PROFESSOR'S DISCUSSION MATERIALS

Objectives of the Case

This case gives students an opportunity to become familiar with required quantitative and qualitative disclosures for assets and liabilities that are measured at fair value on a recurring basis under ASC 820.

Applicable Professional Pronouncements

ASC 210-20, *Balance Sheet: Offsetting* (ASC 210-20)

ASC 320, *Investments — Debt and Equity Securities* (ASC 320)

ASC 321, *Investments — Equity Securities* (ASC 321)

ASC 815, *Derivatives and Hedging* (ASC 815)

ASC 820, *Fair Value Measurement* (ASC 820)

ASC 825, *Financial Instruments* (ASC 825)

ASC 942-320, *Financial Services — Depository and Lending: Investments — Debt and Equity Securities* (ASC 942-320)

Background

Professor's Note:

1. Students should review the Appendix, "Pricing and Valuation of Securities: Introduction to Common Types of Securities," and work through Case 11-2(a) before reviewing this case.
2. This case should follow Case 11-2(a), which discusses determining the appropriate classification in the ASC 820 fair value hierarchy for the six instruments. After the solutions to Case 11-2(a) have been discussed, the professor should proceed to Case 11-2(b), which outlines required disclosures for the same six instruments under ASC 820. The case materials have been divided into Case 11-2(a) and Case 11-2(b), each with its own sets of facts and solutions. Note, however, that the facts described for the six instruments in Case 11-2(a) will be used to solve Case 11-2(b), except as noted in the case facts to Case 11-2(b).
3. **The financial reporting date for this case is December 31, 20X2**.

The Excel solution document is part of the solutions to Case 11-2(b) and should be considered along with the discussion in this document.

As stated in Case 11-2(a), students should understand that ASC 820 is a principles-based standard that, in many situations, requires significant judgment in its application. Certain aspects of Case 11-2(a) and Case 11-2(b) may not have a clear answer in the literature. The purpose of the cases is to familiarize students with the concepts in ASC 820 and encourage dialogue about applying the guidance. Students should apply judgment in solving each case and be ready to support their judgments. The professor should challenge the students in this regard.

Discussion

- Using the case facts and the fair value measurements provided in the fair value data table below, prepare the annual quantitative disclosure tables required by ASC 820 as of December 31, 20X2, for each of the six instruments:
    - The fair value measurements as of the reporting date (i.e., December 31, 20X2) separately for each class of assets and liabilities. **Use blank table formats 1a and 1b below to complete the required quantitative disclosures**.
    - For assets and liabilities measured at fair value by means of significant unobservable inputs on a recurring basis, a reconciliation of the beginning and ending balances (i.e., annual table), separately for each class of assets and liabilities, including where the gains or losses included in earnings are reported in the income statement. **Use blank table format 2 below to complete the required quantitative disclosures**.
    - For certain assets and liabilities measured at fair value, (1) the amount of the total gains or losses for the period included in earnings that are attributable to the change in unrealized gains or losses relating to those assets and liabilities still held as of the reporting date (i.e., December 31, 20X2) and (2) a description of where those unrealized gains or losses are reported in the income statement. **Use blank table format 2 below to complete the required quantitative disclosures**.
    - For assets and liabilities measured at fair value by means of significant unobservable inputs, quantitative information about the significant unobservable inputs used in the fair value measurement. **Use blank table format 3 below to complete the required quantitative disclosures.** (Note that participants are also required to identify the classes of assets and liabilities to include in Table 3.)
- Identify any qualitative disclosures required under ASC 820 for each of the six instruments as of December 31, 20X2.

General Note on Solutions

ASC 820-10-50-1 states:

> A reporting entity shall disclose information that helps users of its financial statements assess both of the following:
>
> a. For assets and liabilities that are measured at fair value on a recurring or nonrecurring basis in the statement of financial position after initial recognition, the valuation techniques and inputs used to develop those measurements
>
> b. For recurring fair value measurements using significant unobservable inputs (Level 3), the effect of the measurements on earnings (or changes in net assets) or other comprehensive income for the period.

