Board Meeting Handout
2025 Agenda Consultation
October 8, 2025

Meeting Purpose

1. The purpose of the October 8, 2025 Board meeting is to summarize the feedback received on the Invitation to Comment, *Agenda Consultation* (ITC), which was issued for public comment on January 3, 2025, with comments due June 30, 2025. This handout summarizes the feedback received from the comment letters, supplemental outreach with stakeholders, and advisory groups through August 29, 2025.[1]

Question for the Board
1. Does the Board have any observations or questions about the feedback or the tentative planned next steps?

Project Background

2. As a result of the progress on the 2021 Agenda Consultation priorities, FASB Chair Richard R. Jones announced in May 2024 that the FASB would undertake a similar agenda consultation process to understand the priority areas that the Board should next address.

3. The purpose of the ITC was to solicit broad stakeholder feedback about the future standard-setting agenda of the FASB. The feedback on the ITC is essential in ensuring that the FASB continues to allocate its finite resources to achievable standard-setting projects that fulfill its mission.

4. Throughout the second half of 2024, the FASB staff and Board members met with more than 200 stakeholders, approximately one-third of which were investors or other financial statement users (collectively referred to as "investors"), to identify priority areas of improvement to financial reporting. In addition to investors, a cross-section of stakeholders participated in that preliminary outreach, including preparers (from public companies, private companies, and not-for-profit entities [NFPs]), practitioners, and academics. On the basis of that feedback, the ITC included 42 topics (including current technical and research agenda projects) and 54 questions for respondents.

[1] Feedback received after August 29, 2025, will be considered as part of the agenda prioritization process on individual topics.

General Summary of Feedback Received

5. The comment period for the ITC ended on June 30, 2025. One hundred twenty-nine responses were received on the ITC through August 29, 2025. Responses received after that date are not included in this handout but will be reviewed by the FASB staff when the feedback is analyzed as part of the Board's agenda prioritization process. Not all respondents addressed every question, and the level of detail of the feedback received by each respondent varied. Some focused on specific ITC questions or topical areas, while others answered all questions and provided detailed feedback across a wide variety of topics regardless of how they ranked (that is, top, neutral, or low priority) the topic. Stakeholders also identified topics beyond those described in the ITC that should be a top priority for the Board to address.

6. Question 1 asked respondents to describe what type of stakeholder they are, which is summarized below and throughout the handout, where relevant. The following table provides information on the composition of the respondents by stakeholder type (listed in alphabetic order):

Type of Stakeholder*	Number of Respondents
Academics	3
Advisory Groups†	3
Individuals	10
Investors and Investor Advocate Groups	33
Others	4
Practitioners	21
Preparers‡	36
Standard Setters	1
State Societies	2
Trade Groups‡	16
Total Respondents	**129***

*This includes comment letters received and supplemental stakeholder outreach performed through August 29, 2025.

†Advisory groups represent the views of a variety of stakeholders including preparers, practitioners, academics, and/or investors.

‡Preparers and trade groups represented the views of both private and public company preparers and practitioners as well as a wide variety of industries including pharmaceuticals, insurance, oil and gas, energy and environmental, crypto, financial services, and others.

7. In addition to comment letters, through August 29, 2025, the staff performed supplemental outreach with stakeholders, including (a) stakeholder outreach meetings with academics, investors, and preparers, (b) emails from investors and a trade group, and (c) meetings with the Public Markets Advisory Committee (PMAC), the Not-for-Profit Advisory Committee

(NAC), and the Private Company Council (PCC). That supplemental feedback is incorporated throughout the handout, and these interactions have been included as respondents in the table above. Reference to *stakeholders* throughout the remainder of this handout includes comment letters received as well as stakeholders that the staff spoke with through supplemental outreach.

8. Given the qualitative nature of the responses, metrics describing responses used throughout the document are approximate and are intended to illustrate the general themes among stakeholders.

Overall Prioritization

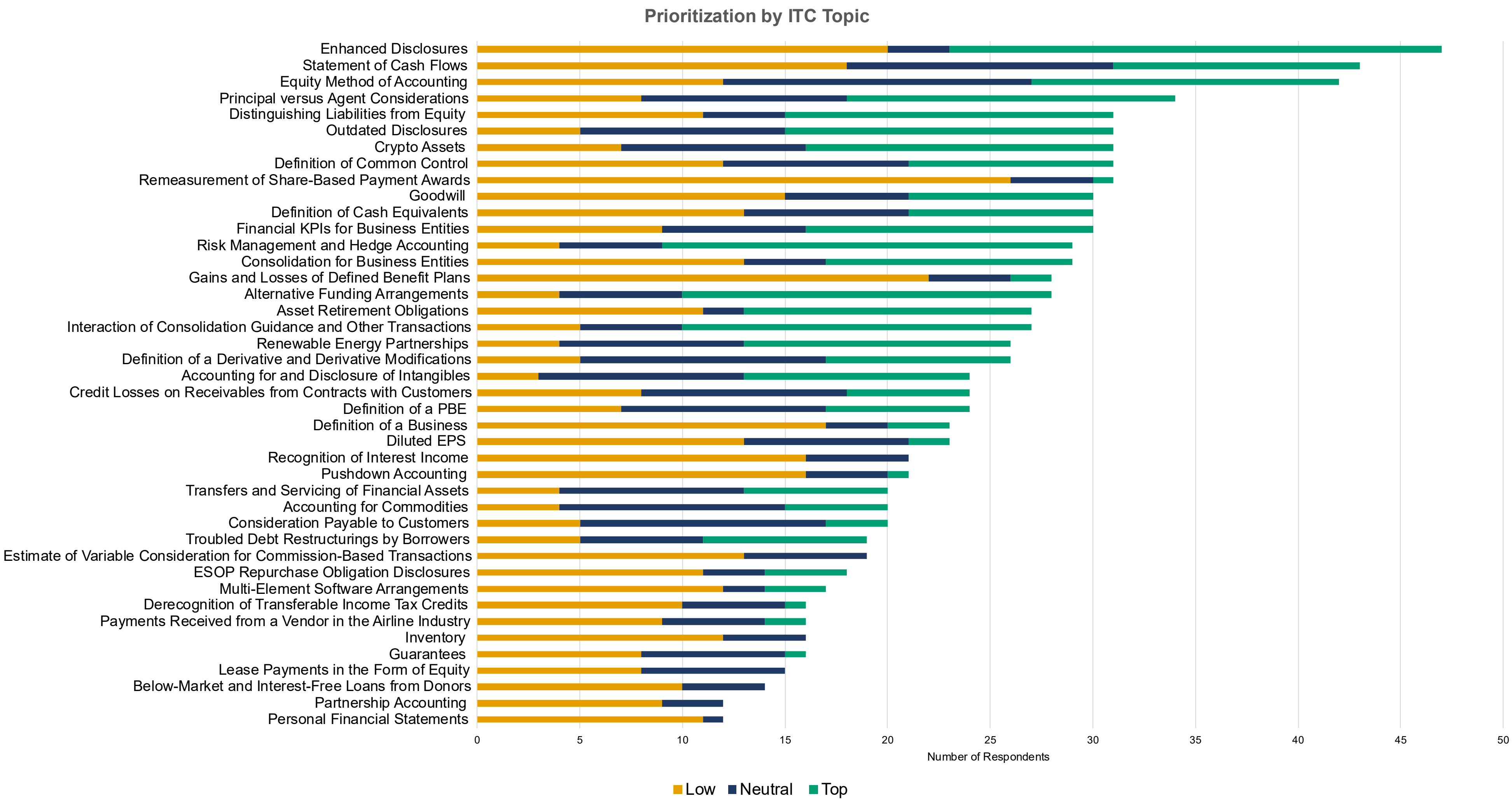
Prioritization of Topics Described in the ITC

Question 2: Which topics in this ITC, including those related to current technical and research agenda projects, should be a top priority for the Board? Please explain, including the following:

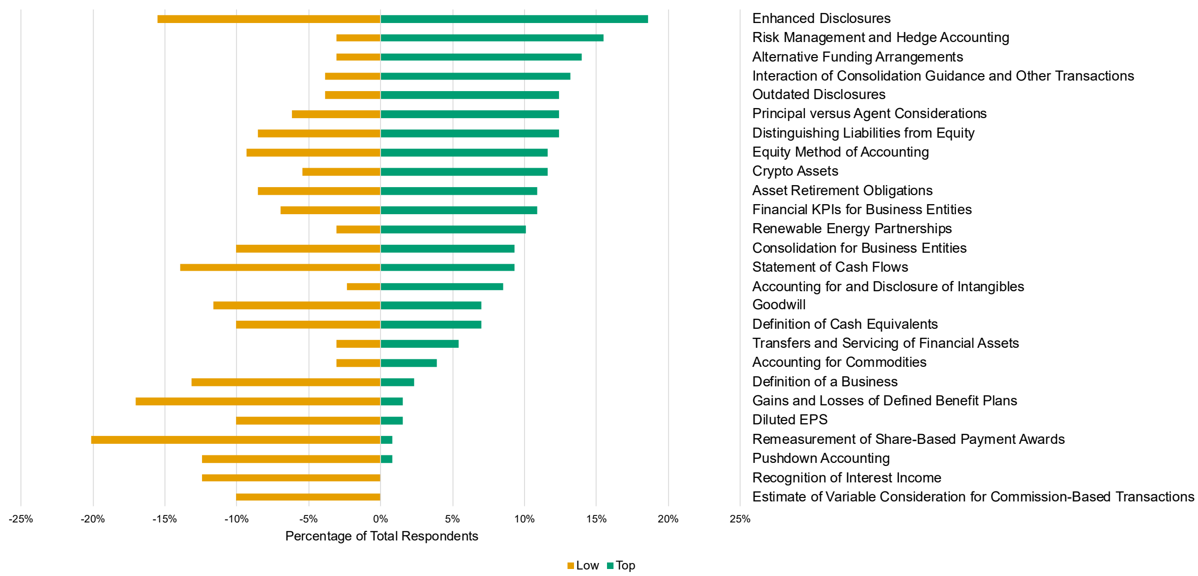
- ***a. Why there is a pervasive need to change GAAP (for example, what is the reason for the change)***
- ***b. How the Board should address this topic (that is, the scope, objective, potential solutions, and the expected benefits and expected costs of those solutions)***
- ***c. Why is this topic a top priority and what is the urgency to complete standard setting on this topic (that is, how quickly the issues need to be addressed).***

Question 3: Are there financial accounting and reporting topics in this ITC that the Board should* not *address as part of its future standard-setting efforts? Please explain why not, such as there is no pervasive need to change GAAP, the scope would not be identifiable, or the expected benefits of potential solutions would not justify the expected costs.

9. The following diagram includes a full list of priorities for each topic included in the ITC:


Prioritization by ITC Topic
Enhanced Disclosures
Statement of Cash Flows
Equity Method of Accounting
Principal versus Agent Considerations
Distinguishing Liabilities from Equity
Outdated Disclosures
Crypto Assets
Definition of Common Control
Remeasurement of Share-Based Payment Awards
Goodwill
Definition of Cash Equivalents
Financial KPIs for Business Entities
Risk Management and Hedge Accounting
Consolidation for Business Entities
Gains and Losses of Defined Benefit Plans
Alternative Funding Arrangements
Asset Retirement Obligations
Interaction of Consolidation Guidance and Other Transactions
Renewable Energy Partnerships
Definition of a Derivative and Derivative Modifications
Accounting for and Disclosure of Intangibles
Credit Losses on Receivables from Contracts with Customers
Definition of a PBE
Definition of a Business
Diluted EPS
Recognition of Interest Income
Pushdown Accounting
Transfers and Servicing of Financial Assets
Accounting for Commodities
Consideration Payable to Customers
Troubled Debt Restructurings by Borrowers
Estimate of Variable Consideration for Commission-Based Transactions
ESOP Repurchase Obligation Disclosures
Multi-Element Software Arrangements
Derecognition of Transferable Income Tax Credits
Payments Received from a Vendor in the Airline Industry
Inventory
Guarantees
Lease Payments in the Form of Equity
Below-Market and Interest-Free Loans from Donors
Partnership Accounting
Personal Financial Statements
0
5
10
15
20
25
30
35
40
45
50
Number of Respondents
Low
Neutral
Top

10. The following diagram provides a side-by-side comparison of stakeholders' views on the top and low priorities for select topics:[2]



11. The following table provides the most frequently identified top priorities by practitioners, preparers, and investors and investor advocate groups (in order of most frequently cited as a top priority):

Most Frequently Identified Top Priorities by Stakeholder Type		
Practitioners	**Preparers**	**Investors and Investor Advocate Groups**
• Distinguishing liabilities from equity • Interaction of consolidation guidance and other transactions • Consolidation for business entities • Troubled debt restructurings (TDRs) by borrowers • Definition of common control	• Principal versus agent considerations • Alternative funding arrangements • Outdated disclosures • Risk management and hedge accounting • Equity method of accounting	• Enhanced disclosures • Asset retirement obligations (AROs) • Financial key performance indicators (KPIs) for business entities • Accounting for and disclosure of intangibles • Statement of cash flows

12. In reviewing and summarizing the feedback, the staff has the following general observations:

[2] This diagram generally includes the most frequently identified top and low priorities.

(a) **Wide range of perspectives.** There was a wide range of perspectives across the topics. While some were consistently identified as top priorities or low priorities by stakeholders, others received more varied responses, with views split between top and low priority.

(b) **Diversity across types of stakeholders.** There were differences in views among practitioners, preparers, and investors and investor advocate groups about which topics the Board should address. Investors and investor advocate groups primarily identified topics related to enhancing financial reporting information as a top priority, while practitioners and preparers primarily identified topics related to making targeted improvements to reduce unnecessary cost and complexity in generally accepted accounting principles (GAAP). Additionally, top priorities identified by investors and investor advocate groups were generally concentrated within a few topics, while the top priorities identified by practitioners and preparers were widely spread across many topics.

(c) **Feedback about disclosures.** Enhanced disclosures received the highest volume of feedback, but stakeholders were split on prioritization. Investors and investor advocate groups generally agreed that the Board should enhance disclosures as a top priority, although they provided a wide variety of suggestions on which disclosures should be enhanced. Conversely, preparers generally agreed that the Board should not add any incremental disclosures but, rather, should consider reducing or eliminating outdated disclosures, such as certain derivative and fair value measurement disclosures, as a top priority.

(d) **Broad agreement about top priorities.** Risk management and hedge accounting, alternative funding arrangements, and interaction of consolidation guidance and other transactions (with a focus on business combinations and asset acquisition guidance) were frequently identified as a top priority and received minimal objections from stakeholders. However, there was diverse feedback within those topics about how the Board should address them.

(e) **Broad agreement about low priorities.** There were seven topics that were frequently identified as a low priority and not identified as a top priority by any stakeholders (however, some stakeholders may have identified the topic as a neutral priority)—recognition of interest income, estimate variable consideration for commission-based transactions, inventory, lease payments in the form of equity, below-market and interest-free loans from donors, partnership accounting, and personal financial statements. Additionally, there were 10 topics that were frequently identified as a low priority and received minimal strong support from other stakeholders for the Board to address—remeasurement of share-based-payment awards, gains and losses of defined benefit plans, pushdown accounting, definition of a business, diluted earnings per share (EPS), derecognition of transferable income tax credits, multi-element software arrangements, guarantees, payments received from a vendor in the airline industry, and consideration payable to customers.

(f) **Topics with mixed feedback on priorities.** There were several topics that received a high volume of feedback but that stakeholders expressed mixed views about whether the Board should address the topic as a priority and, if so, how the Board should address it. These topics included, among others, enhanced disclosures, distinguishing liabilities from equity, equity method of accounting, AROs, statement of cash flows, principal versus agent considerations, and consolidation for business entities.

(g) **Industry focus on priorities.** Some topics were identified as a top priority across different industries, such as risk management and hedge accounting and the interaction of consolidation guidance and other transactions (with a focus on business combinations and asset acquisition guidance). Conversely, a few topics were consistently identified as top priority only from certain industries, such as alternative funding arrangements (specifically, royalty monetization arrangements) by the pharmaceutical industry and accounting for commodities and transfers and servicing of financial assets by the banking industry. Additionally, although not a topic included in the ITC, the life insurance industry consistently identified long-duration targeted improvements (LDTI) as a top priority.

Chapter 1—Combination of Entities

Equity Method of Accounting

Question 5: Does the equity method of accounting provide decision-useful information to investors that affect their capital allocation decisions? Please explain.

Question 6: Should the FASB consider requiring equity method investments to be accounted for consistently with other equity investments in accordance with Topic 321? Please explain.

Question 7: If the FASB were to require equity method investments to be accounted for consistently with other equity investments in accordance with Topic 321, are there additional accounting matters (for example, accounting for transactions between investors and investees) or disclosures that would need to be considered? For public business entities, is there related industry-specific guidance that would need to be referred to the U.S. Securities and Exchange Commission (for example, the requirement to include financial statements of significant investees or oil and gas disclosures related to equity method investments)? Please explain.

Overall Feedback and Prioritization

13. Forty-two stakeholders directly responded to Question 5, Question 6, and Question 7 or provided general feedback on the equity method of accounting. Overall, those stakeholders provided mixed views on whether the Board should address this topic as a priority and, if so,

how the Board should address it. While some stakeholders noted that the equity method should be a top priority, some identified the topic as a low priority, and some were neutral on priority.

14. Stakeholders provided the following reasons for identifying the equity method of accounting as a top, neutral, or low priority:

(a) **Top priority.** The equity method is unnecessarily complex and costly to apply. For example, it can be challenging and costly to record the proportionate share of earnings. As another example, determining the investments to which the equity method should be applied can be challenging because there is a different scope for investments in corporate entities and investments in limited partnerships and significant influence is not well defined. Additionally, the equity method provides questionable benefits to users.[3] Although stakeholders that identified the equity method as a top priority agreed that the equity method is challenging and should be addressed, there was no clear consensus among those stakeholders on how the Board should address the topic; that is, whether the equity method of accounting should be eliminated or retained and improved. Stakeholders recommended a wide range of solutions, such as the following:

(i) Eliminating the equity method of accounting and, instead, requiring all equity method investments to be accounted for consistently with other equity investments in accordance with Topic 321, Investments—Equity Securities (referred to as the "Topic 321 requirement"). This means that an investor would subsequently measure its equity method investment at fair value every reporting period and include unrealized gains and losses in earnings unless the investment does not have a readily determinable fair value (which is often but not always the case with equity method investments) and the investor elects to apply the measurement alternative. Under the measurement alternative in Topic 321, the investment is measured at cost and remeasured to fair value when impaired or when the investor identifies an observable price change in an orderly transaction for an identical or similar investment.

(ii) Retaining the equity method of accounting and making targeted improvements to certain challenging areas of the guidance, which could include providing an election to account for equity method investments under Topic 321 (referred to as the "Topic 321 election") and the ability to elect the measurement alternative.

(iii) Codifying and clarifying guidance on applying the hypothetical liquidation at book value (HLBV) method.

[3] Throughout the "Equity Method of Accounting" section, "users" is used to refer to "investors and other financial statement users" to distinguish from "equity method investors."

Furthermore, many of those stakeholders had strong views about whether certain solutions would be an improvement (for example, some that supported retaining the equity method with improvements did not support the Topic 321 requirement).

(b) **Neutral priority.** The equity method can be burdensome to apply and lead to inconsistencies, but there are many industries and entities for which the equity method is widely applied, understood, and accurately represents the arrangements. Therefore, these stakeholders generally suggested that the Board focus on making targeted improvements to the equity method guidance (for example, the Topic 321 election or elimination of the accounting for basis differences) if it decides to pursue a project on this topic.

(c) **Low priority.** Although there may be challenges in applying the equity method, it is generally well understood by preparers and users and there is no pervasive need to significantly change GAAP at this time. For example, one stakeholder noted that the equity method is operable and the accounting aligns with the value of equity method investments. Several stakeholders that identified equity method as low priority cautioned that making significant changes to the equity method, or eliminating the equity method, could have unintended consequences and decrease the decision usefulness of information provided to users.

Decision Usefulness of the Equity Method

15. Many stakeholders noted that the equity method provides decision-useful information to investors, especially for certain industries (for example, oil and gas, real estate, insurance, and asset management) and for certain types of investments (for example, when the equity method investment is core to the equity method investor’s business model). Those stakeholders generally noted that the equity method is consistent with the economic substance of the investment and provides meaningful insight into the investor’s share of the investee’s performance through ongoing income recognition. For example, one stakeholder noted that the equity method provides the best representation of investee entities when the investor has significant influence, but not control, over the investee.

16. However, a few stakeholders said that the equity method does not provide (or rarely provides) decision-useful information to users because it does not reflect the economics of the investment. One stakeholder observed that recording an equity method investee’s share of GAAP earnings is often inconsistent with the change in the fair value of the investment (for example, an investee may be incurring losses from research and development (R&D) activities, but those activities may be increasing the investment’s fair value). Another stakeholder noted that the measurement of equity method investments can differ materially

from the fair value. For example, if a user is estimating an exit price for the investment in an overall valuation or estimating how many shares the equity method investor could repurchase upon divestment, that user must make its own fair value estimate.

17. Several stakeholders stated that even though the equity method may provide some decision-useful information to investors, the complexity in applying the equity method does not justify the benefits of doing so for all industries and entities.

Topic 321 Requirement

18. Some stakeholders expressed support for the "Topic 321 requirement," which would allow an entity to apply the measurement alternative for equity method investments without readily determinable fair values. Overall, those stakeholders noted that this alternative would strike a better balance as compared with the current equity method guidance between the costs of accounting for these investments and the benefits that would be provided to users. Stakeholders cited several reasons for their support, such as it would:

    (a) **Significantly reduce operational challenges and the cost and complexity of accounting for equity method investments.** Many equity method investments are manually tracked, which increases the potential for errors or omissions. Accounting for equity method investments consistent with other equity investments would significantly reduce challenges associated with accounting for basis differences, contingent consideration, intra-entity profits, differences in fiscal year-ends, differences in accounting frameworks used, and other aspects. The guidance in Topic 321, including the measurement alternative, is widely understood for other equity investments and would be easier to understand for preparers and users.

    (b) **Increase consistency in application.** Entities would be able to apply the measurement alternative to a large majority of private company equity investments, which would provide more consistency in application, because it would not require entities to determine the fair value of those investments.

    (c) **Provide more decision-useful information.** The measurement alternative would align the measurement of the investment with its economic value upon an impairment or observable price change in an orderly transaction for an identical or similar investment. Additionally, the impairment model under Topic 321 would provide sufficient information about impaired investments; under the equity method, recognizing losses solely because an equity method investee is incurring GAAP losses may often provide information that is not decision useful (or that is even potentially misleading).

Additionally, a few stakeholders that did not support a project on this topic acknowledged that the Topic 321 requirement would significantly reduce complexity.

19. Stakeholders identified several additional matters that should be considered if the Board were to require equity method investments to be accounted for consistently with other equity investments in accordance with Topic 321, such as the following:

(a) Consider requiring additional disclosures. Some of the suggested disclosures are currently required for equity method investments, such as percentage ownership and summarized financial information about an equity method investee or a group of investees. Other suggested disclosures would be incremental from current requirements, such as the fair value of the equity method investment and the nature and terms of transactions with investees. Stakeholders noted that it would be important to understand what disclosures users would need because they may receive less information under the measurement alternative than under current requirements.

(b) Consider whether to retain the requirements in Topic 323, Investments—Equity Method and Joint Ventures, to eliminate intra-entity profits and losses. Most stakeholders that identified this matter did not support extending this requirement if equity method investments were accounted for using the measurement alternative.

(c) Clarify what constitutes an observable price change under the measurement alternative to avoid current practice challenges for equity instruments accounted for under Topic 321.

(d) Address whether dividends or distributions should be recorded as income (consistent with Topic 321) or as a reduction of cost (consistent with Topic 323).

(e) Align what significant influence means elsewhere within GAAP (if Topic 323 is eliminated), such as by defining significant influence in Topic 850, Related Party Disclosures, by using the current guidance in Topic 323, and work with the Public Company Accounting Oversight Board (PCAOB) staff and the U.S. Securities and Exchange Commission (SEC) staff to identify conforming changes to their guidance, such as the PCAOB Auditing Standard No. 18, *Related Parties*, and the SEC independence rules.

