What you need to know

• The FASB issued narrow amendments that could change how entities apply certain aspects of the guidance on fair value measurement, joint and several liability, transfers and servicing, real estate sales and software licenses.

• The amendments were issued as part of the FASB’s standing project to make technical corrections and improvements to the Accounting Standards Codification.

• Many of these amendments are effective for calendar-year entities in the first quarter of 2017.

Overview

The Financial Accounting Standards Board (FASB or Board) issued an Accounting Standards Update¹ (ASU) to clarify guidance, correct errors and make minor improvements to the Accounting Standards Codification (ASC or Codification). While most of the amendments are not expected to have a significant effect on practice, some of them may change how some entities apply aspects of the guidance on fair value measurement, joint and several liability and other topics in the ASC. The FASB provided transition guidance for these amendments because they were deemed more substantive. The other amendments in the ASU were effective upon issuance in December 2016.

The FASB issued the ASU as part of its standing project to address suggestions from stakeholders and to make other small improvements to US GAAP. These amendments, which are referred to as technical corrections and improvements, include clarifications, reference corrections and changes to address differences between the Codification and source literature.
Key considerations

Fair value measurement
The Board clarified the difference between the terms valuation approach and valuation technique in the fair value measurement guidance in ASC 820. A valuation approach refers to the cost, income or market approaches to valuation, while a valuation technique refers to the valuation method used to apply a valuation approach. For example, the discounted cash flow method is a valuation technique that could be used when applying the income valuation approach. The amendments clarify that an entity is required to disclose when it changes a valuation approach and/or a valuation technique. Prior to this clarification, some entities may have interpreted the disclosure requirement to only apply to changes in valuation approaches.

Joint and several liability arrangements
The Board added guidance to clarify which obligation amounts must be fixed to be within the scope of ASC 405-40, Liabilities – Obligations Resulting from Joint and Several Liability Arrangements. The amendment states that, for an obligation under a joint and several liability arrangement to be considered fixed at the reporting date, it must be fixed in its entirety. That is, the amount that the entity expects to pay (i.e., its portion of the obligation) may be uncertain at the reporting date. This aligns with related guidance in ASC 405-40-30-1(b).

Other amendments
The Board made several amendments to ASC 860, Transfers and Servicing, including two for which transition guidance was provided. The Board clarified the implementation guidance on contingent removal-of-accounts provisions to state that, when the contingency related to such a provision has been met, the transferor has the unilateral right to purchase a specific transferred financial asset. At that point, the transferor must determine whether that unilateral right provides it with a more-than-trivial benefit. If so, the transferor once again has effective control over the transferred financial asset.

The Board added guidance to ASC 860 that existed in American Institute of Certified Public Accountants Statement of Position 01-6, Accounting by Certain Entities (Including Entities with Trade Receivables) That Lend to or Finance the Activities of Others, but was not previously codified. The amendments provide that ASC 860-50 applies to transactions in which servicing assets are transferred with loans retained by the transferor, and that the carrying amount of servicing rights should be allocated at the date of sale between the servicing rights and the loans retained using relative fair values.

The Board amended ASC 360-20, Property, Plant, and Equipment – Real Estate Sales, to make the guidance consistent with the final decision of the FASB’s Emerging Issues Task Force that loans insured under Federal Housing Administration and Veterans Administration programs do not have to be fully insured by those government-insured programs for a seller to recognize profit using the full accrual method.

The Board amended ASC 350-40 to clarify that after they adopt ASU 2015-05, Customer’s Accounting for Fees Paid in a Cloud Computing Arrangement, companies will record an intangible asset for the license acquired in a software licensing arrangement. The asset for the software license should be recognized and measured at cost, which includes the present value of the license obligation if the license is to be paid for over time. Companies will record a liability for any of the software licensing fees that are not paid on or before the acquisition date of the license.
Effective date and transition

The amendments discussed above, except for those to ASC 350-40, will be applied prospectively, and are effective for all entities for fiscal years beginning after 15 December 2016, and interim periods within those fiscal years (i.e., first quarter 2017 for calendar-year entities). Early adoption is permitted for any fiscal year or interim period for which the entity’s financial statements have not yet been issued or for which financial statements are available to be issued.

The amendment to ASC 350-40 is effective for public business entities for annual periods, including interim periods within those annual periods, beginning after 15 December 2016. For all other entities, the guidance is effective for annual periods beginning after 15 December 2017, and interim periods in annual periods beginning after 15 December 2018. The remaining transition guidance for this amendment is the same as the transition guidance in ASU 2015-05.

Endnotes:

1 ASU 2016-19, Technical Corrections and Improvements.