

Technical Corrections to the FASB's Codification

The FASB occasionally makes technical corrections to its codification of accounting standards. Some recent corrections are more significant than usual.

From time to time, the U.S. Financial Accounting Standards Board (FASB) makes *technical corrections* to its *Accounting Standards Codification*® (ASC). Usually, technical corrections aren't very significant—that is, they don't actually change accounting in practice. But some technical corrections are more significant than others. In this month's column, I'll explain the technical-correction process in general and examine the varying significance of the technical corrections that the FASB has made to date.

Background

The FASB sets authoritative financial accounting and reporting standards that are used by nongovernmental entities in the United States. The FASB's standards, which are also known as Generally Accepted Accounting Principles (GAAP), are documented in the ASC. Major changes that the Board decides to make to the ASC are documented in pronouncements known as Accounting Standards Updates (ASUs). Minor changes—mainly typographical in nature—are docu-

mented in pronouncements known as Maintenance Updates (MUs).

Most ASUs document major *substantive* changes to the ASC. Such changes are the result of the FASB's formal standards-setting process and reflect the Board's intent to change accounting practice in specific ways. Occasionally, however, the FASB concludes that certain *nonsubstantive* changes to the ASC are necessary to clarify the Board's unchanged intent for an existing standard. These kinds of improvements—which go beyond mere editorial corrections—are what the Board considers technical corrections. They're documented in ASUs, just as substantive changes are.

Since November 2010, the FASB has had a standing project to identify, develop, and promulgate technical corrections. In many cases, it identifies the need for technical corrections as a result of stakeholders' requests for clarification of current GAAP. In other cases, the Board proactively identifies the need for technical corrections on its own.

Summary of Technical Corrections to Date

Since codifying GAAP in 2009, the FASB has issued three ASUs that document technical correc-

tions to its standards:

- ◆ No. 2009-02, *Omnibus Update—Amendments to Various Topics for Technical Corrections*;
- ◆ No. 2010-08, *Technical Corrections to Various Topics*; and
- ◆ No. 2012-04, *Technical Corrections and Improvements*.

ASU No. 2009-02 was issued June 30, 2009—the eve of the FASB's formal adoption of its ASC as authoritative GAAP. This ASU documented amendments to the previously nonauthoritative ASC, in many cases based on comments received from stakeholders during and after the ASC's verification period.

ASU No. 2010-08 was issued February 2, 2010. It represented the end product of the FASB's "Technical Corrections to FASB Statements and Other U.S. GAAP Literature" project, a stand-alone initiative that had been on the Board's agenda since May 2008. The primary purpose of the ASC amendments documented in ASU No. 2010-08 was to resolve certain technical issues that arose from the pre-Codification issuance of Statement of Financial Accounting Standards (SFAS) No. 141(R), *Business Combinations*, and SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements*. The secondary purpose was to

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resolve noncontentious issues in other areas of GAAP.

ASU No. 2012-04 was issued October 1, 2012. It's the first ASU that was issued under the FASB's standing "Technical Corrections and Improvements" project. In addition to containing nonsubstantive amendments to a wide variety of ASC topics, the 220-page ASU included more substantive, limited-scope *improvements* to the content of the ASC. The inclusion of amendments having greater significance relative to previously issued technical corrections invites us to examine ASU No. 2012-04 in greater detail.

A Closer Look at ASU No. 2012-04

ASU No. 2012-04 documented five broad types of ASC amendments:

- ◆ Source literature amendments,
- ◆ Guidance clarifications,
- ◆ Reference corrections,
- ◆ Guidance relocation, and
- ◆ "Conforming" amendments.

Source literature amendments reflect further changes to wording that was migrated into the ASC from "legacy" GAAP (i.e., formerly authoritative pronouncements issued before GAAP was officially codified). In many cases, the FASB changed and/or deleted words taken from pre-ASC guidance during the codification process, which may have unintentionally altered stakeholders' interpretation of that guidance.

Guidance clarifications are wording changes that clarify GAAP but aren't related to previous wording changes that the FASB made during the codification process.

Reference corrections fix problems that arise when one provision of GAAP incorrectly cites,

refers to, and/or links to another provision of GAAP.

Guidance relocation amendments reflect the FASB's decisions to move guidance from one location in the ASC to another (for example, from one subtopic to another). In many cases, such changes were made to restore the scope of the relocated guidance to its pre-ASC state. In those cases, relocation was necessary because the scope of guidance is largely defined by the ASC subtopic in which the guidance is located.

The conforming amendments in ASU No. 2012-04 are intended to achieve consistent terminology and to clarify certain guidance throughout the ASC relative to the requirements of Topic 820, *Fair Value Measurement*. For example, the FASB decided to replace instances of the terms *market value* and *current market value* with *fair value*. Additionally, this ASU reflects the deletion of one of three ASC Master Glossary definitions of the term *fair value*, specifically the one that relates to ASC Topic 965, *Plan Accounting—Health and Welfare Benefit Plans*.

Although the FASB didn't intend the amendments documented in ASU No. 2012-04 to change accounting practice, they could cause certain reporting entities to realize they've been misinterpreting—and therefore misapplying—GAAP, especially with regard to fair value matters. In such cases, entities may need to correct their accounting policies and practices.

What's Ahead

At its November 14, 2012, meeting, the FASB discussed additional

potential ASC amendments within the context of its ongoing "Technical Corrections and Improvements" project. Among the amendments that the Board considered were certain ones related to the ASC Master Glossary. For example, the Board noted that the ASC Master Glossary still contains two different definitions of the term *fair value*. One of the definitions relates to fair value measurements in general as addressed in ASC Topic 820. The other definition relates to the measurement of share-based payments in particular as addressed in other ASC topics. At the meeting, the FASB tentatively decided to use the term *share-based payment value* instead of *fair value* for the latter definition. It also directed its staff to prepare an exposure draft of proposed Master Glossary amendments for the Board to vote on at a future meeting. The FASB also plans to discuss other potential technical corrections, such as amendments to the illustrative guidance for employee benefit plans.

Now that you have a better understanding of the technical corrections that the FASB makes to the ASC, you should realize that it's risky to ignore them. Because they may help you understand and apply existing GAAP correctly, you should pay attention to all proposed and final ASUs that the FASB issues in connection with its standing "Technical Corrections and Improvements" project. **SF**

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