In contrast, there were several stakeholders that noted that additional matters would not need to be considered for equity method investments if the Board were to require the Topic 321 requirement. For example, stakeholders noted that current disclosure requirements in Topic 321, Topic 820, Fair Value Measurement, and Topic 850 should be sufficient. Additionally, a few stakeholders observed that if the Board were to provide different requirements (for example, additional disclosures) for equity method investments as compared with other equity investments accounted for under Topic 321, it would need to retain the concept of significant influence in GAAP for the purposes of identifying those types of investments.

20. However, most stakeholders that addressed this topic recommended that the Board retain the equity method of accounting and not require all equity method investments to be accounted for under Topic 321, noting several reasons, including the following:

(a) **The equity method is already well understood by preparers and investors.** For example, one stakeholder noted that entities have already developed internal processes and controls to apply the equity method.

(b) **Requiring fair value would require subjective valuations and may be more costly, complex, and burdensome to apply than the equity method.** The Topic 321 requirement would rely on subjective valuations and would add significant complexity, which can be equally or more complicated to apply as compared with Topic 323. Specifically, it could be challenging for entities with private investments that do not have observable quotes or data to establish reliable assumptions and estimates of fair value. One stakeholder noted that it could be challenging to determine what constitutes an observable price change, similar to the issues that already exist today for equity instruments accounted for under the measurement alternative in Topic 321. Additionally, there could be more frequent impairments under the measurement alternative as compared with Topic 323.

(c) **Equity method is the best model for strategic investments.** For strategic investments where management intends to hold the investment over a longer time period and manages the investment on a non-fair-value basis, fair value measurement does not reflect the nature of the investment. Requiring entities to recognize unrealized gains and losses on these investments in earnings would diminish management's ability to differentiate equity method investments from other equity investments. One stakeholder noted that the relationship between an investor and an equity method investee is commonly different than the relationship between an investor with a minor interest in a public company investee; this difference supports that investments in entities where an investor has significant influence over the investee should not be accounted for consistently with other equity investments in accordance with Topic 321.

(d) **There may be less decision-useful information provided to users, especially in certain industries, and fair value would introduce significant volatility into financial statements**. Users in certain industries find that the equity method provides decision-useful information. The fair value of the equity method investment may be less indicative of the investor's economic interest in the investee's operations than the proportionate share of equity, which would result in less information about the underlying performance of the investee. For example, one trade group representing real estate companies noted that applying the fair value to equity method investments would not provide users with the operating and cash flow information desired, while a user stated that eliminating the equity method would mean losing vital information necessary for understanding the economic substance of those investments. Requiring fair value could introduce more subjectivity and significant volatility, which would not be helpful to investors. One stakeholder noted that investors may need to use non-GAAP measures to adjust for the market volatility and share of quarterly income. Another stakeholder noted that because the Topic 321 requirement would revert to the cost method, this would not be decision useful for users.

(e) **An equity method investor is already able to elect to apply the fair value option.** Because the fair value option is available on an investment-by-investment basis, there is no need to eliminate the equity method of accounting.

(f) **There would be reduced comparability between GAAP and IFRS Standards.** Because GAAP and IFRS Standards both include the equity method, eliminating the equity method would reduce comparability between international and U.S. companies.

Topic 321 Election

21. Acknowledging the challenges that entities may face in applying the equity method and given that it may not provide decision-useful information for all industries and reporting entities, some stakeholders suggested that the Board retain the equity method of accounting and consider permitting entities to elect to account for these investments under Topic 321. For example, one stakeholder noted that because the equity method is useful for certain industries and reporting entities, the Topic 321 requirement may not be appropriate in all situations, but applying Topic 321 could simplify the guidance for some.

22. Stakeholders provided different suggestions for how this election could be structured:

(a) Permit or require certain industries to continue to apply the equity method because it may provide benefits to users in those industries.

(b) Allow entities to elect either the application of Topic 323 or the application of Topic 321 on an investment-by-investment basis upon purchase or acquisition of the investment. Because entities have different strategic objectives underlying equity method investments—some equity method investments are core to an entity's business, while other equity method investments are undertaken to advance a specific business priority—this type of option would allow an entity to decide which would be best to apply.

(c) Allow entities that are measuring their equity method investments at fair value to elect the measurement alternative in Topic 321 for investments in private entities.

Other Suggestions

23. Several stakeholders that did not support requiring the Topic 321 requirement but supported changes to the equity method provided other suggestions (some of which are broader than the equity method), including the following:

    (a) **Codify and clarify when and how to use HLBV to recognize equity method earnings.** One stakeholder noted that HLBV provides decision-useful information to investors when renewable energy and similar partnerships have complex capital allocation structures. Therefore, that stakeholder recommended that the Board codify and clarify when and how to use HLBV to recognize equity method earnings or attribute comprehensive income to noncontrolling interests in consolidation. However, other stakeholders did not support codifying HLBV. Those stakeholders indicated that HLBV involves complex accounting assumptions and legal interpretations, which can be costly and may not provide decision-useful information or reflect the true economics of the underlying investments.

    (b) **Allow the proportional amortization method (PAM) for more investments.** One stakeholder noted that PAM may provide more decision-useful information for investors in real estate entities because those entities may expect to recover their investments through steady, relatively predictable streams of cash flows.

    (c) **Allow real estate companies to use the proportionate share of consolidation for joint ventures.** One stakeholder noted that this would be similar to the exception that permits oil and gas industries to use proportionate consolidation.

    (d) **Allow equity method investments to be measured at cost.** A few stakeholders suggested that the Board allow nonmarketable equity investments to be accounted for using the cost less impairment method. Those stakeholders said that this would simplify the accounting and reduce costs by applying a consistent accounting method for all nonmarketable equity investments, irrespective of the level of influence. One of those stakeholders more broadly suggested that the Board introduce that policy election for all equity securities without readily determinable fair values.

    (e) **Require equity method investments to be measured at fair value with remeasurements recognized in earnings, without the ability to elect the measurement alternative.** One stakeholder noted that users need information on the fair value of the equity method investment.

    (f) **Require additional disclosures.** A few stakeholders, primarily users, noted that greater insight into equity method investees would be helpful, such as the investee's debt, revenues, and cash flows.

24. Stakeholders noted that certain aspects of the equity method of accounting involve significant complexity and reliance on interpretive guidance or industry practice. Therefore, stakeholders provided other suggestions for targeted improvements to the equity method of accounting, such as the following:

(a) Simplify or eliminate the accounting for basis differences.

(b) Reconsider the presumption of significant influence for limited partnerships with 3 to 5 percent ownership, especially for passive investments, and/or coordinate with the SEC to establish a single threshold for applying the equity method of accounting, regardless of the type of legal entity (and investment).

(c) Change the scope of Topic 323, such as by (i) broadening the scope to include preferred stock and other noncommon equity investments or (ii) narrowing the scope to only include investments in which the entity has a purpose or intent to invest for a business partnership or relationship (and excluding investments that were acquired solely for investing purposes).

(d) Simplify the requirement for an investor to calculate the dilution gain or loss, share of proceeds, and change in investment balance each time its proportionate ownership in an investee changes.

25. A few stakeholders encouraged the Board to continue to allow entities to elect the fair value option on an investment-by-investment basis so that preparers can select the most meaningful presentation for their investors. A few of those stakeholders also suggested eliminating the requirement in Topic 825, Financial Instruments, to measure all other financial interests in that same entity at fair value if fair value is elected for the equity method investment.

Renewable Energy Partnerships

Question 8: What challenges, if any, exist in applying the consolidation and equity method of accounting guidance to renewable energy and similar partnerships? Should the FASB address these issues through standard setting? If so, how should they be addressed (for example, by including HLBV guidance in the Codification, providing other guidance for complex profit-sharing arrangements, or eliminating the equity method [see also Question 6 of this ITC])? Please explain.

Overall Feedback and Prioritization

26. Twenty-six stakeholders directly responded to Question 8 or provided general feedback on renewable energy partnerships and similar partnerships. Overall, those stakeholders provided mixed views on whether the Board should address this topic as a priority and, if so, how the Board should address it. Many stakeholders noted that renewable energy partnerships should

be a top priority. However, some identified the topic as a low priority and some were neutral on priority.

27. Those stakeholders that identified renewable energy partnerships as a top priority and those stakeholders that acknowledged that there are challenges in applying the current guidance (such as equity method) provided the following commentary:

(a) Current guidance does not prescribe how an investor in renewable energy (and similar partnerships' investments with complex allocation structures) should recognize its share of investee activity when the allocation of earnings differs from the allocation of cash from operations or in liquidation. As a result, it can be challenging for investors to determine their share of investee earnings (through applying the equity method) and diversity in practice can result.

(b) When investors in complex profit-sharing arrangements apply HLBV to calculate their share of equity method earnings, it is complex and costly and does not best reflect the economics of the investments.

(c) For tax equity investors, applying the equity method of accounting can be challenging because the benefits to which they are entitled are not recognized assets of the investees, which are generally flow-through entities for tax purposes.

(d) Related to the sponsor, consolidating the assets and liabilities of the partnership and allocating earnings to noncontrolling interest holders by applying HLBV by analogy does not best reflect the economics of the associated partnership.

28. Stakeholders that identified renewable energy partnerships as a top priority or those that noted that they would support the Board addressing the topic generally had specific recommendations for *how* the Board should address the topic. The most frequent suggestions among stakeholders were to (a) expand the availability of PAM or allow a similar approach for other investments or (b) codify HLBV. There were a few stakeholders that provided other suggested improvements, discussed later in this section. Additionally, a few stakeholders noted that certain industries face challenges as a result of complex profit-sharing arrangements and supported a project to address the attribution of income for all entities, rather than just for renewable energy and similar partnerships.

29. Stakeholders that identified renewable energy partnerships as a low priority noted that:

(a) The issue is too narrow and does not meet the FASB's criteria for agenda prioritization.

(b) Practice is able to apply the current guidance and changing it could lead to unintended consequences and increased costs.

HLBV

30. Many stakeholders discussed HLBV, although those stakeholders provided mixed feedback about whether the Board should codify HLBV. Several stakeholders noted that because the Codification does not have guidance on the application of HLBV, there is diversity in practice and reduced comparability of financial information between entities.

31. Some stakeholders suggested that the Board codify HLBV and implementation guidance, including illustrative examples. One of those stakeholders noted that the Board should consider a project on when and how to use HLBV to recognize equity method earnings or to attribute comprehensive income to noncontrolling interests in consolidation. That stakeholder further noted that, as part of that project, the Board should gather information about the current application of HLBV, given the wide variety of complex capital allocation structures. Stakeholders that supported codifying HLBV cited the following reasons:

    (a) It provides decision-useful information to investors when renewable energy and similar partnerships have complex capital allocation structures.

    (b) It is mentioned in numerous practitioners' interpretive guides and is often considered a viable method in practice to account for complex profit-sharing arrangements.

32. Other stakeholders noted that they do not support codifying HLBV. Those stakeholders provided the following commentary, with some highlighting challenges in applying HLBV:

    (a) HLBV has developed through industry practice to address certain investment structures, such as those in renewable energy. Including HLBV in the Codification could result in unintended consequences, such as it could unintentionally limit how HLBV is applied or result in HLBV being applied to investments where it may not make sense.

    (b) HLBV involves complex accounting assumptions and legal interpretations, which can be costly and may not provide decision-useful information or reflect the true economics of the underlying investments.

    (c) Allocating income based on liquidation provisions, which may never be used, creates accounting that is disconnected from the economics and can distort periodic results. One stakeholder that indicated that codifying HLBV could be a feasible solution made a similar observation.

    Therefore, almost all of those stakeholders urged the Board to expand the use of PAM instead of codifying HLBV.

PAM

33. Many stakeholders noted their appreciation for the amendments in Accounting Standards Update No. 2023-02, *Investments—Equity Method and Joint Ventures (Topic 323): Accounting for Investments in Tax Credit Structures Using the Proportional Amortization Method*, which expanded the application of PAM to more equity investments that generate income tax credits and other income tax benefits from tax credit programs. However, some stakeholders noted that, despite the amendments in Update 2023-02, the ability to apply PAM remains too limited and should be expanded so that it is applicable to a more complete population of investments for which the return relates primarily to income tax benefits. Some stakeholders noted that PAM better aligns with the economics of the transactions and best represents the investments in the financial statements (as compared with the equity method and HLBV). Additionally, some stakeholders noted that HLBV is costly and complex and being able to apply PAM instead would be a significant improvement. Therefore, some stakeholders suggested that the Board expand the use of PAM (or a method similar to PAM) to other tax equity investments, as follows:

   (a) **Expand the availability of PAM.** Stakeholders said that expanding the availability of PAM to other tax equity investments would remove complexity for investors, remove diversity in practice, and create consistent reporting outcomes for those investments. Stakeholders provided a variety of specific suggestions of how to expand the availability of PAM, including (i) non-income-tax equity investments that should be able to apply PAM (for example, investments that earn premium tax credits where the offset to the amortization of the investment would be premium tax expense) and (ii) how to revise the criteria in paragraph 323-740-25-1 to be less restrictive (for example, changing the threshold from "substantially all" to 70 to 75 percent and clarifying how to interpret significant influence).

   (b) **Allow investments that do not qualify to apply PAM to apply proportional PAM.** Some stakeholders encouraged the Board to consider allowing entities that do not qualify for PAM but are under a tax credit program for which an entity has elected PAM to split the basis of the investment into a portion attributable to income tax benefits and a portion attributable to non-income-tax benefits. Under this approach, each portion would be amortized in proportion to the respective benefits received, with the amortization related to the income tax benefits reported in income tax expense and the amortization related to the nontax benefits reported in pretax income. One stakeholder noted that although this method may sound complex, preparers should have the information available to apply it. Another stakeholder noted that this method should be available for equity investments that have a majority of tax benefits (that is, tax benefits represent at least 50 percent of total benefits expected to be received). That stakeholder noted that requiring entities to allocate the investment amortization between the income tax expense and pretax income should address concerns that too much of the investment amortization would be recognized in income tax expense.

34. Conversely, one stakeholder explicitly noted that the current scope of PAM should not be expanded, citing that the current scope is appropriate and operates in practice consistently with its initial intended purpose.

35. Beyond changing the scope of investments that can apply PAM, stakeholders identified other targeted improvements to the guidance in Subtopic 323-740, Investments—Equity Method and Joint Ventures—Income Taxes, such as the following:

    (a) Develop additional examples for new or evolving fact patterns.

    (b) Reconsider the requirement that a liability be recognized for certain delayed equity contributions, which results in a gross up of assets and liabilities and inconsistent accounting with other equity investments.

Other Suggestions

36. Stakeholders provided other suggestions related to renewable energy partnerships, such as the following:

    (a) Add a measurement alternative to Topic 323 similar to the accretable yield income recognition model within Subtopic 325-40, Investments—Other—Beneficial Interests in Securitized Financial Assets, for preferred equity investors that have a substantive profit-sharing arrangement, but do not qualify for the application of PAM. This income recognition model would result in an investor recognizing an accretable yield over the life of the investment in the same manner that the investor accounts for a beneficial interest in a trust.

    (b) Remove the requirement for an investor to assess whether it has the ability to exercise significant influence over the operating and financial reporting activities of the underlying project (see paragraph 323-740-25-1(aa)). If an investment does not qualify for PAM, it would be accounted for under the equity method because the investee typically holds more than 3 to 5 percent in a limited liability entity and is deemed to have significant influence. Removing this requirement would not change outcomes but would reduce the burden on preparers to perform that evaluation.

    (c) Allow or require the sponsor (that typically consolidates the partnership under current GAAP) to account for its equity investment in the same way as other tax equity investors (including the use of PAM).

Definition of a Business

Question 9: Should the FASB pursue a project to further revise the definition of a business? If yes, why is a change necessary and what improvements could be made to the definition? Please explain.

37. Twenty-three stakeholders directly responded to Question 9 or provided general feedback on the definition of a business. Most of those stakeholders noted that the topic is a low priority. However, a few stakeholders identified the definition of a business as a top priority, and a few stakeholders were neutral on priority.

38. Stakeholders that identified the definition of a business as a low priority cited several reasons, including:

    (a) The current definition of a business, including the amendments in Accounting Standards Update No. 2017-01, *Business Combinations (Topic 805): Clarifying the Definition of a Business*, is generally operable—there are no significant practice issues or diversity in practice that would create a pressing need to revise it. A few stakeholders noted that most of the challenges arise from the accounting differences between a business combination and an asset acquisition, rather than the definition itself, and that addressing those differences is a higher priority. Additionally, a few stakeholders noted that additional standard setting may not reduce challenges encountered in applying the definition to complex situations.

    (b) Amendments to the definition of a business could introduce unintended consequences and disrupt practice. For example, changing the definition of a business could affect what transactions are in the scope of the guidance in Subtopic 610-20, Other Income—Gains and Losses from the Derecognition of Nonfinancial Assets.

    (c) Changing the definition of a business is not expected to materially change reporting outcomes for investors.

39. Stakeholders that identified the definition of a business as a top priority or said they would support such a project cited several reasons, including:

    (a) Evaluating the definition of a business can be complex and require significant judgment.

    (b) The screen can be costly to evaluate for certain industries, such as the biotech industry, if valuations are deemed necessary.

    (c) The screen can result in conclusions that are inconsistent with the intent and economic substance of the transaction.

40. Stakeholders provided several suggestions to address the definition of a business, such as:

(a) Provide additional implementation guidance and illustrative examples (for example, additional guidance and examples on the substantive process guidance in paragraph 805-10-55-5E).

(b) Consider making the screen test an indicator on whether the set of assets is a business rather than a sole determinative factor to avoid situations in which a transaction that would have otherwise been determined to meet the definition of a business is accounted for as an asset acquisition.

(c) Allow the combination of tangible assets and intangible assets that have no alternative use without the related tangible assets into a single identifiable asset for purposes of evaluating the screen.

(d) Reinstate the guidance on integral equipment from superseded paragraph 360-20-55-9 to assist entities in determining whether two assets should be combined when applying the screen.

(e) Reconsider that to be a business, an acquired set of assets must include an organized workforce when it does not have outputs (and whether an organized workforce should be treated differently than contracts to perform processes).

Definition of Common Control

Question 10: Should the FASB consider defining the term* common control*? If yes, how should the term be defined and what would be the anticipated effect? Please explain.

41. Thirty-one stakeholders directly responded to Question 10 or provided general feedback on the definition of common control. Many of those stakeholders noted that defining common control is a low priority, while some identified the topic as a top priority and some other stakeholders were neutral on priority.

42. Stakeholders that identified defining common control as a top priority or said that they would support such a project cited several reasons, including the following:

(a) A definition of the term *common control* could address challenges in practice in determining whether private equity portfolio companies are under common control. For example, one practitioner noted that many of the issues in determining whether common control exists arise as a result of transfers of assets or businesses between funds in a private equity structure.

(b) The term *common control* is not defined, yet is pervasive throughout the Codification, which has resulted in diversity in practice and operational and reporting challenges.

(c) A clear, principles-based definition would improve consistency in financial reporting, improve operability of GAAP, and reduce diversity in practice, particularly for private equity, asset management, and fund structures.

(d) Although practice looks to the SEC staff's observations documented in EITF Issue No. 02-5, "Definition of 'Common Control' in Relation to FASB Statement No. 141," to assess whether entities owned by different family members are under common control, a codified definition of the term *common control* could improve this guidance.

43. Conversely, stakeholders that identified defining common control as a low priority cited several reasons, including the following:

(a) Sufficient guidance already exists, such as public interpretive guidance, the guidance in Topic 805, Business Combinations, and Topic 810, Consolidation, as well as the SEC staff's observations documented in Issue 02-05.

(b) There are no significant practice issues in applying the guidance.

(c) Challenges typically arise from complex, transaction-specific circumstances, rather than a lack of a definition.

(d) It would be challenging to develop a definition of common control.

(e) Defining common control is not expected to materially change reporting outcomes for investors.

44. Stakeholders provided several suggestions to address the definition of common control, such as the following:

(a) Codify the SEC staff's observations that are documented in Issue 02-05 and paragraph BC19 in Accounting Standards Update No. 2018-17, *Consolidation (Topic 810): Targeted Improvements to Related Party Guidance for Variable Interest Entities.*

(b) Develop a principles-based definition.

(c) Leverage current GAAP, such as in Topic 810, or the definition of common control from other standard setters.

(d) Develop a broad definition that allows for professional judgment and reflects the economic substance of relationships.

(e) Develop implementation guidance and various illustrative examples.

45. Several stakeholders noted that if the Board decides to define common control, the definition should be applied consistently throughout GAAP. For example, one stakeholder noted that, under current guidance, the concept of common control is broader when assessing whether certain private company accounting alternatives can be applied than it is when applied in other

areas of GAAP. That stakeholder recommended that any differences be resolved as part of a project to define common control.

46. Separate from the definition of common control, a few stakeholders provided feedback about common control transactions when pushdown accounting has not been applied following a business combination. Specifically, those stakeholders observed that the requirement in paragraph 805-50-30-5, which requires that the receiving entity in a common control transaction record the net assets received at the parent's historical basis if that basis differs from that of the transferring entity, is inconsistent with the optional nature of the pushdown accounting model.

Consolidation for Business Entities

Question 50: Should the FASB prioritize a project to develop a single consolidation model? If yes, should the FASB leverage the guidance in IFRS 10, the VIE model, or the voting interest entity model as a starting point? If the FASB should not prioritize a single consolidation model, should the FASB make targeted improvements to better align the current voting interest entity and VIE guidance, including simplifying the determination of whether an entity is a VIE or a voting interest entity? Please explain.

Question 51: Are there pervasive accounting outcomes resulting from the application of the consolidation guidance that are inconsistent with the underlying economics of the transaction? If so, please provide examples.

47. Twenty-nine stakeholders directly responded to Question 50 and Question 51 or provided general feedback on consolidation for business entities. Overall, those stakeholders provided mixed views on whether the Board should prioritize a project to develop a single consolidation model. While some stakeholders noted that it should be a top priority, some others identified it as a low priority. A few stakeholders were neutral on whether developing a single consolidation model should be prioritized.

Challenges Encountered under Current Guidance

48. Stakeholders that expressed support for, or neutrality toward, revising the consolidation guidance in Topic 810 identified several challenges experienced under the current guidance.

49. Many of these stakeholders (and a few that did not support prioritizing changes to the consolidation guidance at this time) highlighted challenges associated with determining whether an entity is a variable interest entity (VIE) or a voting interest entity (VOE) under the guidance in Topic 810. These stakeholders noted that the guidance for determining whether an entity is a VIE or a VOE is complex, time consuming, challenging to apply, the source of significant diversity in practice, and can be redundant with the analysis used to determine which entity, if any, is required to consolidate another entity. Some of these stakeholders also

indicated that the Board should consider changes to the guidance on determining whether an entity's equity investment at risk is sufficient (which is part of determining whether an entity is a VIE or a VOE). Those stakeholders noted that this requirement was developed as part of a previous iteration of the VIE model that has since been superseded, results in diversity in practice, or could be clarified or improved for early-stage investment companies.

50. Some stakeholders observed inconsistencies between the guidance in the VIE and VOE models. For example, these stakeholders noted that the models contain similar concepts but different requirements that can result in reporting entities reaching different consolidation conclusions about substantively similar legal entities that are controlled through voting interests, and one of those stakeholders highlighted the potential for structuring opportunities. The differences in requirements that stakeholders highlighted included (a) how decision-making rights are considered, (b) the definitions of participating (veto) rights, (c) the number of entities that need to hold kick-out rights over a decision maker to prevent it from having control, and (d) the consideration of related parties.

51. Some stakeholders also highlighted challenges associated with the related-party guidance in the VIE model. These stakeholders noted that this guidance is difficult to navigate and apply. Some also observed that the related party guidance can produce outcomes in which an entity is required to consolidate another entity when it does not have a controlling financial interest on its own (for example, when two related parties share power and one of those related parties is required to consolidate the VIE).

Single Consolidation Model

52. Most stakeholders that expressed support for changes to the consolidation guidance indicated that the Board should develop a single consolidation model to address existing challenges. Most of these stakeholders specifically noted that the Board should develop a single consolidation model because it would eliminate the need to identify whether an entity is a VIE and would resolve inconsistencies (including inconsistent outcomes) between the VIE model and the VOE model.

53. Of the stakeholders that supported a single approach, there was mixed feedback about whether the Board should use IFRS 10, *Consolidated Financial Statements*, or the guidance for determining the primary beneficiary in Topic 810 as a starting point. Some stakeholders that supported leveraging IFRS 10 also noted that, notwithstanding their recommendation of leveraging that guidance, it was not important for the Board to achieve "convergence" as an objective. Some stakeholders also highlighted aspects of IFRS 10 that may be unsuitable in the U.S. context (for example, IFRS 10 does not allow for industry-specific exceptions and would benefit from a more robust principal and agent framework).