To meet that objective, entities must provide quantitative and qualitative disclosures. (See Tables 1 through 3 in the Excel solution document for the required quantitative disclosures for this case.) The quantitative and qualitative disclosures are required for each interim and annual period.

The discussion of each instrument below is organized by these two aspects (quantitative and qualitative disclosures), which is also consistent with the two requirements of the case.

Solution

Students should assume that all amounts discussed below and those included in the data tables are U.S. dollars in thousands.

Instrument 1 — Collateralized Debt Obligation

Quantitative disclosure **—** Refer to Tables 1 (for assets), 2, and 3 in the Excel solution document for the required quantitative disclosures as of December 31, 20X2.

Considerations Relating to Quantitative Disclosures

For transfers into and out of Level 3 (Table 2), ASC 820-10-50-2(c)(3) states, in part:

> For recurring fair value measurements categorized within Level 3 of the fair value hierarchy, a reconciliation from the opening balances to the closing balances, disclosing separately changes during the period attributable to . . . [t]he amounts of any transfers into or out of Level 3 of the fair value hierarchy, the reasons for those transfers, and the reporting entity's policy for determining when transfers between levels are deemed to have occurred.

The transfers into and out of the Level 3 line item of Table 2 are meant to display changes in observability. For example, assume that the market for an instrument that was classified as at Level 2 subsequently becomes inactive and the inputs to the fair value measurement become unobservable, causing the classification of the instrument to change to Level 3. The transfer into the Level 3 line item is meant to capture the fair value amount on the date the instrument's classification is changed from Level 2 to Level

3. See the observations below for a discussion of accounting policy alternatives relating to the timing of when transfers are recognized and note that the timing may not coincide with the exact date when observability changed. Similarly to transfers into Level 3, transfers out of Level 3 are meant to display any changes in observability that reclassify the instrument from Level 3 to either Level 2 or Level 1 during the period.

Entities recognize transfers in accordance with related policy elections, and the date a transfer is recognized may not coincide with the exact date that events occurred or circumstances changed causing the change in level. Any changes in fair value related to the instrument after that date would be reflected in the reconciliation.

Specific to the collateralized debt obligation (CDO), as stated in the case facts in Case 11-2(a), Family Finance Co. (FFC) concluded that significant adjustments to observed market transactions of similar CDO securities (Level 2 inputs) must be made in determining fair value on the measurement date (December 31, 20X2) given the lack of recent and relevant transactions. FFC determines that any adjustments made to the observed market transactions would be considered a Level 3 input in the ASC 820 fair value hierarchy. Accordingly, FFC changed the fair value measurement technique and also the classification for the CDO from Level 2 to Level 3 on October 1, 20X2. The fair value of the CDO on that date was $40, which FFC disclosed in the transfers into the Level 3 line item. In this case, FFC specifically identified the date of change and disclosed the fair value on that date, which, as previously discussed, is an appropriate approach. FFC should also disclose reasons for the transfer.

Professor's Note: Although students are not asked to make a hypothetical policy decision about the timing of recognizing transfers, the professor should encourage discussion about why one policy alternative may be preferable. Facts and circumstances may dictate the use of a particular policy alternative. However, the professor and students may also consider the following:

1. A reporting entity's current or past policies.
2. An illustrative letter issued in March 2008 by the SEC's Division of Corporation Finance to certain public companies, which suggested the following additional discussion in an entity's MD&A: "If you transferred a material amount of assets or liabilities into Level 3 during the period, a discussion of . . . any material gain or loss you recognized on those assets or liabilities during the period, and, to the extent you exclude that amount from the realized/unrealized gains (losses) line item in the Level 3 reconciliation, the amount you exclude." In other words, if an entity chooses a policy of recognizing transfers at the end of the reporting period, an amount of realized/unrealized gains (losses) will be excluded from the Level 3 reconciliation, and the entity would have to disclose that amount.
3. Implementation guidance in ASC 820-10-55-101 provides an example of an entity using the "actual date" policy alternative for both transfers into and out of Level 3.

