

FASB reworks subsequent events guidance



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On Feb. 24, 2010, the Financial Accounting Standards Board (FASB) finalized Accounting Standards Update (ASU) 2010-09, Subsequent Events — Amendments to Certain Recognition and Disclosure Requirements. The ASU clarifies the requirements that apply to SEC filers, conduit debt obligors, and other entities in relation to evaluating events or transactions that occur after the balance-sheet date but before financial statements are issued or available-to-be issued.

Among other things, the ASU removes the requirement that SEC filers disclose in their financial statements the date through which they have evaluated subsequent events.

Two types of subsequent events

In May 2009, FASB issued Statement of Financial Accounting Standards (FAS) No. 165, Subsequent Events, later codified as Accounting Standards Codification (ASC) Topic 855. The statement incorporated auditing standards regarding subsequent events into the accounting literature, making management responsible for monitoring and disclosing them.

ASC 855 defines two types of subsequent events:

1. Recognized subsequent events, which provide additional evidence about conditions that existed at the balance sheet date, and
2. Nonrecognized subsequent events, which provide evidence about conditions that arose after the balance sheet date but before the financial statements were issued or were available-to-be issued.

Recognized subsequent events must be recognized in financial statements. Nonrecognized subsequent events are not recognized, but may need to be disclosed to prevent financial statements from being misleading.

ASC 855 provides several examples to demonstrate the difference between the two. Suppose, for example, that events giving rise to litigation took place before the balance sheet date, and the entity recorded a liability in its financial statements. Settlement of the litigation after the balance sheet date but before the financial statements are issued or available-to-be issued is a recognized subsequent event, and the entity should adjust the estimated liability to reflect the settlement amount.

If, instead, both the events giving rise to litigation and the settlement occur after the balance sheet date but before the financial statements are issued or available-to-be issued, then a nonrecognized subsequent event has occurred, which need not be recognized in the financial statements but may have to be disclosed in a footnote.

Issuance dates

As originally drafted, ASC 855 required public entities, as well as nonpublic entities with a current expectation of widely distributing their financial statements, to evaluate subsequent events through the date the financial statements were issued.

Under ASC 855, issued means “widely distributed to shareholders and other financial statement users for

ASU 2010-09 may have a significant impact on the way your organization monitors and discloses subsequent events. The amendments take effect immediately, with the exception of those related to conduit debt obligors, which apply to periods ending after June 15, 2010. So be sure to discuss the changes with your advisors and be prepared to adjust your accounting policies accordingly.

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general use and reliance in a form and format that complies with Generally Accepted Accounting Principles (GAAP).” In the SEC’s view, financial statements are issued when they are widely distributed or when they are filed with the SEC, whichever is earlier.

ASC 855 required nonpublic entities that did not widely distribute their financial statements to evaluate subsequent events through the date the financial statements were available-to-be issued. That means the date the financial statements were complete, in a form that complied with GAAP, and all approvals needed for issuance had been obtained.

The original guidance required all entities to disclose in their financial statements the date through which subsequent events had been evaluated and whether that date was the issued date or the available-to-be-issued date. It also required entities that reissued their financial statements to evaluate and disclose subsequent events occurring between the date the original financial statements were issued (or available-to-be issued) and the date they were reissued. The reissued statements also had to disclose the date through which subsequent events had been evaluated.

Disclosure requirements relaxed for SEC filers

After FASB issued its subsequent events guidance, some observers raised practical concerns about disclosure of the issuance date or revised issuance date by SEC filers. For nonfilers, this disclosure is important because it informs investors and other financial statement users of the cutoff date after which subsequent events were no longer evaluated.

For SEC filers, it is not a concern because the SEC has specific requirements regarding the identification and disclosure of subsequent events. For example, rules prohibiting registrants from filing false and misleading statements effectively require them to evaluate subsequent events up until the date financial statements are filed.

Requiring SEC filers to disclose the date through which subsequent events have been evaluated could potentially create a conflict between the accounting guidance and SEC rules. Suppose, for example, that a public company widely distributes its financial statements on date X and later files them with the SEC on date Y. ASC 855 would require the company to disclose date X as the date through which subsequent events have been evaluated, even though SEC rules require it to evaluate subsequent events through date Y.

To avoid this conflict, ASU 2010-09 provides that SEC filers need not disclose the date through which subsequent events have been evaluated. This change affects only the disclosure requirement — it does not alter the requirement that SEC filers evaluate subsequent events through the date the financial statements are issued.

ASU 2010-09 also clarifies that conduit bond obligors for publicly traded conduit debt securities are public entities and, therefore, should evaluate subsequent events through the date their financial statements are issued. However, as non-SEC filers, conduit bond obligors must disclose that date. Conduit debt securities are debt instruments, such as industrial revenue or development bonds, issued by a state or local government to provide financing for a third party.

“Wide distribution” concept eliminated.

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Many commentators were concerned about ASC 855's requirement that entities with a current expectation of widely distributing their financial statements evaluate subsequent events through the "issuance date." For one thing, there are no established criteria for determining whether an entity has such an expectation. In addition, entities often distribute their financial statements to different users at different times, and they might have to reevaluate subsequent events each time.

FASB decided to eliminate the concept of "wide distribution." ASU 2010-09 provides that entities other than SEC filers and conduit bond obligors should evaluate subsequent events through the date their financial statements are available-to-be issued.

Reissuance requirements revised

ASU 2010-09 revised ASC 855's reissuance disclosure requirements to include only financial statements that are revised either to correct an error or to apply GAAP retrospectively. One reason for this change was to allow SEC filers to incorporate previously issued financial statements by reference without triggering updated disclosures.

Review your accounting policies

ASU 2010-09 may have a significant impact on the way your organization monitors and discloses subsequent events. The amendments have already taken effect, with the exception of those related to conduit debt obligors, which applied to periods ending after June 15, 2010. So be sure to discuss the changes with your engagement team and be prepared to adjust your accounting policies accordingly.