date.

3 Accounting for equity investments

3.1 Scope and scope exceptions

3.1.1 Scope and scope exceptions — entities

Excerpt from Accounting Standards Codification

Investments — Equity Securities — Overall

Scope

Entities

321-10-15-2

The guidance in the Investments — Equity Securities Topic applies to all entities, including the following entities that are not deemed to be specialized industries for purposes of this Topic:

a. Cooperatives and mutual entities (such as credit unions and mutual insurance entities)

b. Trusts that do not report substantially all of their securities at fair value.

321-10-15-3

The guidance in this Topic does not apply to entities in certain specialized industries whose specialized accounting practices include accounting for substantially all investments at fair value, with changes in value recognized in earnings (income) or in the change in net assets.

ASC 321 applies to all entities, including cooperatives and mutual entities (such as credit unions and mutual insurance entities) and trusts that do not report substantially all of their securities at fair value. It does not apply to entities in certain industries with specialized accounting practices that include accounting for substantially all investments at fair value, with changes in fair value recognized in income or in the change in net assets.

Examples of entities excluded from the scope of the guidance include:

- Brokers and dealers in securities (ASC 940)
- Defined benefit pension, other postretirement, and health and welfare plans (ASC 960, ASC 962 and ASC 965)
- Investment companies (ASC 946)

3.1.2 Scope and scope exceptions — instruments

The scope of ASC 321 includes investments in equity securities and other ownership interests in an entity, including investments in partnerships, unincorporated joint ventures and limited liability companies.

3.1.2.1 Equity securities

An equity security is any security representing an ownership interest in an entity (e.g., common, preferred, other capital stock) or the right to acquire (e.g., warrants, rights, forward purchase contracts, call options) or dispose of (e.g., put options, forward sale contracts) an ownership interest in an entity at fixed or determinable prices.

The following items are excluded from the definition of an equity security:

- Written equity options (because they represent obligations of the writer, not investments)
- Cash-settled options on equity securities or options on equity-based indexes (because they do not represent ownership interests in an entity)
- Convertible debt or preferred stock that must be redeemed by the issuer or is redeemable at the option of the investor

3.1.2.1.1 Forward contracts and purchased options on equity securities

Excerpt from Accounting Standards Codification

Derivatives and Hedging — Overall

Instruments

Certain Contracts on Debt and Equity Securities

815-10-15-141

The guidance in the Certain Contracts on Debt and Equity Securities Subsections applies only to those forward contracts and purchased options having all of the following characteristics:

a. The contract is entered into to purchase securities that will be accounted for under either Topic 320 or Topic 321.

b. The contract's terms require physical settlement of the contract by delivery of the securities.

c. The contract is not a derivative instrument otherwise subject to this Subtopic.

d. The contract, if a purchased option, has no intrinsic value at acquisition.

815-10-15-141A

For the purposes of applying paragraph 815-10-15-141(a) for forward contracts and purchased options, an entity shall not consider whether, upon the settlement of the forward contract or the exercise of the purchased option, individually or with existing investments, the underlying securities would be accounted for under either of the following:

a. The equity method in accordance with Topic 323

b. The fair value option in accordance with Topic 825 if those securities otherwise would have been accounted for under Topic 323.

Recognition

Certain Contracts on Debt and Equity Securities

815-10-25-18

Forward contracts and purchased options on equity securities within the scope of this Subsection (see the Certain Contracts on Debt and Equity Securities Subsection of Section 815-10-15) shall, at inception, be recognized in a manner consistent with the accounting prescribed by Topic 321 for equity securities. Such forward and option contracts are not eligible to be hedging instruments.

Certain physically settled purchased options or forward contracts to acquire ownership interests in an entity should be accounted for in a manner consistent with the guidance in ASC 321. To be accounted for in this manner, an option or forward contract, among other criteria, must not meet the definition of a derivative in ASC 815 and therefore wouldn't be in the scope of that guidance.

An option or forward contract to acquire an equity security not considered to be a derivative should be evaluated based on the criteria in ASC 815-10-15-141. If the option or forward contract meets those criteria (i.e., the contract is entered into to purchase securities accounted for under ASC 321, requires physical settlement, is not a derivative and has no intrinsic value at acquisition), it is recognized and measured in a manner consistent with the accounting prescribed in ASC 321 for equity securities.

ASC 815-10-15-141A clarifies that, when determining whether the criteria in ASC 815-10-15-141(a) are met, an entity should not consider whether the underlying equity securities would be accounted for under the equity method in ASC 323 or the fair value option in ASC 825 when the forward contract or purchased option is settled.

3.1.2.1.2 Simple agreement for future equity (SAFE)

A simple agreement for future equity (SAFE) is a contract that provides an investor with the right to acquire ownership interests of an entity upon certain future events, such as qualified equity financings, liquidity events (e.g., a change of control, an initial public offering) or dissolution. In exchange, the entity receives cash from the investor at the inception of the contract. A SAFE does not represent a current ownership interest (e.g., common stock).

The SAFE may specify that the entity will deliver to the investor a variable number of its shares upon a qualified equity financing transaction. In some cases, the investor may be given an option to elect to receive either a cash payment equal to the purchase amount or a variable number of shares upon settlement. Upon the occurrence of the specified events, the investor would automatically or optionally (if the investor exercises its option to acquire ownership) receive equity interests in the entity without making any further payment for them. SAFEs do not typically include a stated maturity date, interest, dividends or shareholder voting rights.

Determining the classification of a SAFE will depend on facts and circumstances. In general, an investor begins the analysis by determining whether the SAFE in its entirety is a derivative under ASC 815 (i.e., measured at fair value with changes in fair value reported in earnings). If a SAFE is not determined to be a derivative in its entirety (e.g., because it fails to meet the criterion for minimal or no initial net investment), it is generally considered a hybrid instrument with embedded derivatives that requires an analysis of the instrument under ASC 815-15 to determine whether any of the embedded derivatives should be bifurcated.

This analysis includes (1) determining whether the host instrument is considered a debt or equity instrument and (2) evaluating whether the embedded feature is clearly and closely related to the host instrument and, if not, whether it meets the definition of a derivative on a freestanding basis. If an embedded derivative exists and requires bifurcation, the bifurcated derivative is subject to ASC 815 and measured at fair value with changes in fair value reported in earnings. Alternatively, the holder may elect the fair value option to measure the whole instrument at fair value in accordance with ASC 825.

If the SAFE is not a derivative in its entirety or is not remeasured at fair value under otherwise applicable US GAAP with changes in fair value reported in earnings, the classification and measurement will depend on whether it is considered a debt security under ASC 320, an equity security under ASC 321 or a loan under ASC 310. Judgment will be required to make the determination based on facts and circumstances.

SAFEs would not generally meet the definition of a debt security under ASC 320 or a loan under ASC 310 because they do not represent a creditor relationship with the issuing entity or a right to receive cash on demand or on fixed or determinable dates.

3.1.2.1.3 SEC staff views on written options and combination options

Although ASC 321 doesn't define written equity options as equity securities, the SEC staff has long held[10] that written options should be recorded at fair value and marked to fair value through earnings.

SEC registrants that enter into a written option and purchased option simultaneously with the same counterparty (combination option) should carefully assess whether the result is a net written or purchased option. With respect to transactions involving a combination of options, the SEC staff has noted that an entity needs to consider the terms of the transaction, including whether a net premium was paid or received, the underlying, the notional amounts and the maturity dates, to determine whether there is a net written option or net purchased option.

If an entity that is an SEC registrant enters into a transaction involving a combination of written and purchased options on shares and determines that there is a net written option, it needs to record that option at fair value and mark it to fair value through earnings. However, if the entity determines that there is a net purchased option, it needs to account for that equity option under ASC 321.

For example, assume that Entity B holds shares in a private company. On 1 January 20X1, Entity A enters into a written put option and a purchased call option on those shares with Entity B. The written put expires on 31 December 20X5, and the purchased call expires on 31 December 20X8. Entity A pays a premium of $100 to Entity B. Entity A assesses these options on a combined basis and concludes that it holds a net purchased equity option that must be accounted for under ASC 321.

3.1.2.2 Other ownership interests in an entity

ASC 321 also applies to other ownership interests in an entity. To determine the appropriate accounting, an investor holding these ownership interests should understand the legal form of the entity that issued the investment (e.g., a partnership, limited liability partnership, limited liability company), as well as the terms and nature of the investment.

3.1.2.2.1 Investments in limited partnerships (updated August 2026)

The guidance in ASC 323-30-S99-1 on the application of the equity method to investments in limited partnerships requires entities to use the equity method unless the investor's interest "is so minor that the limited partner may have virtually no influence over partnership operating and financial policies." The SEC staff's position is that investments of more than 3% to 5% in limited partnerships are considered more than minor and should therefore be accounted for under the equity method. Investments in limited partnerships and similar entities that are not accounted for under the equity method are in the scope of ASC 321.

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[10] Refer to the following SEC speeches by Pascal Desroches, Professional Accounting Fellow, Office of the Chief Accountant, SEC, at the 27th Annual National AICPA Conference on Current SEC Developments, 7 December 1999 and Gregory A. Faucette, Professional Accounting Fellow, Office of the Chief Accountant, SEC, at the 2003 Thirty-First AICPA National Conference on Current SEC Developments, which can be found on the SEC website at https://www.sec.gov/news/speech/speecharchive/1999/spch332.htm and https://www.sec.gov/news/speech/spch121103gaf.htm, respectively.

Entities may invest in limited liability entities (e.g., limited partnerships) that manage or invest in affordable housing projects that qualify for low-income housing tax credits. The low-income housing tax credit (LIHTC) program is designed to encourage investment in the construction and rehabilitation of low-income housing. An investor in a flow-through limited liability entity (e.g., limited partnership) that manages or invests in qualified projects receives tax benefits in the form of tax deductions from operating losses and low-income housing tax credits over 10 years. ASC 323-740-25-1 allows investors in qualified affordable housing projects through limited liability entities to elect to account for those investments using the proportional amortization method (described in paragraphs 323-740-35-2 and 323-740-45-2), provided certain conditions are met.

ASU 2023-02 expanded the use of the proportional amortization method[11] to investments in tax credit structures other than just LIHTC programs. An investor in a tax equity investment may elect the proportional amortization method for qualifying investments on a tax credit program-by-program basis. To qualify for the proportional amortization method, an investment must meet the criteria in ASC 323-740-25-1. The new guidance also eliminates certain guidance previously provided for LIHTC investments related to the cost method, equity method impairment and delayed equity contributions. In this publication, we refer to equity securities and other ownership interests that are in the scope of ASC 321 as equity investments. For guidance on equity investments not covered by ASC 321, refer to the following FRDs:

- ***Consolidation: Determination of a controlling financial interest and accounting for changes in ownership interests*** includes guidance on interests that represent controlling financial interests that require consolidation under ASC 810.
- ***Equity method investments and joint ventures*** includes guidance on investments accounted for under ASC 323 and investments in general partnerships, limited partnerships, limited liability companies, trusts and other entities that maintain specific ownership accounts.

3.1.3 Instruments not in the scope of ASC 321 (updated August 2026)

Excerpt from Accounting Standards Codification

Investments — Equity Securities — Overall

Scope

Instruments

321-10-15-5

The guidance in this Topic does not apply to any of the following:

a. Derivative instruments that are subject to the requirements of Topic 815, including those that have been separated from a host contract as required by Section 815-15-25. If an investment otherwise would be in the scope of this Topic and it has within it an embedded derivative that is required by that Section to be separated, the host instrument (as described in that Section) remains within the scope of this Topic.

b. Investments accounted for under the equity method (Topic 323).

c. Investments in consolidated subsidiaries.

d. An exchange membership that has the characteristics specified in paragraph 940-340-25-1(b) for an ownership interest in the exchange.

e. Federal Home Loan Bank and Federal Reserve Bank Stock (Subtopic 942-325).

[11] Refer to Section 7.1.5 in our FRD publication, ***Income taxes***, for further details on the proportional amortization method.

Pending Content:

Transition Date: *(P) December 16, 2026; (N) December 16, 2026* | **Transition Guidance:** 606-10-65-3

321-10-15-7

An entity shall not apply the guidance in this Topic to share-based noncash consideration from a customer for the transfer of goods or services unless and until the entity's right to receive or retain the share-based noncash consideration is unconditional under Topic 606 in accordance with paragraph 606-10-15-3A. Similarly, an entity shall not apply the guidance in this Topic to share-based noncash consideration from a counterparty for the transfer of nonfinancial assets or in substance nonfinancial assets unless and until the entity's right to receive or retain the share-based noncash consideration is unconditional under Subtopic 610-20 in accordance with paragraph 610-20-15-3A.

Rights to acquire or dispose of ownership interests in an entity may meet the criteria to be considered derivative instruments (i.e., they may meet the definition of a derivative). In these circumstances, the rights are accounted for in accordance with ASC 815-10.

FASB update

In December 2025, the FASB issued ASU 2025-07[12] to expand the scope exceptions from derivative accounting under ASC 815 and clarify the accounting for share-based noncash consideration under ASC 606. Under this guidance, an entity would not apply the guidance in ASC topics such as ASC 815 and ASC 321 until its right to receive or retain the share-based noncash consideration is unconditional under ASC 606. An entity receiving share-based noncash consideration from a customer for the transfer of goods or services would first apply the guidance on noncash consideration in ASC 606-10-32-21 through 32-24. The amendments are effective for all entities for annual reporting periods beginning after December 15, 2026, and interim reporting periods within those annual reporting periods. See our To the Point publication, ***FASB expands derivative scope exceptions and clarifies guidance for share-based noncash consideration***, for more information.

3.1.3.1 Derivatives

Hybrid financial instruments should be analyzed to determine whether any embedded derivatives should be bifurcated under ASC 815-15. This analysis includes determining the nature of the host instrument (i.e., whether the host instrument is considered a debt host or an equity host) and evaluating whether the embedded feature is clearly and closely related to the host instrument and, if not, whether it meets the definition of a derivative on a freestanding basis. This analysis does not need to be performed for hybrid financial instruments that are measured at fair value through net income (FV-NI). That is, this analysis is only performed for hybrid financial instruments that are equity investments when those equity investments are measured using the measurement alternative. For more information on analyzing embedded derivatives, see our FRD publication, ***Derivatives and hedging***.

Any embedded derivative that is bifurcated is accounted for under ASC 815 and therefore is not in the scope of ASC 321. However, when the hybrid financial instrument would otherwise be in the scope of ASC 321, the host instrument that remains after an embedded derivative is bifurcated may be subject to ASC 321.

[12] ASU 2025-07, *Derivatives and Hedging (Topic 815) and Revenue from Contracts with Customers (Topic 606): Derivatives Scope Refinements and Scope Clarification for Share-based Noncash Consideration from a Customer in a Revenue Contract*.

3.1.4 Common issues related to scope

3.1.4.1 Look-through not permitted

When determining whether an equity security is in the scope of ASC 321, an entity should not look through the form of its investment to the nature of the securities held by an investee.

Illustration 3-1: Determining whether a security is in the scope of ASC 321
Company A holds common stock of an unconsolidated entity that is not accounted for under the equity method. Company A is not in a specialized industry that is excluded from the scope of ASC 321. If substantially all of the investee's assets consist of investments in debt securities (e.g., an investment fund that invests in debt securities), it would not be appropriate for Company A to look through the form of the investment to the nature of the securities held by the investee. The investment would be considered an equity security, and ASC 321 would apply to that type of investment.

3.1.4.2 Cash and cash equivalents

ASC 321 does not provide a scope exception for financial instruments solely because they are classified as cash equivalents on an entity's balance sheet. Cash equivalents are short-term, highly liquid investments that are both:

- Readily convertible to known amounts of cash
- So close to maturity that they present insignificant risk of changes in value because of changes in interest rates

Generally, only short-term, highly liquid investments with original maturities of three months or less qualify for treatment as cash equivalents. Examples of short-term investments commonly considered to be cash equivalents are US Treasury bills, commercial paper and federal funds sold (for an entity with banking operations).

Equity securities generally do not meet the definition of a cash equivalent because they do not have stated maturities. However, interests in certain money market funds (i.e., money market funds regulated pursuant to Rule 2a-7 under the Investment Company Act of 1940) can be classified as cash and cash equivalents even though they are considered equity securities. These interests in money market funds are in the scope of ASC 321-10 and subject to all of ASC 321-10's accounting and disclosure requirements. Since cash equivalent items represent short-term, highly liquid investments that are readily convertible to known amounts of cash, their carrying value would generally be expected to approximate their fair value.

3.1.4.3 Short sales of equity securities

Short sales of securities represent obligations to deliver securities and are not investments. However, such transactions are generally marked to market, with changes in fair value recorded in earnings as they occur, under either AICPA Audit and Accounting Guides for certain industries or ASC 815-10-55-57, if they meet the definition of a derivative.

3.2 Recognition and initial measurement

While ASC 321 addresses the subsequent measurement of equity investments, it is generally silent on their recognition and initial measurement upon acquisition. Generally, securities are initially measured at the transaction price plus transaction costs. In many cases, the transaction price (excluding transaction costs) equals the fair value at acquisition. NFPs should follow the recognition and measurement guidance in ASC 958-321.

3.2.1 Transaction costs

ASC 321 does not provide guidance on how to account for transaction costs related to investments in equity securities. When an equity investment is recorded at price plus transaction costs and remeasured at FV-NI, the transaction costs are recognized in net income in the period of acquisition as a result of the period-end adjustment of the investment's carrying amount to fair value.

For equity investments that are measured using the measurement alternative, the investment's carrying amount is adjusted to fair value at the time of the next observable price change for the identical or similar investment of the same issuer or when an impairment is recognized. If the investor accounts for the transaction costs at acquisition as part of the investment's carrying amount, the transaction costs are recognized in net income when the carrying amount is adjusted.

There has been diversity in practice in the treatment of transaction costs. The Codification provides certain industry-specific guidance on the treatment of transaction costs. For example, ASC 946-320-30-1 states that the transaction price of a debt or equity security should include commissions and other charges that are part of the purchase transaction. Because investment companies are required to subsequently measure all investments at fair value with changes in fair value recognized in earnings, transaction costs are immediately recognized as an unrealized loss.

3.2.2 Recognition date

ASC 321 does not address when an entity should recognize the acquisition of an equity security. However, entities recognize purchased securities on either the trade date or the settlement date. Agreements to purchase or sell a security should be evaluated to determine whether they are derivatives under ASC 815 or if the scope exception for regular-way security trades is met. In general, ASC 815 provides a scope exception for regular-way security trades. Regular-way security trades are defined as contracts that provide for delivery of a security within a period of time (after the trade date) generally established by regulations or conventions in the marketplace or exchange in which the transaction is being executed. For example, in the US, most corporate securities are regularly settled in one business day. The regular settlement cycle length may vary by country, exchange, instrument or issuer.

Excerpt from Accounting Standards Codification

Derivatives and Hedging — Overall

Scope and Scope Exceptions

Instruments

Instruments Not within Scope

Regular-Way Security Trades

815-10-15-15

Regular-way security trades are defined as contracts that provide for delivery of a security within the period of time (after the trade date) generally established by regulations or conventions in the marketplace or exchange in which the transaction is being executed. For example, a contract to purchase or sell a publicly traded equity security in the United States customarily requires settlement within three business days. If a contract for purchase of that type of security requires settlement in three business days, the regular-way security trades scope exception applies, but if the contract requires settlement in five days, the regular-way security trades scope exception does not apply unless the reporting entity is required to account for the contract on a trade-date basis.

Trades that settle after the established convention (e.g., one business day for equity securities in the US) should be accounted for as forward contracts in accordance with ASC 815. In addition, a contract for an existing security does not qualify for the regular-way security trade exception if the contract requires or permits net settlement, or where a market mechanism exists to facilitate net settlement.