Quantitative information about significant unobservable inputs (Table 3): An entity's disclosure of the valuation technique and unobservable inputs used in measuring the fair value of classes of assets and liabilities categorized in Level 3 of the fair value hierarchy is considered a qualitative disclosure. However, including these disclosures along with the name of the class of asset or liability and the fair value for that class in the same table as the quantitative information about significant unobservable information is consistent with ASC 820-10-55-103.

In addition, an entity need only disclose quantitative information about *significant unobservable* inputs. Specific to the CDO, the entity used (1) a 15 percent implied rate of return on the last date of active trading, (2) a 2 percent credit adjustment, (3) a 5 percent liquidity risk adjustment, and (4) a 1 percent management adjustment to reflect current market conditions and other factors evidenced by nonbinding broker quotes. The 15 percent implied rate of return is a Level 2 input, and management concluded the adjustment of 1 percent (on a rate of 22 percent) to reflect current market conditions evidenced by nonbinding broker quotes was not significant to the fair value measurement in its entirety. Therefore, only inputs (2) and (3) above are included in the quantitative disclosure about unobservable inputs significant to the fair value measurement of the CDO.

These same inputs should be included in the qualitative disclosure describing the sensitivity of the CDO's fair value measurement to changes in these inputs. See ASC

820-10-50-2(g), which states that “the narrative description of the sensitivity to changes in unobservable inputs shall include, at a minimum, the unobservable inputs disclosed when complying with paragraph 820-10-50-2(bbb),” which includes the quantitative requirement described above.

Qualitative disclosures — ASC 820-10-50-2(bbb) requires disclosures of “a description of the valuation technique(s) and the inputs used in the fair value measurement” and further states that “[i]f there has been a change in valuation technique . . . the reporting entity shall disclose that change and the reason(s) for making it.” Accordingly, FFC should provide the description of the valuation technique and inputs used to measure the fair value of its CDO as of December 31, 20X2. Note that FFC changed the valuation technique for the CDO from a market approach to an income approach and, as discussed earlier, changed its classification from Level 2 to Level 3 in October 20X2. This change represents a change in valuation technique that requires qualitative disclosure as of December 31, 20X2.

In accordance with ASC 820-10-50-2(c)(3), as noted above, FFC should disclose its policy for determining when the transfers of the CDO into or out of Level 3 should be recognized.

In accordance with ASC 820-10-50-2(f), FFC should disclose “the valuation processes used by the reporting entity (including, for example, how an entity decides its valuation policies and procedures and analyzes changes in fair value measurements from period to period). See paragraph 820-10-55-105 for further guidance.”

Finally, in accordance with ASC 820-10-50-2(g), FFC must also disclose “a narrative description of the sensitivity of the fair value measurement to changes in unobservable inputs if a change in those inputs to a different amount might result in a significantly higher or lower fair value measurement. If there are interrelationships between those inputs and other unobservable inputs used in the fair value measurement, a reporting entity shall also provide a description of those interrelationships and of how they might magnify or mitigate the effect of changes in the unobservable inputs on the fair value measurement.” ASC 820-10-55-106 provides an example.

Instrument 2 — Mortgage-Backed Security

Quantitative disclosure — Refer to Table 1 (for assets) in the Excel solution document for the required quantitative disclosures as of December 31, 20X2.

Note that the additional disclosures related to the reconciliation between beginning and ending balances for instruments classified as at Level 3 are not applicable for the mortgage-backed security (MBS) because that instrument is measured at Level 2 for the period ended December 31, 20X2.

Professor's Note: ASC 820 requires disclosure of any transfers into Levels 1 and 2 separately from transfers out of those levels. A description of the reasons for the transfers and the entity's policy for determining when transfers are deemed to have occurred are also required. Although those disclosures are not applicable to FFC since no transfers occurred into or out of Level 1 or Level 2, the instructor should communicate the requirements to participants.

Qualitative disclosure — Although no change in valuation technique for the MBS occurred during the period (the instrument was valued using a market approach throughout FFC's 20X2 fiscal period), a discussion of the inputs and valuation technique used by FFC to measure the fair value of its MBS is required as of December 31, 20X2, in accordance with ASC 820-10-50-2(bbb).