54. Some noted that, if the current guidance in Topic 810 for determining the primary beneficiary of a VIE is used in developing a single model, the Board should (a) reconsider the related-party requirements, (b) address future voting rights, and (c) address how kick-out rights would affect the single model.

55. Some stakeholders also commented on the current guidance for determining whether an entity's decision maker or service provider acts as a principal (holds a variable interest through which it may consolidate the entity) or an agent acting on behalf of others. These stakeholders emphasized considering approaches that would ensure that most asset managers would continue to not consolidate the investment funds that they are managing (including when they are the general partner or managing member acting as a fiduciary).

56. Some stakeholders did not support prioritization of a single consolidation model because:

    (a) The current guidance is operational in practice and well understood.

    (b) There is no pervasive need to justify the scope and cost of such a project. Complex transactions warrant complex accounting guidance, and changing the guidance is unlikely to reduce cost and complexity.

    (c) Introducing a single model may result in significant implementation complexity and cost or unintended consequences without a clear improvement in decision-useful information. Although the current guidance is complex, the cost for many organizations to revise their accounting documentation to align with a single consolidation model could be significant and provide only modest benefits given that the current guidance is well established and familiar to most stakeholders. However, some that supported a single consolidation model indicated that, to minimize this burden, any new consolidation model should be applied prospectively to new arrangements and that existing entities should only be subject to the new consolidation model upon the occurrence of a reconsideration event.

Other Suggested Approaches

57. Stakeholders provided mixed feedback on whether, instead of a single consolidation model, the Board should consider making targeted improvements to the guidance in Topic 810 for identifying a controlling financial interest. Some stakeholders indicated that the Board should consider targeted improvements either in the short term or instead of a single consolidation model. Some stakeholders that did not support the development of a single consolidation model indicated that targeted improvements could be made to better align the VIE and VOE models or could permit an entity to forgo the assessment of whether an entity is a VIE if the consolidation conclusion is clear regardless of whether the entity is a VIE or a VOE.

58. By contrast, some stakeholders indicated that if the Board did not pursue a single consolidation model, then it should not pursue targeted improvements. One of these stakeholders indicated that targeted improvements would not be expected to simplify application of the guidance for any stakeholders other than consolidation accounting experts.

59. Separate from determining which entity has a controlling financial interest, some stakeholders suggested reconsidering, simplifying, or eliminating VIE presentation and disclosure requirements. Stakeholders noted the current disclosure requirements are too prescriptive and need to be modernized to reflect current business operations, especially for VIEs that are not consolidated. For example, certain VIE disclosures can be misleading because entities may disclose a relatively small maximum exposure to a VIE relative to the VIE's total assets, which could convey a false sense of risk because there may be other variable interests held by other parties more senior to the entity's exposure.

Accounting Outcomes

60. Many stakeholders said that they are not aware of any pervasive accounting outcomes that result from the application of the consolidation guidance that are inconsistent with the underlying economics of the transaction. Several of those stakeholders noted that the current guidance generally results in appropriate consolidation outcomes. Therefore, some of those stakeholders cautioned against making changes to the consolidation guidance that would affect current consolidation outcomes.

61. However, a few stakeholders identified accounting outcomes that result from the application of the consolidation guidance that are inconsistent with the underlying economics of the transactions. One specific example provided related to the consolidation of VIEs that (a) are bankruptcy-remote special purpose vehicles (SPVs) and (b) issue debt to entities that are not under common control. In this example, the stakeholder explained that the application of the consolidation guidance results in the primary beneficiary reporting the SPV's debt in its balance sheet even though that debt is not an obligation of the entity. That stakeholder noted that this accounting outcome can provide the appearance that the entity has leverage that it is not obligated to repay, which is inconsistent with the underlying economics of the transaction. Additionally, as discussed above, a few stakeholders identified examples where the consolidation conclusion under the VIE and VOE models differs for entities that are controlled through voting interests and indicated that such outcomes may not be reflective of substantively different economics.

Interaction of Consolidation Guidance and Other Transactions

Question 11: Should the FASB prioritize a potential project to improve and align the guidance in any of these areas? If yes, what should be included in the scope and what alternatives should be considered? Please explain.

62. Twenty-seven stakeholders directly responded to Question 11 or provided general feedback on the interaction of consolidation guidance and other transactions (collectively referred to as "consolidation-related topics"), including feedback on the business combinations and asset acquisitions guidance. Most of those stakeholders identified consolidation-related topics as a top priority, with resolving differences between the business combinations and asset acquisitions guidance being the most frequently cited area that the Board should address within that topic. Some identified the topic as a low priority, while some were neutral on priority.

63. Stakeholders that identified consolidation-related topics as a low priority for the Board to address cited the following reasons:

(a) The topics highlighted in the ITC are not pervasive issues.

(b) Although there may be a lack of guidance for certain areas, such as the accounting for asset acquisitions in Subtopic 805-50, Business Combinations—Related Issues, that causes diversity in practice, addressing this area should be a low priority, given other higher priority areas.

(c) Addressing these topics would not materially change reporting outcomes for investors.

64. Stakeholders provided varying support for the Board addressing the consolidation-related topics highlighted in the ITC. Out of the consolidation-related topics, clarifying the accounting for asset acquisitions was most frequently cited as the highest priority area to address. A few stakeholders provided general feedback that each of these areas result in unnecessary complexity and diversity in practice and that the Board should prioritize a project to align the guidance in each of those areas. Other stakeholders provided feedback on specific areas. Feedback received from stakeholders that did and did not support the Board addressing those areas are highlighted as follows (the table below is not intended to be all inclusive):

Area of Guidance	Stakeholders' Feedback
Accounting for the initial consolidation of a business (a business combination) and the accounting for asset acquisitions	**Stakeholders that supported said:** • The lack of detailed guidance in Subtopic 805-50 and differences between business combination accounting versus asset acquisition accounting has resulted in diverse reporting outcomes for economically similar transactions. • Because an increasing number of transactions are accounted for as asset acquisitions rather than business combinations, the differences in accounting outcomes have become more prevalent.

Area of Guidance	Stakeholders' Feedback
	Stakeholders suggested varying solutions to address the challenges, such as to: • Provide specific guidance in Subtopic 805-50 on asset acquisitions for certain items, such as contingent consideration, in-process research and development (IPR&D), contract assets and liabilities, noncontrolling interests, income taxes, previously held equity interests, and employee benefits. • Align asset acquisition accounting with business combination accounting. • Require capitalization of IPR&D in an asset acquisition regardless of whether the IPR&D has an alternative future use. • Allow a measurement period for asset acquisitions. • Clarify the scope of Subtopic 805-50, including whether asset acquisitions effected through the issuance of share-based payments are accounted for under Topic 718, Compensation—Stock Compensation, or Subtopic 805-50. **Stakeholders that did not support said:** • Such a project would require a long-term commitment and holistic review. • Current guidance is sufficient.
Recognition and measurement requirements for acquisitions of VIEs that do not meet the definition of a business	**Stakeholders that supported said:** • The Board should require application of Subtopic 805-50 to all asset acquisitions, including acquisitions of VIEs that do not meet the definition of a business. **Stakeholders that did not support said:** • Issues in this area are not common.
Interaction of the consolidation guidance and guidance for derecognition of nonfinancial assets (in Subtopic 610-20)	**Stakeholders that supported said:** • There is an increasing frequency of transactions involving complexities related to the intersection of Topic 810 and Subtopic 610-20. • There is an asymmetry between Topic 810 and the derecognition guidance for legal entity subsidiaries that do not constitute a business that can result in financial reporting outcomes that are not consistent with the underlying economics of the transaction. **Stakeholders that did not support said:** • They are not aware of diversity in practice in this area and current guidance is sufficient. • This scenario is uncommon.
Interaction of the VIE guidance and the accounting for a sale and leaseback transaction	**Stakeholders that supported said:** • The Board should clarify that in a sale-and-leaseback transaction, an analysis of whether consolidation of a legal entity is required should be performed under Topic 810 and before the guidance in Topic 842, Leases, is applied. **Stakeholders that did not support said:** • They are not aware of significant issues in this area that would warrant changes.

65. Stakeholders suggested various other improvements, such as to:

(a) Evaluate the effectiveness of Topic 805 and Topic 810 in providing useful information to investors as it relates to business combinations, either at the time of the acquisition or in the post-combination period.

(b) Address transactions involving a newly formed entity, such as determining the accounting acquirer.

(c) Improve the NFP consolidation guidance, which can be difficult to navigate and apply.

(d) Reconsider the accounting for step acquisitions (specifically, the requirement to remeasure previously held equity interests at fair value upon obtaining control of the business).

(e) Require additional disclosures about noncontrolling interests and contingent consideration to enhance transparency for investors.

(f) Align the definitions of *control* across the Codification.

Pushdown Accounting

Question 12: Are there challenges in applying the pushdown accounting guidance in Subtopic 805-50? If so, what additional guidance is needed? Please explain.

66. Twenty-one stakeholders directly responded to Question 12 or provided general feedback on pushdown accounting. Most of those stakeholders noted that pushdown accounting is a low priority, while some were neutral on priority. One stakeholder identified pushdown accounting as a top priority to be addressed holistically as part of the accounting for business combinations.

67. Stakeholders that identified pushdown accounting as a low priority cited the following reasons:

(a) There is no significant diversity in practice or there are no challenges in applying the guidance and the guidance generally works as intended. When challenges do arise, they often stem from the complexity of the underlying transactions rather than deficiencies in the accounting guidance.

(b) Practice has developed methods to apply the guidance.

(c) Any potential challenges are mitigated because pushdown accounting is optional.

(d) Additional guidance would not result in different accounting outcomes.

68. Stakeholders that were neutral on the priority of pushdown accounting stated that the lack of implementation guidance has led entities to rely on speeches made by the SEC staff or nonauthoritative practitioner interpretive guides. Stakeholders noted that this lack of implementation guidance results in challenges in applying pushdown accounting, such as the following:

(a) There is no authoritative guidance on the use of “black line” presentation (separating the predecessor and successor periods with a vertical black line to distinguish between the different bases of accounting).

(b) There is a lack of authoritative guidance on how acquisition-related expenses should be recorded (in the predecessor period, on the line, or in the successor period).

(c) Distinguishing between items that can be pushed down to the acquiree’s separate financial statements and those that must only be recorded at the acquirer level (for example, debt and contingent consideration).

(d) Determining the opening balances for the statement of stockholders’ equity and the statement of cash flows.

(e) Whether the acquirer’s measurement period in a business combination may be used by the acquiree when determining the fair value of assets and liabilities.

69. If the Board were to add a project related to pushdown accounting, stakeholders suggested several improvements to increase consistency in application, such as:

(a) Address the challenges discussed in paragraph 68 of this handout.

(b) Clarify the scope of pushdown accounting (such as does it include an asset acquisition of a legal entity?).

(c) Provide guidance or illustrative examples on how to account for certain effects from pushdown accounting, such as (i) contingent consideration, (ii) goodwill, (iii) deferred income taxes, and (iv) foreign currency translations.

(d) Codify current best practices for applying pushdown accounting.

70. One stakeholder specifically noted that it would not support changing the optional nature of the guidance.

Chapter 2—Financial Instruments

Distinguishing Liabilities from Equity

Question 13: If the FASB were to make targeted improvements to the liabilities and equity guidance in Subtopic 815-40, would you support those changes if they significantly changed current financial reporting outcomes? For example, would you support accounting for more contracts indexed to an entity’s own equity as equity as compared with today? Please explain.

Question 14: What targeted improvements, if any, to the liabilities and equity guidance in Subtopic 815-40 should the FASB consider making? For example, should the improvements focus on the indexation guidance in the Scope and Scope Exceptions Section of Subtopic

815-40, the settlement guidance in the Recognition Section of Subtopic 815-40, or both? Please explain.

Overall Feedback and Prioritization

71. Thirty-one stakeholders directly responded to Question 13 and Question 14 or provided general feedback on distinguishing liabilities from equity. Overall, those stakeholders provided mixed views on whether the Board should address this topic as a priority. While many stakeholders—primarily practitioners—noted that distinguishing liabilities from equity should be a top priority, some stakeholders—primarily in the banking industry—identified the topic as a low priority. Additionally, although a few stakeholders did not identify distinguishing liabilities from equity as a top priority, they expressed support for certain targeted improvements.

72. Many stakeholders that identified distinguishing liabilities from equity as a top priority or supported changes noted that the guidance in Subtopic 815-40, Derivatives and Hedging—Contracts in Entity's Own Equity, is challenging and costly to apply and is a frequent reason for financial statement restatements and can result in outcomes that are difficult for users to understand and are diverse in practice, inconsistent, and counterintuitive.

73. Conversely, those stakeholders that identified the topic as a low priority cited several reasons, such as the following:

    (a) Current guidance is sufficiently clear, and practice has been developed on how to analyze complex instruments.

    (b) Current guidance generally results in appropriate outcomes.

    (c) There is a high risk for unintended consequences with a broad scope project because of the complexity of the current guidance.

    (d) Liabilities and equity is a conceptual topic that has been debated for a long time without a satisfactory solution.

Changes in Financial Reporting Outcomes

74. Many stakeholders supported changes to the liabilities and equity guidance in Subtopic 815-40, even if they significantly change current financial reporting outcomes. Specifically, almost all of those stakeholders noted that they would support accounting for more contracts indexed to an entity's own equity as equity as compared with today. Stakeholders cited the following reasons for supporting more equity-classified contracts:

    (a) Liability classification can be highly judgmental and costly because it requires estimating fair value. More equity-classified contracts would simplify the accounting for those instruments.

(b) The income statement volatility that results from the changes in the fair value of equity-linked financial instruments does not provide decision-useful information. More equity-classified contracts would provide more transparent financial reporting.

75. Several stakeholders identified certain share-settleable instruments that they indicated, in their view, should be equity classified, but are liability classified under current guidance. For example, one stakeholder identified several instruments, including (a) warrants in which certain terms of the warrants change upon a transfer of the warrants to another party (such as warrants issued by a special-purpose acquisition company) and (b) warrants in which inputs to the calculation of the settlement amount to offset the effect of a fundamental transaction (such as a merger announcement) are specified in the agreement (such as a "greater of" share price calculation and floor for the volatility input).

Targeted Improvements

76. Stakeholders provided mixed feedback about whether the Board should comprehensively consider the liabilities and equity guidance or consider only targeted improvements. While one stakeholder explicitly stated that it would not support targeted improvements, most others said that they would support targeted improvements in the near term, even if they ultimately would prefer that the Board undertake a broader long-term project.

77. A few stakeholders noted that the Board should consider a more comprehensive project that would include changes to Topic 480, Distinguishing Liabilities from Equity, which provides guidance on how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity. Additionally, some stakeholders urged the Board to consider codifying the temporary equity guidance from ASR No. 268, *Presentation in Financial Statements of "Redeemable Preferred Stocks,"* and potentially make targeted improvements to that guidance to align with other GAAP.

78. For those stakeholders that identified liabilities and equity as a top priority, almost all explicitly noted that the Board should consider targeted improvements to the indexation guidance, while slightly less than half of those stakeholders explicitly said that the Board should consider targeted improvements to the settlement guidance.

Indexation Guidance

79. Almost all the stakeholders that identified liabilities and equity as a top priority noted that the indexation guidance in the Scope and Scope Exceptions Section of Subtopic 815-40 should be prioritized. For example, one stakeholder noted that the current indexation guidance does not contemplate the intention or probability of potential settlement adjustments, which can lead to financial reporting outcomes that do not align with the most likely settlement outcome

for the instrument. Another stakeholder noted that it is often unclear to practitioners (a) whether commonly observed adjustments are consistent with the inputs to the fair value of a fixed-for-fixed forward or option on equity shares or (b) how they should consider the interaction of those inputs with certain settlement features (such as a share price input that has a cap or a floor) that can have the effect of introducing leverage. This stakeholder further noted that, in most cases, the complexity stems from the evaluation of adjustments that either are not expected to occur or, if they occur, would have an insignificant impact on the overall settlement value of the instrument.

80. Stakeholders provided several approaches to improve the indexation guidance, such as the following:

(a) **Require an entity to consider whether variables are extraneous.** Several stakeholders suggested exploring a model that would generally permit instruments to be equity classified as long as settlement adjustments are affected by variables that are not extraneous to the entity or the valuation of an equity instrument, such as the entity's own stock or an option or forward on the entity's own shares. Although these stakeholders provided different variations of this type of model, the underlying premise of these models focused on variables that are extraneous, which they view as less prescriptive than current guidance and would result in more equity-classified instruments. One stakeholder that suggested this approach noted that this evaluation could be performed in the overall context of the contract and would focus the required analysis on the nature of the adjustment, rather than on the specifics of how the adjustment is calculated.

(b) **Require an entity to disregard features that (i) have a remote likelihood of occurring or (ii) do not have a predominant impact on the contract's overall settlement amount.** Under this approach, contracts with features that have a remote likelihood of occurring or that do not have a predominant impact on the contract's overall settlement amount would not be precluded from equity classification. One stakeholder noted that this approach could improve the operability of the guidance when there are new market developments. Another stakeholder suggested considering only those features that are expected to result in an adjustment to the settlement amount that is more than insignificant to the overall fair value of the contract.

(c) **Account for certain adjustments to the settlement amount as a deemed dividend, like a downround provision.** Under this approach, certain adjustments to the settlement amount of an instrument issued by an entity would be treated similarly to a downround provision and, therefore, would not result in liability classification. Rather, the impact of the adjustment would be accounted for as a deemed dividend if and when the adjustment is triggered.

81. A few stakeholders encouraged the Board to focus on only changing Step 2 of the indexation guidance, while a few stakeholders suggested combining the two steps. Other stakeholders did not specify if the focus should be on Step 1, Step 2, or both.

82. Additionally, stakeholders provided general suggestions to improve the indexation guidance, such as the following:

(a) Update the illustrative examples in Section 815-40-55 to address specific situations, such as changes to settlement amount based on the holder of the instrument or settlement amount inputs based on a "greater of" basis.

(b) Add exceptions for certain adjustment provisions, such as those that are within an entity's control and those that are contingent but not probable of occurring.

(c) Remove the requirement to consider whether an adjustment affects the settlement value on a leveraged basis.

(d) Clarify whether an entity's decision to increase settlement amount variability to a particular input to reduce the effects of that input on the instrument's overall fair value should prevent the instrument from being considered indexed to the entity's own stock.

(e) Require an entity to disregard "nominal, protective provisions" when assessing indexation (consistent with the scope of Topic 718 for contracts that are indexed "at least in part" to the price of the entity's shares or other equity instruments, for example).

Settlement Guidance

83. About half of the stakeholders that identified liabilities and equity as a top priority noted that the settlement guidance in the Recognition Section of Subtopic 815-40 should be prioritized. For example, a few stakeholders noted that the additional criteria for equity classification within the settlement guidance prevents an entity from evaluating the likelihood that an event would trigger cash settlement, which can result in outcomes that are counterintuitive. These stakeholders provided several suggestions to improve the settlement guidance, including the following:

(a) **Add a threshold to the evaluation.** For example, for contracts with net cash settlement provisions that are triggered only when an event occurs, such as a fundamental transaction, incorporate a model similar to Topic 718 under which a contract would not be classified as a liability until it is probable that it would be settled in cash. As another example, one stakeholder suggested that an entity disregard a settlement provision unless the contingency that triggers the settlement provision is more-likely-than-not to occur.

(b) **Disregard certain events.** For example, disregard certain common settlement provisions that trigger net cash settlement, such as cash settlement upon a change of control transaction or a business combination.

(c) **Eliminate the additional conditions necessary for equity classification in paragraph 815-40-25-10.**

84. However, other stakeholders noted that the Board does not need to focus on amending the settlement guidance at this time. One stakeholder noted that since the implementation of the amendments in Accounting Standards Update No. 2020-06, *Debt—Debt with Conversion and Other Options (Subtopic 470-20) and Derivatives and Hedging— Contracts in Entity's Own Equity (Subtopic 815-40): Accounting for Convertible Instruments and Contracts in an Entity's Own Equity*, which simplified the settlement guidance, there have been fewer challenges in applying that guidance. Furthermore, this stakeholder noted that if the Board pursues a project that addresses the settlement guidance, it also should consider the impact of different forms of settlement more holistically (considering both Topic 480 and the SEC's guidance on temporary equity) because the considerations about form of settlement are more pervasive. Another stakeholder said that the ultimate impact of the changes to the settlement guidance may be limited because of the SEC's temporary equity guidance for public companies.

Other Suggestions

85. Stakeholders suggested other improvements to the liabilities and equity guidance, including the following:

(a) Remove double and triple negative phrases from the guidance because they are difficult to understand and apply.

(b) Use simpler and easier-to-understand language for the classification of equity contracts and the evaluation of embedded conversation features.

(c) Allow simple agreements for future equity instruments and economically similar arrangements, such as bridge loans, to be equity classified by adding a scope exception.

(d) Explore a simpler approach to bifurcation similar to the Board's approach in Update 2020-06.

(e) Revisit the current and noncurrent balance-sheet presentation guidance for both equity-linked and debt instruments.

(f) Clarify how to account for contingently issuable warrants before their issuance.

(g) Adopt strict definitions of liabilities and equity and require hybrid instruments that do not meet either definition to be presented separately on the balance sheet with extensive disclosures.

(h) Allow any instrument to be classified in equity, unless it is directly settleable in cash.

(i) Require enhanced disclosures about the potential adjustment to an instrument's settlement amount.

Risk Management and Hedge Accounting

Question 15: Should the FASB consider revising the hedge accounting model? If so, what core aspects of the hedge accounting model should be amended or removed to allow hedge accounting to more accurately reflect the economics of an entity's risk management activities? Please describe why and how those core aspects should be amended or why they should be removed.

Question 16: Should the FASB consider changing hedge accounting disclosures? If so, what changes could be made to hedge accounting disclosures and how would they better portray the economics of an entity's risk management activities? Please explain.

86. Twenty-nine stakeholders directly responded to Question 15 and Question 16 or provided general feedback on hedge accounting. Most stakeholders noted that risk management and hedge accounting should be a top priority, while some were neutral on priority. A few identified risk management and hedge accounting as a low priority.

87. Stakeholders provided numerous recommendations; some were focused on broadly aligning the guidance more closely with how entities manage risk in practice, which would necessitate a holistic rethink of the hedge accounting model. Other recommendations suggested retaining the core model but making the pillars of that model more flexible such that common risk management strategies would qualify for hedge accounting, which would be narrower than a holistic rethink but broader than targeted improvements. Many stakeholders encouraged the Board to make both targeted improvements and to more broadly revamp the current hedge accounting model. However, some stakeholders only expressed interest in a broad project, and a few stakeholders were in favor of a targeted improvements project only. Some frequently cited needs for targeted improvements were to permit (a) the portfolio layer method for liabilities, (b) hedging of interest-rate risk of held-to-maturity debt (HTM) securities, (c) a principle to be applied to determine eligible benchmark rates for fair value hedging, and (d) different reset dates for float-to-float cross-currency swaps used in net foreign investment hedges.

88. A few stakeholders that stated the topic is a low priority noted that (a) they are not aware of issues with the current hedging model, (b) there is no pervasive need, or (c) this is a

conceptual topic that has been long debated without a satisfactory solution so the Board should prioritize other topics.

89. Stakeholders noted that the Board's efforts to simplify hedge accounting over the last several years have been incrementally helpful in aligning accounting with the underlying economics of their risk management strategies; however, there are still challenges with the current hedge accounting model.

90. The foundation of the hedge accounting model is based on establishing discrete relationships whereby a specified derivative is formally designated as mitigating the exposure stemming from a specific asset, liability, or transaction. Stakeholders noted that for entities in industries like banking and insurance, the risk management activities are based on total entity-wide exposures and common economic hedges do not fit neatly into the hedge accounting model. Stakeholders stated that some of the key issues with the hedge accounting model are that it (a) is complex for preparers to apply, (b) creates a mismatch between reported results and true net economic exposures, (c) reflects uneconomic earnings volatility when hedge accounting is not permitted or achieved for certain transactions, (d) leads to the usage of non-GAAP measures, and (e) does not provide decision-useful information to investors. Also, some stakeholders noted that some entities are disincentivized from using derivatives to manage risk because the hedge accounting requirements are complex and burdensome to apply.