Contracts to purchase or sell when-issued securities (securities that have been authorized but not yet issued) or other securities that do not yet exist qualify for the regular-way security trade exception if all of the following criteria are met:

- There is no other way to purchase or sell that security
- Delivery of that security and settlement will occur within the shortest period possible for that type of security
- It is probable at inception and throughout the contract that the contract will not settle net and will result in physical delivery of a security when it is issued

In all cases, the scope exception would also be applied when an entity is required, or has a policy, to account for purchases and sales of existing securities, when-issued securities or other securities that do not yet exist on a trade-date basis (ASC 815-10-15-17).

US GAAP requires entities in the following industries to record regular-way purchases and sales of securities on the trade date:

- Defined benefit plans (ASC 960-325-25-1)
- Depository and lending financial institutions (ASC 942-325-25-2)
- Brokers and dealers in securities (ASC 940-320-25-1)
- Employee benefit plans (ASC 962-325-25-1 and ASC 965-320-25-1)
- Investment companies (ASC 946-320-25-1)

Entities outside of these industries can elect, as an accounting policy, to account for purchases and sales of securities on a trade-date or settlement-date basis. For example, Statements of Statutory Accounting Principles issued by the National Association of Insurance Commissioners require certain insurance entities to apply trade-date accounting in their statutory financial statements. Most property and casualty insurance entities and life and health insurance entities have adopted an accounting policy for purchases and sales of securities in their GAAP financial statements on a trade-date basis, consistent with their statutory reporting.

The following example illustrates the difference between recognizing an investment on the trade date and the settlement date.

Illustration 3-2: Trade-date accounting versus settlement-date accounting

Assume an entity purchases 5,000 shares of Company A for $2 per share. The trade settles one business day after the trade order is submitted, and the fair value remains at $2 per share.

Journal entries	Trade-date accounting			Settlement-date accounting		
Trade date	Dr. Investment in equity securities	$ 10,000		No entry.		
	Cr. Payable to broker		10,000			
Settlement date	Dr. Payable to broker	10,000		Dr. Investment in equity securities	$ 10,000	
	Cr. Cash		10,000	Cr. Cash		10,000

3.2.3 Entities with classified balance sheets

ASC 210-10-45-1(f) states that entities should generally classify as current assets marketable securities that are available to be converted into cash to fund current operations. Thus, we generally believe that if an entity views its equity securities with readily determinable fair values as available for use in its current operations, it may classify those securities as current, even if it does not necessarily intend to dispose of the securities in the following year.

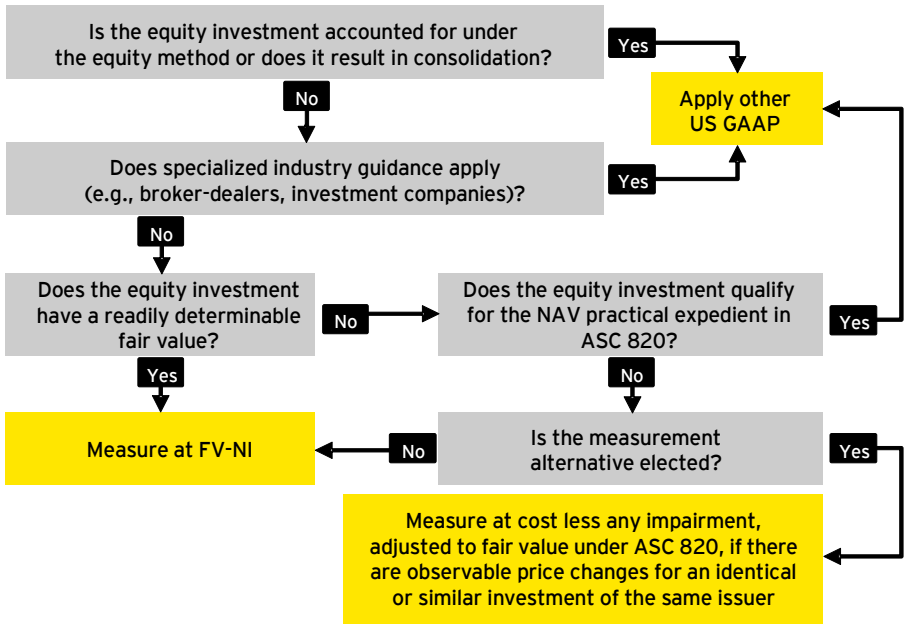
3.2.4 Equity securities received in exchange for goods or services with customers

ASC 606 applies to the receipt of equity securities in exchange for goods or services with customers. Refer to our FRD publication, ***Revenue from contracts with customers (ASC 606)***, for further details.

3.3 Subsequent measurement

The following illustration shows how an entity evaluates the recognition and measurement of equity investments.

Illustration 3-3: Equity investments decision tree



3.3.1 Equity investments with readily determinable fair values

Under ASC 321, equity investments with readily determinable fair values are required to subsequently be measured at FV-NI. Unrealized holding gains and losses for these securities is recorded in earnings.

3.3.1.1 Readily determinable fair value

Excerpt from Accounting Standards Codification

Master Glossary

Readily Determinable Fair Value

An equity security has a readily determinable fair value if it meets any of the following conditions:

a. The fair value of an equity security is readily determinable if sales prices or bid-and-asked quotations are currently available on a securities exchange registered with the U.S. Securities and Exchange Commission (SEC) or in the over-the-counter market, provided that those prices or quotations for the over-the-counter market are publicly reported by the National Association of Securities Dealers Automated Quotations systems or by OTC Markets Group Inc. Restricted stock meets that definition if the restriction terminates within one year.

b. The fair value of an equity security traded only in a foreign market is readily determinable if that foreign market is of a breadth and scope comparable to one of the U.S. markets referred to above.

c. The fair value of an equity security that is an investment in a mutual fund or in a structure similar to a mutual fund (that is, a limited partnership or a venture capital entity) is readily determinable if the fair value per share (unit) is determined and published and is the basis for current transactions.

The fair value of an equity security is readily determinable if it meets any of the conditions listed in the Master Glossary. The key factor is whether sales prices or bid-and-asked quotations are currently available. The determination of whether an equity security has a readily determinable fair value is made as of each balance sheet date, but there doesn't necessarily have to be a trade on the balance sheet date. Price quotations available a few days before or after that date are considered currently available. The third condition of the definition addresses investments in a mutual fund or in a structure similar to a mutual fund and states that they have readily determinable fair values if the fair value per share (unit) is determined and published and is the basis for current transactions. The FASB did not provide guidance on what it meant by "published" and "basis for current transactions" or "similar to a mutual fund."

Unlike price quotes for mutual funds, price quotes for investments in most hedge funds, private equity funds and venture capital funds are generally not available on a securities exchange or in an over-the-counter market. Further, paragraph BC2 in the Basis for Conclusions of ASU 2009-12[13] acknowledges that many investments in hedge funds, private equity funds, real estate funds, venture capital funds and funds of funds do not have readily determinable fair values. However, because the amended definition applies to investments in entities "similar to a mutual fund," investors need to consider the facts and circumstances of their alternative investments to determine whether they have readily determinable fair values. Refer to section 18 of our FRD publication, ***Fair value measurement***, for further discussion.

[13] ASU 2009-12, *Fair Value Measurements and Disclosures (Topic 820): Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent).*

3.3.1.1.1 Restricted stock (updated August 2026)

ASC 820 indicates that the effect on fair value of a restriction on the sale or use of an asset differs depending on whether the restriction is deemed to be a characteristic of the asset (i.e., asset-specific) or the entity holding the asset (i.e., entity-specific). A restriction that would transfer with the asset in an assumed sale is generally considered asset-specific and, therefore, would likely be considered by market participants in pricing the asset. Conversely, a restriction that would not transfer with the asset in an assumed sale is generally considered entity-specific and would not be considered when measuring fair value (e.g., a lock-up provision in an underwriter agreement). Determining whether a restriction is a characteristic of the asset or of the entity holding the asset may require judgment based on the facts and circumstances.

If a restriction is not considered in the measurement of fair value under ASC 820, it should not be considered in the determination of whether the security has a readily determinable fair value. That is, an entity-specific restriction on the sale or use of a security is not considered in the assessment of readily determinable fair value, but an asset-specific restriction is considered. A security with an asset-specific restriction on its sale or use that terminates more than one year after the reporting date does not have a readily determinable fair value.

A security is a restricted security if its sale is contractually or governmentally prohibited. Restricted securities are sometimes acquired in unregistered form through private placement offerings, but they also may be acquired in registered form restricted by contract (e.g., securities subject to a "lockup" provision in an underwriting agreement). Securities that can reasonably be expected to qualify for sale within one year, such as under Rule 144 or similar SEC rules, should not be considered restricted (i.e., this limitation would not be considered in determining whether the security has a readily determinable fair value, even if asset specific).

The fair value of restricted stock with an asset-specific restriction that terminates within one year from the reporting date should be measured based on the quoted price of an otherwise identical unrestricted security of the same issuer, adjusted for the effect of the restriction, in accordance with ASC 820.

Arrangements entered into after an acquisition that limit an investor's ability to sell securities (otherwise subject to the provisions of ASC 321) do not cause the securities to be "restricted." Those limitations are considered analogous to pledging the securities as collateral, which is accounted for under ASC 860-30-25.

Entities should measure the fair value of an equity security subject to a contractual sale restriction the same way they measure an identical equity security that is not subject to such a restriction (e.g., based on the quoted price). Applying a discount to reflect a contractual sale restriction that is not a characteristic of the asset is not permitted. Recognizing such a restriction as a separate unit of account is also not permitted.

Refer to section 5.2.1 of our FRD publication, ***Fair value measurement***, for further discussion of restrictions on assets.

FASB update

In July 2026, the FASB proposed amendments[14] to ASC 820 related to measuring the fair value of an equity security subject to contractual sale restrictions. The proposed amendments would require investment companies in the scope of ASC 946 to consider contractual sale restrictions when measuring the fair value of equity securities. See our To the Point publication, ***FASB proposes investment companies consider contractual sale restrictions in fair value***, for more information. In addition, the Board added a project to its technical agenda to consider expanding the scope of the proposed amendments to all entities. Refer to the **FASB website** for the current status of these projects.

3.3.2 Equity investments without readily determinable fair values

Entities can elect a measurement alternative for equity investments that do not have readily determinable fair values and do not qualify for the practical expedient in ASC 820 to estimate fair value using the NAV per share (or its equivalent). Under the alternative, the investments are measured at cost, less any impairment. If an entity identifies observable price changes in orderly transactions for the identical or a similar investment of the same issuer, it must measure its equity investment at fair value in accordance with ASC 820 as of the date that the observable transaction occurred. A separate election to use the alternative needs to be made for each eligible investment and the alternative should be applied consistently from period to period until the investment's fair value becomes readily determinable (although an entity may subsequently elect to measure the equity investment at fair value under certain conditions, see discussion below). Entities are also required to reassess at each reporting period whether an investment qualifies for the alternative.

Excerpt from Accounting Standards Codification

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. If an entity identifies observable price changes in orderly transactions for the identical or a similar investment of the same issuer, it shall measure the equity security at fair value as of the date that the observable transaction occurred. 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

[14] Proposed ASU, *Fair Value Measurement (Topic 820): Investment Companies with Equity Securities Subject to Contractual Sale Restrictions*

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.

3.3.2.1 Measurement alternative

3.3.2.1.1 Eligibility

To apply the measurement alternative to an equity investment, an entity is required to first determine that the investment doesn't have a readily determinable fair value. If an entity determines that its equity investment does not have a readily determinable fair value, it then has to consider whether the investment qualifies for the NAV practical expedient described in ASC 820 before applying the measurement alternative.

To qualify to be measured using the NAV practical expedient, an equity investment cannot have a readily determinable fair value, among other criteria. When making this determination, an entity applies the definition of readily determinable fair value in the ASC Master Glossary, with one exception. Although the Master Glossary notes that a restricted share is deemed to have a readily determinable fair value only if the restriction terminates within one year, the guidance in ASC 820 states that an entity does not consider the length of an equity security's restriction period when determining whether the investment qualifies to be measured using the NAV practical expedient. That is, the entity ignores the restriction on the transferability of an equity investment when analyzing whether the investment has a readily determinable fair value for purposes of determining whether the investment qualifies to be measured using the NAV practical expedient. See section 18 of our FRD publication, ***Fair value measurement***, for a further discussion of readily determinable fair value and the NAV practical expedient.

Question 3-1 **If an entity holds an equity investment that qualifies to be measured using the NAV practical expedient under ASC 820, can it use the measurement alternative?**

No. The measurement alternative may only be used when the fair value of an equity investment is not readily determinable and the investment does not qualify for the NAV practical expedient.

Under ASC 820, an entity may only elect the NAV practical expedient at initial recognition of the instrument. The scope of the NAV practical expedient is limited to investments without readily determinable fair values in entities that calculate NAV per share (or its equivalent, such as member units or an ownership interest in partners' capital) consistently with the measurement principles of ASC 946, *Financial Services — Investment Companies*. That is, the investment must be in an entity that measures its investment assets at fair value (in accordance with the principles of ASC 820) on a recurring basis. For example, investments in hedge funds, private equity funds and venture capital funds may be eligible for the NAV practical expedient.

If an entity determines that an equity investment qualifies to be measured using the NAV practical expedient, the investment cannot be measured using the measurement alternative. In these circumstances, the equity investment should be measured at FV-NI or, if elected, using the NAV practical expedient.

Question 3-2 **What are some key considerations for an entity that holds equity investments that qualify to be measured under the NAV practical expedient?**

As a practical matter, an entity may determine that it would be operationally less difficult to elect the NAV practical expedient rather than to estimate a fair value measurement in accordance with ASC 820. However, if management decides to use the NAV practical expedient for qualifying equity investment(s), that does not alleviate its responsibility to understand, assess and conclude on the appropriateness of the NAV provided by the investee fund. This may potentially create practical challenges for first-time application of the expedient. Entities need to have processes and controls in place to determine the continued eligibility of investments they measure using the NAV practical expedient and whether any adjustments should be made to the NAV when using that value to measure their equity investments. For example, an adjustment to the NAV may be required if it is not calculated as of the entity's measurement date.

Entities also need to consider the timing of when NAV information is available because that may present practical challenges. That is, an investor needs to determine whether investee NAV information will be available in sufficient time for its financial reporting purposes. In addition, an investor needs to make sure that the investee has performed appropriate procedures in determining the NAV that the investor will use in its financial reporting. Refer to section 18 of our FRD publication, ***Fair value measurement***, for further discussion.

3.3.2.1.2 Reassessment and discontinuance of the election

An entity has to make a separate election to use the measurement alternative for each eligible investment. Entities are required to reassess at each reporting period whether an investment they elect to measure using the measurement alternative continues to qualify for the alternative. If an investment no longer qualifies to be measured using the measurement alternative, the entity should stop applying the measurement alternative to the investment and begin to measure it at FV-NI.

An entity that has elected to measure an investment using the measurement alternative should consistently apply the alternative to that investment from period to period as long as the investment continues to qualify to be measured using the measurement alternative. However, an entity may change its measurement approach to a fair value method in accordance with ASC 820, even if the investment continues to qualify for the measurement alternative.

An entity that elects to change its measurement approach for an equity security will have to do so for that security and all identical or similar investments of the same issuer. The guidance does not address what should be considered a "similar" equity investment when applying the measurement alternative or when electing to discontinue its use. As a result, entities should develop a reasonable framework to interpret the term "similar" and consistently apply it.

Further, the election to discontinue the measurement alternative is irrevocable and applies to all future purchases of identical or similar investments of the same issuer. The Board explained in the Background Information and Basis for Conclusions of ASU 2018-03 that it believes an entity should not measure the same equity security in different ways simply because of differences in the timing of the purchases.

Question 3-3 **Can an entity "unelect" the fair value option under ASC 825 and elect the measurement alternative upon adoption of a new accounting standard?**

No. Under ASC 825-10-25-2, the election to measure an eligible financial instrument using the fair value option (FVO) is irrevocable unless a new election date occurs as discussed in ASC 825-10-25-4. Adoption of a new accounting standard is not considered a new election date. Accordingly, it would not be appropriate for an entity to "unelect" the FVO and elect the measurement alternative for an equity investment without a readily determinable fair value upon adoption of a new accounting standard.

3.3.2.1.3 Impairment of equity securities measured using the measurement alternative

Excerpt from Accounting Standards Codification

Investments — Equity Securities — Overall

Subsequent Measurement

Equity Securities Without Readily Determinable Fair Values

Impairment of Equity Securities Without Readily Determinable Fair Values

321-10-35-3

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 and is measured in accordance with paragraph 321-10-35-2 shall be written down to its fair value if a qualitative assessment indicates that the investment is impaired and the fair value of the investment is less than its carrying value, as determined using the guidance in paragraph 321-10-35-2. At each reporting period, an entity that holds an equity security shall make a qualitative assessment considering impairment indicators to evaluate whether the investment is impaired. Impairment indicators that an entity considers include, but are not limited to, the following:

a. A significant deterioration in the earnings performance, credit rating, asset quality, or business prospects of the investee

b. A significant adverse change in the regulatory, economic, or technological environment of the investee

c. A significant adverse change in the general market condition of either the geographical area or the industry in which the investee operates

d. A bona fide offer to purchase, an offer by the investee to sell, or a completed auction process for the same or similar investment for an amount less than the carrying amount of that investment

e. Factors that raise significant concerns about the investee's ability to continue as a going concern, such as negative cash flows from operations, working capital deficiencies, or noncompliance with statutory capital requirements or debt covenants.

An entity that uses the measurement alternative to measure an equity investment without a readily determinable fair value is required to make a qualitative assessment of whether the investment is impaired at each reporting date. The impairment indicators an entity needs to consider are described in ASC 321-10-35-3.

If a qualitative assessment indicates that the investment is impaired, the entity needs to estimate the investment's fair value in accordance with the principles of ASC 820. If the fair value is less than the investment's carrying value, the entity needs to recognize an impairment loss in net income equal to the difference between the carrying value and fair value.

3.3.2.1.3.1 Foreign currency considerations

For an equity security that is measured using the measurement alternative and denominated in a foreign currency, an entity should also compare the functional-currency-equivalent fair value measured at the current exchange rate with the carrying value measured at the historical exchange rate (i.e., the rate on the day the security was acquired or last remeasured) to determine whether the security's fair value is less than its carrying value.

An entity that holds an equity investment measured using the measurement alternative may observe a transaction for the same or a similar equity investment of the same issuer (refer to section 3.3.2.1.4 below) that occurs after the reporting date but before the issuance of the financial statements at a lower price than the carrying value of its investment. In this case, the entity should not immediately assume that its investment should be remeasured to that lower transaction price. Instead, it performs a qualitative impairment assessment as of the reporting date.

If the entity concludes that the investment is impaired, and the investment's fair value at the reporting date is below its carrying value, the entity must record an impairment loss. If the investment is denominated in a foreign currency, the entity must use the exchange rate as of the reporting date rather than as of the subsequent transaction date to remeasure its investment and determine the amount of the impairment loss. The following illustration addresses this fact pattern.

Illustration 3-4: Observable transaction for a foreign currency-denominated equity investment after the reporting date

Entity A is a calendar-year entity with a US dollar functional currency. Entity A invests in 1,000 shares of Series A preferred stock of a Canadian entity on 1 November 20X1 at CAD 200 per share. The exchange rate on 1 November 20X1 is CAD1 to US$1. Entity A records this investment at US$200,000 and elects to measure it using the measurement alternative.

On 31 December 20X1, the exchange rate is CAD0.95 to US$1. On 3 February 20X2, Entity A is informed that the issuer had sold additional Series A preferred shares to third-party investors on 31 January 20X2 for CAD170 per share, when the exchange rate was CAD0.9 to US$1.