Instrument 3 — Auction-Rate Security

Quantitative disclosure — Refer to Table 1 (for assets) and Table 2 (in the Excel solution document) for the required quantitative disclosures as of December 31, 20X2.

1. Transfers into and out of Level 3 (Table 2): Regarding the disclosure requirement specified in ASC 820-10-50-2(c)(3) to reconcile the beginning and ending balances, including separately presenting any transfers into and out of Level 3, see the discussion included in the solution to Instrument 1 concerning an entity's policy election for determining when transfers between levels are recognized.

   Specific to Instrument 3 (as stated in the case facts for Case 11-2(a)), because of the continued deterioration in liquidity for the segment of the auction-rate securities (ARS) market backed by student loans, FFC did not observe any market transactions during Q4 20X2. As a result, FFC used a discounted cash flow model (income approach) to value its ARS holdings. Certain inputs to the valuation model that are significant to the overall valuation are not market observable and therefore FFC determines that the discounted cash flow valuation with significant unobservable inputs would be considered Level 3 in the ASC 820 fair value hierarchy. Accordingly, FFC changed the classification of the fair value measurement for the ARSs from Level 2 to Level 3 on November 1, 20X2. The fair value of the ARSs on that date was $55, which FFC disclosed in the transfers into the Level 3 line item. In this case, FFC specifically identified the date of change and disclosed the fair value on that date, which is an appropriate approach. FFC should also disclose the reasons for a transfer.

2. Disclosure of income statement effect (Table 2): Also note that FFC has classified the ARSs as available-for-sale (AFS) securities under ASC 320. As a result, FFC accounts for the ARSs at fair value with changes in fair value reflected in other comprehensive income (OCI). Under ASC 820-10-50-2(c)(1) and (c)(1a) the Level 3 disclosures require separate presentation of "gains or losses for the period recognized in earnings" from "gains or losses for the period recognized in other comprehensive income." FFC's Level 3 reconciliation, Level 3 unrealized gains

or losses, and income statement location disclosures (as displayed in Table 2 of the Excel solution document) appropriately accomplish this segregation.

The Excel solution document was created under the assumption that no other-than-temporary impairment (OTTI) of the ARSs was recognized during the period.[1] Although not addressed in the case facts, how the disclosures would change if an OTTI had been recognized as of December 31, 20X2, should be part of the classroom discussion. For example, FFC might have disclosed the impairment charge in the "total gains or losses: included in earnings" line item in the Level 3 reconciliation and the amount related to the OCI reversal in the "total gains or losses: included in OCI" line item.

3. Quantitative information about significant unobservable inputs (Table 3): An entity's disclosure of the valuation technique and unobservable inputs used in measuring the fair value of classes of assets and liabilities categorized in Level 3 of the fair value hierarchy is considered a qualitative disclosure. However, including these disclosures along with the name of the class of asset or liability and the fair value for that class in the same table as the quantitative information about significant unobservable information is consistent with ASC 820-10-55-103.

   In addition, an entity need only disclose quantitative information about *significant unobservable* inputs. Specific to the ARS, the case facts in Case 11-2(b) provide the relevant inputs and related values. All such inputs are significant to the ARS's fair value measurement in its entirety and should be included in the quantitative disclosure. Because FFC holds one ARS (and one CDO — Instrument 1), FFC does not provide a range and weighted value for these inputs as suggested in the implementation guidance in ASC 820-10-55-103. Instead, FFC provides the actual value for the input used.

   These same inputs should be included in the qualitative disclosure describing the sensitivity of the CDO's fair value measurement to changes in these inputs. See ASC 820-10-50-2(g), which states that "the narrative description of the sensitivity to changes in unobservable inputs shall include, at a minimum, the unobservable inputs disclosed when complying with paragraph 820-10-50-2(bbb)" — the quantitative requirement described above.

Qualitative disclosure — ASC 820-10-50-2(bbb) requires disclosures of "a description of the valuation technique(s) and the inputs used in the fair value measurement" and further states that "[i]f there has been a change in valuation technique . . . the reporting entity shall disclose that change and the reason(s) for making it." Accordingly, FFC should provide the description of the valuation technique and inputs used to measure the fair value of its ARSs as of December 31, 20X2. It should also be noted that FFC changed the valuation technique for the ARSs from a market approach to an income approach and, as discussed earlier, changed its classification from Level 2 to Level 3 in November 20X2.