91. The stakeholders that advocated for the core model to be retained but for the pillars to be made more flexible such that common risk management strategies would qualify for hedge accounting focused their feedback on the following:

   (a) The broader application of portfolio hedging, which would include allowing hedge accounting to be applied to open pools of assets and liabilities, including core bank deposits. Stakeholders suggested that under such a model, an entity would not have to specifically identify a forecasted transaction when it occurs. Instead, if the designated volume of accruals occurred in the hedge period, hedge accounting could continue.

   (b) More risks to qualify for hedge accounting, including inflation risk, prepayment risk, credit risk, centrally managed foreign exchange risk, transactions with an indirect effect on earnings (for example, foreign exchange risk in cross-border business combinations, the issuance of foreign-denominated debt, dividends on equity-classified preferred stock), and the risks inherent in equity method investments.

   (c) More hedging instruments to qualify for hedge accounting (for example, debt investment securities and compound derivatives in foreign net investment hedges).

(d) The application of a lower effectiveness threshold, amendments to the assessment requirements such that they exclude risk that an entity is not attempting to hedge, and differences between the hedged item and hedging instrument that are typically inconsequential.

(e) Simplified documentation requirements that could be updated to reflect the dynamic and iterative nature of risk management.

92. If the Board were to consider a broad project, stakeholders noted that a new model should (a) bring alignment between risk management activities and financial reporting outcomes, (b) reduce complexity, (c) enhance transparency, and (d) increase the relevance of financial information presented to investors. Stakeholders acknowledged that it will take time to develop broad requirements that are operable and meaningful for all stakeholders. However, the long-term benefit of a broad project would outweigh the costs.

93. Stakeholders suggested numerous solutions for a new hedging model, such as to develop a:

(a) Principles-based framework that focuses on risk management processes, including eliminating the existing limitations on what can be designated as an eligible hedged item.

(b) Dynamic risk management model that would allow an entity to manage assets simultaneously and adjust positions to optimize overall risk exposure, similar to that being considered by the International Accounting Standards Board (IASB). However, one stakeholder noted reservations about the dynamic risk management model being contemplated by the IASB.

(c) Model that allows entities to apply hedge accounting on an entity-wide basis, rather than on a discrete asset, liability, or transaction basis. For example, financial institutions with portfolios of fixed- and floating-rate financial assets and liabilities have economic hedges managed on an entity-wide basis that often do not qualify for hedge accounting under GAAP.

(d) Macro hedging model that would align the accounting models for each of the different hedging strategies (that is, the cash flow, fair value, and net foreign investment models would be merged into one model [for example, all hedges would be recognized as cash flow hedges]).

94. Additionally, a few stakeholders specifically noted that they were supportive of the FASB chair’s recent decision to add a research project on hedge accounting and the forthcoming Preliminary Views document. One stakeholder noted that the Preliminary Views document should outline the primary objective for a model so that stakeholders understand the nature and extent of changes that may be needed to certain existing principles in the current guidance.

Disclosures

95. Most stakeholders that provided feedback on risk management and hedge accounting commented on related disclosures. Some stakeholders noted that current disclosures do not need to be changed.

96. Some stakeholders noted that the hedging disclosure requirements are time consuming, costly, and complex to prepare and do not provide decision-useful information. Stakeholders that were in favor of enhanced disclosures noted that the Board should consider improvements to the hedging disclosures to more clearly convey the economic substance and strategic purpose behind an entity's risk-management activities. More specifically, the disclosures should be principles-based and highlight an entity's risk exposures and its strategic rationale for hedging. However, one stakeholder noted that disclosure strategies like managing interest rate or foreign currency risk are important but are better explained in Management's Discussion and Analysis than in the notes to financial statements.

97. Stakeholders identified some disclosures that are not decision useful, such as the following:

    (a) The gains and losses on derivative instruments designated and qualifying as cash flow hedges reclassified into earnings during the current period

    (b) The estimated net amount of the existing gains or losses that are reported in accumulated other comprehensive income at the reporting date that is expected to be reclassified into earnings within the next 12 months

    (c) Derivative offsetting disclosure requirements

    (d) Cumulative-basis adjustments related to fair value hedges

    (e) Disclosure of volume (for example, notional amounts) of activity for hedging instruments.

98. A few stakeholders stated that the Board should consider hedging disclosures as part of a broad disclosure rationalization project or as part of a broader hedging project.

Troubled Debt Restructurings (TDRs) by Borrowers

Question 17: How often is the TDR guidance in Subtopic 470-60, Debt—Troubled Debt Restructurings by Debtors, applied? Does the TDR guidance for borrowers continue to be relevant and provide decision-useful information to investors? Is it possible for borrowers to determine the fair value of restructured debt in a TDR? Do you foresee any challenges in determining the fair value of restructured debt when a borrower's financial difficulty results in other market participants being unwilling to lend to that borrower under the terms of the

restructured debt? Are there other alternatives to improve the TDR guidance for borrowers that should be considered? Please explain.

Question 18: If borrowers were required to measure restructured debt at fair value, should interest expense be recognized? If yes, when should it be recognized and how should it be calculated? Please explain.

99. Nineteen stakeholders directly responded to Question 17 and Question 18 or provided general feedback on (a) TDRs by borrowers or (b) debt modifications and extinguishments. Overall, those stakeholders provided mixed views on whether the Board should address this topic as a priority. Some stakeholders—primarily practitioners—identified TDRs by borrowers (and, for some, also debt modifications and extinguishments broadly) as a top priority, while some identified it as low priority. Some other stakeholders were neutral on priority. The most frequent suggestion from stakeholders was to eliminate the TDR guidance in Subtopic 470-60, Debt—Troubled Debt Restructurings by Debtors, and instead require TDRs to be accounted for consistent with other debt modifications and extinguishments in accordance with Subtopic 470-50, Debt—Modifications and Extinguishments.

Overall Prioritization

100. Stakeholders that identified the TDR guidance as a top priority (or said that they would support such a project) said that, overall, the current guidance is unnecessarily complex to apply and may not provide decision-useful information to investors.

101. Stakeholders that identified TDRs by borrowers as a low priority for the Board stated that it is not an area in which they commonly observe challenges in applying the current guidance and that the guidance is well understood and relatively straightforward to apply.

Prevalence of Current TDR Guidance

102. Some stakeholders noted that debt restructurings often do not result in TDR accounting and Subtopic 470-50 is more commonly applied. To this point, some stakeholders highlighted that although the guidance in Subtopic 470-60 may frequently have to be evaluated, debt restructurings often do not result in TDR accounting. Specifically, one stakeholder noted that it is uncommon for restructurings to be accounted for as TDRs because the new or modified instruments are often determined to be at market terms or the issuers are able to demonstrate that they have access to alternative funding.

103. However, some stakeholders observed that TDR accounting is applied more frequently during economic downturns because lenders are more likely to grant concessions. Additionally, one stakeholder noted that the TDR guidance in Subtopic 470-60 is applied with some frequency, regardless of the stage in the economic cycle.

Decision Usefulness of TDR Guidance

104. Several stakeholders noted that TDR accounting does not provide relevant decision-useful information or is not well understood by users. Stakeholders most often highlighted concerns about the current TDR requirements when undiscounted future cash payments are less than the debt's carrying amount following a restructuring—in those cases, the guidance requires the borrower to recognize a gain and apply all subsequent payments to reduce the debt's carrying amount, with no interest expense recorded between restructuring and maturity. One stakeholder noted that this guidance does not always reflect the economic substance of the ongoing relationship because no interest expense is recognized in future periods, even if the restructured debt is interest bearing. Another stakeholder noted that when TDR accounting is applied, investors will often inquire about certain items that appear inconsistent with the purpose and economics of the transaction. A different stakeholder speculated that the information provided when the TDR guidance is applied is not overly relevant or clearly understood by users of financial statements.

Complexity of the TDR Guidance

105. Several stakeholders emphasized that having multiple areas of guidance for debt restructuring (such as Subtopics 470-50 and 470-60) creates complexity and inconsistency.

106. For example, a few stakeholders observed that it is often complex to determine whether such transactions are in the scope of the TDR guidance because evaluating whether the borrower is experiencing financial difficulty can be subjective and evaluating whether the lender granted a concession can be challenging.

107. As another example, one stakeholder noted that because the TDR guidance does not require recognition of significantly modified debt at fair value and either (a) does not require the borrower to recognize interest expense in certain fact patterns or (b) requires the borrower to recognize below-market interest, it introduces unnecessary complexity and inconsistency into the financial reporting of debt restructurings. Another stakeholder noted that the current guidance is outdated for many debt instruments that exist today.

Eliminating the TDR Guidance

108. Many stakeholders supported eliminating the TDR guidance in Subtopic 470-60 and instead requiring the application of the debt modifications and extinguishments guidance in Subtopic 470-50, which could require borrowers to initially measure the restructured debt at fair value (when extinguishment accounting is applied). These stakeholders stated that the current guidance under Subtopic 470-50 should be sufficient for borrowers to apply to all debt modifications, irrespective of whether the borrower is experiencing financial difficulties and/or

received a concession from the lender. However, a few stakeholders noted that the Board should consider whether current TDR disclosures should continue to be required under this approach.

109. One stakeholder observed that TDR recognition and measurement guidance has been eliminated for lenders and the Board should similarly consider overhauling the corresponding guidance for borrowers.

110. Stakeholders observed several potential benefits of eliminating the TDR guidance and, instead, applying the guidance in Subtopic 470-50, such as:

(a) It would potentially simplify the accounting for debt restructuring, reduce complexity, address practice issues that have arisen under the current TDR model, and provide more decision-useful information.

(b) It would be particularly appropriate for private companies, which do not have publicly traded shares and often face unique challenges in debt restructuring.

(c) It would result in more restructured debt being subject to extinguishment accounting. This would result in an entity recognizing interest expense over the remaining term and would, therefore, resolve the current issue in which borrowers may not recognize interest expense after the restructuring date.

111. Some stakeholders said that no significant challenges were anticipated in determining the fair value of restructured debt instruments. For example, one stakeholder noted that it is generally feasible for borrowers to determine the fair value of the restructured debt in a reasonable manner because fair value principles are well understood and similar valuations are already required in other areas of financial reporting. Furthermore, another stakeholder noted that valuation professionals regularly estimate the fair value of financial instruments that are more complex than restructured debt. However, other stakeholders highlighted a few challenges that may arise, such as:

(a) It may be challenging to determine the fair value of restructured debt, especially for private companies and other entities that do not have publicly traded debt, and entities may have to engage third-party service providers. For example, a few stakeholders noted that determining the fair value of new debt could be challenging and costly.

(b) It could be challenging to establish an appropriate market rate for a borrower that is experiencing financial difficulty, such as if a borrower cannot obtain funds from sources other than existing creditors at an effective interest rate equal to the current market rate for similar debt for a nontroubled borrower.

(c) There is the potential that such troubled debt arrangements may have a lower than par amount value to the creditor due to the risk of nonperformance by the debtor in such circumstances.

(d) The fair value of restructured debt may not be useful information in terms of lending or credit risk management decisions.

112. One stakeholder specifically noted support for *initial measurement* of TDRs at fair value, but that subsequent measurement at fair value each reporting period would involve costs and effort for preparers. That stakeholder noted that if the Board were to require borrowers to subsequently measure TDRs at fair value each reporting period, the Board should consider providing additional implementation guidance.

113. Another stakeholder did not support requiring borrowers to measure TDRs at fair value because it would introduce substantial complexity, resulting in considerable incremental costs to both prepare and audit the fair value. However, that stakeholder also stated that if investors do not perceive the TDR model as providing decision-useful information, the Board could consider replacing it with the extinguishment model in Subtopic 470-50 (which requires initial measurement at fair value).

114. If the Board required borrowers to measure TDRs at fair value, stakeholders generally noted that the recognition of interest expense after the restructuring should be consistent with how interest expense is calculated following the application of extinguishment accounting under Subtopic 470-50. For example, one stakeholder explained that the debt's carrying amount should reset to the restructured fair value, which would reset the interest rate used to recognize interest expense over the remaining term using the interest method. That stakeholder also noted that it would not support a model under which the borrower recognizes no future interest expense because interest is an important financial metric for investors.

Other Alternatives to Improve the TDR Guidance

115. Stakeholders provided several additional suggestions to improve the TDR guidance for borrowers, such as the following:

(a) Measure the carrying value of the restructured debt on the basis of the restructured principal value so that the debt would be reflected on the balance sheet at its notional amount and the legal contractual rate of interest would be recorded each period.

(b) Amend Subtopic 470-60 to clarify how to calculate concessions when there has been a previous TDR.

(c) Provide implementation guidance explaining and illustrating how to apply the guidance in Subtopic 470-50 when contemporaneous changes are made to term debt and a line of credit with the same lender.

Other Feedback on Debt Modifications and Extinguishments

116. Several stakeholders identified the debt modifications and extinguishments guidance (broadly) as a top priority that the Board should address. Those stakeholders noted that the current guidance is complex and challenging to apply and could be simplified. For example, one stakeholder noted that application challenges in Subtopic 470-50 include applying the 10 percent cash flow test to debt that is not prepayable, allocating certain fees between lender fees and third-party costs when multiple loans within a loan syndication are modified, considering multiple changes to the same debt within a one-year period on a cumulative basis, and determining the appropriate accounting for contemporaneous changes made to term debt and a line of credit with the same lender. Another stakeholder similarly highlighted that a considerable amount of time and effort is spent by preparers and their auditors in determining whether a borrower should account for a debt modification as a modification or an extinguishment, especially in syndicated debt arrangements where the assessment is required to be performed on a lender-by-lender basis.

117. Stakeholders provided suggestions to improve the guidance, such as:

(a) Work with the PCC to prioritize a project to simplify the accounting guidance for debt modifications for private companies because that guidance is complex and often misunderstood by private companies that are unaware of differences between accounting for modifications, extinguishments, and TDRs.

(b) Consider a model where the borrower’s assessment is performed for the whole credit arrangement rather than on a lender-by-lender basis.

(c) Develop a principles-based framework in Subtopic 470-50 to distinguish a modification from an extinguishment that introduces qualitative factors instead of the quantitative 10 percent cash flow test.

(d) Resolve application challenges in applying Subtopics 470-60 and 470-50, such as by treating lender fees and third-party costs the same for accounting purposes and providing implementation guidance and illustrative examples.

Definition of a Derivative and Derivative Modifications

Question 19: Regarding derivative accounting, what other challenges (beyond those that would be addressed in the 2024 proposed Update on derivative scope refinement), if any, do you encounter in practice? Please explain.

Question 20: There is currently a project on the research agenda that includes the accounting for derivative contract modifications. If the FASB were to prioritize a project on derivative modifications, what approach should be applied to assess and account for the modification of a derivative? Please explain.

118. Twenty-six stakeholders directly responded to Question 19 and Question 20 or provided general feedback on the definition of a derivative and derivative modifications. Some stakeholders identified derivative accounting as a top priority, while many stakeholders were neutral on priority. Some indicated that it is a low priority for the Board to address.

119. Some stakeholders stated that they have not observed other challenges related to derivative scope refinements beyond those addressed in the July 2024 proposed Accounting Standards Update, *Derivatives and Hedging (Topic 815) and Revenue from Contracts with Customers (Topic 606): Derivatives Scope Refinements and Scope Clarification for a Share-Based Payment from a Customer in a Revenue Contract.* However, most of those stakeholders and other stakeholders stated that there are challenges with accounting for derivative modifications and/or the accounting for embedded derivatives.

Definition of a Derivative

120. Stakeholders noted specific challenges with the application of the definition of a derivative in the scope of Subtopic 815-10, Derivatives and Hedging—Overall.

Underlying

121. An underlying is a variable that, along with either a notional amount or a payment provision, determines the settlement of a derivative instrument and may include the occurrence or nonoccurrence of a specified event (such as a scheduled payment under a contract). One stakeholder noted that all option-based cash flows meet the definition of a derivative because of the “occurrence or nonoccurrence of a specified event” condition. That stakeholder noted that the Board could consider narrowing that condition.

Initial Net Investment

122. One stakeholder stated that there is diversity in the application of the initial net investment criterion of the derivative definition when a contract has a payment provision instead of a notional amount. That stakeholder stated that the Board should provide illustrative examples that demonstrate how to evaluate the initial net investment criterion for contracts with payment

provisions to enhance the operability of the guidance and promote consistent application in practice.

123. Derivative novations (for example, replacing one party to a derivative contract with a new party) typically involve a fee. One stakeholder noted when the fee is significant, it could cause the new contract to fail the initial net investment criterion, resulting in a hybrid instrument. That stakeholder noted that the result discourages derivative transfers between related parties when the new party to the contract prepares standalone financial statements. Therefore, to streamline accounting and facilitate transfers, that stakeholder suggested that the Board exempt payments in connection with a novation between related parties from the initial net investment criterion.

Scope

124. Stakeholders suggested that the Board consider and clarify whether the following examples of contracts should be accounted for as derivatives or subject to other GAAP:

(a) Paragraph 815-10-S99-4 includes the SEC staff's longstanding position that written options that do not qualify for equity classification initially should be reported at fair value and subsequently marked to fair value through earnings. One stakeholder noted that, due to lack of clarity on when the SEC staff's view should be applied, there is diversity in accounting for written options that do not meet the definition of a derivative under Topic 815, Derivatives and Hedging.

(b) One stakeholder noted that the financial guarantee scope exception in Topic 815 has been narrowly interpreted in practice. As a result, certain financial guarantee contracts do not qualify for that scope exception, even though they may be economically similar to other contracts that are not accounted for as derivatives.

(c) One stakeholder noted that the Board could clarify that for a share to be considered readily convertible to cash, the share must represent a Level 1 fair value measurement under Topic 820. That would eliminate the judgments required to determine what a sufficient trading volume is.

125. One stakeholder noted that there are emerging transactions between entities that are large consumers of energy (such as cloud computing hyperscalers that build and operate interconnected data centers) and utility suppliers in which the parties enter into power contracts in which there are firm commitments and pricing that substantively funds the construction of new power infrastructures. It was noted that in situations where these contracts do not require consolidation and do not meet the definition of a lease, they are often being accounted for as a derivative contract because they do not qualify for the normal purchase and normal sales scope exception. This stakeholder noted that accounting for these contracts

as derivatives is misleading because (a) the purpose is to consume the energy in the entity's operations and not to speculate or trade in the energy market and (b) these contracts are often entered into for multiple decades and, therefore, the fair value is often based on unobservable inputs. This stakeholder suggested expanding the normal purchase and normal sales scope exception for those power contracts.

Embedded Derivatives

126. Stakeholders noted that the bifurcation requirements of Subtopic 815-15, Derivatives and Hedging—Embedded Derivatives, often involve significant judgment, especially for instruments with features that exhibit characteristics of both debt and equity (and other complex financing instruments) and that there has been an increase in private companies entering into these contracts. Some stakeholders noted that (a) it is costly and time intensive to apply the guidance and (b) difficulties often arise in determining whether embedded derivatives are clearly and closely related to the host contract. For example, one stakeholder noted that Subtopic 815-15 addresses how to determine whether the economic characteristics and risks of features such as conversion, put, and call options are clearly and closely related to debt and equity host contracts, but contains limited guidance on how to determine whether economic characteristics and risks of various features are clearly and closely related to other types of host contracts, including purchase contracts and leases.

127. Some stakeholders noted that investors find it challenging to understand when bifurcation is required. A few stakeholders indicated that those challenges are similar to those that investors experienced with the accounting for convertible debt instruments before the amendments in Update 2020-06 became effective, which resulted in fewer embedded conversion features being separately recognized from the host contract. Stakeholders provided the following examples of transactions in which entities are required to bifurcate the embedded derivative from the host contract and the resulting accounting does not provide decision-useful information to investors:

(a) Utility entities may enter into contracts to sell electricity that provide for cash settlement because it is not possible to deliver the electricity to a specific physical location on the grid when the utility is physically distanced from the purchaser.

(b) Financial institutions may purchase loans at a significant discount that include rights to accelerate the repayment upon (i) an event of default by the borrower or (ii) damage to the collateral from weather events or other insurable events when the borrower would receive insurance proceeds.

(c) Entities may hold mortgage-backed or other asset-backed securities, such as collateralized loan obligations, that contain an immediate prepayment feature with an extremely low probability of occurring because all underlying loans would have to be prepaid simultaneously.

(d) Life insurance entities may sell fixed indexed products, including equity indexed and registered index-linked annuity products, in which the policyholder can elect to receive an equity-based return in lieu of the interest rate that would ordinarily be credited to the account balance. The current guidance requires the embedded derivative to encompass not just the current period option to receive an equity-based return, but also the future starting options to receive an equity-based return upon future renewals.

(e) Life insurance entities may enter into funds withheld and modified coinsurance arrangements for regulatory purposes. Under both types of reinsurance, the ceding entity holds the assets backing the reinsured contracts and pays the reinsurer investment returns on those assets. This passthrough of investment income creates an embedded derivative to both the ceding entity and the reinsurer (the assuming entity).

128. Stakeholders suggested several approaches to improve the embedded derivative guidance, such as the following:

(a) Provide contract-specific scope exceptions to exclude the transactions discussed in paragraph 127 of this handout.

(b) Provide a principles-based approach that focuses on assessing a hybrid financial asset in its entirety, rather than dissecting it feature by feature. More specifically, if the instrument is more akin to equity, require an entity to apply the guidance in Topic 321. If the hybrid instrument is determined to be more akin to debt, require an entity to determine whether the instrument's expected cash flows reflect a basic lending arrangement (that is, cash flows that are solely payments of principal and interest on the principal amount outstanding). Under this approach, an entity's assessment of how closely related expected cash flows are to traditional lending arrangements would determine whether the entity should account for the transaction under Topic 310, Receivables, Topic 320, Investments—Debt Securities, or at fair value with changes in fair value reported in earnings.

(c) Provide examples illustrating the application of the "clearly and closely related" criterion to features embedded in contracts that are neither debt nor equity in legal form.

(d) Develop embedded derivative guidance for entities' evaluations of specific host contracts and embedded derivatives. For example, an entity may evaluate features like interest rate or foreign exchange embedded in instruments, such as executory contracts, debt and equity instruments, and beneficial interests, differently.

129. If the Board decides not to prioritize a project related to derivative accounting, (a) one stakeholder suggested that the PCC evaluate this as an area of potential simplification for private companies and (b) another stakeholder suggested evaluating the embedded derivative guidance as part of a broader project on distinguishing liabilities from equity.

Derivative Modifications

130. Most stakeholders that provided feedback on the definition of a derivative and derivative modifications topic provided feedback specific to derivative modifications. Some stakeholders noted that derivative modifications are not a pervasive issue for the Board to address or that there is no significant diversity in practice. One stakeholder specifically noted that it does not expect additional guidance to have a meaningful effect on financial reporting because it will be difficult to define operable parameters that yield constant and desired outcomes in practice.

131. Many stakeholders noted that there is a lack of guidance on derivative modifications and practice generally views any modification (regardless of materiality) as the extinguishment of the old derivative and creation of a new derivative, which can result in unintuitive outcomes. As a result, stakeholders noted that (a) the "new derivative" may be a hybrid instrument because its initial fair value represents an initial net investment, (b) the "new derivative" could have a financing element that affects how it is reported on the statement of cash flows, and (c) entities have difficulties redesignating hedge accounting.

132. Stakeholders provided several examples of derivative modifications where the accounting outcome is unintuitive and does not provide decision-useful information to investors, such as the following:

(a) In "blend-and-extend" strategies, financial institutions often reassess if the new instrument qualifies as a derivative or hybrid financial instrument on the basis of the application of the guidance in paragraphs 815-10-55-148 through 55-168, which creates unintuitive results during low-interest-rate environments.

(b) Certain reference rate transitions (like the transition from Bloomberg Short-Term Bank Yield Index to alternative reference rates) can trigger derecognition and the resumption of recognition of derivative instruments and create accounting outcomes that diverge from the transaction's substance. This results in earnings volatility that does not reflect changes in risk management strategy, exposure, or financial condition.

(c) Many lenders require borrowers to purchase an interest rate cap on construction to provide cash flows for interest payments in the event interest rates exceed a certain level. Borrowers are commonly required to purchase a cap for the expected principal balance on the construction loan, which is inherently uncertain. Many construction projects encounter changes in the expected timing of cash flows. If borrowers' needs accelerate and make the notional amount on the interest rate cap lower than the drawn principal balance, lenders typically modify the interest rate cap to increase the notional amount.