Entity A performs a qualitative impairment assessment as of 31 December 20X1 and concludes that the investment is impaired. It estimates that the investment's fair value as of 31 December 20X1 is CAD180 per share and then compares the investment's US dollar-equivalent fair value measured at the 31 December 20X1 exchange rate, or US$189,474 (1,000 shares X (CAD180 / 0.95) per share), to the carrying amount measured at the 1 November 20X1 exchange rate, or US$200,000. Since the fair value of the Series A preferred stock is lower than its carrying amount, Entity A records an impairment loss of US$10,526 ($200,000 - $189,474).

3.3.2.1.4 *Identifying observable price changes*

Excerpt from Accounting Standards Codification

Investments — Equity Securities — Overall

Implementation Guidance and Illustrations

Equity Securities without Readily Determinable Fair Values

Identifying Observable Price Changes

321-10-55-8

To identify observable price changes, an entity should consider relevant transactions that occurred on or before the balance sheet date that are known or can reasonably be known. To identify price changes that can reasonably be known, the entity should make a reasonable effort (that is without expending undue cost and effort) to identify any observable transactions that it may not be readily aware of. The entity need not conduct an exhaustive search for all observable price changes.

ASC 321 provides limited guidance on identifying observable price changes. It states that when identifying observable price changes, entities should consider relevant transactions that occurred on or before the balance sheet date that are known or can reasonably be known. To identify price changes that can be reasonably known, entities are expected to make a reasonable effort (without expending undue cost and effort) to identify any observable transactions but are not required to perform exhaustive searches. We believe that price changes to be used generally result from observable and orderly transactions where the fair value of the consideration is readily determinable. For example, assume an entity becomes aware of a transaction in which the issuer of equity securities that the entity holds issued identical or similar securities on or before the balance sheet date. If those identical or similar securities were issued in exchange for cash or another security with a readily determinable fair value, the entity would consider that transaction price observable and adjust the carrying amount of its investment. However, if those identical or similar securities were issued to employees in exchange for services, the transaction would not create an observable price that the investor would be required to use to adjust the carrying amount of its investment. Further, the issuance of equity securities to settle a preexisting forward contract or options pursuant to the original contractual terms would also not create an observable price on the settlement date because the terms of the forward or options were established before that date. For additional information on orderly transactions, refer to section 6 of our FRD publication, ***Fair value measurement***.

How we see it

Applying the measurement alternative for equity investments without readily determinable fair values may be challenging. Identifying observable price changes for these instruments requires entities to develop policies, processes and controls to make sure they comply with the standard. Identifying transactions that can reasonably be known and evaluating whether undue cost and effort will need to be expended requires judgment. Specific facts and circumstances need to be considered as part of this assessment.

3.3.2.1.4.1 *Subsequent discovery of observable price changes*

Entities that measure equity investments using the measurement alternative are expected to make a reasonable effort to identify observable transactions in the same or similar investments of the same issuer. When such an observable transaction is identified, the entity must adjust the carrying value of the equity investment it holds to its fair value.

An entity may identify after the issuance of its financial statements an observable transaction in the same or similar investments of the same issuer that occurred before the balance sheet date of those financial statements. In response to a technical inquiry, the FASB staff said it believes that an entity should not disregard an observable transaction that occurred in a previous reporting period that is discovered after the financial statements of that previous period are issued. Therefore, the entity ***should*** adjust the carrying value of its equity investment to fair value determined as of the observable transaction date (assuming there have been no subsequent observable transactions or impairment) ***in the period of discovery***.

In these circumstances, the entity needs to demonstrate that it made reasonable efforts in the earlier reporting periods to identify transactions that occurred on or before the balance sheet dates of those earlier periods. Unless the entity can demonstrate that it made reasonable efforts in those earlier periods, the subsequent discovery and adjustment might be viewed as the correction of an accounting error. If the entity can demonstrate that it made reasonable efforts but still could not identify such transactions, the subsequent discovery and adjustment would not be considered a correction of an accounting error. An entity should perform procedures to identify observable transactions up to the date that its financial statements are issued or available for issuance. The following illustration addresses this fact pattern.

Illustration 3-5: Identification of observable transaction in subsequent reporting period

Entity A is a calendar-year entity that invests in common shares issued by Entity XYZ in January 20X1. The common shares do not have a readily determinable fair value or qualify for the NAV practical expedient. Entity A elects to use the measurement alternative to measure the shares.

Before issuing its 20X1 annual financial statements, Entity A made reasonable efforts to identify transactions that occurred during that reporting period for the same or similar securities of Entity XYZ that were known or could reasonably be known. It could not identify any such transactions.

On 15 June 20X2 (after issuing first-quarter 20X2 financial statements), Entity A becomes aware of an observable transaction in the same common shares of Entity XYZ that occurred on 28 November 20X1. The observable price is higher than the carrying value of Entity A's investment. Entity A has not identified any other observable transactions for the same or similar securities of Entity XYZ that have occurred. Further, there have been no impairment indicators for this investment.

Entity A should not disregard the 28 November 20X1 observable transaction, rather it should adjust the carrying value of its investment in the period of discovery (i.e., in its second-quarter 20X2 financial statements) to the fair value as of 28 November 20X1. Assuming Entity A had made reasonable efforts in earlier periods to identify observable prices, the subsequent discovery and adjustment would not be considered a correction of an accounting error.

An entity may identify after the balance sheet date but before its financial statements for the period have been issued, an observable transaction in the same or similar investments of the same issuer that occurred before the balance sheet date. In this case, the entity should adjust the carrying value of its equity investment in those (not-yet-released) financial statements to fair value as of the date of the observable transaction. The following illustration addresses this fact pattern.

Illustration 3-6: Information obtained after the reporting date

Assume that an entity owns a series of preferred stock that is measured using the measurement alternative. On 15 March 20X1, the entity is informed that the issuer of those securities issued a new series of preferred stock on that date to third-party investors. Despite making reasonable efforts the entity could not obtain information about the rights and obligations of the newly issued securities or the price at which they were purchased and sold by 31 March 20X1 (i.e., the end of its first-quarter reporting period). On 15 April 20X1 (before issuing its first-quarter financial statements), the entity obtains additional information about the recently issued preferred shares (i.e., those issued on 15 March 20X1) and concludes that the securities are similar to those it held as of 31 March 20X1. It also discovers that the transaction price is higher than the price at which its investment is currently recorded.

In this case, the entity would adjust the carrying value of its preferred stock to fair value as of 15 March 20X1 in its first-quarter financial statements for the observable price information that it obtained on 15 April 20X1 about an orderly transaction for the same or similar security of the same issuer that occurred during the first quarter.

If an observable transaction occurs after the balance sheet date but before the financial statements are issued, the entity needs to consider the facts and circumstances to determine whether it should adjust the carrying value of its investment as of that balance sheet date. Generally, an entity adjusts the carrying value of an investment to its fair value in accordance with ASC 820 as of the date an observable transaction occurs. However, a price observed in a transaction that occurs after the balance sheet date but before the financial statements are issued that is less than the carrying value of the investment on the balance sheet date could be an indicator of impairment as of the balance sheet date. If the entity determines that the investment is impaired, it should measure the investment at fair value in accordance with ASC 820 as of the balance sheet date and record the impairment loss in those financial statements. The following illustration addresses this fact pattern.

Illustration 3-7: Observable transaction after the reporting date

Entity A is a calendar-year entity that invests in Series A preferred shares on 1 November 20X1. It elects to measure these preferred shares using the measurement alternative. Subsequently, Entity A is informed that the issuer of those shares issued Series B preferred shares to third-party investors on 20 January 20X2. Entity A has not yet filed its 20X1 annual financial statements. It obtains information regarding the rights and obligations of the Series B preferred shares and the price at which they were issued. Entity A concludes that the Series B preferred shares are similar to the Series A preferred shares that it holds.

If the observable transaction price for the Series B preferred shares is greater than the carrying value of the Series A preferred shares as of 31 December 20X1, Entity A should adjust the carrying value of its Series A preferred shares to fair value as of the observable transaction date (i.e., 20 January 20X2). That is, Entity A does not adjust its 20X1 annual financial statements for this transaction.

However, an observable transaction price for the Series B preferred shares that is less than the carrying value of the Series A preferred shares as of 31 December 20X1 could be an indicator that the investment is impaired as of the reporting date. If Entity A concludes the investment is impaired, it would adjust the carrying value of its Series A preferred shares to fair value as of 31 December 20X1 (i.e., in its 20X1 annual financial statements).

3.3.2.1.5 *Identifying a similar investment of the same issuer*

Excerpt from Accounting Standards Codification

Investments — Equity Securities — Overall

Implementation Guidance and Illustrations

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, distribution 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 fair value of the security as of the date that the observable transaction for the similar security took place.

ASC 321 states that if the securities are considered to be similar, an entity should adjust the observable price of the similar security for any differences in rights and obligations to determine any adjustment in the carrying value of the security being measured. Any adjustment should reflect the fair value of the security in accordance with the principles of ASC 820 as of the date that the observable transaction took place, rather than the current reporting date. It would be inappropriate to adjust the fair value to reflect events or other circumstances that occurred after the transaction date because market conditions would not be the same.

The FASB has not provided much guidance on how to identify a similar investment of the same issuer. The implementation guidance states that when determining whether an equity instrument issued by the same issuer is similar to the equity investment it holds, an entity should consider the different rights and obligations associated with the instruments, such as voting rights, distribution rights and preferences, and conversion features. When evaluating any differences in the rights and obligations of two instruments for purposes of determining whether the two instruments should be considered similar, an entity may consider (1) the significance of the effect of the differences on the fair values of the instruments and (2) the complexity of the calculation required to adjust the observable price for the different rights and obligations in determining whether the instruments are similar.

The following illustration shows how an entity may determine whether equity investments are similar under the measurement alternative.

Illustration 3-8: Determining if equity investments are similar

Example 1: Series A and Series B preferred shares

Entity ABC owns Series A preferred shares that are measured using the measurement alternative. It observes an orderly transaction in Series B preferred shares of the same issuer. The Series A and Series B preferred shares have different dividend rates, but all of their other features are the same.

In this case, Entity ABC may conclude that the Series A and Series B preferred shares are similar. Therefore, it would adjust the carrying value of its Series A preferred shares to their fair value as of the observable transaction date.

Example 2: Common shares and Series A preferred shares

Entity ABC owns common shares that are measured using the measurement alternative. It observes an orderly transaction in Series A preferred shares of the same issuer. Investors in the common shares have voting rights and rights to any dividends that are declared. Investors in the Series A preferred shares have rights to a cumulative dividend, liquidation rights and a nonvoting board seat.

In this case, Entity ABC may conclude that the common shares and Series A preferred shares are not similar. Therefore, it would not adjust the carrying value of its common shares for this observed transaction.

However, if the observable price in the Series A preferred share transaction is below the carrying value of the entity's common shares, this could be an indicator of impairment that would require measurement of the common shares at fair value.

An observable price for an instrument of the same issuer that is not similar but is below the carrying value of the entity's investment could be an indicator of impairment that could result in a fair value measurement. For example, a Series A preferred stock that has an observable price may have sufficiently different liquidation and other rights from the Series B preferred stock of the same issuer that an entity holds, and the entity may therefore determine that the Series A stock is not similar to its Series B stock. However, an observable price for the Series A stock that is lower than the entity's carrying value of the Series B stock could be an indicator of impairment for the Series B stock. Other indicators of impairment and the measurement requirements when an investment is considered impaired are discussed below.

How we see it

Determining whether another ownership interest is similar to the equity investment held requires significant judgment. Entities need to establish a framework with key considerations for determining whether an equity security for which the measurement alternative is elected is similar to another security issued by the same issuer. The framework needs to be reasonable and consistently applied. Interpretations of what is similar may vary in practice.

3.3.2.1.6 Forward contracts and purchased options on equity securities

Forward contracts and purchased options (that are not derivatives and that meet the other requirements of ASC 815-10-15-141) on equity securities are accounted for in a manner consistent with the accounting for other equity investments. That is, unless the measurement alternative is elected, they are measured at fair value with changes in fair value recognized in earnings as they occur.

If the forward contracts and purchased options (that are not derivatives and that meet the other criteria in ASC 815-10-15-141) do not have readily determinable fair values, an entity may elect to use the measurement alternative discussed above. When an entity elects to use the measurement alternative to remeasure these forward contracts and purchased options, it must remeasure the forward contract or purchased option to fair value when observable transactions involving the underlying equity securities or impairment of those securities occur, by updating all inputs to the fair value calculation. That is, an entity must update all inputs to the valuation of the forward contract or purchased option, not just the input on the change in the value of the underlying equity security. Changes in observable prices or impairment of these forward contracts and purchased options are recognized in earnings as they occur. Use of the cost method is not permitted. Equity securities purchased under a forward contract or by exercising an option are recorded at their fair values at the settlement date.

3.4 Foreign currency gains and losses

Equity securities may be denominated in a currency other than the entity's functional currency. ASC 830-10-45-18 clarifies that foreign currency-denominated equity investments that are measured using the measurement alternative are nonmonetary items that should be remeasured using their historical exchange rates. Entities should use the exchange rate on the later of the date the investment was acquired or the date on which the carrying value was adjusted, if applicable, to remeasure these investments.

For an equity investment that is measured using the measurement alternative, a carrying value adjustment to fair value is required either as a result of (1) an observable price in an orderly transaction for the same or similar security of the same issuer or (2) an impairment to reflect the investment's then-current fair value. Therefore, if a foreign currency-denominated equity investment that is measured using the measurement alternative is subsequently adjusted to reflect its then-current fair value, the exchange rate on the date of that adjustment must be used, and the entire change in the carrying value is recognized in earnings. This is consistent with the accounting for equity investments that are measured at FV-NI, whereby the entire fair value change (including the amount attributable to changes in foreign exchange rates using current exchange rates) is recognized in earnings.

The following illustration addresses the accounting for a foreign currency-denominated equity investment when a price in an orderly transaction for the same or similar security of the same issuer is observed during a reporting period. For an illustration of the accounting when such a price is observed for a foreign currency-denominated equity investment after the reporting date that indicates impairment, refer to Illustration 3-4 in section 3.3.2.1.3.

Illustration 3-9: Observable transaction for a foreign currency-denominated equity investment during the reporting period

Entity A is a calendar-year entity with a US dollar (US$) functional currency. It purchases 1,000 shares of Series A preferred stock of Company ABC, a Canadian entity, on 1 June 20X1 at 100 Canadian dollars (CAD) per share. The exchange rate on 1 June 20X1 is CAD1 to US$1. Entity A records this investment at US$100,000 and elects to measure it using the measurement alternative.

On 15 November 20X1, Entity A is informed that another investor sold Series A preferred stock of Company ABC to a third party on 1 November 20X1 for CAD150 per share. The exchange rate on 1 November 20X1 was CAD1.2 to US$1.

Entity A determines that this sale results in an observable price change in an orderly transaction, and that the transaction price of CAD150 per share is the fair value under ASC 820 on that transaction date. Therefore, Entity A must adjust the carrying amount of its Series A preferred stock to reflect the fair value at 1 November 20X1 (in this case, the 1 November 20X1 transaction price was determined to be the ASC 820 fair value), using the exchange rate of CAD1.2 to US$1. Entity A records a carrying amount adjustment of US$25 per share (CAD150/1.2 - US$100), or US$25,000 for its 1,000 shares, through earnings.

3.5 Hedging equity securities

ASC 815 prohibits all equity investments in the scope of ASC 321 from being eligible hedged items. These include equity investments without readily determinable fair values accounted for under the measurement alternative in ASC 321-10-35-2. For more information, refer to section 4.6.11 in our FRD publication, ***Derivatives and hedging***.

3.6 Equity method investments

3.6.1 Initial carrying amount of equity securities previously accounted for under the equity method

Excerpt from Accounting Standards Codification

Investments — Equity Securities — Overall

Initial Measurement

Equity Securities Previously Accounted for Under the Equity Method

Equity Method Is No Longer Appropriate

321-10-30-1

If an equity security no longer qualifies to be accounted for under the equity method (for example, due to a decrease in the level of ownership), the security's initial basis for which subsequent changes in fair value are measured shall be the previous carrying amount of the investment. Paragraph 323-10-35-36 states that the earnings or losses that relate to the stock retained by the investor and that were previously accrued shall remain as a part of the carrying amount of the investment and that the investment account shall not be adjusted retroactively. Upon discontinuance of the equity method, an entity shall remeasure the equity security in accordance with paragraph 321-10-35-1 or 321-10-35-2, as applicable. For purposes of applying paragraph 321-10-35-2 to the investor's retained investment, if the investor identifies observable price changes in orderly transactions for the identical or a similar investment of the same issuer that results in it discontinuing the equity method, the entity shall remeasure its retained investment at fair value immediately after it no longer applies the guidance in Topic 323.

When an investment no longer qualifies for equity method accounting (e.g., due to a decrease in the level of ownership) and is then determined to be in the scope of ASC 321, the investment's initial ASC 321 basis should be the carrying amount of the investment on the date that it no longer qualifies for the equity method. That is, the carrying amount of the investment is *not* adjusted retroactively as a result of the change from equity method to another method of accounting. Subsequently, the investment is accounted for in accordance with ASC 321. See section 7.4 our FRD publication, ***Equity method investments and joint ventures***, for additional guidance.

An entity that applies the measurement alternative in ASC 321 should consider all observable transactions, including those that require it to apply or discontinue the equity method. If a transaction results in discontinuing the equity method, the entity needs to determine whether the transaction represents an observable transaction. If it determines that the transaction is an observable transaction, the entity must remeasure the retained investment at fair value in accordance with ASC 820.

3.6.2 Changing from ASC 321 accounting to the equity method of accounting

Excerpt from Accounting Standards Codification

Investments — Equity Method and Joint Ventures — Overall

Subsequent Measurement

Change in Level of Ownership or Degree of Influence

Increase in Level of Ownership or Degree of Influence

323-10-35-33

Paragraph 323-10-15-12 explains that an investment in common stock of an investee that was previously accounted for on other than the equity method may become qualified for use of the equity method by an increase in the level of ownership described in paragraph 323-10-15-3 (that is, acquisition of additional voting stock by the investor, acquisition or retirement of voting stock by the

> investee, or other transactions). If an investment qualifies for use of the equity method (that is, falls within the scope of this Subtopic), the investor shall add the cost of acquiring the additional interest in the investee (if any) to the current basis of the investor's previously held interest and adopt the equity method of accounting as of the date the investment becomes qualified for equity method accounting. The current basis of the investor's previously held interest in the investee shall be remeasured in accordance with paragraph 321-10-35-1 or 321-10-35-2, as applicable, immediately before adopting the equity method of accounting. For purposes of applying paragraph 321-10-35-2 to the investor's previously held interest, if the investor identifies observable price changes in orderly transactions for an identical or a similar investment of the same issuer that results in it applying Topic 323, the entity shall remeasure its previously held interest at fair value immediately before applying Topic 323.

An investment that was previously accounted for in accordance with ASC 321 may subsequently become subject to the equity method because of an increase in the level of ownership (e.g., as a result of the acquisition of additional voting shares of common stock). If an investment qualifies for the use of the equity method, the investor should add the cost of acquiring the additional interest in the investee to the current basis of the investor's previously held interest. The current basis should be remeasured under the applicable guidance in ASC 321 immediately before adopting the equity method of accounting.

If the investment was (1) previously accounted for using the measurement alternative under ASC 321 and (2) the investor determines that the transaction that results in the investment being accounted for under the equity method represents an observable transaction, the previous basis should be remeasured to fair value prior to the application of equity method accounting. The investor should subsequently measure the investment in accordance with ASC 323. See our FRD publication, ***Equity method investments and joint ventures***, for additional guidance.

4 Transfers between categories and sales of debt securities

4.1 Transfers between categories of debt securities (updated September 2025)

Excerpt from Accounting Standards Codification

Investments — Debt Securities — Overall

Subsequent Measurement

Reassessment of Classification

320-10-35-5

At each reporting date, the appropriateness of the classification of an entity's investments in debt securities shall be reassessed. For example, if an entity no longer has the ability to hold debt securities to maturity, their continued classification as held-to-maturity would not be appropriate.