[1] ASU 2016-13, *Measurement of Credit Losses on Financial Instruments*, may have an impact on recognition and measurement of these types of securities, because it relates to allowance for credit losses.

This change represents a change in valuation technique that requires qualitative disclosure consideration as of December 31, 20X2.

In accordance with ASC 820-10-50-2(c)(3), as noted for Instrument 1, FFC should disclose its policy for determining when the transfers into or out of Level 3 of the ARS measurements are recognized.

In accordance with ASC 820-10-50-2(f), FFC should disclose “the valuation processes used by the reporting entity (including, for example, how an entity decides its valuation policies and procedures and analyzes changes in fair value measurements from period to period). See paragraph 820-10-55-105 for further guidance.”

Finally, in accordance with ASC 820-10-50-2(g), FFC must also disclose “a narrative description of the sensitivity of the fair value measurement to changes in unobservable inputs if a change in those inputs to a different amount might result in a significantly higher or lower fair value measurement. If there are interrelationships between those inputs and other unobservable inputs used in the fair value measurement, a reporting entity shall also provide a description of those interrelationships and of how they might magnify or mitigate the effect of changes in the unobservable inputs on the fair value measurement.” ASC 820-10-55-106 provides an example.

Instrument 4 — Equity Security of a Nonpublic Company

Quantitative disclosure — Refer to Table 1 (for assets) and Table 2 in the Excel solution document for the required quantitative disclosures as of December 31, 20X2.

One important observation for the equity security of nonpublic Company X relates to the ASC 820-10-50-2(c)(2) disclosure requirement to reconcile the beginning and ending balances, and more specifically, the requirement to separately disclose “[p]urchases, sales, issues, and settlements.” Since the equity security was sold in October 20X2, the amount received on the sale (i.e., $120) should be disclosed in the Level 3 reconciliation table in the sales line item.

Qualitative disclosure — No qualitative ASC 820-10 disclosures are required since the investment was sold during the period and not recorded in the balance sheet as of December 31, 20X2.

Instrument 5 — Interest Rate Swap

Quantitative disclosure — Refer to Table 1 (for assets and liabilities) in the Excel solution document for the required quantitative disclosures as of December 31, 20X2.

The ASC 820-10-50-2(a)–(bb) disclosure requirements must be presented on a gross basis. More specifically for derivatives, assets and liabilities must be presented on a gross basis rather than net (i.e., by counterparty, which may be an appropriate balance sheet presentation if certain criteria are met in accordance with ASC 210-20). Therefore, Table 1a includes the gross interest rate (IR) swap asset fair values while Table 1b includes the gross IR swap liability fair values. Since FFC has elected to account for its IR swap assets and liabilities on a gross basis on the balance sheet, no "counterparty netting adjustment" is necessary to reconcile the derivative balances between the ASC 820 disclosure tables and the balance sheet.

Note that the Level 3 disclosures are not applicable to FFC's IR swap portfolio because FFC had classified all of its IR swaps within Level 2 for the entire period ended December 31, 20X2.

Professor's Note:

Counterparty Netting Considerations — Net Versus Gross Presentation for Derivatives

For derivative assets and liabilities, the disclosure required by ASC 820-10-50-2(a) and (b) should be disclosed on a **gross basis** (i.e., as shown in the Excel solution document (Tables 1a and 1b) of this case). However, for the Level 3 reconciliation disclosure required by ASC 820-10-50-2(c) and (d), derivative assets and liabilities may be presented on **either a gross or a net basis**. Although the ASC 820-10-50-2(c) and (d) disclosures are not applicable to FFC's IR swaps, the instructor should communicate the different presentation requirements for derivatives in the ASC 820 disclosures.

Note that the following discussion on balance sheet netting or ASC 210-20 considerations is included for awareness and as a possible discussion point (at the instructor's discretion), but it is not required for this case.

