

SFO Alert (August 8, 2014)

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FASB DECISIONS ON THE CLASSIFICATION AND MEASUREMENT FOR EQUITY INVESTMENTS

On July 30, the Financial Accounting Standards Board (FASB or Board) continued its redeliberations on the **Accounting for Financial Instruments Classification and Measurement Project**. At the meeting, the Board reaffirmed the guidance included in the February 2013 proposed Accounting Standards Update, **Financial Instruments Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities** (the Proposal) related to the classification and measurement of equity investments. This decision will be of interest to NAREIT member companies that hold equity investments.

The Board decided that all investments in equity securities would be measured at fair value through net income, except for the following:

- › Investments in equity securities accounted for under the equity method of accounting (e.g., investments in unconsolidated joint ventures); and,
- › Investments in equity securities without readily determinable fair values for which the entity has elected to apply the practicality exception to carry them at cost, adjusted for both impairment and observable price changes.

Thus, the FASB would preclude recognizing changes in value for equity securities through other comprehensive income. While this represents a significant change to current practice for investments in equity securities, investments in debt securities will not be impacted by this decision. Under

current U.S. GAAP companies are provided an option to classify equity securities as either:

- › Trading (*i.e.*, equity securities are measured at fair value on the balance sheet, with changes in value recognized in earnings) or,
- › Available-for-sale (*i.e.*, equity securities are measured at fair value on the balance sheet, with changes in value recognized in other comprehensive income).

The Board plans to finalize redeliberations on the Proposal in the coming months. The Board has not discussed an effective date for the Proposal.

CONTACT

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