(d) Many entities hedge the interest payments on floating rate debt through the extended maturity date of their currently outstanding floating rate debt. Many floating rate debt instruments are replaced before their contractual maturity. If the replacement debt has a different interest rate, interest period, maturity date, or other characteristics, the borrower may modify the interest rate swap to align with the new terms. Modification typically occurs because there is a larger cash flow impact of terminating the derivative and entering into a new derivative.

(e) Derivatives acquired after their trade date as part of a business combination may not be modified as part of the business combination. Even though the contract has not been modified in any way, the value of the contract upon acquisition can be significant enough, affecting the initial net investment test.

133. Stakeholders provided potential solutions that they said would appropriately balance expected benefits with expected costs, such as the following:

(a) **Qualitative assessment**. Allow entities to perform a qualitative assessment to identify permitted changes for an instrument to retain its original classification as a derivative. For example, if an entity's intention is to continue to account for the instrument as a derivative, there should be a presumption that the instrument will continue to be a derivative. Some of these stakeholders said that the evaluation should only be qualitative, and others said that a qualitative evaluation should be required as a screen before an entity is required to make a quantitative assessment.

(b) **Subtopic 470-50 model**. Require entities to determine whether a change is a modification or an extinguishment, similar to the model in Subtopic 470-50. For example, if an entity accounts for a contract as a derivative before a modification and the modification does not substantively change its economic substance, an entity should be permitted to conduct a qualitative assessment of whether the instrument should be accounted for as a derivative, without requiring reassessment.

(c) **Significance test.** Develop a model to identify significant changes that would result in a new derivative. This model may require entities to conduct different analyses for modifications that create a hybrid instrument, include a financing element, or have an effect on hedge accounting. However, a few stakeholders noted that it may be challenging to develop this potential solution because of how derivative values change over time compared with the underlying.

(d) **Evaluation of the contract's value before and after modification**. Replace the initial net investment test with an evaluation of the contract's value before and after the modification to identify any meaningful net exchange of value. If there is no meaningful net exchange of value, the original determination as a derivative should be preserved.

(e) **Codify current practice.** Treat any change in timing and/or amount of cash flows as a termination of the old instrument and recognition of a new instrument (versus the continuation of an existing instrument).

134. If the Board were to provide modification guidance, one stakeholder noted that additional disclosures may be necessary such as the (a) nature and purpose of the modification, (b) basis for accounting treatment (for example, continued derivative versus hybrid classification), (c) effect on hedge accounting relationships, if applicable, and (d) effect on earnings and other comprehensive income.

Other Suggestions

135. One stakeholder noted that there is diversity in how an entity applies the offsetting guidance in paragraphs 815-10-45-5 through 45-7 to a variation margin for exchange-traded futures contracts and centrally cleared interest rate swaps. That stakeholder suggested that the Board clarify how the offsetting guidance should be applied to exchange-traded futures contracts and centrally cleared interest rate swaps.

136. Some stakeholders noted that certain disclosure requirements are not decision useful because they are too aggregated and the Board should consider removing or improving the disclosure requirements. Stakeholders stated that the Board should reconsider the following disclosures related to:

(a) Credit derivatives that function as guarantees

(b) Net exposure amounts for derivative offsetting

(c) Notional amounts.

Below-Market and Interest-Free Loans from Donors

Question 21: Should the below-market or interest-free component of the loan from a donor be accounted for as financial support? If it should continue to be accounted for as financial support, what specific accounting guidance is needed to more consistently reflect the economics of those transactions? Please explain.

137. Fourteen stakeholders directly responded to Question 21 or provided general feedback on below-market and interest-free loans from donors. Most stakeholders identified the topic as a

low priority, while some were neutral on priority. There were no stakeholders that identified below-market and interest-free loans from donors as a top priority.

138. Many stakeholders noted that the current accounting practice to determine if a portion of a loan should be accounted for as an inherent contribution is largely based on the AICPA Audit and Accounting Guide, *Not-for-Profit Entities* (AICPA NFP Guide).

139. Stakeholders that identified below-market and interest-free loans from donors as a low priority gave several reasons such as (a) this is not a pervasive issue, (b) there are no significant issues in applying the current guidance, (c) current guidance functions as intended, and (d) any challenges that do arise are related to the facts and circumstances of specific transactions and not the guidance. The stakeholders that were neutral on the topic noted that the nonauthoritative interpretations in the AICPA NFP Guide are consistently applied in practice and, therefore, it is not a top priority to address. However, one stakeholder stated that diversity in practice exists because the guidance is applied inconsistently.

140. Stakeholders noted that the benefit of the below-market or interest-free component of the loan from a donor should be accounted for as a contribution/financial support, consistent with Subtopic 958-605, Not-for-Profit Entities—Revenue Recognition. Some stakeholders noted that the benefit should be accounted for as financial support because it is economically similar to a contribution of cash or other assets. Some stakeholders also provided solutions to improve the guidance, such as the following:

    (a) Codify certain aspects of the AICPA NFP Guide.

    (b) Include guidance in Subtopic 958-605 on the accounting for the benefit but limit the scope to loans from nongovernmental entities, consistent with paragraph 835-30-15-3(e).

141. Separately, one stakeholder noted that the Board should provide guidance that NFPs should treat some forgivable loans (such as those from government housing or agricultural agencies) as contributions when they are forgiven.

Alternative Funding Arrangements

Question 22: Are there challenges in determining whether a funding arrangement should be accounted for as a R&D funding arrangement or a sale of future revenue? If the FASB were to pursue a project on R&D funding and sales of future revenue arrangements, what types of arrangements should be included in the scope of the project? Please explain.

142. Twenty-seven stakeholders directly responded to Question 22 or provided general feedback on alternative funding arrangements. Most of those stakeholders, primarily preparers and investors in the pharmaceutical industry, identified alternative funding arrangements (specifically, royalty monetization arrangements) as a top priority, while some of those

stakeholders, primarily practitioners, were neutral on priority. A few stakeholders identified alternative funding arrangements as a low priority, noting that they are not aware of a pervasive need to provide additional guidance at this time.

Types of Arrangements

143. Generally, stakeholders noted that there has been an increase in the pervasiveness and complexity of alternative funding arrangements across various industries, including in the life sciences, extractive, technology, and film industries. Almost all stakeholder feedback on alternative funding arrangements focused on either (a) R&D funding arrangements broadly or (b) specifically on royalty monetization arrangements, which can occur when an entity sells a future royalty stream related to an R&D funding arrangement. Additionally, one stakeholder provided feedback about alternative financing more broadly, including litigation funding arrangements, equipment financing, and motion picture financing. Almost all stakeholders that identified alternative funding arrangements as a top priority for the Board to address noted that the Board should focus on royalty monetization arrangements.

R&D Funding Arrangements

144. A few of the stakeholders that discussed R&D funding arrangements identified those arrangements as a top priority for the Board to address. R&D funding arrangements were primarily discussed by practitioners.

145. A few stakeholders identified R&D funding arrangements broadly as a top priority that the Board should address, citing the following challenges in applying the current guidance that have resulted in diversity in practice:

    (a) **Difficult to determine appropriate guidance.** Stakeholders noted that it can be challenging to determine the appropriate guidance to apply for each party to the arrangement, which can result in significant diversity in practice and a lack of comparability on how entities account for the arrangements. Additionally, due to the lack of a specific accounting model for alternative funding arrangements, there is no specific subsequent measurement or derecognition guidance. For example, one stakeholder noted that because Topic 470, Debt, does not provide explicit derecognition guidance, entities apply the general derecognition guidance in Topic 405, Liabilities. This means that derecognition occurs upon legal extinguishment, which can be difficult to determine, resulting in liabilities being reported on the balance sheet even when there are no anticipated future cash flows due to the funding entity. Another stakeholder noted although the amendments in Accounting Standards Update No. 2025-07, *Derivatives and Hedging (Topic 815) and Revenue from Contracts with Customers (Topic 606): Derivative*

Scope Refinements and Scope Clarification for Share-Based Noncash Consideration from a Customer in a Revenue Contract, provide clarification that most of these funding arrangements are not within the scope of Topic 815, limited guidance exists on how the parties to these arrangements should account for their rights and obligations.

(b) **Applying the sale of future revenue guidance in Topic 470.** Entities face challenges in applying the sale of future revenue guidance in Topic 470. For example, there are challenges in determining whether the party has significant continuing involvement.

(c) **Other challenges.** Stakeholders noted a few other challenges, such as accounting for subsequent milestone payments on the basis of the results of the R&D when the funding recipient accounts for the arrangement as a contract to provide services.

146. One stakeholder noted that although determining the appropriate guidance can require judgment and the accounting for certain transactions can be complex, the reporting outcomes generally reflect the underlying economics of the arrangements.

147. A few stakeholders stated that practice is well established and that they have not encountered significant challenges in determining whether arrangements should be accounted for as a sale of future revenue or as an R&D funding arrangement within the scope of Subtopic 730-20,Research and Development—Research and Development Arrangements. One of those stakeholders stated that there are challenges in determining whether an arrangement within the scope of Subtopic 730-20 should be accounted for as a liability or a reduction of costs incurred (or contract to perform services on behalf of others). One of those stakeholders also noted that diversity in practice exists under the effective interest method when an R&D funding arrangement is accounted for under Topic 470.

148. Stakeholders suggested that the Board resolve the challenges in applying the current guidance and reduce diversity in practice by making targeted improvements, such as the following:

(a) Clarify the scope of current guidance, such as which arrangements should be accounted for as (i) R&D funding arrangements within the scope of Subtopic 730-20, (ii) sales of future revenue within the scope of Topic 470, or (iii) collaborative arrangements within the scope of Topic 808, Collaborative Arrangements.

(b) Clarify when R&D funding arrangements within the scope of Subtopic 730-20 should be accounted for as an obligation versus a contract to perform services.

(c) Undertake a narrow-scope project related to passive alternative funding arrangements.

(d) Consider a reciprocal model that would provide guidance for parties that receive or provide funding.

(e) Codify commonly accepted practice, such as that a probable cash flow stream at contract inception typically falls under the sales of future revenue guidance, even if the investor is funding R&D.

(f) Clarify that alternative funding arrangements in the mining industry that provide for the transfer of goods (such as precious metals) rather than cash to repay the funding party is within the scope of Topic 606, Revenue from Contracts with Customers.

(g) Provide subsequent measurement guidance for alternative funding arrangements, such as for those within the scope of Subtopic 730-20 (i) that do not represent repayment obligations, (ii) that represent repayment obligations, and (iii) for amounts paid and received by the funding entity.

(h) Reconsider the factors in paragraph 470-10-25-2, particularly the significant continuing involvement factor, that create a rebuttable presumption that classification of the proceeds as debt is appropriate.

Royalty Monetization Arrangements

149. Almost all of the stakeholders that discussed royalty monetization arrangements identified those arrangements as a top priority for the Board to address. Royalty monetization arrangements were primarily discussed by preparers and investors in the pharmaceutical industry.

150. Some stakeholders specifically identified royalty monetization arrangements as a top priority that the Board should address, citing challenges in applying the current guidance and diversity in practice. Those stakeholders emphasized that these arrangements are becoming more pervasive. For example, one stakeholder noted that royalty transactions doubled from 2015 to 2019 to nearly $30 billion from 2020 to 2024, and that this trend is expected to continue.

151. Stakeholders highlighted the following challenges that are encountered by parties to royalty monetization arrangements:

(a) **Significant diversity in practice for economically similar arrangements for the funding entity.** The accounting for similar arrangements by the funding entity can vary within and across industries. For example, one stakeholder noted that funding entities in the pharmaceutical industry may account for these arrangements by applying (i) an effective interest rate (EIR) method, such as in Subtopic 325-40, (ii) R&D guidance in accordance with Subtopic 730-20, (iii) a cost recovery approach in accordance with Subtopic 310-10, Receivables—Overall, or (iv) a fair value model. As another example, stakeholders noted that those that acquire royalty interests in the extractive industry typically record their royalty investments at cost, subsequently amortize those investments using either the straight-line method or the units-of-production method, and recognize royalty payments as revenue.

(b) **Significant diversity in practice for economically similar arrangements for the funding recipient.** There is substantial judgment required to evaluate what guidance should be applied by the funding recipient of these arrangements, which results in widespread inconsistency in practice. For example, one stakeholder noted that it is unclear whether the funding recipient should account for these transactions in accordance with (i) the debt guidance in Topic 470, (ii) the derecognition guidance in Subtopic 610-20, or (iii) the transfers of financial assets guidance in Topic 860, Transfers and Servicing. That stakeholder noted that the guidance in Topic 470 and Topic 860 is ambiguous, which has led to inconsistent interpretations and different outcomes for economically similar transactions.

(c) **The accounting does not always reflect the economic substance of the arrangements, which can reduce transparency and affect the decision usefulness of information provided to investors.** For example, stakeholders noted that in applying the EIR method for the funding entity, income recognition is front loaded, which does not align with performance. As another example, one stakeholder stated that most funding recipients account for passive royalty interests as a liability under Topic 470 because the arrangements may be excluded from the scope Topic 860, but that Topic 860 would better reflect the economics of these transactions for passive alternative funding arrangements. One stakeholder noted that it can be difficult to reconcile the accounting for passive royalty interest with the substance of the transactions and that the accounting may obscure the financial position of the parties to the arrangements. Some stakeholders noted that many parties to these arrangements use non-GAAP measures to explain their entity's performance.

(d) **Current guidance can be complex and costly to apply.** For example, stakeholders noted that the EIR method is complex to apply.

152. Broadly, stakeholders requested that the Board add a project to its agenda to improve the accounting for investments in royalty payment streams and the accounting treatment for sales or royalty interests. To address current challenges, stakeholders suggested several solutions, including targeted improvements to current GAAP or the development of a new accounting model to address royalty monetization arrangements by both parties to the arrangements. Some stakeholders suggested developing a new principles-based model to address the accounting of alternative funding arrangements, including initial recognition, subsequent measurement, derecognition, and disclosures; however, some noted that a one-size-fits-all approach may not appropriately capture the economic substance of these transactions,

especially for passive and active interests. The following highlights some of the targeted improvements that stakeholders suggested related to royalty monetization arrangements:

(a) Clarify what guidance should be applied by the parties to these arrangements. This could include considering what guidance would best reflect the economics of the arrangements such as (i) reconsidering the application of the EIR method by the funding entity and (ii) allowing funding recipients to account for passive royalty monetization arrangements in accordance with Topic 860.

(b) Allow the funding entity to initially and subsequently account for these arrangements as intangible assets.

(c) Clarify in Topic 470 that the recognition of immediate income may be appropriate in instances where a company transfers an enforceable right to future cash flows that satisfies the definition of a financial asset and that such transfers qualify as a sale under Topic 860.

(d) Replace "significant continuing involvement" in Topic 470 with the performance obligation model in Topic 606. This would mean that if all performance obligations have been satisfied and revenue recognition criteria are met, it should likewise indicate that the seller no longer contributes to the generation of cash flows for the investor.

Transfers and Servicing of Financial Assets

Question 23: If the FASB were to pursue a project to consider improvements to Topic 860, what issues or transactions should it address? For those issues, please explain the challenges encountered in practice when applying the current guidance and what improvements should be considered.

153. Twenty stakeholders directly responded to Question 23 or provided general feedback on transfers and servicing of financial assets. Some of those stakeholders—primarily those in the banking industry—identified transfers and servicing of financial assets as a top priority, while some others were neutral on priority. A few indicated that this topic is a low priority for the Board to address.

154. Most stakeholders cited that the lack of clarity in Topic 860 results in operational challenges, diversity in practice, and sometimes nonintuitive conclusions and that the Board should prioritize standard setting related to transfers and servicing of financial assets. Most of those stakeholders focused specifically on improvements to the guidance related to (a) participating interests and (b) securities lending transactions involving noncash collateral.

155. Conversely, a few stakeholders acknowledged that while there may be opportunities for improvement in certain areas, they do not view Topic 860 as a priority area for standard

setting. Those stakeholders noted that although the application of the guidance is sometimes driven by the "form over substance" of the transaction, practice is able to apply the guidance.

Participating Interests

Eliminate the Participating Interest Guidance

156. Some stakeholders that addressed this topic recommended that the Board prioritize a project to eliminate the participating interest guidance and that the analysis for derecognition should instead focus on the current derecognition (sale) criteria in paragraph 860-10-40-5. Most of those stakeholders stated that the participating interest guidance is not aligned with the control principles of Topic 860 and consequently results in operational challenges and diversity in practice. Stakeholders noted that the participating interest guidance leads to scenarios where—even though the effective control criteria in Topic 860 for derecognition would otherwise be met—sale accounting cannot be achieved and a secured borrowing must be recorded. Stakeholders noted that this often results in entities foregoing the transaction entirely because the economic substance of the transaction cannot be accurately reflected in the financial statements.

Improve the Participating Interest Guidance

157. Many stakeholders that addressed this topic noted that targeted improvements to the participating interest guidance could help with its application. Additionally, almost all stakeholders that preferred elimination of the participating interest guidance noted that if the Board did not want to eliminate such guidance, it should make targeted improvements to the guidance instead.

158. Stakeholders identified several areas of the participating interest guidance where clarifications are needed because there is complexity or a lack of clarity that has led to diversity in practice and nonintuitive conclusions, such as the following:

    (a) **Financial assets other than a debt instrument.** Some stakeholders noted that there is diversity in practice on whether and how to apply the participating interest guidance to financial assets other than debt instruments, such as equity investments or certain stablecoins. One stakeholder explained that there is a view that only a transferred portion of a debt instrument can meet the definition of a participating interest because the definition refers to contractual cash flows; however, paragraph 860-10-40-4D refers to transfers of portions of a financial asset other than a debt instrument.

    (b) **An entire financial asset divided into components.** Paragraph 860-10-40-4D states that to be eligible for sale accounting, an entire financial asset cannot be divided into components before a transfer unless all of the components meet the definition of a participating interest. Some stakeholders noted that there is diversity in practice on whether the guidance in paragraph 860-10-40-4D requires analysis of the transfer agreement between the transferor and transferee or of the loan agreement with the borrower. Stakeholders explained that this issue arises in the context of loan assignments (that involve the assignee assuming the role of the assignor and establishing a direct contractual relationship with the borrower and requiring borrower consent for transfer) versus loan participations (that involve transferring economic rights to some or all of the cash flows of a financial asset without establishing a direct relationship with the borrower and relying on the lender to enforce the loan).

(c) **All portions transferred.** Paragraph 860-10-40-4E in part states that a transfer of "all portions" of a financial asset is treated as a transfer of the entire financial asset (that is, the participating interest definition is not applicable). Some stakeholders noted that there is diversity in practice about whether the "all portions" is considered to be met when 100 percent of the cash flows have been transferred but the transferor has continuing involvement in the financial asset, such as the transferor retains exposure to the transferred asset beyond servicing (for example, via a guarantee or a call option).

(d) **Legal isolation of transferred financial assets.** A few stakeholders noted that there is a lack of clarity on the legal analysis required to evaluate whether the transferred asset has been isolated from the transferor in accordance with paragraph 860-10-40-5(a).

(e) **Transferor as an asset manager.** A few stakeholders stated that there is greater prevalence of transfers that involve the transferor's management or servicing of the asset after it is transferred (for example, the transferor is the asset manager or servicer for the transferee). There are diverse views on whether and, if so, how the asset management and servicing agreements affect the determination of whether the conditions in paragraph 860-10-40-5(b) through (c) are met.

(f) **Indirect economic interests.** Paragraph 860-10-40-6A uses the term *ownership interest* but it is not defined. Some stakeholders noted that there is diversity in practice in how indirect economic interests (for example, seller-provided financing) should be analyzed under the guidance.

(g) **Priority of cash flows.** Paragraph 860-10-40-6A(c)(1) requires that the rights of each participating interest holder have the same priority of cash flows. A few stakeholders noted that it is unclear how to determine whether consent rights over decisions (for example, the right to consent to special servicing actions that affect the entire financial asset) affect whether the definition of a participating interest is met.

(h) **Continuous reassessment.** A few stakeholders noted that there is diversity in practice on how or whether to apply the continuous reassessment criteria to a transfer of a portion of an asset that has already met the participating interest criteria. These stakeholders noted that some view a subsequent transfer of a portion of a financial asset as a trigger for the reassessment of a previously derecognized transfer that met the participating interest criteria, while others view this as a nonintuitive conclusion.

(i) **Consideration received by the transferor includes a beneficial interest in the transferred financial asset.** Some stakeholders noted that there is diversity in practice on how to analyze beneficial interests received in a transfer of a participating interest.

Securities Lending Transactions Involving Noncash Collateral

159. In transactions where securities are received as collateral for securities loaned, some stakeholders suggested that the Board prioritize a project to remove the requirement for lenders to “gross up” their balance sheet. These stakeholders noted that the current guidance creates asymmetry between the borrower’s and lender’s accounting (that is, the lender recognizes the received collateral as an asset with a corresponding liability, while the borrower does not recognize the transaction on its balance sheet). Stakeholders noted that the guidance can be operationally burdensome for lenders. A few stakeholders noted that presenting the gross assets and liabilities on the lender’s balance sheet often mispresents the entity’s economic risk position, which can be confusing to investors and has punitive regulatory capital consequences for financial institutions.

160. Stakeholders recommend aligning the treatment of noncash collateral for lenders with that of borrowers. Specifically, those stakeholders suggested that the securities received should be off balance sheet. A few stakeholders suggested that the lender be required to disclose the off-balance-sheet securities as part of pledged asset disclosure requirements.

Other Suggestions

161. A few stakeholders suggested other specific improvements to the transfers and servicing guidance, including:

(a) Align the transferee’s initial measurement guidance for acquired financial assets with the guidance in Subtopic 805-50 for the acquirer.

(b) For a transferee in a collateralized financing transaction that references the transferor’s own debt, permit the transferee to account for the transaction as a secured financing transaction rather than a purchase of the counterparty’s debt with an obligation to return, irrespective of the transferor’s treatment of the debt issuance.

Chapter 3—Intangibles

Crypto Assets

Question 24: What challenges, if any, are there in applying current recognition and derecognition guidance to crypto asset transactions? Are there specific transactions that are more challenging? If so, how pervasive are those transactions and does the application of the current guidance appropriately portray the economics of those transactions (and if not, why)? Please explain, including whether and how these challenges could be addressed through standard setting.

Overall Feedback and Prioritization

162. Thirty-one stakeholders directly responded to Question 24 or provided general feedback on crypto assets, including suggestions that the Board monitor evolving regulations related to crypto assets. Many of those stakeholders identified crypto assets as a top priority, while some stakeholders were neutral on priority. Some others indicated that crypto assets is a low priority for the Board to address.

163. Overall, stakeholders commended the Board for issuing the amendments in Accounting Standards Update No. 2023-08, *Intangibles—Goodwill and Other—Crypto Assets (Subtopic 350-60): Accounting for and Disclosure of Crypto Assets*, noting that those amendments reduced costs for preparers and increased the decision usefulness of the financial statements for users. However, many stakeholders noted there are several unresolved accounting challenges that continue to create diversity in practice and result in financial statements that do not reflect the economics of crypto assets.

164. Many of the stakeholders that did not support crypto assets to be addressed as a top priority acknowledged that there is a lack of guidance for certain crypto asset transactions but noted that the Board already addressed the most pressing issue with the amendments in Update 2023-08. A few stakeholders suggested that the Board continue to monitor the development of the crypto ecosystem to identify any needed future standard setting.

Crypto Asset Holdings

165. Some stakeholders noted that the scope of guidance on crypto asset holdings (see paragraph 350-60-15-1) is too narrow, which results in some similar crypto assets being measured at fair value and others being measured under a cost-less-impairment accounting model. Those stakeholders suggested that the Board expand the scope of the guidance. For example:

    (a) Stakeholders suggested that the Board expand the scope of Subtopic 350-60, Intangibles—Goodwill and Other—Crypto Assets, to include crypto assets that provide rights to other crypto assets that are otherwise in the scope of paragraph 350-60-15-1.

Paragraph 350-60-15-1(b) states that Subtopic 350-60 does not apply to assets that provide the asset holder with enforceable rights to or claims on underlying goods, services, or other assets. Some stakeholders noted that this excludes crypto assets like wrapped tokens and receipt tokens, which have increased in prevalence since the issuance of Update 2023-08. Stakeholders noted that when an entity exchanges a crypto asset that is accounted for at fair value for a wrapped token that is accounted for at cost less impairment (or vice versa), it results in artificial gains or losses that are not decision useful for the user of the financial statements.