ASC 320 requires entities to determine, at acquisition, how to classify a security and to document that decision. They cannot wait until a later date. Entities are then required to reassess the appropriateness of the classifications at each report date. This requirement is based on the concept that circumstances can change throughout the holding period of an investment security. For example, if after initially classifying a debt security as available for sale an entity is able to demonstrate that it has both the ability to hold the security to maturity and the intent to do so, it could transfer the security to the held-to-maturity category.

Because an entity is not expected to change its intent about a held-to-maturity security, the requirement to reassess the appropriateness of a held-to-maturity security's classification focuses on the entity's ability to hold the security to maturity. While ASC 320 acknowledges that facts and circumstances can change, that acknowledgment in no way diminishes the restrictive nature of the HTM category. In practice, transfers between categories do not occur frequently, and some transfers between categories are only allowed in rare circumstances.

Transfers of securities between categories of investments are accounted for at fair value as of the transfer date, but the accounting treatment of the unrealized holding gains and losses and related income tax effects on any temporary differences is determined by the category into which the security is transferred.

4.1.1 Summary table of accounting requirements for transfers between categories

The following table summarizes the accounting and disclosure requirements for a transfer of securities:

Measurement basis	Effect of transfer on shareholder's equity	Effect of transfer on net income	Presentation and disclosure requirements	Transfer allowed?
Transfer from available for sale to held to maturity				
The security is transferred at amortized cost basis, less any previous write-offs but excluding any previously recorded allowance for credit losses, plus or minus the amount of any remaining unrealized holding gain or loss reported in AOCI.	The unrealized holding gain or loss at the date of transfer (carried as a separate component of shareholders' equity) is amortized over the remaining life of the security as an adjustment of yield.	Reverse in earnings any allowance for credit losses previously recorded on the AFS debt security on transfer date. Evaluate the security for an allowance for credit losses in accordance with ASC 326-20.	None	Yes
Transfer from held to maturity to available for sale				
The security is transferred at its amortized cost basis, which is reduced by any previous write-offs but excludes any allowance for credit loss.	Report in other comprehensive income any unrealized gain or loss on the AFS debt security at the date of transfer, excluding the amount recorded for any allowance for credit losses.	Reverse in earnings any allowance for credit losses previously recorded on the HTM debt security on transfer date. Determine whether an allowance for credit losses is necessary under ASC 326-30.	Disclose in the notes to the financial statements the net carrying amount of the transferred security, unrealized gain or loss at the date of transfer and the circumstances leading to the decision to transfer.	Yes, but transfers should be rare.
Transfer from trading to available for sale				
The security is transferred at fair value at the date of transfer and becomes the new cost basis of the security.	None	None	Disclose the noncash transfer, if significant, between operating and investing activities.	Yes, but transfers should be rare.
Transfer from available for sale to trading				
The security is transferred at fair value at the date of transfer and becomes the new cost basis of the security.	The unrealized gain or loss at the date of transfer (carried as a separate component of shareholders' equity) is recognized in earnings.	Recognize immediately in earnings the portion of the unrealized holding gain or loss at the date of the transfer that has not been previously recognized in earnings.	Disclose the noncash transfer, if significant, between operating and investing activities. Disclose in the notes to the financial statements the gross gains and losses included in earnings resulting from such transfers and the basis on which the amount reclassified out of AOCI into earnings was determined (i.e., specific identification, average cost, or other method used).	Yes, but transfers should be rare.

4.1.2 Transfers from available for sale to held to maturity

Excerpt from Accounting Standards Codification

Investments — Debt Securities — Overall

Subsequent Measurement

Transfers of Securities Between Categories

320-10-35-10B

For a debt security that is transferred into the held-to-maturity category from the available-for-sale category, an entity shall:

a. Reverse in earnings any allowance for credit losses previously recorded on the available-for-sale debt security at the transfer date

b. Reclassify and transfer the debt security to the held-to-maturity category at its amortized cost basis (which is reduced by any previous writeoffs but excludes any allowance for credit losses) plus or minus the amount of any remaining unrealized holding gain or loss reported in accumulated other comprehensive income

c. Evaluate the debt security for an allowance for credit losses by following the guidance in Subtopic 326-20

d. Continue to report the unrealized holding gain or loss at the date of the transfer in a separate component of shareholders' equity, such as accumulated other comprehensive income, but that gain or loss shall be amortized over the remaining life of the security as an adjustment of yield in a manner consistent with the amortization of any premium or discount. The amortization of an unrealized holding gain or loss reported in equity will offset or mitigate the effect on interest income of the amortization of the premium or discount (discussed in the following sentence) for that held-to-maturity security. For a debt security transferred into the held-to-maturity category, the transfer may create a premium or discount that, under amortized cost accounting, shall be amortized thereafter as an adjustment of yield in accordance with Subtopic 310-20 on receivables—nonrefundable fees and other costs.

A security that is transferred from the AFS category to the HTM category is reclassified at its amortized cost basis, plus or minus any remaining unrealized holding gain or loss reported in AOCI. However, since the allowance for credit loss for an AFS security is calculated under the AFS debt security impairment model in ASC 326-30 and the allowance for credit loss for an HTM debt security is calculated using the CECL model in ASC 326-20, the entity needs to first reverse in earnings any allowance for credit loss recorded on the security at the time of transfer and then evaluate the allowance for credit loss for the security under the CECL model.

The entity continues to report any unrealized holding gain or loss (excluding the amount recorded in the allowance for credit losses) at the date of the transfer in AOCI and amortizes the unrealized gain or loss over the remaining life of the security as an adjustment of yield.

The following is an example of a transfer from the AFS category to the HTM category (note that the income tax effect has not been considered):

Illustration 4-1: Transfer of securities from available for sale to held to maturity

A corporate bond with a par value of $1,000, amortized cost of $940 and a fair value of $900 is transferred from the available-for-sale category to the held-to-maturity category, with three years remaining to maturity. At the time of transfer, the AFS security has an allowance for credit losses of $25 and an unrealized loss of $15 recorded in OCI. There are no write-offs relating to the AFS debt security prior to the transfer. This example excludes the effect of income taxes.

Upon the transfer, the debt security is reclassified and recorded at an amortized cost basis of $925 in the held-to-maturity category (i.e., the previous amortized cost of $940 in the available-for-sale category less the unrealized loss of $15). The previously recorded allowance for credit losses of $25 is reversed in earnings, and a new credit loss of $20 is then determined and recorded under the CECL impairment model in ASC 326-20.

The unamortized discount of $75 (par value of $1,000 less an amortized cost of $925) and the unrealized loss of $15 included in OCI are amortized in accordance with ASC 310-20, so that at maturity, the amortized cost of the security is equal to its par value, and the unrealized gain or loss included in OCI is reduced to zero.

For the annual period that includes the transfer, the net financial statement effect would be as follows (while the effective interest method is required, the example uses the straight-line method for simplicity):

	Increase (decrease) in net income
Reversal of previously recorded allowance for credit loss under ASC 326-30	$25
Recognition of allowance for credit loss under ASC 326-20	(20)
Amortization of discount ($75 divided by 3 years)	25
Amortization of other comprehensive income (loss) ($15 divided by 3 years)	(5)
	$25

Following the transfer, the relevant balances in the statement of financial position, income statement and disclosure in the notes to the financial statements would be:

Description	**At date of transfer**	**1 year later**	**2 years later**	**3 years later**
Statement of Financial Position				
Held-to-maturity securities				
Par amount	$ 1,000	$ 1,000	$ 1,000	$ 1,000
Amortized cost basis	925	950	975	1,000
Accumulated other comprehensive income	15	10	5	-
Income statement*				
Discount accretion	$ –	$ 25	$ 25	$ 25
Amortization of unrealized loss in OCI	–	(5)	(5)	(5)
Total interest income	-	$ 20	$ 20	$ 20

* For illustrative purposes, amortization of the discount and the unrealized holding loss was computed on a straight-line basis. Premiums and discounts on debt securities should be amortized pursuant to ASC 310-20. ASC 320-10-35-10B requires that the unrealized holding gain or loss at the date of transfer be amortized in a manner consistent with any premium or discount. The effect on interest income represents the difference between the amortization of the discount and the unrealized holding loss over the life of the security and does not reflect any coupon interest received or credit losses.

Entities also should consider the effect of transfers into the held-to-maturity category on their accounting policy and investment disclosures. Although there are no specific disclosures for transfers from securities classified as AFS to HTM, they may want to include in their accounting policy a statement such as the following:

> "Transfers of debt securities into the held-to-maturity category from the available-for-sale category are made at their amortized cost basis (which is reduced by any previous write-offs, but excludes any allowance for credit losses, plus or minus the amount of any remaining unrealized holding gains or losses reported in AOCI) at the date of transfer. Any unrealized holding gains or losses at the date of transfer are retained in other comprehensive income and in the carrying value of the held-to-maturity securities. Such amounts are amortized over the remaining life of the security."

Refer to Chapter 5 for disclosure requirements related to transfers between categories and sales of debt securities. Refer to our FRD publication, ***Credit impairment under ASC 326,*** for further details related to the allowance for credit losses.

4.1.3 Transfers from held to maturity to available for sale

Excerpt from Accounting Standards Codification

Investments — Debt Securities — Overall

Subsequent Measurement

Transfers of Securities Between Categories

320-10-35-10A

For a debt security that is transferred into the available-for-sale category from the held-to-maturity category, an entity shall:

a. Reverse in earnings any allowance for credit losses previously recorded on the held-to-maturity debt security at the transfer date

b. Reclassify and transfer the debt security to the available-for-sale category at its **amortized cost basis** (which is reduced by any previous writeoffs but excludes any allowance for credit losses)

c. Determine if an allowance for credit losses is necessary by following the guidance in Subtopic 326-30

d. Report in other comprehensive income any unrealized gain or loss on the available-for-sale debt security at the date of transfer, excluding the amount recorded in the allowance for credit losses in accordance with paragraph (c)

e. Consider whether the transfer of a debt security from the held-to-maturity category to the available-for-sale category calls into question the entity's intent and ability to hold securities that remain in the held-to-maturity category to maturity in accordance with paragraphs 320-10-35-8 through 35-9.

320-10-35-11

Transfers from the held-to-maturity category should be rare, except for transfers due to the changes in circumstances identified in paragraph 320-10-25-6(a) through (f).

Transfers from the HTM category should be rare. When a security is transferred from the HTM category to the AFS category, the security's amortized cost basis (which is reduced by any previous write-offs but excludes any allowance for credit losses) carries over to the AFS category for the following purposes:

- Subsequent amortization of the historical premium or discount
- Comparisons of fair value and amortized cost for the purpose of determining unrealized holding gains and losses
- Required disclosures of amortized cost

When a HTM debt security is transferred to the AFS category, any allowance for credit losses previously recorded on the HTM debt security should be reversed in earnings. The entity should then determine if any allowance for credit losses is required under the AFS debt securities impairment model in ASC 326-30. Any unrealized gain or loss on the AFS debt security at the date of transfer (excluding any allowance for credit losses) should be reported in OCI.

Transferring a security out of the HTM category is inconsistent with an expressed intent to hold similar debt securities to maturity and would call into question (i.e., taint) the entity's assertion that it has the intent and ability to hold the remaining portfolio to maturity. This could necessitate the transfer of all remaining HTM debt securities to the AFS category. The FASB originally discussed the idea of permitting entities to sell or transfer a small percentage of securities from the HTM category without "tainting" the classification of the remaining securities in this category. However, the FASB decided not to allow this because it would contradict the premise underlying the use of amortized cost. That is, management intends to hold each security classified as HTM until maturity.

ASC 320-10-25-6(a) through (f) describes a number of circumstances where an entity's change in intent to hold a security to maturity would not call into question its intent to hold other debt securities to maturity currently or in the future. These circumstances are further discussed in section 4.2, *Sales of debt securities*.

4.1.3.1 Transfers of held-to-maturity securities among members of a consolidated group

Some entities transfer securities to other entities within a consolidated group (e.g., between subsidiaries, between a parent and subsidiary, to special purpose vehicles). Because these transfers have no effect on the consolidated financial statements, they do not create a potential tainting problem under ASC 320 for purposes of the consolidated financial statements. However, a transfer of a held-to-maturity security by an entity to another entity in the consolidated group may taint all held-to-maturity securities for the standalone financial statements of the transferring entity.

4.1.4 Transfers involving trading securities

Excerpt from Accounting Standards Codification

Investments — Debt Securities — Overall

Subsequent Measurement

Transfers of Securities Between Categories

320-10-35-10

Transfers of a debt security from or into the trading category shall be accounted for at fair value. At the date of the transfer, the security's unrealized holding gain or loss shall be accounted for as follows:

a. For a security transferred from the trading category, the unrealized holding gain or loss at the date of the transfer will have already been recognized in earnings and shall not be reversed.

b. For a security transferred into the trading category, the portion of the unrealized holding gain or loss at the date of the transfer that has not been previously recognized in earnings shall be recognized in earnings immediately.

c. Subparagraph superseded by Accounting Standards Update No. 2019-04.

d. Subparagraph superseded by Accounting Standards Update No. 2019-04.

320-10-35-12

In addition, given the nature of a trading security, transfers into or from the trading category also should be rare.

Given the nature of a trading security, transfers to or from the trading category should be rare. The SEC staff has noted that the term "rare" establishes a very high threshold.[15] The SEC staff has also stated that changes in investment strategies, achieving accounting results more closely matching economic hedging activities and repositioning the portfolio due to anticipated changes in the economic outlook are not consistent with the notion of rare as contemplated in ASC 320. That is, they occur frequently. However, the SEC staff has indicated that transfers between the trading and available-for-sale categories may be acceptable for any of the following reasons:

- A change in regulatory or statutory requirements
- Significant business combinations
- Other events that greatly alter the company's liquidity position or investing strategy

Other facts and circumstances might also exist that would make such transfers acceptable, but those facts and circumstances would need to involve an event that is unusual and highly unlikely to recur in the near term.

Available-for-sale securities should not be transferred to the trading category when management has decided to sell the security or because the passage of time has caused the maturity date to be within one year of the report date. The definition of available for sale implies the ability to sell the security without transferring it to another category.

The income statement classification of gains and losses for transfers involving trading securities is not specified in ASC 320. However, gains and losses that have accumulated before the time of transfer should be classified in a manner consistent with the classification of realized gains and losses for the category from which the security is being transferred, not the category into which the security is being transferred.

4.1.5 Conversions of convertible bonds

A convertible bond is a debt security under ASC 320 if it meets the definition of a security (see section 2.2.2.1.1). As discussed in section 2.3.4.1.2.3, *Convertible debt*, a convertible bond should not be classified as held-to-maturity but, rather, as either available-for-sale or trading. Depending on the bond's terms, the holder will receive, upon conversion, cash or equity securities of the issuer or a combination of the two.

There is some diversity in practice in accounting for the conversion of bonds to equity securities. Some believe that upon conversion, the cost basis of the bonds should be carried over to the equity securities. Others believe the fair value of the equity securities on the conversion date becomes the cost basis of the equity securities.

In circumstances where an equity security has a readily determinable fair value, or where the equity securities do not have a readily determinable fair value and the holder does not elect the measurement alternative for the equity securities, the carrying value of the equity securities is required to be fair value. In these cases, any difference between the cost basis of the bond before conversion and the fair value of the equity securities received upon conversion should be recognized as a gain or loss in the income statement.

[15] Remarks by John M. James, SEC staff, before the 2004 AICPA National Conference on Current SEC and PCAOB Developments, 6 December 2004.

However, where an equity security does not have a readily determinable fair value and the entity elects to apply the measurement alternative, the holder should not recognize a gain or loss in the income statement upon conversion if the holder believes the cost basis of the bonds should be carried over to the equity securities upon conversion. That's because, in these circumstances, the carrying value of the equity security is not adjusted to fair value until the entity identifies an observable transaction for the same or a similar security of the same issuer or recognizes an impairment.

If the holder believes the fair value of the equity securities on the conversion date becomes the cost basis of the equity securities, the holder should recognize the equity securities at fair value and recognize any difference between the cost basis of the bond before conversion and the fair value of the equity securities received upon conversion as a gain or loss in the income statement. Whichever approach is chosen should be consistently applied.

4.2 Sales of debt securities

4.2.1 Sales of trading securities

The sale of a trading security generally does not give rise to a gain or loss on the date of sale since all changes in a trading security's fair value are generally reported in earnings as they occur. However, if an entity does not recognize changes in fair value daily, it would need to record a final mark-to-market on the security to recognize any final fair value adjustments before the sale of the security.

Entities that report realized gains and losses separately from unrealized gains and losses should reverse the unrealized gain or loss and recognize a realized gain or loss on the date of sale. In that case, an entity should record the security's change in fair value up to the point of sale as an unrealized gain or loss (i.e., adjust the carrying amount of the security to its fair value immediately before the sale).

4.2.2 Sales of available-for-sale securities

For a sale of an available-for-sale security, a gain or loss should be recognized in net income for the difference between the sale proceeds and the security's amortized cost basis (reduced by any allowance for credit losses). In addition, the unrealized gain or loss recorded in OCI is reversed on the date of the sale. This reversal should be presented as a reclassification adjustment in the statement of comprehensive income. If the entity is not taxed on a mark-to-market basis, the deferred tax accounts would also be adjusted on the date of sale.

We believe that an entity should record the security's change in value up to the point of sale. That is, the entity should adjust the carrying amount of the security to its fair value immediately before the sale, with a corresponding adjustment to OCI and related deferred tax amounts, if any.

4.2.2.1 Gain recognition on sales of securities with an arrangement to reacquire them

ASC 860 states that a transferor maintains effective control over the transferred assets during the period they have been sold when there is a concurrent contract to repurchase or redeem the transferred financial assets from the transferee. As a result, when there is any contractual arrangement (including an oral agreement) between the parties to buy back the securities, the transaction should be accounted for as a financing (i.e., in substance it is a repurchase agreement). Therefore, it is inappropriate to recognize a gain. On the other hand, wash sales are accounted for as sales. See our FRD publication, ***Transfers and servicing of financial assets***, for additional guidance.

4.2.3 Sales of held-to-maturity securities

Excerpt from Accounting Standards Codification

Investments — Debt Securities — Overall

Subsequent Measurement

Sales and Transfers that Taint the Entity's Held-to-Maturity Intent

320-10-35-8

A sale or transfer of a security classified as held-to-maturity that occurs for a reason other than those specified in paragraphs 320-10-25-6, 320-10-25-9, and 320-10-25-14, calls into question (taints) the entity's intent about all securities that remain in the held-to-maturity category. The entity makes the same assertion about all debt securities in the held-to-maturity category — namely, that it has the positive intent and ability to hold each security to maturity. Only a sale or transfer in response to certain changes in conditions will not call into question an entity's intent to hold other debt securities to maturity in the future.

320-10-35-9

When a sale or transfer of held-to-maturity securities represents a material contradiction with the entity's stated intent to hold those securities to maturity or when a pattern of such sales has occurred, any remaining held-to-maturity securities shall be reclassified to available-for-sale. The reclassification shall be recorded in the reporting period in which the sale or transfer occurred and accounted for as a transfer under the following paragraph.

A sale of a security classified as held to maturity results in a gain or loss recognized in net income. The gain or loss is measured as the difference between the sales proceeds and the security's amortized cost basis (reduced for any allowance for credit losses).

Entities that sell or transfer held-to-maturity securities for reasons other than those that are described in section 4.2.3.2, *Permitted sales or transfers*, may (1) need to reclassify all of their held-to-maturity securities to the available-for-sale category and (2) be restricted from classifying future purchases of investment securities as held to maturity.

4.2.3.1 Evaluation of the remaining portfolio following a sale or transfer

Excerpt from Accounting Standards Codification

Investments — Debt Securities — Overall

Subsequent Measurement

Reassessment of Classification

320-10-35-7

After securities are reclassified to available-for-sale in response to a taint, judgment is required in determining when circumstances have changed such that management can assert with a greater degree of credibility that it now has the intent and ability to hold debt securities to maturity.