If FFC's IR swaps and liabilities were eligible for offset and FFC elected to offset the IR swaps' fair value measurements on the balance sheet (i.e., net derivative assets and liabilities by counterparty in accordance with ASC 210-20), the solution to this case would have changed. In practice, under this circumstance, many reporting entities have provided separate disclosure to help facilitate the reconciliation between the ASC 820-10 disclosures (i.e., fair values on a gross basis) and the balance sheet (i.e., fair values on a net, by counterparty, basis). Reporting entities have commonly accomplished this by including two additional columns in their ASC 820 disclosure tables (Tables 1a and 1b in the Excel solution document) labeled "counterparty netting" and "amounts reported in balance sheet." The professor is encouraged to discuss this approach with the students.

Qualitative disclosure — Although no change in valuation technique for the IR swaps occurred during the period (all the instruments were valued using an income approach with consistent inputs throughout FFC's 20X2 fiscal period), a discussion of the inputs and valuation technique used by FFC to measure the fair value of its IR swaps is required as of December 31, 20X2, in accordance with ASC 820-10-50-2(bbb).

Instrument 6 — Fuel Swap: Gasoline

Quantitative disclosure — Refer to Table 1 (for assets) and Table 2 in the Excel solution document for the required quantitative disclosures as of December 31, 20X2.

One important observation for the fuel swap relates to the requirement in ASC 820-10-50-2(d) to disclose the "amount of the total gains or losses for the period . . . included in earnings [realized and unrealized] (or changes in net assets) that is attributable to the change in unrealized gains or losses relating to those assets and liabilities held at the end of the reporting period, and the line item(s) in the statement of income (or activities) in which those unrealized gains or losses are recognized."

The objective of the ASC 820-10-50-2(d) disclosure requirement is to allow the users of financial statements to understand the composition of the "total gains or losses included in earnings" line item in the Level 3 roll-forward reconciliation (as required under ASC 820-10-50-2(c)). By requiring the delineation between realized and unrealized amounts included in earnings for Level 3 instruments, ASC 820-10-50-2(d) is intended to give the users of financial instruments a better understanding of how earnings were affected by changes in unobservable inputs during the period. For most financial instruments (including debt and equity securities), the reported gains or losses are considered "unrealized" until the instruments are sold or mature. In other words, for such instruments, the unrealized gains or losses disclosed during the period would equal all gains or losses during the period if the instrument was not sold or did not mature (see Table 2 in the Excel solution document for Instrument 1 (CDO), which displays this result).[2]

However, the ASC 820-10-50-2(d) unrealized disclosure requirements become more complicated when applied to derivatives with multiple settlements (such as FFC's fuel swap). Certain derivative instruments (e.g., swaps) require periodic net cash settlements (i.e., quarterly or annually) over the lives of the instruments.[3] For example, as stated in the case facts, the periodic cash settlements for the fuel swap occur on an annual basis. There is diversity in practice as it relates to how "unrealized" is defined for derivatives with periodic net cash settlements. The following two approaches are acceptable:

Approach 1: Unrealized gains or losses represent the change in fair value during the period related only to open or unsettled "swaplets" held as of the reporting date. This approach isolates the earnings impact of changes in inputs to the fair value measurement related to open swaplets only. Table 2 in the Excel solution document considers *Approach 1*. Accordingly, FFC discloses $375 of unrealized gains for the fuel swap during the period, which represents the difference between $375 (the fair value of the three remaining open swaplets as of December 31, 20X2) and $0 (the fair value of the same three swaplets at inception (January 2, 20X2)).

Approach 2: Treatment of derivatives is consistent with that of other types of financial instruments (e.g., debt and equity securities), thereby emphasizing the derivative's unit of account (the contract) and considering all gains or losses related to the unit of account (the contract) to be "unrealized" until the entire contract either is sold or matures. This approach isolates the earnings impact of changes in inputs to the fair value measurement

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[2] This case does not consider how accrued interest or dividends related to Level 3 instruments should be considered in the ASC 820 Level 3 disclosures. This topic is beyond the scope of this case. For simplicity, the case assumes no accrued interest or dividends for any instruments.