(b) A few stakeholders suggested that the Board expand the scope of Subtopic 350-60 to include crypto assets created by the entity or related party that are subsequently reacquired in the open market in an arm's length transaction.

Stablecoins

166. Some stakeholders noted that stablecoins have become a critical component of the crypto ecosystem and are functionally equivalent to cash in crypto transactions. Stakeholders have indicated that most stablecoins are backed by fiat currencies held by their issuers and, therefore, do not meet the scope criteria of Subtopic 350-60 because they provide the asset holder with rights to or claims on an underlying asset. Stakeholders noted that some entities conclude that certain stablecoins meet the Master Glossary definition of *financial assets* while other stablecoins do not, which has created diversity in practice and additional costs for preparers to justify their accounting treatment.

167. Therefore, some stakeholders suggested that the Board amend the Master Glossary definition of *cash equivalents* to include certain stablecoins that are highly liquid, readily convertible to known amounts of fiat currency, and are fully collateralized by cash, short-term U.S. Treasuries, or other cash equivalents. A few stakeholders suggested that for stablecoins that meet the Master Glossary definition of *financial assets,* the Board should clarify whether an entity should account for the transfer or sale of that stablecoin in accordance with Topic 860.

Derecognition

168. Many stakeholders observed an increasing prevalence of transactions in which the transferor of a crypto asset retains a contractual right to reclaim the asset from the transferee, either after a fixed period or on demand. Examples of these transactions are staking, wrapped tokens, crypto asset lending, and liquidity pool participation. Stakeholders said they often see entities applying a variety of guidance and nonauthoritative sources to account for these transactions, including Topic 606, Subtopic 610-20, Topic 860, the AICPA Digital Assets Working Group's Practice Aid, *Accounting for and Auditing of Digital Assets* (AICPA Digital

Assets Practice Aid), the SEC staff's remarks at the 2022 AICPA & CIMA Conference on Current SEC and PCAOB Developments, or consultations with subject matter experts, including auditors and regulators. This has resulted in diversity in practice on when or if an entity derecognizes a crypto asset in those transactions. Furthermore, stakeholders noted that this diversity in practice has resulted in counterintuitive accounting outcomes. For example, in some transactions where an entity is exchanging assets with another entity (that is, one crypto asset is transferred and one is received), an entity may conclude that it cannot derecognize the transferred asset and it must recognize the asset received, even though the entity does not have a present right to both assets. Stakeholders have noted that the diversity in practice and various interpretations have led to increased costs and complexity for preparers and a lack of comparable, decision-useful information for investors.

169. Therefore, stakeholders have suggested various solutions for the Board to consider for when and what types of transactions should be derecognized. For example, for lending transactions, some stakeholders suggested that the Board clarify the application of repurchase features in paragraphs 606-10-55-66 through 55-68 to intangible assets, particularly how an entity should apply the transfer of control assessment to a return feature in those arrangements. Some other stakeholders suggested that the Board holistically define how control relates to crypto assets holdings (in Subtopic 350-60) by leveraging the revenue recognition guidance on control.

Gross versus Net Presentation

170. Many preparers from crypto trading platforms (that perform activities such as token swaps, on-chain conversions, liquidity routing, matched trades, and collateralized transactions) noted that they are intermediaries that act like brokers between liquidity providers and end customers. These activities often involve substantial inflows and outflows of crypto assets. They noted that presenting these transactions on a gross basis does not provide decision-useful information because it creates a distortion between the revenue presented in the income statement and the net margins earned. Therefore, stakeholders suggested allowing entities that are intermediaries of crypto assets in Subtopic 350-60 to present revenues recognized on a net basis.

Tokenized Real-World Assets (RWAs)

171. A few stakeholders noted that the redemption rights may cause tokenized RWAs to be excluded from the crypto asset holdings' guidance and from the Master Glossary definition of the term *financial assets*. Therefore, stakeholders noted that the accounting for these instruments presents novel questions, such as whether the token should be accounted for as

the underlying instrument itself (for example, the U.S. Treasury bill), a derivative, a right to the underlying asset, or something else. Stakeholders suggested that the Board require an entity to look through to the underlying instrument and account for it accordingly.

Other Suggestions

172. Stakeholders also suggested other areas related to crypto assets that the Board should consider providing additional guidance on, such as the following:

(a) The timing of revenue recognition for staking rewards

(b) The custodian's accounting for crypto assets held in a custodial arrangement

(c) The initial recognition and measurement of crypto assets created by the reporting entity or its related party

(d) The application of the reconciliation disclosure requirements in Subtopic 350-60 to entities that actively trade crypto assets.

173. Stakeholders suggested that the Board codify either all or certain aspects of the AICPA Digital Assets Practice Aid to address issues with the accounting for the crypto assets, including some of those discussed in the previous paragraphs.

Goodwill

Question 25: The FASB has previously encountered challenges in identifying improvements to the subsequent accounting for goodwill that are cost beneficial. If the FASB were to pursue a project on the subsequent accounting for goodwill, what improvements should be considered? Please provide specifics on how those improvements would be more cost beneficial than the current impairment model.

174. Thirty stakeholders directly responded to Question 25 or provided general feedback on goodwill. Many of those stakeholders stated that goodwill should be a low priority to address because stakeholders' views have not materially changed since the topic was last considered by the Board. However, some stakeholders—primarily preparers—identified goodwill as a top priority, while some other stakeholders were neutral on priority, noting they would not be opposed if the Board addressed the topic because the application of the current guidance is complex and costly. Many stakeholders commented on the subsequent accounting for goodwill.

175. Stakeholders that identified goodwill as a low priority cited the following reasons:

(a) The Board may experience the same challenges as it did during the goodwill project that it removed from its technical agenda in June 2022.

(b) Performing goodwill valuations will become more cost effective through the continued development of artificial intelligence valuation models.

(c) The current accounting is operating as intended. There is no significant diversity in practice or there are no significant challenges in applying the guidance.

(d) Different accounting requirements, such as amortization or immediate expense of goodwill, would (i) be inappropriate because goodwill is not a wasting asset, (ii) lead to additional non-GAAP disclosures, (iii) create comparability issues, (iv) distort effective tax rates, (v) be inconsistent with the measurement of other assets, and (vi) cause divergence from IFRS Standards.

176. Stakeholders that identified goodwill as a top priority stated the following reasons:

(a) There are operational complexities and costs for preparers related to (i) the allocation of goodwill and impairment testing at the reporting unit level and (ii) impairment testing when there are no indicators.

(b) The current accounting does not provide decision-useful information to investors because impairments are rare and lenders ignore goodwill in lending decisions since it is not highly liquid.

(c) The current accounting does not reflect the underlying economic value of goodwill over time because (i) it becomes difficult to distinguish the value initially attributed to goodwill from returns generated through organic development or other acquisitions, (ii) goodwill decreases in value as business strategies change, and (iii) goodwill is a wasting asset and it is not accounted for as such.

177. Stakeholders provided various solutions to simplify the guidance, reduce costs for preparers, and provide more decision-useful information to investors, such as the following:

(a) **Require or permit amortization of goodwill.** Stakeholders provided mixed feedback about whether (i) amortization should be required, (ii) a specific amortization period should be required, and (iii) impairment testing should continue to be required.

(b) **Extend the accounting alternative for all companies.** Several stakeholders suggested aligning the guidance for all companies with the goodwill amortization guidance currently available to private companies and NFPs under the accounting alternative in Subtopic 350-20, Intangibles—Goodwill and Other—Goodwill.

(c) **Immediately expense goodwill.** A few stakeholders suggested that the Board allow entities to immediately expense or reduce equity for goodwill at acquisition.

(d) **Change impairment testing requirements.** For example, (i) allow goodwill to be tested at the operating segment *or* reporting entity level, (ii) reduce the testing frequency, or (iii) require impairment testing only upon a triggering event without requiring qualitative considerations.

(e) **Improve disclosures.** A few stakeholders stated that even if the Board decides not to change the current accounting model, enhanced disclosures are needed about (i) business combinations, including the nature of the acquired goodwill, and (ii) impairments. Another stakeholder noted that disclosures may be necessary if the current guidance is changed.

(f) **Monitor the IASB's project on Business Combinations—Disclosures, Goodwill and Impairment.** A few stakeholders noted that similar disclosures may be beneficial under GAAP.

Other Feedback

178. One stakeholder noted that there is currently a lack of specific guidance on how to measure goodwill impairment when a reporting unit has a negative carrying value. This has raised questions and resulted in diversity in practice about (a) whether impairment testing is required and (b) the valuation method that should be used to calculate impairments. Therefore, that stakeholder recommended that the Board clarify the guidance to reduce this diversity in practice.

Multi-Element Software Arrangements

Question 26: While this issue was raised by NFP stakeholders, do other types of entities (such as public and private for-profit entities) have similar challenges? For multi-element software arrangements, what challenges, if any, do customers encounter in allocating the costs among the individual elements for accounting purposes? If there are challenges, how could the guidance be improved? Please explain.

179. Seventeen stakeholders directly responded to Question 26 or provided general feedback on software arrangements. Most of those stakeholders noted that multi-element software arrangements are a low priority because they have not observed significant diversity in practice or challenges in allocating the costs across multi-element software arrangements. Some stakeholders identified the topic as a top priority and a few were neutral on priority. Those stakeholders noted that the Board should consider a project because of the complexities in applying the requirement to allocate the cost among all individual elements when the vendor does not, or is unwilling to, provide the necessary information.

180. Stakeholders provided the following solutions to improve the guidance to reduce cost and complexity, such as providing:

(a) A practical expedient to account for the entire cost as a prepaid expense that is amortized over the life of the agreement

(b) A practical expedient to account for the contract as a single software component, similar to what is allowed for lease and nonlease components under paragraph 842-10-15-37

(c) Implementation guidance on how to apply the current guidance.

181. A few stakeholders noted that they observed inconsistent presentation of capitalized software costs in the balance sheet and suggested that the Board consider requiring consistent presentation (either as an intangible asset or as property, plant, and equipment).

Chapter 4—Other Assets and Liabilities

Credit Losses on Receivables from Contracts with Customers

Question 27: Should the FASB consider a project to permit public business entities to elect a similar practical expedient and accounting policy election for current accounts receivable and contract assets arising from transactions accounted for under Topic 606? Please explain.

Question 28: Should the FASB consider a project to expand the practical expedient and accounting policy election to other short-term assets? If so, which types of assets? Please explain.

182. Twenty-four stakeholders directly responded to Question 27 and Question 28 or provided general feedback on credit losses on receivables from contracts with customers. Overall, those stakeholders provided mixed views on whether the Board should expand the practical expedient and accounting policy election for current accounts receivable and contract assets arising from transactions accounted for under Topic 606. While some identified this topic as a top priority, most stakeholders were either neutral on priority or identified credit losses on receivables from contracts with customers as a low priority.

Public Business Entities Scope

183. Many stakeholders that addressed this topic were supportive of expanding the practical expedient to public business entities, which is consistent with the amendments in Accounting Standards Update No. 2025-05, *Financial Instruments–Credit Losses (Topic 326): Measurement of Credit Losses for Accounts Receivable and Contract Assets*. Some stakeholders noted that the Board should not have expanded the practical expedient to public business entities because there is a sufficient understanding of the current expected credit losses guidance since implementation of the amendments in Accounting Standards Update

No. 2016-13, *Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*.

184. Some stakeholders also were supportive of expanding the accounting policy election to public business entities and cited several reasons for doing so, such as it would:

   (a) Reduce cost and complexity for financial statement preparers.

   (b) Provide more decision-useful information to investors.

185. Some stakeholders did not support expanding the accounting policy election to public business entities.

Other Short-Term Assets

186. Many stakeholders that supported expanding the practical expedient and accounting policy election to other short-term assets cited several reasons for doing so, such as the following:

   (a) The nature of the asset shouldn't matter; rather, the original maturity of an asset should be considered in determining whether or how the credit losses guidance is applied.

   (b) It is costly and complex for financial statement preparers to develop and maintain models to calculate expected credit losses.

187. Stakeholders provided examples of receivables that should be considered, such as the following:

   (a) Those that have an original maturity of one year or less

   (b) Sales of financial instruments (such as money market funds or certificates of deposit)

   (c) Employer or employee contributions to an employee benefit plan

   (d) Current accounts receivable and current contract assets arising from transactions accounted for under Topic 610, Other Income.

188. A few stakeholders suggested expanding the practical expedient and accounting policy election to include those assets acquired in a business combination or asset acquisition accounted for under Topic 805, which is consistent with the amendments in Update 2025-05.

189. Some stakeholders that did not support expanding the practical expedient and accounting policy election to other short-term assets noted that there are no significant practice issues and the benefits of doing so would be limited.

Other Feedback

190. A few stakeholders noted that Topic 326, Financial Instruments—Credit Losses, continues to be costly and complex to apply in general for smaller entities (such as community banks) and nonfinancial institutions and that the Board should prioritize finding additional areas for simplification.

Definition of Cash Equivalents

Question 29: Should the FASB reconsider the definition of cash equivalents and consider including other assets that are easily liquidated? If so, what types of assets should be added to the definition of cash equivalents? Please explain.

191. Thirty stakeholders directly responded to Question 29 or provided general feedback on the Master Glossary definition of the term *cash equivalents*. Overall, those stakeholders provided mixed views on whether the Board should address this topic as a priority. While some identified the definition of cash equivalents as a top priority for standard setting, some stakeholders were neutral on priority and some other stakeholders noted that the definition of cash equivalents should be a low priority.

192. Stakeholders that supported updating the definition of cash equivalents cited that there is diversity in practice in applying the current definition and that there is a proliferation of new and emerging digital forms of tender that were not contemplated when the current definition was formulated. Almost all stakeholders that identified the definition of cash equivalents as a top priority for standard setting suggested that the Board consider standard setting specifically for stablecoins. Some stakeholders also noted that the Board should consider if the following types of assets should be cash or cash equivalents:

(a) Money market funds without stated maturity dates or those that are not registered with the SEC

(b) Investments in a term deposit with a bank that have a stated maturity of greater than three months if the deposit can be withdrawn early without a significant economic penalty (for example, forfeiting interest)

(c) Cash that is in transit from Automated Clearing House credits, credit card receipts, or outstanding checks

(d) Other assets that do not meet the Master Glossary definition of the term *cash* because those assets are held by entities that are not banks or other financial institutions

(e) Centralized cash management arrangements among entities under common control in which an entity's excess cash is swept into a pool with cash of its affiliates

(f) Other digital assets that convey rights to underlying real-world assets that may otherwise meet the cash equivalents definitions (for example, tokenized money market funds).

193. Some stakeholders noted that the Master Glossary definition of the term *cash equivalents* should be expanded to incorporate short-term highly liquid investments that are readily convertible to cash in an active market that can rapidly absorb the quantity held by the reporting entity without significantly affecting the market price. Furthermore, a few stakeholders noted that the definition should incorporate a criterion that considers the credit quality of the counterparty to ensure that non-investment-grade instruments are excluded from the definition of cash equivalents.

194. A few stakeholders noted that the Board could provide illustrations to clarify the scope of assets within the Master Glossary definition of the term *cash equivalents.*

195. Some stakeholders that identified this topic as a low priority noted that the current definition is well understood and/or there is sufficient interpretative guidance to assist preparers. Stakeholders also expressed concerns that there could be unintended consequences if the definition were to be expanded, such as:

(a) Loan documents often leverage the Master Glossary definition of the term *cash equivalents,* and changing that definition could create compliance issues with debt covenants.

(b) Expanding the definition could affect the audit confirmations requirements for cash and cash equivalents.

(c) Allowing for other highly liquid assets that do not have a maturity date to be included within the Master Glossary definition of the term *cash equivalents* would impair a user's ability to understand the activities of those assets in the statement of cash flows.

(d) Because the current GAAP definition and IFRS Standards definition are similar, any changes could further create divergence between GAAP and IFRS Standards and, therefore, decrease the decision usefulness of the financial statements.

(e) Employee benefit plans generally do not classify interest-bearing cash as a cash equivalent because the AICPA Audit and Accounting Guide, *Employee Benefit Plans*, provides guidance that investments in short-term, highly liquid investments, such as interest-bearing cash, should be classified as an investment rather than a cash equivalent, which is consistent with how the Form 5500, "Annual Return/Report of Employee Benefit Plan," requires interest-bearing cash to be classified.

196. A few stakeholders also noted that the Board should consider exempting cash equivalents from the disclosure requirements in Topic 820.

Inventory

Question 30: What challenges, if any, do entities face in the absence of specific initial recognition guidance for inventory and other nonmonetary assets? Please explain, including the pervasiveness of these challenges.

197. Sixteen stakeholders directly responded to Question 30 or provided general feedback on inventory. Most of those stakeholders noted that initial recognition guidance for inventory and other nonmonetary assets is a low priority, while some stakeholders were neutral on priority. There were no stakeholders that identified inventory as a top priority.

198. Most stakeholders noted that initial recognition of inventory or other nonmonetary assets is not a pervasive issue. However, some stakeholders acknowledged that Topic 330, Inventory, does not provide explicit guidance regarding initial recognition of inventory. Similarly, there is a lack of explicit guidance for other nonmonetary assets, such as in Topic 360, Property, Plant, and Equipment, related to the initial recognition of property, plant, and equipment. Nevertheless, a few stakeholders noted that practice is well established and any targeted improvements to the guidance may lead to unintended consequences.

199. If the Board were to add a project related to inventory, stakeholders identified various issues and related potential solutions, including the following:

    (a) A few stakeholders noted that the initial measurement guidance in Topic 330 does not provide specific authoritative guidance on what types of costs should be capitalized. This lack of specific authoritative guidance creates complexity and diversity in practice. However, because nonauthoritative industry-specific guidance has developed over time, these stakeholders suggested that the Board gain an understanding of the needs of investors and the costs for preparers to avoid unintended consequences before making any changes.

    (b) A few stakeholders noted challenges with the application of initial recognition for inventory on consignment or inventory where the seller has a put or call right. Stakeholders have observed that, since the implementation of Topic 606, it is often challenging to determine which party controls the inventory (that is, physical possession versus legal title). To address this, a few stakeholders suggested clarifying whether the timing of recognition of inventory should be based solely on legal title or on consideration of control indicators in Topic 606.

    (c) A few stakeholders stated that some pharmaceutical companies start drug production after clinical trials but before U.S. Food and Drug Administration approval (also known as "pre-launch drug inventories") and expense the costs for pre-launch drug inventories until that approval is obtained. It was noted that this leads to post-approval sales margins of

100 percent for a period of time. Stakeholders noted that the Board could consider targeted improvements on when pre-launch drug inventories should be initially recognized.

(d) A few stakeholders noted that the Board should consider a project to allow entities that hold physical commodities for trading purposes to be permitted to apply the fair value option.

Asset Retirement Obligations (AROs)

Question 31: Should the FASB revisit the initial recognition and measurement guidance for AROs (in Subtopic 410-20)? If so, please explain, including what recognition criteria should be considered and how an ARO should be measured (such as expected cost, fair value, or another measure).

200. Twenty-seven stakeholders directly responded to Question 31 or provided general feedback on AROs. Many of those stakeholders identified AROs as a top priority, most of which were investors and investor advocate groups. Those that identified AROs as a top priority suggested revising recognition and measurement requirements, disclosure requirements, or a combination of those. A few stakeholders were neutral on priority, while some stakeholders—primarily practitioners—indicated that it is a low priority for the Board to address.

201. Stakeholders noted that AROs are common in oil and gas, mining, utilities, and nuclear energy industries and industrial sectors such as cement and chemicals.

202. Stakeholders observed that entities disclose that they often do not recognize a liability because the associated asset has an indeterminable useful life. While stakeholders acknowledged that many of the associated assets will operate for many years, they noted that those assets will not operate into perpetuity. As such, this lack of recognition diminishes an investor's ability to understand future obligations and its ability to evaluate the long-term financial position of a reporting entity and, therefore, reduces the reliability and transparency of financial statements. However, a few stakeholders provided the counterpoint that entities are continuously investing in infrastructure upgrades of the associated assets, which not only extends the useful life, but also can allow the asset to be repurposed. Additionally, these stakeholders noted that there is a perception that AROs are being unrecognized because of an indeterminable useful life, but an entity also considers the legal framework where the associated asset resides. In some cases, jurisdictions do not require remediation efforts, and, therefore, an ARO is not recognized. Furthermore, a few stakeholders noted that the circumstances under which an ARO's fair value is unavailable must be substantiated and audited.

203. In addition, stakeholders noted that even when AROs are recognized, there is a lack of disclosure concerning the key assumptions (such as timing of asset retirement, estimated costs for remediation, inflation rate applied to costs, and discount rates) used to measure the AROs. These stakeholders noted that this lack of transparency makes it difficult for investors to compare entities and impairs effective capital allocation. Multiple stakeholders stated that entities that report under IFRS Standards often provide more robust disclosure about AROs that they find decision useful.

204. Stakeholders noted that the measurement guidance (that is, fair value) for AROs does not often align with the ultimate settlement of the obligation because the AROs are often settled through an entity's completion of remediation and not a market transaction. Stakeholders noted that when calculating the fair value of the ARO, entities often incorporate their own nonperformance risk, which results in entities with higher credit risk reporting artificially lower liabilities. This undermines the comparability of financial statements because it permits financially strained entities to report lower liabilities despite greater uncertainty in meeting long-term obligations. Some stakeholders noted that measuring AROs at fair value can be complex and operationally burdensome. But some of those stakeholders that noted this topic was a low priority stated that fair value is a sufficient measurement method because (a) it is used for the measurement of other liabilities and (b) if applied correctly, it should appropriately reflect the final settlement of a liability.

205. Many stakeholders that identified AROs as a low priority stated that the current guidance is generally well understood and that they are unaware of significant issues or diversity in practice.

206. If the Board were to add a project related to AROs, stakeholders suggested several improvements to GAAP, such as the following:

(a) Limit an entity's ability to not recognize an ARO to rare situations. In those rare situations when an asset has an indeterminate life, the entity should be required to disclose the (i) the nature of the ARO, (ii) the rationale for not recognizing the ARO, and (iii) the potential magnitude of the unrecognized AROs (for example, providing a range of possible outcomes).

(b) Eliminate the guidance on indeterminate useful life.

(c) Require an entity to disclose the assumptions (for example, timing of asset retirement, estimated costs for remediation, inflation rate applied to costs, and discount rates) used to measure AROs.

(d) Change the measurement requirements from fair value to the best estimate of expected costs to fulfill the obligation.

(e) Require no discounting or require an entity to use a discount rate that incorporates a risk-free rate instead of its own credit quality.

(f) Provide industry-specific guidance for sectors with significant AROs.

Guarantees

Question 32: What are the types of guarantees, if any, that lead to uncertainty about whether to apply the guidance for guarantees or revenue recognition? How pervasive are these guarantees? How should an entity account for these guarantees? Please explain.

207. Sixteen stakeholders directly responded to Question 32 or provided general feedback on guarantees. Overall, those stakeholders provided mixed views on whether the Board should address this topic as a priority. While one stakeholder identified guarantees as a top priority, many stakeholders were neutral on priority. However, many other stakeholders identified guarantees as a low priority.

208. Several stakeholders noted that there is uncertainty in practice about whether an entity should apply Topic 460, Guarantees, or Topic 606 to certain guarantees, especially in evaluating whether the guarantee is related to the entity's own future performance. Also, most stakeholders noted complications with the interaction between the warranty guidance in Topic 460 and Topic 606.

Guarantees of an Entity's Own Future Performance

209. Many stakeholders noted that the guidance that describes transactions that are excluded from the scope of Topic 460 in paragraph 460-10-15-7 are generally clear for most types of arrangements. However, the evaluation can be difficult in cases where the arrangement includes multiple parties and the guarantee relates to the performance of one or more of those parties (which may or may not be the entity). In those situations, questions arise about whether the entity is guaranteeing its own performance or the performance of a third party. Because of the judgment required in (a) determining which area of GAAP should apply and (b) applying the guidance in Topic 460 or Topic 606, stakeholders have noted inconsistent application, which has led to diversity in practice. For example, if the entity concludes that the guarantee is within the scope of Topic 606, stakeholders noted that the entity then needs to use judgment to determine whether it is acting as the principal or the agent.

210. Many stakeholders noted that these challenges often arise in emerging business models related to platform companies and health care companies that provide value-based care (sometimes referred to as managed care). Stakeholders provided examples of commonly observed transactions, such as the following:

(a) An entity with a marketplace platform that is acting as an agent may verify the quality of a product sold on its website and take on the risk of loss of the product's value for insufficient quality.