An entity should document the circumstances of every sale or transfer of debt securities classified as held to maturity and consider how the rest of the held-to-maturity portfolio is affected, regardless of whether the sale is permitted under ASC 320. For example, assume a financial institution sells securities from its held-to-maturity portfolio to meet a significant and unanticipated increase in loan demand or a commercial entity sells certain of its corporate bonds in response to the availability of a higher-grade

investment with a better yield. Those reasons conflict with management's previous intent to hold the securities to maturity and create a rebuttable presumption that the entity will not hold remaining held-to-maturity securities to maturity. The burden of proof is placed on the entity to overcome that presumption.

Even sales that the entity believes are permitted may potentially taint the remaining held-to-maturity portfolio or a portion of that portfolio. For example, as a result of a change in tax law that eliminates the current exemption on income earned on certain securities, an entity sells a portion of its holdings of that type of security. The sale raises a question about the entity's intent to hold the remaining investments in similar securities (i.e., the remaining securities affected by the change in tax law) to maturity.

If the sale of a held-to-maturity security occurs without justification (i.e., for a reason other than those explicitly permitted in ASC 320), the materiality of that contradiction of intent must be evaluated.

How we see it

Entities contemplating sales of securities classified as held to maturity for reasons other than those permitted in ASC 320 should carefully consider the consequences (i.e., the effect on its other held-to-maturity securities and on future transactions).

Once an entity has "tainted" its held-to-maturity classification, it cannot assert that it has the intent and ability to hold any newly acquired debt securities to maturity until circumstances change. ASC 320 does not prescribe a minimum timeframe or criteria for determining when those circumstances have changed. Instead, ASC 320 requires that judgment be applied in such situations.

4.2.3.1.1 SEC staff views on sales or transfers of held-to-maturity securities

The SEC staff strictly interprets the requirements in ASC 320 for held-to-maturity securities. Any sales or transfers of securities from the held-to-maturity portfolio, other than in the limited circumstances described in section 4.2.3.2, *Permitted sales or transfers*, will lead to a presumption by the SEC staff that the entire portfolio of held-to-maturity securities should be reevaluated for reclassification to the available-for-sale or trading portfolios. Although that presumption may be overcome in rare situations, each additional sale or transfer from the held-to-maturity portfolio strengthens the presumption that the entire portfolio should be reclassified.

The FASB indicated in the Basis for Conclusions in FAS 115 that "if the sale of a held-to-maturity security occurs without justification, the materiality of that contradiction of the enterprise's previously asserted intent must be evaluated." As a result, the SEC staff has said that sales of held-to-maturity securities for reasons other than those described in ASC 320-10-25-6 will result in the staff's challenge of management's (1) previous assertions regarding the classification of these securities, (2) assertions regarding the classification of other held-to-maturity securities and (3) future assertions regarding the classification of securities as held to maturity for an extended time after the sale.

In certain cases, the SEC staff has concluded that an entity is precluded from classifying securities as held to maturity for up to two years until the entity reestablishes the credibility of its classification policy.[16]

[16] Remarks by Tracey C. Barber, SEC staff, before the Twenty-Second Annual National Conference on Current SEC Developments, 10 January 1995.

The SEC staff also has indicated that segregation (i.e., compartmentalization) of securities for purposes of analyzing the effect of sales or transfers of held-to-maturity securities is not acceptable.[17] For example, entities should not separate US Treasury securities from corporate bonds in the held-to-maturity category for purposes of evaluating management's assertions about the intent to hold US Treasury securities to maturity. The entire held-to-maturity security portfolio would be considered tainted if any prohibited sales or transfers occur.

4.2.3.2 Permitted sales or transfers

ASC 320 provides six exceptions to the rule that held-to-maturity securities should not be sold or transferred to other classifications. Other situations should not be analogized to these exceptions.

Excerpt from Accounting Standards Codification

Investments — Debt Securities — Overall

Recognition

Restrictions on Classification of a Debt Security as Held-to-Maturity

Circumstances Consistent with Held-to-Maturity Classification

320-10-25-6

The following changes in circumstances may cause the entity to change its intent to hold a certain security to maturity without calling into question its intent to hold other debt securities to maturity in the future. The sale or transfer of a held-to-maturity security due to one of the following changes in circumstances shall not be considered inconsistent with its original classification:

a. Evidence of a significant deterioration in the issuer's creditworthiness (for example, a downgrading of an issuer's published credit rating)

b. A change in tax law that eliminates or reduces the tax-exempt status of interest on the debt security (but not a change in tax law that revises the marginal tax rates applicable to interest income)

c. A major business combination or major disposition (such as sale of a component of an entity) that necessitates the sale or transfer of held-to-maturity securities to maintain the entity's existing interest rate risk position or credit risk policy

d. A change in statutory or regulatory requirements significantly modifying either what constitutes a permissible investment or the maximum level of investments in certain kinds of securities, thereby causing an entity to dispose of a held-to-maturity security

e. A significant increase by the regulator in the industry's capital requirements that causes the entity to downsize by selling held-to-maturity securities

f. A significant increase in the risk weights of debt securities used for regulatory risk-based capital purposes.

[17] Remarks by Tracey C. Barber, SEC staff, before the Twenty-Second Annual National Conference on Current SEC Developments, 10 January 1995.

4.2.3.2.1 Credit deterioration

ASC 320-10-25-6(a) allows an entity to sell a security classified as held to maturity prior to its scheduled maturity date in the event of a significant deterioration in the issuer's creditworthiness. ASC 320 does not define what constitutes a significant deterioration. Significance should be measured in relation to the individual security rather than in relation to the security portfolio or the entity's financial position. We believe an entity may conclude that a significant deterioration has occurred when it is reasonably possible that all amounts due will not be collected.

Although entities are not restricted from making prudent investment decisions, basing a sale on speculation of deterioration would not be consistent with the held-to-maturity concept. Evidence of credit deterioration might include published sources such as reports of a downgrade in the investment rating by rating agencies (e.g., Standard & Poor's, Moody's). In addition, ASC 320-10-25-5(d) allows an entity to sell a held-to-maturity security prior to a downgrade in the issuer's published credit rating or inclusion on a "credit watch" list, provided that the sale is in response to an actual deterioration of the issuer's creditworthiness.

The evidence of credit deterioration could also consist of the entity's internal credit evaluation that documents factors such as the following:

- Issuer's historical financial performance
- Forecasts for the issuer's industry
- A continued decline in the security's market value that is not consistent with the decline in the market value of similar securities
- An indication that the issuer may file for protection under federal bankruptcy laws

If the evidence supporting the deterioration of an issuer's creditworthiness is primarily a continued decline in the security's fair value, the entity should consider whether the security has been impaired.

The assessment of the deterioration of the issuer's creditworthiness of purchased securities should be based on the credit quality on the date of purchase, not the credit deterioration since the date of issuance. For example, an entity would not be able to sell a purchased credit impaired held-to-maturity security without calling into question management's intent to hold the remaining portfolio to maturity unless the security experienced additional credit deterioration after the holder's acquisition date.

The determination that significant deterioration has occurred requires an evaluation of the facts and circumstances regarding the entity's ability to recover all amounts due under the terms of the security.

The SEC staff has not objected to sales or transfers of held-to-maturity securities based on concerns about the issuer's creditworthiness when entities develop and apply policies and procedures for documenting their basis for determining significant deterioration of an issuer's creditworthiness. The SEC staff believes that an entity's creditworthiness evaluation process must involve its accounting personnel.

4.2.3.2.2 Change in tax law

The attractiveness of certain debt securities to investors is directly related to the tax treatment of the securities. This aspect of the security is so significant that there could be a justifiable change in management's intent to hold the security to maturity if a change in tax law affects that type of debt security (e.g., if US Congress repeals the federal tax-exempt status of certain small issue state and municipal bonds). However, this provision was not intended to cover sales or transfers of securities in response to broader changes in the tax law that revise the marginal tax rate applicable to interest income, such as an increase or decrease in the federal income tax rate.

4.2.3.2.3 Major business combination or disposition

Generally, sales or transfers of debt securities that occur concurrent with or shortly after a major business combination or disposition and are intended to maintain the entity's existing risk exposure policy would not call into question management's intent to hold the remaining held-to-maturity portfolio to maturity. However, this provision applies only if the business combination or disposition is "major," and the securities held before the business combination or that remain after a disposition are not consistent with the entity's existing credit risk policy or interest rate risk position. While ASC 320 does not define a "major" business combination or disposition, we believe that such an event must be significant enough to warrant disclosure in the financial statements under US GAAP or SEC requirements.

It is important to emphasize that sales of held-to-maturity securities are permitted only when the combination or disposition "necessitates the sale or transfer of held-to-maturity securities to maintain the enterprise's existing interest rate risk position or credit risk policy." Sales of held-to-maturity securities to fund an acquisition or a disposition are inconsistent with a stated positive intent and ability to hold securities to maturity.

The exception provided in ASC 320-10-25-6(c) does not apply to sales of held-to-maturity securities in anticipation of a major business combination or disposition, and such sales would taint the entity's other securities classified as held to maturity. Although the sale of a component of an entity is an example of a major disposition, a purchase or sale of a large pool of financial assets (e.g., conforming mortgages) or liabilities (e.g., deposit liabilities) would not be considered a major business combination or disposition that would justify the sale of held-to-maturity securities.

An entity that consummates a business combination and plans to transfer or sell securities to maintain its risk profile should evaluate the classification of held-to-maturity securities concurrent with or shortly after a major business combination or disposition. The term "shortly" is not defined in ASC 320. However, as time passes, it is increasingly difficult to demonstrate that the business combination or disposition necessitated the transfer or sale rather than other events or circumstances.

ASC 320 does not distinguish between sales of securities obtained in a business combination and those held before the business combination. We understand from our discussion with the FASB staff that securities obtained in a business combination should be classified based on the intent and ability of the acquiring entity. Accordingly, the sale or transfer of a security previously classified by the acquired entity as held to maturity would not taint the held-to-maturity portfolio of the acquiring entity. However, the acquiring entity needs to demonstrate that any sales of its held-to-maturity securities owned before a business combination are consistent with the objectives of the entity's existing credit and interest rate risk policy.

Management must evaluate the facts and circumstances to determine whether the securities held before a business combination or that remain following a disposition are consistent with the entity's existing credit or interest rate risk policy. The following examples illustrate the thought process that management should go through following a major business combination or disposition. This process should be documented.

Illustration 4-2: Sales or transfers of held-to-maturity securities after a business combination
Example 1
Company A acquires Company B. Company A has an existing policy (formal or informal) of not issuing any variable-rate debt that would expose it to interest rate risk. If Company A sells certain of its held-to-maturity securities to provide funds to extinguish the outstanding variable-rate long-term debt of Company B, the sale would not bring into question Company A's intent to hold its remaining portfolio to maturity.
Example 2
Assume the same facts as in Example 1, except that Company A sells certain of its securities classified as held to maturity to provide funds to extinguish outstanding fixed-rate long-term debt of Company B. Because the fixed-rate debt does not appear to be inconsistent with Company A's existing credit or interest rate exposure policies, the sale could taint the remaining held-to-maturity portfolio of the combined company.
Example 3
Company C, a multi-line insurance company, disposes of its individual annuity business. Its held-to-maturity investment portfolio includes a block of securities purchased with the intent of matching the interest rate risk associated with the annuity contracts outstanding. If, shortly after the disposition of the annuities business, Company C sells those designated securities that are not transferred to the company that acquired the annuities, the sale generally would not call into question Company C's intent to hold the remaining portfolio to maturity.

4.2.3.2.4 Change in statutory or regulatory requirements regarding permissible investments

If an institution is required to dispose of held-to-maturity securities because of a significant change in regulatory requirements for debt security holdings (i.e., permissible investments or concentration limits on investments), that disposition would not call into question management's intent to hold the remaining securities in that category to maturity. The change in regulations must apply to all entities affected by the legislation or regulatory action.

If a regulator directs a particular institution rather than all institutions supervised by that regulator to sell or transfer held-to-maturity securities to increase liquid assets (or for similar purposes), that institution would generally not be relieved of the presumption that all of its held-to-maturity securities are tainted unless the event precipitating the regulatory requirement was isolated, nonrecurring and unusual and could not have been reasonably anticipated, as discussed in section 4.2.3.2.6, *Isolated, nonrecurring and unusual events*.

Entities should consider the effect that statutory and regulatory requirements may have on their investment classifications and other investment decisions when classifying the securities.

4.2.3.2.5 Significant change in regulatory capital requirements

The FASB distinguished between broad changes in regulatory capital requirements and regulatory orders for a particular institution to increase its capital when it provided the two "change in circumstances" provisions in ASC 320-10-25-6. These provisions stipulated that if an institution disposed of held-to-maturity securities in response to significant increases in capital requirements, such sales would not call into question the classification of the institution's remaining held-to-maturity securities. On the other hand, sales of held-to-maturity securities to replenish capital to meet existing or increased regulatory requirements imposed on an individual institution would not be consistent with the held-to-maturity concept.

4.2.3.2.6 *Isolated, nonrecurring and unusual events*

Excerpt from Accounting Standards Codification

Investments — Debt Securities — Overall

Recognition

Restrictions on Classification of a Debt Security as Held-to-Maturity

Circumstances Consistent with Held-to-Maturity Classification

320-10-25-9

In addition to the changes in circumstances listed in paragraph 320-10-25-6(a) through (f), certain other events may cause the entity to sell or transfer a held-to-maturity security without necessarily calling into question (tainting) its intent to hold other debt securities to maturity. Such events must meet all of the following four conditions to avoid tainting its intent to hold other debt securities to maturity in the future:

a. The event is isolated.

b. The event is nonrecurring.

c. The event is unusual for the reporting entity.

d. The event could not have been reasonably anticipated.

In addition to the six exceptions described above, ASC 320 includes a general provision that exempts sales or transfers resulting from other events that are isolated, nonrecurring and unusual for the reporting entity that could not have been reasonably anticipated. Other than remote scenarios, very few events (such as a run on a bank) would meet all of those conditions.

4.2.3.2.6.1 *Tender offers for held-to-maturity securities*

A tender offer is an offer generally made to all holders of a particular class of an entity's security by the issuer or another bidder. This offer is often subject to the tendering of a minimum or maximum number of securities, but it is still an offer to buy at a specific price or premium.

ASC 320-10-25-13(d) states that a sale of held-to-maturity securities in response to an unsolicited tender offer[18] from the issuer is not an event that is isolated, nonrecurring and unusual, and therefore would taint the classification of the remaining held-to-maturity securities.

If a third party initiates a tender offer and the holder voluntarily participates in the tender offer, the sale would call into question the classification of the holder's remaining HTM securities. However, if the holder is forced or required to sell its securities in the tender offer, the sale would not call into question the entity's intent to hold remaining securities to maturity.

[18] An unsolicited tender offer is a bona fide tender or exchange offer made by a person, group or company to purchase all of the equity securities of a company that has not been directly or indirectly solicited.

4.2.3.3 Sales deemed to be at maturity

Excerpt from Accounting Standards Codification

Investments — Debt Securities — Overall

Recognition

Restrictions on Classification of a Debt Security as Held-to-Maturity

Circumstances Consistent with Held-to-Maturity Classification

Sale After a Substantial Portion of Principal Is Collected

320-10-25-14

Sales of debt securities that meet either of the following conditions may be considered as maturities for purposes of the classification of securities and the disclosure requirements under this Subtopic:

a. The sale of a security occurs near enough to its maturity date (or call date if exercise of the call is probable) that interest rate risk is substantially eliminated as a pricing factor. That is, the date of sale is so near the maturity or call date (for example, within three months) that changes in market interest rates would not have a significant effect on the security's fair value.

b. The sale of a security occurs after the entity has already collected a substantial portion (at least 85 percent) of the principal outstanding at acquisition due either to prepayments on the debt security or to scheduled payments on a debt security payable in equal installments (both principal and interest) over its term. For variable-rate securities, the scheduled payments need not be equal.

Some entities routinely dispose of debt securities shortly before maturity. Entities also routinely dispose of mortgage-backed securities after a substantial portion of the principal has been recovered through collections and prepayments. The FASB concluded, for practical reasons, that selling a debt security before maturity should be considered equivalent to holding the security to maturity if one of the two conditions described in ASC 320-10-25-14 is met and, as such, would not result in the tainting of the remaining held-to-maturity portfolio.

Determining the point at which a security is near enough to maturity that changes in interest rates would not significantly affect its fair value largely depends on the type of security. To promote the consistent application of this provision, the FASB added an example timeframe of three months. While the three-month guideline is provided only as an example, it is generally considered reasonable. Because the security is close to the maturity or call date, the carrying value in most cases (i.e., in a functioning market) should approximate the fair value, which would not be significantly affected by changes in the market interest rate. Therefore, any realized gains or losses generally would not be significant.

How we see it

Entities that sell securities with more than three months to maturity may have difficulty supporting the assertion that the securities were in substance held to maturity, unless they meet the other allowable exception in ASC 320-10-25-14(b), which is discussed below.

ASC 320 defines a substantial portion of collection as at least 85% of the principal outstanding at acquisition (not the principal outstanding at issuance for securities purchased in a secondary market) from either scheduled payments or unscheduled prepayments. This provision was included mainly to address the sale of the tail portion of mortgage-backed securities.

The limited practical exception in ASC 320-10-25-14(b) applies to:

- Debt securities that are payable in equal installments that comprise both principal and interest, such as certain level-payment mortgage-backed securities,
- Variable-rate debt securities when the scheduled payments are payable in equal installments absent a change in interest rates, and
- Securities with changes in scheduled payments that result from unscheduled prepayments.

It is not appropriate to apply this exception by analogy to a debt security that has a contractual payment schedule of level principal payments plus interest that accrues based on the declining outstanding principal balance. The payments on that type of security do not represent equal installments that are made up of both principal and interest. Accordingly, the exception does not apply to investments in collateralized mortgage obligations or real estate mortgage investment conduits or similar securities that do not receive scheduled payments in equal installments.

4.2.3.4 Secured borrowings

If a transfer of a held-to-maturity debt security is accounted for as a sale under ASC 860-20 and the security is transferred for a reason other than those specified in the exceptions above, the transfer would taint the held-to-maturity portfolio.

Transactions involving held-to-maturity securities that are not accounted for as sales under ASC 860-20 (i.e., those accounted for as secured borrowings) would not contradict an entity's stated intent to hold a security to maturity and, therefore, would not call into question the entity's intent to hold other debt securities to maturity.

Held-to-maturity securities pledged as collateral or subject to repurchase or securities lending agreements accounted for as secured borrowings would not call into question the entity's intent, as long as the entity intends and expects to be able to satisfy the obligation without surrendering the security.

Beneficial interests classified as held to maturity that are desecuritized in a transaction that is not accounted for as a sale (i.e., it does not result in the recognition of a gain or loss on the exchange) would also not call into question the entity's intent if the financial assets (e.g., debt securities underlying a collateralized debt obligation) received in or that continue to be held after the desecuritization are held to maturity. Unless the debt instrument received or retained as a result of the transaction is held to maturity, the transaction would call into question the entity's intent to hold other debt securities to maturity.

Additional guidance related to ASC 860 can be found in our FRD publication, ***Transfers and servicing of financial assets***.

5 Presentation and disclosure

5.1 Presentation and disclosure — debt securities

ASC 320 provides extensive presentation and disclosure requirements for debt securities for both annual and quarterly reporting periods.

5.1.1 Balance sheet presentation — debt securities

Excerpt from Accounting Standards Codification

Investments — Debt Securities — Overall

Other Presentation Matters

Balance Sheet Classification

320-10-45-1

An entity shall report its investments in available-for-sale securities and trading securities separately from similar assets that are subsequently measured using another measurement attribute on the face of the statement of financial position. To accomplish that, an entity shall do either of the following:

a. Present the aggregate of those fair value and non-fair-value amounts in the same line item and parenthetically disclose the amount of fair value included in the aggregate amount

b. Present two separate line items to display the fair value and non-fair-value carrying amounts.