[3] Each periodic cash settlement represents a "swaplet."

related to all swaplets (open and settled) related to derivative instruments held at the reporting date. Under this approach, FFC would have disclosed $475 of unrealized gains for the fuel swap during the period, which equals the total gains or losses included in earnings during the period.

Note that under both approaches, if all of the derivative's swaplets had settled as of the reporting date, the instrument would not be subject to the ASC 820-10-50-2(d) unrealized disclosure requirements.

Quantitative information about significant unobservable inputs (Table 3): An entity's disclosure of the valuation technique and unobservable inputs used in measuring the fair value of classes of assets and liabilities categorized in Level 3 of the fair value hierarchy is considered a qualitative disclosure. However, including these disclosures along with the name of the class of asset or liability and the fair value for that class in the same table as the quantitative information about significant unobservable information is consistent with ASC 820-10-55-103.

In addition, an entity need only disclose quantitative information about *significant unobservable* inputs. Specific to the fuel swap, the case facts in Case 11-2(b) provide the relevant inputs and related values. All such inputs are significant to the fair value measurement in its entirety and should be included in the quantitative disclosure. Because FFC holds one fuel swap, FFC does not provide a range and weighted value for these inputs as suggested in the implementation guidance in ASC 820-10-55-103. Instead, FFC provides the actual value for the input used. However, a forward curve is represented by a range.

These same inputs should be included in the qualitative disclosure describing the sensitivity of the CDO's fair value measurement to changes in these inputs. See ASC 820-10-50-2(g), which states that "the narrative description of the sensitivity to changes in unobservable inputs shall include, at a minimum, the unobservable inputs disclosed when complying with paragraph 820-10-50-2(bbb)" — the quantitative requirement described above.

Qualitative disclosure — Although no change in the valuation technique for the fuel swap occurred during the period (the instrument was valued by using an income approach with consistent inputs throughout FFC's 20X2 fiscal period), a discussion of inputs and the valuation technique used by FFC to measure the fair value of its fuel swap is required as of December 31, 20X2.

FFC should consider disclosing its approach to calculating unrealized gains and losses for the fuel swap in accordance with ASC 820-10-50-2(d).

In accordance with ASC 820-10-50-2(f), FFC should disclose "the valuation processes used by the reporting entity (including, for example, how an entity decides its valuation policies and procedures and analyzes changes in fair value measurements from period to period). See paragraph 820-10-55-105 for further guidance."

Finally, in accordance with ASC 820-10-50-2(g), FFC must also disclose "a narrative description of the sensitivity of the fair value measurement to changes in unobservable inputs if a change in those inputs to a different amount might result in a significantly higher or lower fair value measurement. If there are interrelationships between those inputs and other unobservable inputs used in the fair value measurement, a reporting entity shall also provide a description of those interrelationships and of how they might magnify or mitigate the effect of changes in the unobservable inputs on the fair value measurement." ASC 820-10-55-106 provides an example.

Current Status of the Disclosure Framework Project — June 2016

The FASB is currently deliberating the Disclosure Framework project, which includes fair value measurement, to improve the effectiveness of disclosures in notes to financial statements by clearly communicating the information that is most important to users of each entity's financial statements.

In December 2015, the FASB issued proposed ASU *Disclosure Framework — Changes to the Disclosure Requirements for Fair Value Measurement*. Comments were due by February 29, 2016, and the Board is currently redeliberating the proposed guidance.

The FASB's project is expected to affect the required quantitative and qualitative disclosures discussed in this case.

We encourage you to check the FASB's Web site for further details and developments. You can also check US GAAP Plus for Deloitte publications on proposals and final standards as they are issued.

Current Status of the Hedging Project — July 2017

The objective of the hedging project is to make targeted improvements to the hedge accounting model on the basis of the feedback received from preparers, auditors, users, and other stakeholders. The FASB issued a proposed ASU in September 2016 and is in the process of redeliberating the proposed guidance; the Board expects to issue a final standard in Q3 2017.

We encourage you to check the FASB's Web site for further details and developments. You can also check US GAAP Plus for Deloitte publications on proposals and final standards as they are issued.

The FASB's project is not expected to affect the conclusions in this case.