(b) A value-based health care entity enters into contracts with a health coverage payer (such as an insurer) to reduce coverage costs. The value-based health care entity manages the payer's cost of health care by contracting with health care providers to provide preventative measures like developing treatment plans. Cost savings could be retained by the value-based health care entity or shared with the payer, while excess costs also could be shared or entirely absorbed by the value-based health care entity. In many cases, these contracts contain performance guarantees that coverage costs will not exceed stated amounts.

211. Stakeholders provided several solutions to improve the guidance, such as the following:

(a) Provide guidance for these types of guarantees that focuses on the substance of the overall arrangement, rather than its form.

(b) Add guidance on how to apply the scope exception in paragraph 460-10-15-7(i) in situations where the guaranteed performance involves multiple parties and, more specifically, what constitutes *an entity's own future performance*. Stakeholders suggested that certain principal versus agent indicators in paragraph 606-10-55-39 could be leveraged.

(c) Specify that an entity is not required to allocate the transaction price of a guarantee between Topic 460 and Topic 606. For example, the Board could require the party that is mostly responsible for the guarantee to apply the guidance in Topic 606 and require all other parties to apply Topic 460.

212. Some stakeholders that stated this topic should be a low priority acknowledged that there are application challenges with determining if an entity is guaranteeing its own performance. However, those stakeholders noted that these issues are uncommon in their practices or industry. A few stakeholders noted that the guidance is currently well understood.

Other Suggestions

213. Some stakeholders noted that there is diversity in practice related to subsequent measurement of guarantees because Topic 460 does not describe in detail how the guarantor's liability for its obligations should be measured after its initial recognition. Therefore, these stakeholders suggested that the Board clarify the subsequent measurement guidance on guarantees to reduce diversity in practice.

214. A few stakeholders highlighted that the requirement for entities to provide both the disclosures in Topic 460 and the disclosure requirements in Topic 815 for certain written put options is duplicative and operationally burdensome, especially because the disclosures only apply to a subset of guarantees. Those stakeholders questioned the decision usefulness of providing this information to investors, and, therefore, suggested the Board eliminate the disclosure requirements under Topic 460 for instruments subject to the derivative disclosures.

Lease Payments in the Form of Equity

Question 33: What is the prevalence of these types of lease transactions? Is incremental accounting guidance needed to specify how share-based lease payments should be recognized and measured (both initially and subsequently)? Please explain.

215. Fifteen stakeholders directly responded to Question 33 or provided general feedback on the accounting for leases. Many stakeholders noted that the lease payments in the form of equity topic is a low priority, and many other stakeholders noted they are neutral on the priority. There were no stakeholders that identified lease payments in the form of equity as a top priority.

216. Most stakeholders (including those that identified the topic as a low or neutral priority) noted that lease payments in the form of equity are not pervasive, while a few stakeholders noted that this is an emerging transaction. Some stakeholders (including those that identified the topic as a low or neutral priority) stated that there is no significant diversity in practice or that there are no significant practice issues. A few stakeholders noted that current guidance in Topic 606 and Topic 718 is being applied by analogy and is sufficient to determine the appropriate accounting treatment.

217. Stakeholders suggested the following potential solutions for how share-based lease payments should be recognized and measured as well as identified some application issues for the Board's consideration:

(a) Align the accounting for share-based lease payments with the amendments related to share-based payments from a customer included in Update 2025-07.

(b) Require share-based lease payments to be initially measured at grant-date fair value with no subsequent remeasurement.

(c) If the Board were to address this topic, consider if additional application questions should be addressed, such as:

(i) The interaction between Topic 606 and Topic 842, such as the estimation and allocation guidance for variable payments.

(ii) The interaction between Topic 718 and Topic 842, such as, from the lessee perspective, the timing of a grant's measurement (such as grant date under Topic 718 versus commencement date of the lease under Topic 842) or the remeasurement requirements (such as when a lease is not modified but the lessee must remeasure the lease for other reasons under Topic 842).

(iii) The application of the lease modification framework in Topic 842 for changes in the terms and conditions of a contract that includes noncash consideration in the form of share-based payments.

Chapter 5—Retirement and Other Employee Benefits

Employee Stock Ownership Plan (ESOP) Repurchase Obligation Disclosures

Question 34: How pervasive are repurchase obligations for ESOPs? Should additional disclosures be required and, if so, what type (for example, quantitative, qualitative, or both types of disclosures)? Please explain.

218. Eighteen stakeholders directly responded to Question 34 or provided general feedback on ESOP repurchase obligation disclosures and ESOPs. Most of those stakeholders noted that the ESOP repurchase obligation disclosures topic is a low priority, while a few identified the topic as a top priority. Some other stakeholders were neutral on priority, with some citing that they would support a project if it was determined that the benefits to investors would outweigh the costs to preparers.

219. Regarding the pervasiveness of repurchase obligations, stakeholders provided mixed feedback. Several stakeholders noted that repurchase obligations are a common feature of ESOPs, especially for private companies, because of a requirement for companies to buy back shares from ESOP participants upon distribution. Furthermore, one stakeholder noted that repurchase obligations can have a significant effect on an entity's current and future cash flows, especially as an ESOP matures because vested participant account balances typically increase in value. In contrast, several other stakeholders noted that they are not aware that it is a prevalent practice.

220. In addition to a general lack of pervasiveness, stakeholders that identified requiring additional ESOP repurchase obligation disclosures as a low priority cited the following reasons:

(a) Sufficient information is currently provided (such as information resulting from the requirement in paragraph 718-40-50-1(f)) about the existence and nature of any repurchase obligation that includes disclosure of the fair value of the shares allocated as of the balance sheet date that are subject to a repurchase obligation.

(b) Significant management judgment, time, and cost would be required to prepare additional quantitative disclosures of future payments and, therefore, the benefits of additional disclosures may not outweigh the costs of preparing the necessary information. For example, one stakeholder noted that because repurchase obligations are generally tied to a contingency, such as termination of employment, they cannot be reasonably predicted. Another stakeholder further noted that because of the uncertainty in the timing of future obligations, additional disclosures may not provide reliable information about the cash flow impact of the obligations. Additionally, one stakeholder observed that estimating the timing of repurchase obligations often requires an entity to engage an actuary or a valuation specialist.

(c) Significant diversity in reporting outcomes or significant practice issues have not been observed in this area and, therefore, standard setting is not a current priority.

221. Stakeholders that supported requiring additional disclosures about ESOP repurchase obligations—primarily a quantitative disclosure about an entity's repurchase obligations over the next five years—cited the following reasons:

(a) Additional disclosures would enhance transparency about ESOPs to help investors better understand the timing of future payments.

(b) Data should be available to provide additional disclosures.

222. If the Board were to add a project related to ESOP repurchase obligation disclosures, stakeholders suggested several next steps to consider, such as the following:

(a) Conduct outreach with investors and preparers to determine the benefits to investors and the cost to preparers so that the Board can determine if the benefits outweigh the costs.

(b) Confer with the PCC to consider the pervasiveness, diversity in practice, and develop recommendations for the Board.

(c) Require qualitative disclosures about the terms of the repurchase obligations and how management plans to satisfy them.

(d) Require quantitative disclosures about future payments, such as an entity's repurchase obligations over the next five years.

(e) Consider whether separate guidance is necessary on ESOPs or whether, instead, guidance on ESOPs should be incorporated into Topic 718.

223. Separate from repurchase obligation disclosures, two stakeholders provided other feedback related to ESOPs:

(a) One stakeholder noted that there is diversity in practice related to whether ESOP debt should be recognized in the standalone financial statements of the plan sponsor's subsidiary (that is, whether the debt should be pushed down to the subsidiary's financial statements). Therefore, that stakeholder suggested that the Board consider outreach with preparers to understand this diversity.

(b) One stakeholder encouraged the Board to take a fresh look at accounting for ESOPs, noting that the current guidance is antiquated and the accounting does not mirror the economic substance of the transaction.

Partnership Accounting

Question 35: How should the accrual of and future distributions to current and former members of a partnership be accounted for? Are there other challenges related to applying partnership accounting that the FASB should consider addressing? Please explain.

224. Twelve stakeholders directly responded to Question 35 or provided general feedback about partnership accounting. Most stakeholders noted that the topic is a low priority, while some stakeholders were neutral on priority. There were no stakeholders that identified partnership accounting as a top priority.

225. Stakeholders that identified partnership accounting as a low priority stated that there are no significant challenges in applying the guidance or that the guidance generally works as intended.

226. Some stakeholders (including those that identified the topic as a low or neutral priority) noted that there is diversity in practice. They highlighted the following two issues:

(a) Some partnerships account for distributions as salary expense when the members actively participate in the business operations or a reduction of equity.

(b) Upon separation of a member, amounts are typically owed to that member (for example, undistributed earnings), and partnerships typically account for those amounts as a liability or equity until paid.

227. Stakeholders provided suggestions to improve the guidance, such as the following:

(a) Provide additional guidance on recognition, measurement, and presentation (for example, how to distinguish liabilities from equity).

(b) Enhance the disclosure requirements to help financial statement users better understand and reconcile the differences in accounting practices.

228. One stakeholder stated that the Board may encounter issues in identifying a scope or technically feasible solutions because the appropriate accounting could be dependent on the facts and circumstances of compensation arrangements.

Gains and Losses of Defined Benefit Plans

Question 36: Should the FASB require entities to immediately recognize gains and losses associated with defined benefit plans in the period they arise? Additionally, should the FASB require entities to disaggregate the net gains or losses recognized between those arising from investment activities related to the plan assets and those arising from changes in actuarial assumptions? Please explain.

229. Twenty-eight stakeholders directly responded to Question 36 or provided general feedback on defined benefit plans. Most of those stakeholders noted that the topic should be a low priority, while a few identified it as a top priority. A few other stakeholders were neutral on priority.

Immediate Recognition of Gains and Losses of Defined Benefit Plans

230. Overall, stakeholders noted that there is no pervasive need to change the guidance for defined benefit plans because entities have phased out defined benefit plans in recent years.

231. More specifically, stakeholders that said entities should not be required to immediately recognize gains and losses associated with defined benefit plans in the period they arise cited several reasons, including:

(a) Unnecessary volatility in an entity's earnings and distortion of its financial performance (that is, it would not be reflective of operating earnings or the long-term nature of defined benefit plans) would cause increased use of non-GAAP measures and costs to investors to develop models that appropriately capture the volatility.

(b) Delayed recognition results in more decision-useful information.

(c) It would create an incentive for entities to manage defined benefit plans over the short term instead of the long term.

(d) It would increase costs for entities because they would need to obtain actuarial reports every reporting period.

(e) It would cause further divergence between GAAP and IFRS Standards by eliminating the option to recognize gains and losses in other comprehensive income.

232. Additionally, stakeholders expressed support for the "corridor approach." They noted that the "corridor approach" is well understood in practice and that GAAP already provides the option to immediately recognize gains and losses. Despite that optionality, entities opt against

immediate recognition. Instead, entities use the "corridor approach" to capture gains and losses without leading to volatility in earnings. A few stakeholders commented that accumulated other comprehensive income (AOCI) is the appropriate place to record estimated gains and losses associated with defined benefit plans. Another stakeholder said that there is already guidance to reflect significant defined benefit plan events, such as settlements, in earnings.

233. Conversely, stakeholders cited several reasons why requiring immediate recognition of gains and losses may be beneficial, such as the following:

(a) There would be reduced divergence from IFRS Standards by eliminating the corridor approach. Also, the discount rate used should be aligned with that under IFRS Standards.

(b) The "corridor approach" can distort the economic cost of pensions.

(c) It would simplify the application of GAAP.

(d) It would provide decision-useful information on the effects of changes in a plan's funded status.

Disaggregation of Net Gains or Losses Associated with Defined Benefit Plans

234. Stakeholders that said that there should not be a requirement for entities to disaggregate the net gains or losses recognized between those arising from investment activities related to the plan assets and those arising from changes in actuarial assumptions cited several reasons, including the following:

(a) Current disclosures are sufficient in that they provide investors with information about the effects of gains and losses that arise during the reporting period and other information about defined benefit plans' performance. Therefore, further disaggregation would not provide decision-useful information. Stakeholders provided examples of required disclosures that already provide sufficient information, such as:

(i) The net gain or loss recognized in AOCI

(ii) Amounts that are amortized from AOCI into the net periodic benefit cost

(iii) The fair value of defined benefit plan assets.

(b) The suggested disaggregation would be operationally burdensome, especially if retrospective application were required.

(c) The suggested disaggregation would not result in decision-useful information due to the long-term nature of the pension obligations.

235. Conversely, a few stakeholders noted that the suggested disaggregation could provide decision-useful information. One stakeholder said that the suggested disaggregation should be required if immediate recognition of gains and losses are required.

Other Feedback

236. One stakeholder recommended that the Board make targeted improvements to the accounting for cash balance plans with a market or market-related interest crediting rate. Noting that market return cash balance plans have become more popular, that stakeholder asserted that the projected benefit obligations determined under the current guidance do not appropriately reflect the employer's expected costs to settle the plan obligation at the measurement date for those plans. That stakeholder suggested permitting entities to use a discount rate that is equal to the expected return on plan assets for cash balance plans with a market or market-related interest crediting rate.

Remeasurement of Share-Based Payment Awards

Question 37: If the FASB were to pursue a project to align the initial and subsequent measurement of share-based payment awards, how should the awards be initially and subsequently measured? Please explain, including the objective of the measurement and whether and how changes to the subsequent measurement of share-based payment awards would improve the decision usefulness of the information provided to investors.

237. Thirty-one stakeholders directly responded to Question 37 or provided general feedback on share-based payment awards within the scope of Topic 718. Most stakeholders identified that remeasurement of share-based payments awards should be a low priority. A few stakeholders, primarily investors and investor advocate groups, were neutral on priority, while one investor identified remeasurement of share-based payment awards as a top priority.

238. Stakeholders noted several reasons that the Board should not prioritize a project to require equity-classified share-based payment awards to be remeasured at fair value, including:

    (a) Current differences in accounting treatment between liability- and equity-classified awards appropriately reflect the economics of these transactions. Stakeholders stated that for equity-classified awards, not remeasuring awards after the grant date appropriately captures the exchange of equity for services at the date the parties agree and that for equity-classified awards, the grantee (rather than the grantor) is the party exposed to changes in the fair value of the grantor's shares. In contrast, liability-classified awards are generally settled in cash, so changes in fair value reflect the cost the employer will pay and the value the employee will receive. One stakeholder stated that it could be misleading to investors to remeasure equity-classified awards at fair value because it would not be reflective of an employee's past performance and compensation.

(b) It would create inconsistencies with how other equity-classified instruments are accounted for because instruments that are classified in equity are not subsequently remeasured.

(c) It would create inconsistencies with IFRS 2, *Share-based Payment*.

(d) There would be increased costs for preparers because (i) it would require ongoing monitoring and revaluation of equity-classified awards and (ii) fair value measurement can be complex when there are no observable market prices.

(e) There would be increased volatility in earnings, which could obscure an entity's operating performance, lead to increased use of non-GAAP measures, or have an effect on how certain industries (for example, financial institutions) compensate their employees.

(f) Current guidance is well understood, there are no issues in practice, and/or the issue is not pervasive.

239. Stakeholders that weren't opposed to a project on the remeasurement of share-based payment awards stated that (a) there has been an increase in prevalence of entities offering their employees stock-based compensation and (b) disclosures are not sufficiently transparent. A few stakeholders specifically stated that equity-classified share-based payment awards should be remeasured at fair value each reporting period. One of those stakeholders would require private entities to only perform the remeasurement annually because of lack of sufficient resources.

240. Other challenges highlighted with Topic 718 include:

(a) Determining whether an award should be equity- or liability-classified, specifically when awards are subject to repurchase features, is complex and based on nonauthoritative sources, such as EITF Issue No. 00-23, "Issues Related to the Accounting for Stock Compensation under APB Opinion No. 25 and FASB Interpretation No. 44," which causes diversity in practice.

(b) Current practice for awards granted between entities in a consolidated group is based on pre-Codification literature. This stakeholder noted that codifying practice could reduce the cost and complexity of applying Topic 718 for these transactions.

Chapter 6—Income and Expenses

Principal versus Agent Considerations

Question 38: What challenges, if any, do entities encounter in evaluating whether they are acting as a principal versus an agent? Are there instances where the accounting does not appropriately reflect the economics of the transactions? Please explain, including the pervasiveness of those challenges, the industries and transactions for which the accounting

could be improved, and whether and how those challenges and improvements could be addressed through standard setting.

241. Thirty-four stakeholders directly responded to Question 38 or provided general feedback on principal versus agent considerations. Many of those stakeholders stated that this topic should be a top priority, and some were neutral on priority. Some other stakeholders identified principal versus agent considerations as a low priority.

242. Almost all stakeholders acknowledged that the application of the principal versus agent guidance in Topic 606 is challenging and requires significant judgment in certain scenarios. Stakeholders noted that, because of that complexity, application of the guidance often requires consultations with practitioners and subject matter experts, including auditors and regulators. Stakeholders indicated that several emerging business models have led to ongoing challenges, such as (a) platform companies, (b) crypto asset trading companies, (c) proof-of-stake intermediaries, (d) digital marketplace companies, (e) digital advertising technology companies, (f) managed health care companies, (g) payment processor companies, and (h) service concession arrangements within the scope of Topic 853, Service Concession Arrangements.

243. Stakeholders noted that there are challenges in applying the control guidance in Topic 606 to certain scenarios. Specifically, stakeholders most frequently cited challenges related to the evaluation of whether an entity controls the specified service. Stakeholders noted that although the indicators of control in paragraph 606-10-55-39 are designed to assist with the evaluation, they are not always helpful because the services may be provided instantaneously (which complicates the assessment of inventory risk) and/or involve multiple parties (which complicates the assessment of which party is primarily responsible for fulfillment). Furthermore, the identification of an entity's customer(s) can be complex in these arrangements. Some stakeholders noted that those challenges discussed have resulted in inconsistencies with seemingly similar fact patterns that may affect the quality of revenue information provided to investors. However, a few stakeholders noted that, despite those challenges, careful consideration of the facts and circumstances in applying the control framework typically results in a conclusion that reflects the economics of the transactions.

244. Stakeholders that identified principal versus agent considerations as a low priority acknowledged the challenges for emerging business models that are discussed in paragraph 242 of this handout. However, some stakeholders stated that the complexity associated with the application of the guidance often relates to how the transaction is structured. Despite these challenges, those stakeholders do not recommend standard setting because of the potential for broad and unintended consequences, as well as the costs of implementing a change.

245. Stakeholders that urged the Board to consider standard setting often noted that the Board does not need to consider a broad project, but rather that targeted improvements would be helpful. To this point, stakeholders suggested several approaches to improve the determination of principal versus agent, such as the following:

(a) **Additional illustrative examples.** Many stakeholders said that the Board should expand the illustrative examples in Topic 606—which currently primarily focus on product sales or simple service offerings—to include (i) the emerging business models discussed in paragraph 242 of this handout or (ii) industry-specific examples. Stakeholders noted that additional illustrative examples should focus on how to apply the control indicators in paragraph 606-10-55-39 when services may be provided instantaneously and/or involve multiple parties. In contrast, a few stakeholders expressed concerns that any new implementation guidance for specific emerging business models or industries may not have significant benefit because it could unintentionally oversimplify complex fact patterns, disrupt current practice, and/or introduce risk that the conclusions for specific types of arrangements are misapplied to other fact patterns.

(b) **Evaluation of control.** Other stakeholders suggested that the Board provide additional guidance on how to evaluate control in accordance with Topic 606. For example, a few stakeholders noted that it would be helpful to specify to what extent economic risk should be incorporated into an entity's evaluation of control.

(c) **Additional disclosures.** A few stakeholders suggested that the Board require additional disclosures about an entity's application of the principal versus agent guidance (such as (i) judgments and financial statement effects or (ii) the gross volume of activity processed in the entity's capacity as agent) to provide more transparency about a judgmental area and, in turn, improve the decision usefulness of the financial statements for investors.

246. Stakeholders representing crypto asset entities and financial institutions noted that when acting as an intermediary in transactions where certain expenses are passed onto the customer, gross presentation is not always meaningful and results in a distortion between the revenue presented in the income statement and the net margins earned. Those stakeholders suggest that, in these situations, the Board allow intermediaries to present revenues recognized on a net basis. Additionally, a few stakeholders suggested that the Board align the gross versus net considerations in Topic 606 and Topic 815.

Estimate of Variable Consideration for Commission-Based Transactions

Question 39: Should the FASB consider requiring entities to recognize variable consideration when the underlying triggers have been reached? If so, should that change

apply to all entities or a subset of entities (for example, entities that earn commission-based revenue)? Would this provide better information for investors' analyses? Please explain.

247. Nineteen stakeholders responded directly to Question 39 or provided general feedback on variable consideration. Most stakeholders identified this topic as a low priority for the Board, while some other stakeholders were neutral on priority. There were no stakeholders that identified variable consideration as a top priority.

248. Overall, stakeholders said that there is no pervasive need to broadly change the guidance for variable consideration at this time. Stakeholders that identified variable consideration as a low priority cited several reasons, including:

(a) Although the guidance can be challenging to apply, practice has developed methods to make reasonable estimates of the variable consideration associated with commission-based transactions and historical information is often available to make those estimates.

(b) There are no significant practice issues or diversity in practice.

(c) Any changes to the variable consideration guidance could mean a divergence from IFRS 15, *Revenue from Contracts with Customers*, affecting consistency and comparability across GAAP and IFRS Standards.

(d) The current guidance in Topic 606 is widely understood and already ensures that recognition is appropriately constrained, providing guidelines that address the complexities associated with variable consideration and sufficient clarity so entities can apply that guidance effectively.

249. However, other stakeholders acknowledged that there are challenges in applying the variable consideration guidance and, although not a top priority, they would support exploring improvements to the guidance. Those stakeholders cited several challenges, including:

(a) The current guidance is challenging, costly, and unnecessarily complex to apply, especially because it requires significant judgment over multiple years that is based on limited historical experience or experience that has limited predictive value.

(b) For certain variable payments where the variable extends over multiple future years and is highly susceptible to factors outside the entity's influence, there may be significant revenue reversals, which create volatility, and may provide less relevant information to investors.

(c) Substantial amounts of subjectively determined and highly variable estimated contract assets on an entity's balance sheet may not benefit investors.

250. Stakeholders provided mixed views on whether the Board should consider an exception to Topic 606 that would require entities to recognize variable consideration when the underlying

triggers have been reached. Several stakeholders stated that they would support exploring such a model, specifically for entities that earn commission-based revenue. One of those stakeholders noted that this exception should be limited to that specific subset of entities to avoid inconsistency with the key principles in Topic 606 and unintended consequences of a broader change. That stakeholder further explained that this exception wouldn't have a significant effect on the financial reporting for entities with commission-based revenue because the nature of the contingent consideration typically results in a significant constraint, primarily because the consideration is highly susceptible to actions outside the entity's influence or there is a large and broad range of possible consideration amounts. Therefore, these entities generally do not recognize a significant portion of the variable consideration until the underlying triggers have been reached.

251. However, several other stakeholders disagreed with a model that delayed recognition until the underlying triggers have been reached, noting that it would be inconsistent with the key principles in Topic 606. For example, one stakeholder noted that this would mean that the transaction price would no longer reflect the amount of consideration to which an entity expects to be entitled in exchange for transferring promised goods or services to a customer. Additionally, a few stakeholders expressed concerns with identifying a sufficiently narrow-scope exception limited to entities that earn commission-based revenue without affecting other types of variable consideration, which could lead to unintended consequences.

252. Stakeholders provided several other narrow-scope solutions to improve the guidance, such as:

(a) Expand the sales and usage-based royalties exception in paragraph 606-10-55-65 beyond licenses of intellectual property, such as to variable payments anticipated over multiple future periods that are difficult to predict.

(b) Provide illustrative examples with respect to estimating variable consideration when there is little or no history available for estimation.

(c) Develop a practical expedient to recognize revenue based on actual receipts depending on the timing, to avoid estimating constraint, and other analyses.

Consideration Payable to Customers

Question 40: What challenges, if any, are there in applying the consideration payable to customers guidance? Should the FASB consider clarifying this guidance? Please explain.