Entities also shall refer to the guidance in paragraph 825-10-45-1A on disaggregation of financial assets and financial liabilities by measurement category and form of financial asset (that is, securities or loans and receivables).

320-10-45-2

An entity that presents a classified statement of financial position shall report individual held-to-maturity securities, individual available-for-sale securities, and individual trading securities as either current or noncurrent, as appropriate, under the guidance of Section 210-10-45.

Cash Flow Presentation

320-10-45-13

This Subtopic does not require the presentation of individual amounts for the three categories of investments on the face of the statement of financial position, provided the information is disclosed in the notes. Thus, entities that report certain investments in debt securities as cash equivalents in accordance with the provisions of Topic 230 can continue that practice, provided that the notes reconcile the reporting classifications used in the statement of financial position.

ASC 320 requires entities to present the individual amounts for the three categories of investments on either the face of the balance sheet or in the notes to the financial statements. Thus, entities that report certain investments in debt securities as cash equivalents may do so, as long as they reconcile the reporting classifications used in the balance sheet to the disclosures in the notes to the financial statements. In practice, entities with material amounts of investments generally present each category separately on the face of the balance sheet.

An entity with a classified balance sheet and a significant debt securities portfolio could have six different investment captions — trading securities (current and noncurrent), AFS securities (current and noncurrent) and HTM securities (current and noncurrent). In these cases, it may be more appropriate to present the detailed disclosures in the notes to the financial statements.

In addition, ASC 825 requires entities to present financial assets and financial liabilities separately, grouped by measurement category (e.g., FV-NI) and form of financial asset (securities or loans and receivables) in the statement of financial position or in the accompanying notes to the financial statements. Refer to section 5.2.2, *Balance sheet presentation — equity securities*, for further discussion.

5.1.2 Income statement presentation — debt securities

Excerpt from Accounting Standards Codification

Investments — Debt Securities — Overall

Other Presentation Matters

Income Statement Classification

320-10-45-7

This Subtopic does not specify the income statement classification of gains and losses for transfers involving trading securities. However, gains and losses that have accumulated before the transfer shall be classified consistently with realized gains and losses for the category from which the **security** is being transferred, not the category into which the security is being transferred.

320-10-45-8

Paragraph 320-10-35-1 explains that all or a portion of the unrealized holding gain and loss of an available-for-sale security that is designated as being hedged in a fair value hedge shall be recognized in earnings during the period of the hedge, pursuant to paragraphs 815-25-35-1 and 815-25-35-4.

320-10-45-8A

Paragraph superseded by Accounting Standards Update No. 2016-13.

320-10-45-8B

An entity shall present the amounts reversed or established for the allowance for credit losses related to the transfer of debt securities between categories (see paragraphs 320-10-35-10A through 35-10B) on a gross basis in the income statement. An entity may present those amounts on the income statement or in the notes to financial statements, if applicable.

Gains and losses related to transfers involving trading securities should be classified consistently with realized gains and losses for the category from which the debt security is being transferred.

When a debt security is transferred between the AFS category and the HTM category, the allowance for credit losses recorded in the category from which the security is being transferred is first reversed through earnings. An allowance for credit losses for the debt security is then determined under the impairment model applicable to the category into which the security is being transferred. The effects of the reversal of and the establishment of allowance for credit losses should be presented on a gross basis in the income statement (or in the notes to the financial statements, if applicable).

5.1.2.1 Dividend and interest income — debt securities

Dividend income is included in net income. There is no general guidance on which date (i.e., declaration date or ex-dividend date) should be used to accrue dividends. The recognition date should be an accounting policy election that is consistently applied.

Distributions that represent returns of capital should be credited to investment cost rather than to dividend income. Dividends in kind (distribution of assets other than stock) should be recorded at fair value and reported as income.

Stock dividends and stock splits are not recorded as income (ASC 505-20-30-7). The cost basis of shares previously held should be allocated equitably to the total shares held after the stock dividend or split. The adjusted basis should be used to calculate gains and losses.

Interest income, including amortization of the premium and discount on debt securities for all three categories of investments, is included in net income. See section 2, *Accounting for investments in debt securities*, for additional guidance on interest income for each security classification.

5.1.3 Other comprehensive income presentation — debt securities

Excerpt from Accounting Standards Codification

Income Statement — Reporting Comprehensive Income — Overall

Other Presentation Matters

Reporting Comprehensive Income

220-10-45-1

This Subtopic requires an entity to report comprehensive income either in a single continuous financial statement or in two separate but consecutive financial statements.

Reclassification Adjustments

220-10-45-15

Reclassification adjustments shall be made to avoid double counting of items in comprehensive income that are presented as part of net income for a period that also had been presented as part of other comprehensive income in that period or earlier periods. For example, gains on investment securities that were realized and included in net income of the current period that also had been included in other comprehensive income as unrealized holding gains in the period in which they arose must be deducted through other comprehensive income of the period in which they are included in net income to avoid including them in comprehensive income twice (see paragraph 320-10-40-2). Example 3 (see paragraphs 220-10-55-18 through 55-27) illustrates the presentation of reclassification adjustments in accordance with this paragraph.

Unrealized holding gains and losses on AFS securities (including gains and losses on securities classified as current assets) should be reported in OCI (except for impairment due to credit-related factors that is recognized in the income statement) until realized.

ASC 220 requires the components of OCI and net income to be reported in a single continuous financial statement of comprehensive income or in two separate but consecutive financial statements of net income and comprehensive income. Entities do not have the option to present components of OCI in the statement of shareholders' equity.

Reclassification adjustments are required to avoid double-counting in comprehensive income. For example, unrealized gains and losses for AFS securities are recorded in OCI (except for impairment due to credit-related factors that is recognized in the income statement). When a realized gain or loss occurs or a portion of noncredit unrealized loss is recognized in earnings, the amounts previously recorded in OCI should be deducted through OCI in the current period to arrive at comprehensive income. The following is an example of this presentation:

Illustration 5-1: Presentation of reclassification adjustments

On 1 January 2012, Company A purchased a debt security for $1,000, which it classified as AFS. The fair value of the security was $1,200 at 31 December 2012 and $1,500 at 31 December 2013. The securities were all sold on 31 December 2013. No credit loss was recorded for the security. Tax effects are ignored in this example.

	For the year ended December 31, 2012	For the year ended December 31, 2013
Net income:		
Gain on sale of securities		$ 500
Net income		500
Other comprehensive income:		
Unrealized gains on available-for-sale securities	$ 200	300
Reclassification adjustment for gains included in net income	–	(500)
Other comprehensive income	200	(200)
Comprehensive income	$ 200	$ 300

5.1.4 Cash flow presentation and disclosure — debt securities

Excerpt from Accounting Standards Codification

Investments — Debt Securities — Overall

Other Presentation Matters

Cash Flow Presentation

320-10-45-11

Cash flows from purchases, sales, and maturities of available-for-sale securities and held-to-maturity securities shall be classified as cash flows from investing activities and reported gross for each security classification in the statement of cash flows. Cash flows from purchases, sales, and maturities of trading securities shall be classified based on the nature and purpose for which the securities were acquired.

320-10-45-12

Paragraph 230-10-45-8 permits reporting activity in cash equivalents as a net change. However, securities that are considered cash equivalents are subject to the accounting and disclosure requirements of this Subtopic, such as disclosure of amortized cost and fair value by major security types.

ASC 320 requires cash flow activity in the HTM, AFS and trading portfolios to be reported separately in the statement of cash flows. Cash flow activity from purchases, sales and maturities of AFS and HTM securities should be classified as investing activities and reported on a gross basis. Cash flow activity from purchases, sales and maturities of trading securities should be classified based on the nature and purpose for which the securities were acquired. As such, we believe the cash flows related to trading securities that are acquired with the intent to actively buy and sell in the near term should be classified as operating and can be reported on a net basis when classified as operating. Cash flows from interest and dividends should be considered cash inflows from operating activities.

Some securities that are short term at the time of purchase are classified as cash and cash equivalents in accordance with ASC 230-10. The cash flows from purchases, sales or maturities of those securities should not be classified as investing activities in the statement of cash flows. Rather, those cash flows should be included in the cash and cash equivalents line in the statement of cash flows.

As discussed in section 4, *Transfers between categories and sales of debt securities*, certain sales of debt securities before maturity (e.g., sales within three months of maturity) are deemed to have occurred at maturity. We believe the proceeds received on such sales may be classified as cash received on maturity in the statement of cash flows.

Transfers between HTM or AFS and trading generally result in a noncash transfer between investing and operating activities. Those activities affect recognized assets, even though they do not result in cash receipts or cash payments in the current period. Therefore, such activity, if significant, should be included in the disclosures of noncash activity.

Refer to our FRD publication, ***Statement of cash flows***, for additional guidance.

5.1.5 Disclosures — debt securities (updated August 2026)

ASC 320-10-50 requires certain disclosures for debt securities by major security type. ASC 320-10-50-1B says that major security types are based on the nature and risks of the security. [19] An entity should consider all of the following when determining its major security types:

- (Shared) activity or business sector
- Vintage
- Geographic concentration
- Credit quality
- Economic characteristic

To comply with the requirements of ASC 320-10-50, ASC 942-320 requires financial institutions to disclose the following major security types, among others, for debt securities:

- Debt securities issued by the US Treasury and other US government corporations and agencies
- Debt securities issued by states of the United States and political subdivisions of the states
- Debt securities issued by foreign governments
- Corporate debt securities
- Residential mortgage-backed securities
- Commercial mortgage-backed securities
- Collateralized debt obligations
- Other debt obligations

ASC 320 requires disclosures in all complete sets of financial statements for both annual and interim periods. The minimum disclosure requirements for summarized interim financial information issued by publicly traded entities are established by ASC 270-10.

[19] ASU 2025-11 clarifies and simplifies the interim disclosure guidance in ASC 270 without changing the underlying requirements. Accordingly, as shown in the pending guidance, certain disclosure requirements in ASC 320 were amended to explicitly state that the disclosures are required in interim and annual periods.

5.1.5.1 AFS and HTM securities — debt securities

Excerpt from Accounting Standards Codification

Investments — Debt Securities — Overall

Disclosure

Securities Classified as Available for Sale

320-10-50-2

For securities classified as available for sale, all reporting entities shall disclose all of the following by major security type as of each date for which a statement of financial position is presented:

a. Amortized cost basis

aa. Aggregate **fair value**

aaa. Total allowance for credit losses

b. Total unrealized gains for securities with net gains in accumulated other comprehensive income

c. Total unrealized losses for securities with net losses in accumulated other comprehensive income

d. Information about the contractual maturities of those securities as of the date of the most recent statement of financial position presented.

Pending Content:

Transition Date: *(P) December 16, 2027; (N) December 16, 2028* | **Transition Guidance:** 270-10-65-1

320-10-50-2

For securities classified as available for sale, all reporting entities shall disclose all of the following by major security type as of each interim and annual date for which a statement of financial position is presented:

a. Amortized cost basis

aa. Aggregate **fair value**

aaa. Total allowance for credit losses

b. Total unrealized gains for securities with net gains in accumulated other comprehensive income

c. Total unrealized losses for securities with net losses in accumulated other comprehensive income

d. Information about the contractual maturities of those securities as of the date of the most recent statement of financial position presented.

320-10-50-2A

If for the purposes of identifying and measuring an impairment the applicable accrued interest is excluded from both the fair value and amortized cost basis of the available-for-sale debt security, an entity may, as a practical expedient, exclude the applicable accrued interest that is included in the amortized cost basis for the purposes of the disclosure requirements in paragraph 320-10-50-2. If an entity elects this practical expedient, it shall disclose the total amount of accrued interest, net of the allowance for credit losses (if any), excluded from the disclosed amortized cost basis.

Pending Content:

Transition Date: *(P) December 16, 2027; (N) December 16, 2028* | **Transition Guidance:** 270-10-65-1

320-10-50-2A

If for the purposes of identifying and measuring an impairment the applicable accrued interest is excluded from both the fair value and amortized cost basis of the available-for-sale debt security, an entity may, as a practical expedient, exclude the applicable accrued interest that is included in the amortized cost basis for the purposes of the disclosure requirements in paragraph 320-10-50-2. If an entity elects this practical expedient, it shall disclose the total amount of accrued interest, net of the allowance for credit losses (if any), excluded from the disclosed amortized cost basis in interim and annual reporting periods.

320-10-50-3

Maturity information may be combined in appropriate groupings. In complying with this requirement, financial institutions (see paragraph 942-320-50-1) shall disclose the fair value and the net carrying amount (if different from fair value) of debt securities on the basis of at least the following four maturity groupings:

a. Within 1 year

b. After 1 year through 5 years

c. After 5 years through 10 years

d. After 10 years.

Securities not due at a single maturity date, such as mortgage-backed securities, may be disclosed separately rather than allocated over several maturity groupings; if allocated, the basis for allocation also shall be disclosed.

Pending Content:

Transition Date: *(P) December 16, 2027; (N) December 16, 2028* | **Transition Guidance:** 270-10-65-1

320-10-50-3

Maturity information may be combined in appropriate groupings. In complying with this requirement, financial institutions (see paragraph 942-320-50-1) shall disclose the fair value and the net carrying amount (if different from fair value) of debt securities in interim and annual reporting periods on the basis of at least the following four maturity groupings:

a. Within 1 year

b. After 1 year through 5 years

c. After 5 years through 10 years

d. After 10 years.

Securities not due at a single maturity date, such as mortgage-backed securities, may be disclosed separately rather than allocated over several maturity groupings; if allocated, the basis for allocation also shall be disclosed in interim and annual reporting periods.

Securities Classified as Held to Maturity

320-10-50-5

All reporting entities shall disclose the following for securities classified as held to maturity by major security type as of each date for which a statement of financial position is presented:

a. Amortized cost basis

aa. Subparagraph superseded by Accounting Standards Update No. 2019-04.

aaa. Total allowance for credit losses

b. Subparagraph superseded by Accounting Standards Update No. 2019-04.

c. Subparagraph superseded by Accounting Standards Update No. 2019-04.

d. Net carrying amount

dd. Subparagraph superseded by Accounting Standards Update No. 2016-13.

e. Gross gains and losses in accumulated other comprehensive income for any derivatives that hedged the forecasted acquisition of the held-to-maturity securities

f. Information about the contractual maturities of those securities as of the date of the most recent statement of financial position presented. (Maturity information may be combined in appropriate groupings. In complying with this requirement, financial institutions [see paragraph 942-320-50-1] shall disclose the net carrying amount of debt securities on the basis of at least the following four maturity groupings:

    1. Within 1 year

    2. After 1 year through 5 years

    3. After 5 years through 10 years

    4. After 10 years.

Securities not due at a single maturity date, such as mortgage-backed securities, may be disclosed separately rather than allocated over several maturity groupings; if allocated, the basis for allocation also shall be disclosed.)

Pending Content:

Transition Date: *(P) December 16, 2027; (N) December 16, 2028* | Transition Guidance: 270-10-65-1

320-10-50-5

All reporting entities shall disclose the following for securities classified as held to maturity by major security type as of each interim and annual reporting date for which a statement of financial position is presented:

a. Amortized cost basis

aa. Subparagraph superseded by Accounting Standards Update No. 2019-04.

aaa. Total allowance for credit losses

b. Subparagraph superseded by Accounting Standards Update No. 2019-04.

c. Subparagraph superseded by Accounting Standards Update No. 2019-04.

d. Net carrying amount

dd. Subparagraph superseded by Accounting Standards Update No. 2016-13.

e. Gross gains and losses in accumulated other comprehensive income for any derivatives that hedged the forecasted acquisition of the held-to-maturity securities

f. Information about the contractual maturities of those securities as of the date of the most recent statement of financial position presented. (Maturity information may be combined in appropriate groupings. In complying with this requirement, financial institutions [see paragraph 942-320-50-1] shall disclose the net carrying amount of debt securities on the basis of at least the following four maturity groupings:

1. Within 1 year
2. After 1 year through 5 years
3. After 5 years through 10 years
4. After 10 years.

Securities not due at a single maturity date, such as mortgage-backed securities, may be disclosed separately rather than allocated over several maturity groupings; if allocated, the basis for allocation also shall be disclosed.)

320-10-50-5A

A public business entity shall disclose the following information for securities classified as held to maturity, by major security type, as of each date for which a statement of financial position is presented:

a. Aggregate fair value

b. Gross unrecognized holding gains

c. Gross unrecognized holding losses.

Pending Content:

Transition Date: *(P) December 16, 2027; (N) December 16, 2028* | **Transition Guidance:** 270-10-65-1

320-10-50-5A

A public business entity shall disclose the following information for securities classified as held to maturity, by major security type, as of each interim and annual reporting date for which a statement of financial position is presented:

a. Aggregate fair value

b. Gross unrecognized holding gains

c. Gross unrecognized holding losses.

320-10-50-5B

A financial institution that is a public business entity shall disclose the fair value of the debt securities classified as held to maturity, by major security type, on the basis of at least the following four maturity groupings:

a. Within 1 year

b. After 1 year through 5 years

c. After 5 years through 10 years

d. After 10 years.

Securities not due at a single maturity date, such as mortgage-backed securities, may be disclosed separately rather than allocated over several maturity groupings; if allocated, the basis for allocation also shall be disclosed.

Pending Content:

Transition Date: *(P) December 16, 2027; (N) December 16, 2028* | **Transition Guidance:** 270-10-65-1

320-10-50-5B

For interim and annual reporting periods, a financial institution that is a public business entity shall disclose the fair value of the debt securities classified as held to maturity, by major security type, on the basis of at least the following four maturity groupings:

a. Within 1 year

b. After 1 year through 5 years

c. After 5 years through 10 years

d. After 10 years.

Securities not due at a single maturity date, such as mortgage-backed securities, may be disclosed separately rather than allocated over several maturity groupings; if allocated, the basis for allocation also shall be disclosed in interim and annual reporting periods.

320-10-50-5C

If for the purposes of identifying and measuring an impairment the applicable accrued interest is excluded from the amortized cost basis of held-to-maturity securities, an entity may, as a practical expedient, exclude the accrued interest receivable balance that is included in the amortized cost basis of the held-to-maturity securities for the purposes of the disclosure requirements in paragraph 320-10-50-5. If an entity applies this practical expedient, it shall disclose the total amount of accrued interest, net of the allowance for credit losses (if any), excluded from the disclosed amortized cost basis.

Pending Content:

Transition Date: *(P) December 16, 2027; (N) December 16, 2028* | **Transition Guidance:** 270-10-65-1

320-10-50-5C

If for the purposes of identifying and measuring an impairment the applicable accrued interest is excluded from the amortized cost basis of held-to-maturity securities, an entity may, as a practical expedient, exclude the accrued interest receivable balance that is included in the amortized cost basis of the held-to-maturity securities for the purposes of the disclosure requirements in paragraph 320-10-50-5. If an entity applies this practical expedient, it shall disclose the total amount of accrued interest, net of the allowance for credit losses (if any), excluded from the disclosed amortized cost basis in interim and annual reporting periods.

The following illustrates the disclosures of AFS and HTM securities that are required under ASC 320-10-50-2 and ASC 320-10-50-5 and 50-5A, respectively, for a commercial (nonfinancial institution) public business entity.

