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FASB Concept of Extraordinary Items to Disappear Beginning with 2016 Calendar Year Financial Statements

This alert is a reminder to compensation professionals that, beginning with 2016 financial statements, the concept "extraordinary items" as a technical accounting term will no longer exist. Going forward, the correct terminology will be items that are "unusual in nature" or "infrequently occurring," as explained below. This will be important when drafting beginning-of-year resolutions establishing performance measures and goals for incentive plans. Any pre-exclusionary language should refer to items that are unusual in nature or infrequently occurring, and references to extraordinary items should be of the generic sense and not explicitly referencing accounting rules. Shareholder-approved plan documents and grant agreements should also be reviewed and changed as appropriate.

On January 9, 2015 the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2015-01, representing the first standard in the FASB's initiative to simplify Generally Accepted Accounting Principles (GAAP). ASU 2015-01 eliminates the concept of extraordinary items which were previously defined as items that were *both* unusual in nature *and* infrequently occurring. Extraordinary items were required to be separately reported net-of-tax after income from continuing operations on the face of the income statement.

Going forward, companies are to report material items that are *either* unusual in nature *or* infrequently occurring, *or both*, as a separate component of income from continuing operations. The nature and amount of each item should be reported either as a separate line item on the income statement or in notes to the financial statements. An event or transaction is unusual in nature if it "…possesses a high degree of abnormality and is of a type clearly unrelated to, or only incidentally related to, the ordinary and typical activities of the entity, taking into account the environment in which the entity operates…" An event or transaction is infrequently occurring if it is "…of a type that would not reasonably be expected to recur in the foreseeable future, taking into account the environment in which the entity operates…"

ASU 2015-01 is effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2015. Thus, ASU 2015-01 is effective for calendar year 2016 financial statements.

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