



**ALERT**

## FASB Proposes Disclosures for Hybrid Financial Instruments

The FASB has invited constituents to comment on a proposed Accounting Standards Update (ASU) that would require entities to disclose new information about hybrid financial instruments in their financial statements.<sup>1</sup>

### Key Facts

- Entities would need to disclose the carrying amount, measurement attribute, and line item within the balance sheet and the income statement in which each bifurcated embedded derivative and its related host contract are presented.
- Disclosures would be required for both interim and annual reporting periods.
- The FASB will determine the effective date, as well as whether early adoption should be permitted, after considering constituents' feedback.

### Key Impacts

- Entities would prospectively apply the proposed ASU to hybrid financial instruments with bifurcated embedded derivatives that existed at the beginning of the fiscal year in which the ASU became effective.
- Comments are due April 30, 2015.

<sup>1</sup> FASB Proposed Accounting Standards Update, Disclosures about Hybrid Financial Instruments with Bifurcated Embedded Derivatives, available at [www.fasb.org](http://www.fasb.org).

Following the FASB's decision in its classification and measurement project to retain the current GAAP requirements for embedded derivatives, the Board decided to propose enhanced disclosures by providing a link between bifurcated embedded derivatives and their host contracts.<sup>2</sup>

Current U.S. GAAP does not require companies to disclose information that links bifurcated embedded derivatives (which are measured at fair value) with their related host contracts (which would apply a different measurement attribute). The objective of the proposed ASU is to provide financial statement users information that will allow them to analyze the overall economics and cash flows for the entire hybrid instrument.

The proposed ASU requires the following disclosures.

For each bifurcated embedded derivative:

1. The location and fair value amounts reported in the statement of financial position; and
2. The location and amounts of the gains and losses reported in the statement of financial performance.

For each host contract related to each bifurcated embedded derivative:

1. The location in the statement of financial position, carrying amount, and measurement attribute; and
2. The location and amounts reported in the statement of financial performance.

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<sup>2</sup> For additional information about the project on Accounting for Financial Instruments: Classification and Measurement, see the FASB's Technical Agenda at [www.fasb.org](http://www.fasb.org).