Illustration 5-2: Tabular disclosures of AFS and HTM[20] securities — financial institution[21]

	Available-for-sale securities				
	Amortized cost basis	Allowance for credit losses	Total unrealized gains for securities with net gains in AOCI	Total unrealized losses for securities with net losses in AOCI	Aggregate fair value
December 31, 20X7			*(in millions)*		
US corporate securities	$ 850	$ (10)	$ 70	$ (10)	$ 900
Other debt securities	250	(2)	25	(3)	270
Total available-for-sale securities	$ 1,100	$ (12)	$ 95	$ (13)	$ 1,170

	Held-to-maturity securities					
	Amortized cost basis	Allowance for credit losses	Net carrying amount	Gross unrealized gains	Gross unrealized losses	Aggregate fair value
December 31, 20X7			*(in millions)*			
US corporate securities	$ 250	$ (5)	$ 245	$ 30	$ (10)	$ 265
Other debt securities	75	(2)	73	5	-	78
Total held-to-maturity securities	$ 325	$ (7)	$ 318	$ 35	$ (10)	$ 343

The net carrying amount and fair value of debt securities at December 31, 20X7, by contractual maturity, are shown below.

	Net carrying amount[22]	Fair value
Available-for-sale securities	*(In millions)*	
Due in one year or less	$ 663	$ 710
Due after one year through five years	300	320
Due after five years through ten years	90	100
Due after ten years	35	40
	$ 1,088	$ 1,170
Held-to-maturity securities		
Due in one year or less	$ 130	$ 135
Due after one year through five years	103	115
Due after five years through ten years	60	65
Due after ten years	25	28
	$ 318	$ 343

[20] Under ASC 320-10-50-5A, PBEs are required to disclose the aggregate fair value, gross unrecognized holding gains and gross unrecognized holding losses on held-to-maturity debt securities.

[21] Under ASC 320-10-50-1A, disclosures about debt securities are required for all interim and annual periods when complete sets of financial statements are provided. For purposes of this illustration, debt securities disclosures for only one-year annual financial statements are presented.

[22] Net carrying amount represents amortized cost basis less any allowance for credit losses.

5.1.5.2 Disclosing the fair value of debt securities

ASC 825-10-50-10 requires PBEs to disclose the fair value of financial instruments measured at amortized cost on the balance sheet either in the body of the financial statements or in the notes to the financial statements. PBEs must also disclose how they have categorized their fair value measurements in the fair value hierarchy (i.e., Level 1, 2 or 3) but are not required to disclose the method(s) and significant assumptions they use to estimate those fair values. ASC 820 discusses fair value measurements. Refer to our FRD publication, ***Fair value measurement***, for additional information.

PBEs are required to base their fair value disclosures for financial instruments that are not measured at fair value in the financial statements on the exit price notion in ASC 820. PBEs cannot assert that it is not practicable to estimate the fair value of financial instruments.

The disclosure requirements in ASC 825 do not apply to equity investments without readily determinable fair values, trade receivables and payables due in one year or less, and demand deposit liabilities.

Entities must also comply with the disclosure requirements of ASC 820 for financial instruments that are recognized at fair value.

5.1.5.3 Additional footnote disclosure considerations for financial institutions — debt securities

ASC 942-320-50 provides additional disclosure requirements for financial institutions, including banks, savings and loans associations, savings banks, credit unions, finance companies and insurance entities. For example, guidance is provided for the major security types and maturity groupings that are presented.

5.1.6 Disclosures about transfers between categories and sales of debt securities (updated August 2026)[23]

Excerpt from Accounting Standards Codification

Investments — Debt Securities — Overall

Disclosure

Sales, Transfers, and Related Matters That Occurred During the Period

320-10-50-9

For each period for which the results of operations are presented, an entity shall disclose all of the following:

a. The proceeds from sales of **available-for-sale securities** and the gross realized gains and gross realized losses that have been included in earnings as a result of those sales

b. The basis on which the cost of a security sold or the amount reclassified out of accumulated other comprehensive income into earnings was determined (that is, specific identification, average cost, or other method used)

c. The gross gains and gross losses included in earnings from transfers of securities from the available-for-sale category into the **trading** category

d. The amount of the net unrealized **holding gain or loss** on available-for-sale securities for the period that has been included in accumulated other comprehensive income and the amount of gains and losses reclassified out of accumulated other comprehensive income into earnings for the period

e. The portion of trading gains and losses for the period that relates to **trading securities** still held at the reporting date.

[23] ASU 2025-11 clarifies and simplifies the interim disclosure guidance in ASC 270 without changing the underlying requirements. Accordingly, as shown in the pending guidance, certain disclosure requirements in ASC 320 were amended to explicitly state that the disclosures are required in interim and annual periods.

Pending Content:

Transition Date: *(P) December 16, 2027; (N) December 16, 2028* | **Transition Guidance:** 270-10-65-1

320-10-50-9

For each interim and annual reporting period for which the results of operations are presented, an entity shall disclose all of the following:

a. The proceeds from sales of **available-for-sale securities** and the gross realized gains and gross realized losses that have been included in earnings as a result of those sales

b. The basis on which the cost of a security sold or the amount reclassified out of accumulated other comprehensive income into earnings was determined (that is, specific identification, average cost, or other method used)

c. The gross gains and gross losses included in earnings from transfers of securities from the available-for-sale category into the **trading** category

d. The amount of the net unrealized **holding gain or loss** on available-for-sale securities for the period that has been included in accumulated other comprehensive income and the amount of gains and losses reclassified out of accumulated other comprehensive income into earnings for the period

e. The portion of trading gains and losses for the period that relates to **trading securities** still held at the reporting date.

320-10-50-10

For any sales of or transfers from securities classified as held-to-maturity, an entity shall disclose all of the following in the notes to the financial statements for each period for which the results of operations are presented:

a. The net carrying amount of the sold or transferred security

b. The net gain or loss in accumulated other comprehensive income for any derivative that hedged the forecasted acquisition of the held-to-maturity security

c. The related realized or unrealized gain or loss

d. The circumstances leading to the decision to sell or transfer the security. (Such sales or transfers should be rare, except for sales and transfers due to the changes in circumstances identified in paragraph 320-10-25-6(a) through (f).)

Pending Content:

Transition Date: *(P) December 16, 2027; (N) December 16, 2028* | **Transition Guidance:** 270-10-65-1

320-10-50-10

For any sales of or transfers from securities classified as held-to-maturity, an entity shall disclose all of the following in the notes to financial statements for each interim and annual reporting period for which the results of operations are presented:

a. The net carrying amount of the sold or transferred security

b. The net gain or loss in accumulated other comprehensive income for any derivative that hedged the forecasted acquisition of the held-to-maturity security

c. The related realized or unrealized gain or loss

d. The circumstances leading to the decision to sell or transfer the security. (Such sales or transfers should be rare, except for sales and transfers due to the changes in circumstances identified in paragraph 320-10-25-6(a) through (f).)

All of the disclosures for HTM securities are required, even if the sales and/or transfers were made in the permitted circumstances. The SEC staff believes that it is especially important to disclose, in reasonably specific terms, the reasons for any sales or transfers of HTM securities.

The requirements for HTM securities are potentially burdensome because entities must provide these disclosures for each sale or transfer, regardless of the reasons for the transaction(s). The disclosure requirements again illustrate the FASB's belief that sales or transfers of HTM securities should be rare. If an entity decides not to disclose a sale or transfer of a security from the HTM portfolio because of materiality considerations (e.g., the effect is *de minimis*), it is not relieved of the requirement to evaluate whether such a sale or transfer taints the remaining portfolio.

See section 5.1.4, *Cash flow presentation and disclosure — debt securities*, for additional guidance on noncash considerations related to transfers involving trading securities.

5.2 Presentation and disclosure — equity securities

5.2.1 Overview — equity securities

ASC 321 provides presentation and disclosure requirements for equity investments for annual and interim reporting periods.

5.2.2 Balance sheet presentation — equity securities

Excerpt from Accounting Standards Codification

Investments — Equity Securities — Overall

Other Presentation Matters

Statement of Financial Position

321-10-45-2

An entity also shall refer to guidance in paragraph 825-10-45-1A on disaggregation of financial assets and financial liabilities by measurement category and form of financial asset (that is, securities or loans and receivables).

Financial Instruments — Overall

Other Presentation Matters

Statement of Financial Position

Disaggregation of Financial Assets and Financial Liabilities by Measurement Category and Form of Financial Asset

825-10-45-1A

An entity shall separately present financial assets and financial liabilities by measurement category and form of financial asset (that is, securities or loans and receivables) in the statement of financial position or the accompanying notes to the financial statements.

Like ASC 320, ASC 321 refers to the guidance in ASC 825-10-45-1A, which requires entities to present their financial assets and liabilities separately, grouped by measurement category (e.g., FV-NI) and form (securities or loans and receivables) of financial asset in their balance sheets or in the accompanying footnotes.

ASC 825-10-55-8 provides an illustration of a statement of financial position. In the following excerpt from that illustration, equity investments are presented as a separate line item. An entity with a classified balance sheet could have current and noncurrent equity investment captions (see section 3.2.3, *Entities with classified balance sheets*). Alternatively, an entity may present the information required under ASC 825-10-45-1A in the notes to the financial statements.

Illustration 5-3: Disaggregation by measurement category and form of financial assets

($ in 000s)		
Description		**At 31 December 20X1**
Assets		
Cash and due from banks		$ 38
Deposits with banks		22
Fed funds sold and securities purchased under resale agreements		134
Securities borrowed		75
Trading debt securities		115
Debt securities available-for-sale		75
Debt securities held-to-maturity		32
Loans and lease receivables ($150 at fair value)	$ 560	
Allowance for loan and lease losses	(10)	
Loans, net of allowance for loan and lease losses		550
Derivatives		60
Equity investments		125
Premises and equipment		10
Other assets		20
Total assets		$ 1,256

5.2.3 Income statement presentation — equity securities (updated September 2025)

Entities have to include dividend income from investments in equity securities in net income. With the exception of ASC 946, *Financial Services — Investment Companies*, which requires investment companies to record dividend income on the ex-dividend date,[24] there is no specific guidance on the date that should be used to accrue dividends. As such, we believe entities can generally make an accounting policy election, which must be applied consistently, to accrue for dividend income on either the declaration date or the ex-dividend date. However, for securities measured at fair value, entities should make sure the benefit of a declared dividend is not counted twice.

Distributions that represent returns of capital should be credited to investment cost rather than to dividend income. Dividends in kind (distribution of assets other than stock) should be recorded at fair value and reported as income.

Stock dividends and stock splits are not recorded as income (ASC 505-20-30-7). The cost basis of shares previously held should be allocated equitably to the total shares held after the stock dividend or split. The adjusted basis should be used to calculate realized and unrealized gains and losses.

[24] ASC 946-320-25-4 states that "investment companies shall record dividend income on the ex-dividend date, not on the declaration, record, or payable date, because on the ex-dividend date the quoted market price of listed securities and other market-traded securities tends to be affected by the exclusion of the dividend declared."

5.2.4 Cash flow presentation and disclosure — equity securities

Excerpt from Accounting Standards Codification

Investments — Equity Securities — Overall

Other Presentation Matters

Cash Flow Presentation

321-10-45-1

An entity shall classify cash flows from purchases and sales of equity securities on the basis of the nature and purpose for which it acquired the securities.

ASC 321 requires entities to classify cash flows from purchases and sales of equity investments on the basis of the nature and purpose for which they acquired the ownership interests.

Because the guidance generally requires changes in the fair value of equity investments to be reflected in net income, entities that use the indirect method of preparing the statement of cash flows need to remember to adjust net income for these amounts to determine cash flows from operating activities.

Refer to our FRD publication, ***Statement of cash flows***, for additional guidance.

5.2.5 Disclosures — equity securities (updated August 2026)[25]

The disclosures are required to be made in all complete sets of financial statements for both annual and interim periods. ASC 270-10 provides the minimum disclosure requirements for summarized interim financial information issued by publicly traded entities.

5.2.5.1 Equity securities without readily determinable fair values

Excerpt from Accounting Standards Codification

Investments — Equity Securities — Overall

Disclosure

321-10-50-2

The disclosures in this Section are required for all interim and annual periods.

321-10-50-3

An entity that applies the guidance in paragraph 321-10-35-2 for equity securities without **readily determinable fair values** shall disclose all of the following:

a. The carrying amount of investments without readily determinable fair values

b. The amount of impairments and downward adjustments, if any, both annual and cumulative

c. The amount of upward adjustments, if any, both annual and cumulative

d. As of the date of the most recent statement of financial position, additional information (in narrative form) that is sufficient to permit financial statement users to understand the quantitative disclosures and the information that the entity considered in reaching the carrying amounts and upward or downward adjustments resulting from observable price changes.

[25] ASU 2025-11 clarifies and simplifies the interim disclosure guidance in ASC 270 without changing the underlying requirements. Accordingly, as shown in the pending guidance, certain disclosure requirements in ASC 321 were amended to explicitly state that the disclosures are required in interim and annual periods.

Pending Content:

Transition Date: *(P) December 16, 2027; (N) December 16, 2028* | **Transition Guidance:** 270-10-65-1

321-10-50-3

For interim and annual reporting periods, an entity that applies the guidance in paragraph 321-10-35-2 for equity securities without **readily determinable fair values** shall disclose all of the following:

a. The carrying amount of investments without readily determinable fair values

b. The amount of impairments and downward adjustments, if any, both annual and cumulative

c. The amount of upward adjustments, if any, both annual and cumulative

d. As of the date of the most recent statement of financial position, additional information (in narrative form) that is sufficient to permit financial statement users to understand the quantitative disclosures and the information that the entity considered in reaching the carrying amounts and upward or downward adjustments resulting from observable price changes.

The disclosure requirements in ASC 321 address those equity securities without readily determinable fair values that an entity has elected to measure using the measurement alterative. Although ASC 321-10-50-3 refers to annual and cumulative amounts for the disclosure of upward and downward adjustments, because these disclosures are required in interim financial statements, the amounts of those adjustments recognized in the interim period would be disclosed in those financial statements.

We believe the disclosures required under ASC 321-10-50-3 apply only to equity securities that entities hold at each reporting date. That is, these disclosures are not required for equity securities that are sold during the reporting period. We also believe entities are not required to present a rollforward for the carrying amount of equity securities without readily determinable values that are measured using the measurement alternative (i.e., they do not need to reconcile the beginning and ending carrying amounts of such investments each reporting period).

An entity must also provide the nonrecurring fair value measurement disclosures required under ASC 820 in its interim and annual financial statements whenever it adjusts the carrying amount of an investment measured using the measurement alternative. That is, an entity must provide these disclosures whenever there is an observable transaction for the same or a similar investment of the same issuer or when its investment is impaired. ASU 2019-04 clarifies that if the ASC 321 disclosures satisfy the fair value disclosure requirements of ASC 820-10-50, they don't need to be duplicated. Refer to our FRD publication, ***Fair value measurement***, for further discussion.

Entities are not required to provide the ASC 825 fair value disclosures (e.g., fair value amounts and level of the fair value hierarchy) for equity investments measured using the measurement alternative.

5.2.5.2 Equity securities held at the reporting date

Excerpt from Accounting Standards Codification

Investments — Equity Securities — Overall

Disclosure

321-10-50-4

For each period for which the results of operations are presented, an entity shall disclose the portion of unrealized gains and losses for the period that relates to equity securities still held at the reporting date. The portion of unrealized gains and losses for the period related to equity securities still held at the reporting date is calculated as follows.

Net gains and losses recognized during the period on equity securities	$ 105
Less: Net gains and losses recognized during the period on equity securities sold during the period	(80)
Unrealized gains and losses recognized during the reporting period on equity securities still held at the reporting date	$ 25

Pending Content:

Transition Date: *(P) December 16, 2027; (N) December 16, 2028* | **Transition Guidance:** 270-10-65-1

321-10-50-4

For each interim and annual reporting period for which the results of operations are presented, an entity shall disclose the portion of unrealized gains and losses for the period that relates to equity securities still held at the reporting date. The portion of unrealized gains and losses for the period related to equity securities still held at the reporting date is calculated as follows.

Net gains and losses recognized during the period on equity securities	$ 105
Less: Net gains and losses recognized during the period on equity securities sold during the period	(80)
Unrealized gains and losses recognized during the reporting period on equity securities still held at the reporting date	$ 25

For all equity investments, entities (except for not-for-profit entities in the scope of ASC 958) need to disclose the portion of unrealized gains and losses recognized during the period that relates to equity investments held at the reporting date for each period for which results of operations are presented. That amount is calculated as the difference between net gains and losses recognized during the period on equity investments and net gains and losses recognized during the period on equity investments sold during the period.

5.2.6 Sales of equity securities

Excerpt from Accounting Standards Codification

Investments — Equity Securities — Overall

Derecognition

Accounting for Sales of Securities

321-10-40-1

Section 860-10-40 provides guidance on determining whether a transfer of securities shall be accounted for as a sale. With respect to equity securities, because all changes in an equity security's fair value are reported in earnings as they occur, the sale of an equity security does not necessarily give rise to a gain or loss. Generally, a debit to cash (or trade date receivable) is recorded for the sales proceeds, and a credit is recorded to remove the security at its fair value (or sales price). If the entity is not taxed on the changes in fair value, the deferred tax accounts would be adjusted. An entity that has not yet recorded the security's change in fair value to the point of sale (perhaps because fair value changes are recorded at the end of each day) will need to adjust this procedure.

Changes in the fair value of equity securities that are measured at FV-NI are reported in earnings as they occur. As a result, there is no gain or loss recognized when these securities are sold.

However, the carrying amount of equity securities that are measured using the measurement alternative is adjusted to fair value only when there is an observable transaction or when the equity securities are impaired. They are not required to be remeasured to fair value at each reporting date. Therefore, we would generally expect the carrying amount of an equity security measured using the measurement alternative to differ from its sale price, resulting in the recognition of a gain or loss on the sale date.

A Glossary

This appendix defines key terms used in ASC 320 and 321. The definitions are included in the ASC Master Glossary.

Amortized cost basis

The amortized cost basis is the amount at which a financing receivable or investment is originated or acquired, adjusted for applicable accrued interest, accretion, or amortization of premium, discount, and net deferred fees or costs, collection of cash, writeoffs, foreign exchange, and fair value hedge accounting adjustments.

Available-for-sale securities

Investments not classified as either trading securities or as held-to-maturity securities.

Cash equivalents

Cash equivalents are short-term, highly liquid investments that have both of the following characteristics:

a. Readily convertible to known amounts of cash
b. So near their maturity that they present insignificant risk of changes in value because of changes in interest rates.

Generally, only investments with original maturities of three months or less qualify under that definition. Original maturity means original maturity to the entity holding the investment. For example, both a three-month U.S. Treasury bill and a three-year U.S. Treasury note purchased three months from maturity qualify as cash equivalents. However, a Treasury note purchased three years ago does not become a cash equivalent when its remaining maturity is three months. Examples of items commonly considered to be cash equivalents are Treasury bills, commercial paper, money market funds, and federal funds sold (for an entity with banking operations).

Debt security

Any security representing a creditor relationship with an entity. The term debt security also includes all of the following:

a. Preferred stock that by its terms either must be redeemed by the issuing entity or is redeemable at the option of the investor
b. A collateralized mortgage obligation (or other instrument) that is issued in equity form but is required to be accounted for as a nonequity instrument regardless of how that instrument is classified (that is, whether equity or debt) in the issuer's statement of financial position
c. U.S. Treasury securities
d. U.S. government agency securities
e. Municipal securities
f. Corporate bonds
g. Convertible debt
h. Commercial paper
i. All securitized debt instruments, such as collateralized mortgage obligations and real estate mortgage investment conduits
j. Interest-only and principal-only strips

The term debt security excludes all of the following:

a. Option contracts
b. Financial futures contracts
c. Forward contracts
d. Lease contracts
e. Receivables that do not meet the definition of security and, so, are not debt securities, for example:
    1. Trade accounts receivable arising from sales on credit by industrial or commercial entities
    2. Loans receivable arising from consumer, commercial, and real estate lending activities of financial institutions.

Equity security

Any security representing an ownership interest in an entity (for example, common, preferred, or other capital stock) or the right to acquire (for example, warrants, rights, forward purchase contracts and call options) or dispose of (for example, put options and forward sale contracts) an ownership interest in an entity at fixed or determinable prices. The term equity security does not include any of the following:

a. Written equity options (because they represent obligations of the writer, not investments)
b. Cash-settled options on equity securities or options on equity-based indexes (because those instruments do not represent ownership interests in an entity)
c. Convertible debt or preferred stock that by its terms either must be redeemed by the issuing entity or is redeemable at the option of the investor.

Fair value

The price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Holding gain or loss

The net change in fair value of a security. The holding gain or loss does not include dividend or interest income recognized but not yet received or writeoffs, or the allowance for credit losses.

Orderly transaction

A transaction that assumes exposure to the market for a period before the measurement date to allow for marketing activities that are usual and customary for transactions involving such assets or liabilities; it is not a forced transaction (for example, a forced liquidation or distress sale).

Readily determinable fair value

An equity security has a readily determinable fair value if it meets any of the following conditions:

a. The fair value of an equity security is readily determinable if sales prices or bid-and-asked quotations are currently available on a securities exchange registered with the U.S. Securities and Exchange Commission (SEC) or in the over-the-counter market, provided that those prices or quotations for the over-the-counter market are publicly reported by the National Association of Securities Dealers Automated Quotations systems or by OTC Markets Group Inc. Restricted stock meets that definition if the restriction terminates within one year.

b. The fair value of an equity security traded only in a foreign market is readily determinable if that foreign market is of a breadth and scope comparable to one of the U.S. markets referred to above.

c. The fair value of an equity security that is an investment in a mutual fund or in a structure similar to a mutual fund (that is, a limited partnership or a venture capital entity) is readily determinable if the fair value per share (unit) is determined and published and is the basis for current transactions.

Security

A share, participation, or other interest in property or in an entity of the issuer or an obligation of the issuer that has all of the following characteristics:

a. It is either represented by an instrument issued in bearer or registered form or, if not represented by an instrument, is registered in books maintained to record transfers by or on behalf of the issuer.

b. It is of a type commonly dealt in on securities exchanges or markets or, when represented by an instrument, is commonly recognized in any area in which it is issued or dealt in as a medium for investment.

c. It either is one of a class or series or by its terms is divisible into a class or series of shares, participations, interests, or obligations.

Structured note

A debt instrument whose cash flows are linked to the movement in one or more indexes, interest rates, foreign exchange rates, commodities prices, prepayment rates, or other market variables. Structured notes are issued by U.S. government-sponsored enterprises, multilateral development banks, municipalities, and private entities. The notes typically contain embedded (but not separable or detachable) forward components or option components such as caps, calls, and floors. Contractual cash flows for principal, interest, or both can vary in amount and timing throughout the life of the note based on nontraditional indexes or nontraditional uses of traditional interest rates or indexes.

Trading

An activity involving securities sold in the near term and held for only a short period of time. The term trading contemplates a holding period generally measured in hours and days rather than months or years. See paragraph 948-310-40-1 for clarification of the term trading for a mortgage banking entity.

Trading securities

Securities that are bought and held principally for the purpose of selling them in the near term and therefore held for only a short period of time. Trading generally reflects active and frequent buying and selling, and trading securities are generally used with the objective of generating profits on short-term differences in price.

B ASC references

ASC Paragraph	Section	
220-10-45-1	5.1.3	Other comprehensive income presentation — debt securities
210-10-45-1(f)	2.3.5.1	Entities with classified balance sheets
210-10-45-1(f)	3.2.3	Entities with classified balance sheets
220-10-45-15	5.1.3	Other comprehensive income presentation — debt securities
320-10-15-2	2.2.1	Scope and scope exceptions — entities
320-10-15-3	2.2.1	Scope and scope exceptions — entities
320-10-15-4	2.2.1	Scope and scope exceptions — entities
320-10-15-7	2.2.3	Instruments not in the scope of ASC 320
320-10-25-1	2.3.3	Trading securities
320-10-25-1	2.3.4	Held-to-maturity securities
320-10-25-1	2.3.5	Available-for-sale securities
320-10-25-5(a)	2.3.4.1.2.6	Interest-only securities and other securities with principal risk
320-10-25-5(d)	4.2.3.2.1	Credit deterioration
320-10-25-6	2.3.4.1.2.1	Pledged securities
320-10-25-6	4.2.3.1.1	SEC staff views on sales or transfers of held-to-maturity securities
320-10-25-6	4.2.3.2	Permitted sales or transfers
320-10-25-6	4.2.3.2.5	Significant change in regulatory capital requirements
320-10-25-6(a)	4.2.3.2.1	Credit deterioration
320-10-25-6(a) through (f)	4.1.3	Transfers from held to maturity to available for sale
320-10-25-6(a) through (f)	4.2.3.2.6	Disclosures about transfers between categories and sales of debt securities
320-10-25-6(a) through (f)	5.1.6	Disclosures about transfers between categories and sales of debt securities
320-10-25-6(c)	4.2.3.2.3	Major business combination or disposition
320-10-25-9	2.3.4.1.2.1	Pledged securities
320-10-25-9	4.2.3.2.6	Isolated, nonrecurring and unusual events
320-10-25-13(d)	4.2.3.2.6.1	Tender offers for held-to-maturity securities
320-10-25-14	2.3.4.1.2.1	Pledged securities
320-10-25-14	4.2.3.3	Sales deemed to be at maturity
320-10-25-14(b)	4.2.3.3	Sales deemed to be at maturity
320-10-25-18(e)	2.3.4.1.2.2	Repurchase agreements and similar arrangements
320-10-25-19	2.3.4.1.2.7	Structured notes
320-10-25-20	2.3.4.1.2.7	Structured notes
320-10-35-1	2.3.3	Trading securities
320-10-35-1	2.3.4	Held-to-maturity securities
320-10-35-1	2.3.5	Available-for-sale securities
320-10-35-5	4.1	Transfers between categories of debt securities
320-10-35-7	4.2.3.1	Evaluation of the remaining portfolio following a sale or transfer

ASC Paragraph	Section	
320-10-35-8 through 35-9	4.1.3	Transfers from held to maturity to available for sale
320-10-35-8 through 35-9	4.2.3	Sales of held-to-maturity securities
320-10-35-10	4.1.4	Transfers involving trading securities
320-10-35-10A	4.1.3	Transfers from held to maturity to available for sale
320-10-35-10A through 35-10B	5.1.2	Income statement presentation — debt securities
320-10-35-10B	4.1.2	Transfers from held-to-maturity to available-for-sale
320-10-35-11	4.1.3	Transfers from held-to-maturity to available-for-sale
320-10-35-12	4.1.4	Transfers involving trading securities
320-10-35-40	2.3.4.1.2.7	Structured notes
320-10-45-1	5.1.1	Balance sheet presentation — debt securities
320-10-45-2	5.1.1	Balance sheet presentation — debt securities
320-10-45-7	5.1.2	Income statement presentation — debt securities
320-10-45-8	5.1.2	Income statement presentation — debt securities
320-10-45-8A	5.1.2	Income statement presentation — debt securities
320-10-45-8B	5.1.2	Income statement presentation — debt securities
320-10-45-11	5.1.4	Cash flow presentation and disclosure — debt securities
320-10-45-12	5.1.4	Cash flow presentation and disclosure — debt securities
320-10-45-13	5.1.1	Balance sheet presentation — debt securities
320-10-50-1B	5.1.5	Disclosures — debt securities
320-10-50-2	5.1.5.1	AFS and HTM securities — debt securities
320-10-50-2A	5.1.5.1	AFS and HTM securities — debt securities
320-10-50-3	5.1.5.1	AFS and HTM securities — debt securities
320-10-50-5	5.1.5.1	AFS and HTM securities — debt securities
320-10-50-5A	5.1.5.1	AFS and HTM securities — debt securities
320-10-50-5B	5.1.5.1	AFS and HTM securities — debt securities
320-10-50-5C	5.1.5.1	AFS and HTM securities — debt securities
320-10-50-9	5.1.6	Disclosures about transfers between categories and sales of debt securities
320-10-50-10	5.1.6	Disclosures about transfers between categories and sales of debt securities
320-10-S99-2	2.3.5.5	Effect of available-for-sale security unrealized gains and losses on certain insurance-related assets and liabilities of insurance companies
321-10-15-2	3.1.1	Scope and scope exceptions — entities
321-10-15-3	3.1.1	Scope and scope exceptions — entities
321-10-15-5	3.1.3	Instruments not in the scope of ASC 321
321-10-15-7	3.1.3	Instruments not in the scope of ASC 321
321-10-30-1	3.6.1	Initial carrying amount of equity securities previously accounted for under the equity method
321-10-35-2	3.3.2	Equity investments without readily determinable fair values
321-10-35-2	3.5	Hedging equity securities
321-10-35-1 through 35-2	3.6.1	Initial carrying amount of equity securities previously accounted for under the equity method

ASC Paragraph	Section	
321-10-35-1 through 35-2	3.6.2	Changing from ASC 321 accounting to the equity method of accounting
321-10-35-2	5.2.5.1	Disclosures — equity securities
321-10-35-3	3.3.2.1.3	Impairment of equity securities without readily determinable fair values
321-10-40-1	5.2.6	Sales of equity securities
321-10-45-1	5.2.4	Cash flow presentation and disclosure — equity securities
321-10-45-2	5.2.2	Balance sheet presentation — equity securities
321-10-50-2	5.2.5.1	Equity securities without readily determinable fair values
321-10-50-3	5.2.5.1	Equity securities without readily determinable fair values
321-10-50-4	5.2.5.2	Equity securities held at the reporting date
321-10-55-8	3.3.2.1.4	Identifying observable price changes
321-10-55-9	3.3.2.1.5	Identifying a similar investment of the same issuer
323-10-35-33	3.6.2	Changing from ASC 321 accounting to the equity method of accounting
323-30-S99-1	3.1.2.2.1	Investments in limited partnerships
323-740-25-1	3.1.2.2.1	Investments in limited partnerships
323-740-35-2	3.1.2.2.1	Investments in limited partnerships
323-740-45-2	3.1.2.2.1	Investments in limited partnerships
325-40-15-3	2.2.2.1.3.1	Securities in the scope of ASC 325-40
325-40-15-7	2.2.2.1.3.2	Applicability of ASC 325-40 to trading securities
325-40-15-8	2.2.2.1.3.2	Applicability of ASC 325-40 to trading securities
325-40-15-9	2.2.2.1.3.2	Applicability of ASC 325-40 to trading securities
505-20-30-7	5.1.2.1	Dividend and interest income — debt securities
505-20-30-7	5.2.3	Income statement presentation — equity securities
606-10-15-3A	3.1.3	Instruments not in the scope of ASC 321
606-10-32-21 through 32-24	3.1.3	Instruments not in the scope of ASC 321
815-10-15-15	3.2.2	Recognition date
815-10-15-17	3.2.2	Recognition date
815-10-15-141	2.2.2.1.4	Certain purchased options and forward contracts
815-10-15-141	2.3.6	Forward contracts and purchased options on debt securities
815-10-15-141	3.1.2.1.1	Forward contracts and purchased options on equity securities
815-10-15-141	3.3.2.1.6	Forward contracts and purchased options on equity securities
815-10-15-141(a)	3.1.2.1.1	Forward contracts and purchased options on equity securities
815-10-15-141A	3.1.2.1.1	Forward contracts and purchased options on equity securities
815-10-25-17	2.2.2.1.4	Certain purchased options and forward contracts
815-10-25-18	3.1.2.1.1	Forward contracts and purchased options on equity securities
815-10-35-5	2.3.6	Forward contracts and purchased options on debt securities
815-10-55-57	2.2.3.2.2	Short sales of debt securities
815-10-55-57	3.1.4.3	Short sales of equity securities
825-10-25-2	3.3.2.1.2	Reassessment and discontinuance of the election
825-10-25-4	3.3.2.1.2	Reassessment and discontinuance of the election
825-10-45-1A	5.1.1	Balance sheet presentation — debt securities
825-10-45-1A	5.2.2	Balance sheet presentation — equity securities
825-10-50-10	5.1.5.2	Disclosing fair value of debt securities
825-10-55-8	5.2.2	Balance sheet presentation — equity securities

ASC Paragraph	Section	
830-10-45-18	3.4	Foreign currency gains and losses
830-20-35-1	2.3.4.5	Foreign currency considerations
860-10-40-5	2.3.4.1.2.1	Pledged securities
860-20-35-2	2.2.2.1.3	Beneficial interests in securitized financial assets
860-20-35-2	2.2.3.2.3	Contractual prepayment or settlement in such a way that the holder would not recover substantially all of its recorded investment
860-20-35-2	2.3.4.1.2.5	Put and call features
860-20-35-2	2.3.4.3	Entities with classified balance sheets
860-20-35-3	2.2.3.2.3	Contractual prepayment or settlement in such a way that the holder would not recover substantially all of its recorded investment
940-320-25-1	3.2.2	Recognition date
942-325-25-2	3.2.2	Recognition date
946-320-25-1	3.2.2	Recognition date
946-320-30-1	2.3.2.2	Transaction costs
946-320-30-1	3.2.1	Transaction costs
960-325-25-1	3.2.2	Recognition date
962-325-25-1	3.2.2	Recognition date
965-320-25-1	3.2.2	Recognition date

C ASC abbreviations

Abbreviation	*FASB Accounting Standards Codification*
ASC 220	FASB ASC Topic 220, *Comprehensive Income*
ASC 230-10	FASB ASC Topic 230-10, *Statement of Cash Flows — Overall*
ASC 270-10	FASB ASC Topic 270-10, *Interim Reporting — Overall*
ASC 310	FASB ASC Topic 310, *Receivables*
ASC 310-10	FASB ASC Topic 310-10, *Receivables — Overall*
ASC 310-20	FASB ASC Topic 310-20, *Nonrefundable Fees and Other Costs*
ASC 320	FASB ASC Topic 320, *Investments — Debt Securities*
ASC 320-10	FASB ASC Topic 320, *Investments — Debt Securities — Overall*
ASC 321	FASB ASC Topic 321, *Investments — Equity Securities*
ASC 321-10	FASB ASC Topic 321-10, *Investments — Equity Securities — Overall*
ASC 323	FASB ASC Topic 323, *Investments — Equity Method and Joint Ventures*
ASC 325-40	FASB ASC Topic 325-40, *Investments — Beneficial Interests in Securitized Financial Assets*
ASC 326	FASB ASC Topic 326, *Financial Instruments — Credit Losses*
ASC 326-20	FASB ASC Topic 326-20, *Financial Instruments — Credit Losses — Measured at Amortized Cost*
ASC 326-30	FASB ASC Topic 326-30, *Financial Instruments — Credit Losses — Available-for-Sale Debt Securities*
ASC 505-20	FASB ASC Topic 505-20, *Equity — Stock Dividends and Stock Splits*
ASC 606	FASB ASC Topic 606, *Revenue from Contracts with Customers*
ASC 810	FASB ASC Topic 810, *Consolidation*
ASC 815	FASB ASC Topic 815, *Derivatives and Hedging*
ASC 815-10	FASB ASC Topic 815-10, *Derivatives and Hedging — Overall*
ASC 815-15	FASB ASC Topic 815-15, *Derivatives and Hedging — Embedded Derivatives*
ASC 820	FASB ASC Topic 820, *Fair Value Measurements*
ASC 825	FASB ASC Topic 825, *Financial Instruments*
ASC 860	FASB ASC Topic 860, *Transfers and Servicing*
ASC 860-10	FASB ASC Topic 860-10, *Transfers and Servicing — Overall*
ASC 860-20	FASB ASC Topic 860-20, *Transfers and Servicing — Sales of Financial Assets*
ASC 940	FASB ASC Topic 940, *Financial Services — Brokers and Dealers*
ASC 940-320	FASB ASC Topic 940-320, *Financial Services — Brokers and Dealers — Investments — Debt and Equity Securities*
ASC 942-320	FASB ASC Topic 942-320, *Financial Services — Depository and Lending — Investments —Debt and Equity Securities*
ASC 944	FASB ASC Topic 944, *Financial Services — Insurance*
ASC 946	FASB ASC Topic 946, *Financial Services — Investment Companies*
ASC 946-320	FASB ASC Topic 946-320, *Financial Services — Investment Companies — Investments — Debt and Equity Securities*
ASC 958	FASB ASC Topic 958, *Not-for-Profit Entities*
ASC 958-320	FASB ASC Topic 958-320, *Not-for-Profit Entities — Investments — Debt Securities*

Abbreviation	*FASB Accounting Standards Codification*
ASC 958-321	FASB ASC Topic 958-321, *Not-for-Profit Entities — Investments — Equity Securities*
ASC 960	FASB ASC Topic 960, *Plan Accounting — Defined Benefit Pension Plans*
ASC 960-325	FASB ASC Topic 960-325, *Plan Accounting — Defined Benefit Pension Plans — Investments — Other*
ASC 962	FASB ASC Topic 962, *Plan Accounting — Defined Contribution Pension Plans*
ASC 965	FASB ASC Topic 965, *Plan Accounting — Health and Welfare Benefit Plans*

Abbreviation	*FASB Accounting Standards Updates*
ASU 2009-12	Accounting Standards Update No. 2009-12, *Fair Value Measurements and Disclosures (Topic 820): Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)*
ASU 2018-03	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*
ASU 2019-04	Accounting Standards Update No. 2019-04, *Codification Improvements to Topic 326, Financial Instruments — Credit Losses, Topic 815, Derivatives and Hedging, and Topic 825, Financial Instruments*
ASU 2023-02	Accounting Standards Update 2023-02, *Investments — Equity Method and Joint Ventures (Topic 323): Accounting for Investments in Tax Credit Structures Using the Proportional Amortization Method (a consensus of the Emerging Issues Task Force)*
ASU 2025-07	Accounting Standards Update 2025-07, *Derivatives and Hedging (Topic 815) and Revenue from Contracts with Customers (Topic 606): Derivatives Scope Refinements and Scope Clarification for Share-Based Noncash Consideration from a Customer in a Revenue Contract*
ASU 2025-11	Accounting Standards Update 2025-11, *Interim Reporting (Topic 270): Narrow Scope Improvements*

Abbreviation	Non-Authoritative Standards
Rule 144	Securities Act of 1933 Rule 144, *Persons deemed not to be engaged in a distribution and therefore not underwriters*
Rule 2a-7	Securities and Exchange Commission Rule 2a-7, *Money Market Funds*
FAS 115	FASB Statement No. 115, *Accounting for Certain Investments in Debt and Equity Securities*

D Summary of important changes

Chapter 2: **Accounting for investments in debt securities**

- Section 2.3.4.6 was updated to reflect the FASB's issuance of Proposed ASU, *Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Interest Rate Risk Hedging and Net Investment Hedging*.

Chapter 3: **Accounting for equity investments**

- Section 3.1.2.2.1 was updated to reflect the fact that ASU 2023-02, *Investments—Equity Method and Joint Ventures (Topic 323): Accounting for Investments in Tax Credit Structures Using the Proportional Amortization Method*, is effective for all entities.
- Section 3.1.3 was updated to reflect the FASB's issuance of ASU 2025-07, *Derivatives and Hedging (Topic 815) and Revenue from Contracts with Customers (Topic 606): Derivatives Scope Refinements and Scope Clarification for Share-based Noncash Considerations from a Customer in a Revenue Contract*.
- Section 3.3.1.1.1 was updated to reflect the fact that ASU 2022-03, *Fair Value Measurement (Topic 820): Fair Value Measurement of Equity Securities Subject to Contractual Sale Restrictions*, is effective for all entities. It was also updated to reflect the FASB's issuance of Proposed ASU, *Fair Value Measurements (Topic 820): Investment Companies with Equity Securities Subject to Contractual Sale Restrictions*.

Chapter 5: **Presentation and disclosure**

- Sections 5.1.5, 5.1.6 and 5.2.5 were updated to reflect the guidance in ASU 2025-11, *Interim Reporting (Topic 270), Narrow Scope Improvements*.

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