Overall Feedback and Prioritization

253. Twenty stakeholders responded directly to Question 40 or provided other general feedback on consideration payable to customers. Some stakeholders—all practitioners—identified that consideration payable to customers should be a top priority. Many stakeholders were neutral on priority, while some identified it as a low priority.

254. Stakeholders that identified the topic as a low priority provided several reasons for why standard setting is not needed, such as:

    (a) There are no significant issues or challenges in applying the current guidance.

    (b) The difficulty in accounting for consideration payable from customers often arises because of the complexity of transactions and the involvement of three or more parties in the transaction, rather than the guidance itself.

    (c) The amendments in Accounting Standards Update No. 2025-04, *Compensation—Stock Compensation (Topic 718) and Revenue from Contracts with Customers (Topic 606): Clarifications to Share-Based Consideration Payable to a Customer*, help address issues related to this topic.

255. Overall, almost all stakeholders that supported changes to the guidance for consideration payable to customers cited that it is difficult to apply to multifaceted revenue relationships between the seller and its customer(s). Stakeholders described several challenging areas in applying the guidance, including accounting for consideration payable to a customer's customer, determining whether a distinct good or service is obtained, and presentation of negative revenue.

Accounting for Consideration Payable to a Customer's Customer

256. Some stakeholders noted that there are challenges in evaluating arrangements that include multiple parties. Challenges include identifying the customer(s) in the contract (or the customer's customer(s)), identifying all the parties in the distribution chain, and evaluating payments to parties outside of the distribution chain. Challenges in performing this assessment may result in diversity in the accounting for the payments (as a reduction of revenue or as an expense). A few stakeholders noted that entities leverage a variety of nonauthoritative sources such as the *FASB Revenue Recognition Implementation Q&As*,

FASB Transition Resource Group memos, insights from SEC staff speeches, and discussions with the SEC staff that are included in practitioners' interpretive guides.

257. Stakeholders provided several solutions to improve the guidance, such as:

(a) Codify SEC staff speeches related to the topic.

(b) Codify certain aspects of the Revenue Recognition Implementation Q&As.

(c) Provide further guidance, such as indicators, that would help an entity evaluate who its customer or customers are when the entity is facilitating a transaction between multiple parties.

(d) Provide industry-specific illustrative examples.

Determining Whether a Distinct Good or Service Is Obtained

258. Some stakeholders noted that it can be challenging in certain transactions to determine whether payments made to a customer are in exchange for a distinct good or service, and, therefore, how to determine the appropriate accounting treatment for those transactions. The following are examples of transactions that stakeholders identified can be challenging:

(a) When there are multiple relationships between two parties (such as each party both purchases from and sells to the other party), whether the exchange of consideration should be accounted for under Topic 606 or Subtopic 705-20, Cost of Sales and Services—Accounting for Consideration Received from a Vendor.

(b) When an entity is receiving something of value, such as a service, from the customer and no good or service is transferred to the entity. For example (i) slotting fees paid to retailer customers for prominent placement in the retailer's stores or (ii) litigation settlements or monetary payments in lieu of litigation. Stakeholders noted that it is unclear in these situations if there was an exchange for a distinct good or service and, therefore, whether it should be accounted under Topic 606 or another Topic.

259. Stakeholders provided several solutions to improve the guidance, such as:

(a) Codify SEC staff speeches, for example, that are related to the allocation of legal settlements between contra revenue and operating expense.

(b) Provide further guidance, such as how to analyze certain other benefits that may not represent distinct goods or services.

(c) Provide implementation guidance or illustrative examples that address the situations described above.

Presentation of Negative Revenue

260. Some stakeholders described certain arrangements, such as sales incentives provided to customers, where amounts payable to a customer exceed the revenue recognized or expected to be recognized from that customer. In these cases, questions have been raised about when to account for this as negative revenue versus as an expense. Stakeholders noted that entities sometimes analogize to the superseded guidance that was in Subtopic 605-50, Revenue Recognition—Customer Payments and Incentives. However, because Topic 606 does not specifically address whether negative revenue should be reclassified to expense, stakeholders have noted diversity in how these situations are accounted for in practice.

261. Stakeholders provided several solutions to improve the guidance, such as:

    (a) Clarify in Topic 606 whether (and if so, when) an entity should reclassify negative revenue as an expense, such as by leveraging the superseded guidance from Subtopic 605-50.

    (b) Provide industry-specific illustrative examples.

Other Suggestions

262. Stakeholders noted other suggestions related to consideration payable guidance, such as:

    (a) Provide guidance on how to allocate discounts that are across multiple goods or services that are accounted for under different accounting standards (that is, not all goods or services are in the scope of Topic 606).

    (b) Provide additional guidance on estimating consideration payable to a customer.

    (c) Consider allowing fair value measurement for consideration payable to a customer that is part of a financial instrument.

Payments Received from a Vendor in the Airline Industry

Question 41: Should the FASB consider amending the accounting for customers' settlement agreements with vendors to resolve disputes about various aspects of the vendor's performance? Please explain.

263. Sixteen stakeholders directly responded to Question 41 or provided general feedback on the accounting for customers' settlement agreements with vendors to resolve disputes about various aspects of the vendor's performance, including payments received from a vendor in the airline industry. Many of those stakeholders noted that the topic should be a low priority, while a few identified it as a top priority. Some other stakeholders were neutral on priority.

264. Stakeholders noted that it is common for entities in the airline industry to enter into settlement agreements with vendors that provide compensation for lost revenue and costs (a) related to

short-term performance issues that led to a service disruption (such as aircraft grounding because of performance issues of a certain type of plane) and (b) performance issues related to warranties associated with a long-lived asset (such as the aircraft is not as fuel efficient as advertised).

265. Overall, stakeholders said there is no pervasive need to broadly change the accounting for customers' settlement agreements with vendors. Stakeholders that identified the topic as a low or neutral priority cited several reasons, including:

(a) This issue affects a limited number of stakeholders.

(b) There are no significant issues with applying the current guidance in Subtopic 705-20, which is clear and operable. Any complexity is often due to the complexity of the underlying transaction instead of the guidance.

(c) Because the guidance in Subtopic 705-20 currently aligns with the guidance in the Measurement Section of Subtopic 606-10, Revenue from Contracts with Customers—Overall, about consideration paid to a customer, Subtopic 705-20 should not be changed.

(d) This issue could go beyond the airline industry. A project specifically addressing a particular type of vendor or customer dispute could result in unintended consequences.

266. Conversely, stakeholders cited several reasons why standard setting may be helpful for this topic, including:

(a) Subtopic 705-20 does not specifically address the timing of recognition of settlement payments, which results in diversity in practice.

(b) Recording a settlement payment as a reduction to the cost basis and delaying recognition of the settlement over a period of time in the future may not always be reflective of the economic substance of the transaction, especially when the payment relates to a short-term performance issue. A few stakeholders noted that there are concerns about recognizing the income effect of a settlement with a vendor over an extended period of time through reduced depreciation expense because that time period does not align with the time period used to determine the amount of the vendor payment to the entity.

(c) Resolving vendor disputes may significantly affect operational performance for several industries beyond the airline industry, such as manufacturing, consumer products, distribution, and utilities.

267. Stakeholders provided several suggestions on how to improve the guidance for the airline industry, such as:

(a) Consider adding a scope exception to Subtopic 705-20 for these payments, such as a scope exception for (i) compensation received for inadequate performance or nonperformance by a vendor concerning a long-lived asset that is not expected to continue affecting the operation of the asset for most of its useful life, (ii) settlement payments received from vendors relating to past purchases of goods where various aspects of vendor performance are being disputed, or (iii) reimbursements of previously recognized costs and losses attributable to the performance of the vendor's product. This means that those payments would be accounted for under other GAAP, such as Topic 450, Contingencies.

(b) Consider requiring the settlement to be recognized in current period income.

(c) Consider allowing an entity to account for the settlement on the basis of the specific facts and circumstances of each individual case (for example, whether the settlement is to compensate the customer for lost revenue and should be recognized in current period earnings or whether the settlement is to compensate for reduced useful life of the asset and should be recorded as a reduction of the asset's cost basis).

268. Separately, one stakeholder described instances in practice in which a customer receives consideration from a vendor that exceeds the price of the vendor's goods or services and is not in exchange for a distinct good or service, which may not have been contemplated when the current guidance was developed. That stakeholder noted that it is unclear whether it is acceptable for entities to recognize a gain (or when such a gain may be recognized) and, therefore, recommended that the Board address how to account for such instances.

Recognition of Interest Income

Question 42: How should interest income for loans within the scope of Subtopic 310-20 be subsequently recognized? Please explain.

269. Twenty-one stakeholders directly responded to Question 42 or provided general feedback on recognition of interest income. Most of those stakeholders noted that recognition of interest income is a low priority, while some stakeholders were neutral on priority. There were no stakeholders that identified recognition of interest income as a top priority.

270. Most stakeholders noted that the current interest income recognition model under Subtopic 310-20, Receivables—Nonrefundable Fees and Other Costs, which has been applied for decades, is well-understood and presents no significant operational challenges and provides decision-useful information.

271. Stakeholders provided mixed feedback on whether the prepayment guidance in Subtopic 310-20 should be changed, such as:

(a) A few stakeholders noted that the Board should consider expanding the circumstances under which an entity may consider prepayments. For example, one stakeholder noted that prepayments could be considered when applying the interest method at the loan level or to smaller groups of loans. In contrast, another stakeholder noted that interest income is likely to be less precise and more difficult to audit if prepayments were applied to a more disaggregated population of loans. That stakeholder supported the current guidance limiting prepayment assumptions to large pools of similar loans based on the characteristics in paragraph 310-20-35-30.

(b) One stakeholder noted that although most large financial institutions can estimate expected prepayments, most financial institutions elect loan-by-loan accounting to amortize premiums and discounts (deferred fees or costs) over the contractual term of the loans because of the complexity in adjusting the balance sheet and income statement for differences between anticipated prepayments and actual prepayments in accordance with paragraph 310-20-35-26. Those adjustments create volatility in earnings that is difficult to explain to analysts and investors. That stakeholder suggested that any differences between expected prepayments and actual prepayments should be reflected in the effective interest rate to be recognized prospectively at the adjusted effective interest rate (by leveraging the approach in Subtopic 325-40 for beneficial interests).

(c) One stakeholder noted that the application of the prepayment guidance does not result in materially different outcomes (that is, the resulting interest income amount recognized considering prepayments would not be materially different than the interest income recognized today).

272. Most stakeholders opposed changing Subtopic 310-20 to require one interest income recognition model by leveraging Subtopic 325-40, noting that it would not be an improvement to current GAAP. Those stakeholders highlighted several concerns with leveraging Subtopic 325-40, including:

(a) The interest income recognition model under Subtopic 325-40 is very complex and costly to apply and relies heavily on estimates and, in some cases, underlying data to develop those estimates may be unavailable. A few stakeholders noted that estimates under Subtopic 325-40 are more difficult to audit.

(b) It would be costly to switch models because current loan portfolio accounting systems are not configured to perform the calculation required by the interest income recognition model under Subtopic 325-40.

(c) The interest income recognition model under Subtopic 325-40 would reduce comparability and increase the volatility of financial results because the model requires an entity to continue to update, over the life of the beneficial interest, the expected cash flows to be collected.

(d) Over time, the difference in interest income between the two models would not be significantly different.

273. Because of the complexity in applying Subtopic 325-40, a few stakeholders suggested that the scope of that guidance be reconsidered to apply only to securities below investment grade.

274. A few stakeholders suggested that the Board leverage the guidance in Subtopic 325-40 for loans so that expected cash flows can be considered, rather than only contractual cash flows. A few stakeholders noted that most large financial institutions can estimate expected prepayments and that the volatility created by the model under Subtopic 325-40 would be easy to explain to investors because it is triggered by actual prepayments that have occurred during the current period.

Derecognition of Transferable Income Tax Credits

Question 43: Should the FASB provide derecognition guidance for transferable tax credits within Topic 740 beyond the guidance currently provided in Topic 606 and Subtopic 610-20? If so, what guidance or criteria should an entity consider in determining whether to derecognize these transferred tax credits. Please explain.

275. Sixteen stakeholders directly responded to Question 43 or provided general feedback on derecognition guidance for transferable tax credits within Topic 740, Income Taxes. Most stakeholders stated that the topic is a low priority, while some stakeholders were neutral on priority. One stakeholder indicated that the derecognition guidance for transferable tax credits is a top priority for the Board to address.

Derecognition of Transferable Income Tax Credits within Topic 740

276. For tax credits within Topic 740, stakeholders noted that entities apply by analogy the derecognition guidance in Topic 606, Subtopic 610-20, or Subtopic 958-605.

277. Overall, stakeholders said that there is no pervasive need to provide derecognition guidance for transferable tax credits within Topic 740. Stakeholders noted that the current guidance in Topic 606 and Subtopic 610-20 is sufficient and that there is no observed diversity in practice.

278. Conversely, a few stakeholders noted that there is diversity in practice in accounting for tax credits within Topic 740.

279. Stakeholders provided suggestions on how to improve the guidance for transferable tax credits within Topic 740, such as:

(a) Amend Topic 740 to include derecognition guidance or provide clarification on the relevant guidance for derecognition of transferable tax credits.

(b) Leverage the guidance in Subtopic 610-20 and clarify that derecognition may not occur until after the transferable tax credit is earned.

(c) Provide illustrative examples for (i) when transferable tax credits are subject to the derecognition criteria in Topic 606 or Subtopic 610-20 and (ii) how the derecognition criteria applies to common conditions, such as indemnification provisions.

(d) Clarify whether a gain or loss resulting from derecognition should be presented within income tax expense or separately on the income statement.

Other Suggestions

280. Some stakeholders noted that transferable tax credits are not clearly in the scope of Topic 740 and current practice varies with some entities applying Topic 740 while others analogize to grant or contribution guidance, such as IAS 20, *Accounting for Government Grants and Disclosure of Government Assistance*.

281. A few stakeholders also stated that applying Topic 740 to certain transferable tax credits is complex, difficult, and overly burdensome. One of those stakeholders suggested that the Board pursue a broader project to provide a comprehensive model for all tax credits, including those within the scope of Topic 740.

282. A few stakeholders were supportive of the Board providing guidance on the accounting for transferable tax credits not accounted for under Topic 740 (for example, nonrefundable transferable tax credits) as it relates to the amendments in the proposed Accounting Standards Update*, Government Grants (Topic 832): Accounting for Government Grants by Business Entities*, that was issued in November 2024.

Chapter 7—Presentation and Disclosure of Financial Reporting Information

Enhanced Disclosures

Question 44: Should the FASB consider any additional disclosures in any of the above areas? If so, how would that information better inform investment decisions? If these or similar disclosures are currently required outside of the financial statements, why should or shouldn't they be included in the financial statements? Are there other areas that need additional disclosures? Please explain.

283. Forty-seven stakeholders directly responded to Question 44 or provided general feedback on enhanced disclosures. Stakeholders provided mixed feedback on the need to enhance disclosures. Some stakeholders (most of which were investors and investor advocate groups) stated that enhanced disclosures are a top priority, while a few stakeholders were neutral on

priority. Some stakeholders (many of which were preparers and trade groups that represent preparers) indicated that enhancing disclosures is a low priority for the Board to address.

284. Mostly investors and investor advocate groups continue to request additional quantitative and/or qualitative financial reporting information about a range of areas. Stakeholders explained that additional information would provide investors with a better understanding of the performance of an entity and better enable investors to assess the future cash flows and risks in their capital allocation decisions.

285. Stakeholders that did not support expanding disclosure requirements noted the following:

(a) Current disclosure requirements are appropriate, and it would add costs for preparers to provide more disclosures. For example, it is costly for preparers to (i) complete disclosure checklists that include disclosure requirements that are not relevant to the entity and (ii) design and implement new processes and controls.

(b) Some of the suggested disclosures listed in the ITC would be very costly to provide or there are similar disclosure requirements required by the SEC, such as (i) rollforwards of balance-sheet line items, (ii) additional information by geographic location, and (iii) catastrophic loss information for property and casualty insurance entities.

(c) Recent Accounting Standards Updates (such as those on disaggregation of income statement expenses, segment reporting, income taxes, crypto assets, and revenue recognition) have provided investors with significantly more transparent information about an entity. A few stakeholders suggested that the Board wait until all of the amendments in those Updates are effective before deciding whether more disaggregated information is needed.

286. Stakeholders suggested numerous enhanced disclosures that are described in other topics throughout this handout, including (a) equity method of accounting, (b) consolidation of business entities, (c) interaction of consolidation guidance and other transactions, (d) distinguishing liabilities from equity, (e) risk management and hedge accounting, (f) definition of a derivative and derivative modifications, (g) alternative funding arrangements, (h) transfers and servicing of financial assets, (i) goodwill, (j) AROs, (k) ESOP repurchase obligation disclosures, (l) partnership accounting, (m) remeasurement of share-based payment awards, (n) principal versus agent considerations, (o) statement of cash flows, and (p) accounting for and disclosure of intangibles.

287. In addition to the disclosure enhancements discussed in paragraph 286 of this handout, stakeholders requested a broad spectrum of disclosures that could be enhanced or required, such as the following (in no particular order):

(a) Income statement information:

(i) Expanded revenue and expense information by geographical location beyond existing revenue and segment disclosure requirements

(ii) Further disaggregation of nonrecurring income and expenses; cost of sales and selling, general, and administrative expenses; and investment income (for example, disaggregating realized and unrealized gains and losses)

(iii) Costs incurred related to tariffs.

(b) Business combinations (including pending transactions):

(i) Enhanced acquisition-date information about the valuation techniques and inputs used in fair value measurements

(ii) Preacquisition information about the acquiree in a business combination, such as (1) financial statements of the acquiree, (2) qualitative information like the structure of the transaction, or (3) the expected impact on future earnings of the acquirer

(iii) The effect of business combinations on financial statement line items

(iv) Information about the expectations of earnout provisions and contingent consideration that may be paid under the terms of business acquisition agreements

(v) Revenue associated with the acquired entity in the first year of acquisition.

(c) Investments in privately held companies:

(i) When an entity holds a private equity investment in which it has an insignificant position (that is, the entity does not consolidate the private equity investment or account for it under the equity method), more specific details about debt obligations and guarantees between related parties of the private equity investment

(ii) The nature of the ownership structure of joint ventures, alliances, and equity method investments.

(d) Accounts receivable:

(i) The aging of accounts receivable by age buckets (such as currently due, 1 to 30 days overdue, and 31 to 60 days overdue)

(ii) For modified receivables due from borrowers experiencing financial difficulties, disclosure of (1) the total outstanding balances as of the end of the reporting period by portfolio segment, vintage, or class of financing receivable and (2) the quantitative or qualitative information of the significant period-over-period changes in total outstanding balances.

(e) Debt obligations entered into after the balance sheet date. Subsequent loan modifications or new loans entered into after the balance sheet date but before the financial statements are made available for issuance.

(f) Segment reporting. Further disaggregation of operating segments and cash flows from operating activities by segment.

(g) Assumptions used in estimates. Point estimates or a range of assumptions of critical accounting estimates and assumptions used in determining estimates for balances (such as impairments, AROs, and fair value).

(h) Liquidity disclosures.

(i) Contingencies.

(j) Related party transactions.

(k) Health care entity disclosures. Disaggregated information about transactions with pharmacy benefit managers (such as the nature and terms of the contract, rebates received, and fees paid).

(l) Workforce information. Tabular disclosure of human capital management costs (such as base compensation, benefits, and recruitment and training) and disclosures about total number of employees, turnover, and tenure.

(m) Environmental, social, and governance-related disclosures:

   (i) Improved consistency between sustainability-related disclosures and financial statements, similar to what the IASB has done.

   (ii) Capital expenditure commitments for material environmental, social, and governance goals.

288. Stakeholders also provided the following procedural items for the Board to consider when requiring new or amended disclosures, such as:

(a) Improve the understandability and navigability between the FASB and SEC disclosure requirements.

(b) Provide enhanced illustrative implementation guidance that clarifies disclosure expectations.

(c) Converge GAAP disclosure requirements with the IFRS Standards, where appropriate.

(d) Provide guidance on how entities should apply materiality when deciding which disclosures are decision useful for investors and which disclosures should be included in the notes to the financial statements.

(e) Provide disclosure checklists.

(f) Consider the PCAOB's requirements for auditor communication of omitted disclosures to the audit committee because those requirements can be costly for preparers and auditors to comply with.

Outdated Disclosures

Question 45: Are there current disclosure requirements that do not provide meaningful information about an entity? If yes, please explain which disclosures are not decision useful and whether those disclosures should be removed or how they should be improved.

289. Thirty-one stakeholders directly responded to Question 45 or provided general feedback on outdated disclosures. Many of the stakeholders (which were preparers and trade groups that represent preparers) stated that outdated disclosures are a high priority, while some stakeholders were neutral on priority. Some indicated that the topic is a low priority for the Board to address.

290. Stakeholders have indicated that certain disclosures have become outdated (because of the passage of time and changes in business models, technology, or the regulatory environment) and are burdensome to prepare. Stakeholders suggested that the Board revisit certain disclosure requirements to ensure that they are still relevant and still provide decision-useful information to investors.

291. One stakeholder that identified updating disclosure requirements as a low priority stated that while they supported removing outdated disclosures, they had concerns that it would be time-intensive and not be cost-beneficial. That stakeholder recommended that the Board consider outdated disclosures as part of future Codification Improvement projects. Another stakeholder noted that it is a myth that there is "disclosure overload" for investors and stated that investors want more information, not less, and that stakeholders have tools that allow them to sift through footnotes efficiently.

292. Stakeholders suggested that numerous disclosures were outdated, which are included in other topics throughout this handout, including (a) consolidation for business entities, (b) risk management and hedge accounting, (c) TDRs by borrowers, (d) the definitions of a derivative and derivative modifications, (e) crypto assets, (f) the definition of cash equivalents, (g) AROs, (h) guarantees, and (i) the statement of cash flows.

293. Stakeholders also identified other disclosures that do not provide meaningful information about an entity and should be simplified or eliminated, such as:

(a) **Topic 820 on fair value measurement.** Stakeholders noted that some disclosure requirements are too aggregated to be decision useful. For example, certain Level 3 disclosures (such as (i) the rollforward, (ii) the description of valuation techniques and inputs, (iii) total gains and losses included in earnings and other comprehensive income, and (iv) significant unobservable inputs) often require entities to use manual processes to prepare the disclosures and/or do not provide decision-useful information. Stakeholders also noted that there are opportunities to streamline the Level 1 and Level 2 disclosures because they are time consuming to prepare and not utilized by investors.

(b) **Disclosures required at interim reporting periods.** Stakeholders stated that certain interim disclosures should be limited to annual reporting periods only because they are repetitive from period to period when there is no material change (for example, certain disclosures required for VIEs, fair value measurement, credit losses, leases, derivatives, hedging, and pensions).

(c) **Topic 715, Compensation—Retirement Benefits.** Pension disclosures take up a disproportionate amount of pages in the footnotes to financial statements for a dwindling liability. Additionally, disclosures like the disaggregation of pension costs and the defined contribution pension plan expense disclosures are redundant.

(d) **Topic 740 on income taxes**. Many income tax disclosures do not result in questions from investors and, therefore, are not decision useful.

(e) **Topic 326 on financial instruments for credit losses.** For example, disclosure of available-for-sale (AFS) securities that have been in a continuous loss position for less than 12 months separately from those that have been in a continuous loss position for 12 months or longer is not decision useful in a market where interest rates have increased.

(f) **Topic 958, Not-for-Profit Entities.** For example, liquidity and availability of funds have become boilerplate and are not meaningful to users of the financial statements.

(g) **Other.** For example, stakeholders requested that the following disclosure requirements be simplified: (i) equity method investments, (ii) leases, (iii) loan modifications, and (iv) changes in deferred revenue, stock-based compensation, and disclosures that were added to the Codification on the basis of current events at that time but are no longer relevant (such as disclosures about foreclosures).

294. Stakeholders provided the following potential solutions to improve outdated disclosures:

(a) Explore alternative disclosure formats, such as sensitivity analyses, to provide more meaningful information into the potential variability of financial results.

(b) Create a disclosure principle.

(c) Streamline disclosures, including reassessing the existence of certain requirements, revisiting the frequency of disclosures, or developing practical expedients for certain disclosures when the underlying activity is not core to an entity's operations,

(d) For interim reporting, require only disclosures for significant events or transactions that have materially changed since the most recent annual report.

Diluted Earnings per Share (EPS)

Question 46: Should the treasury stock method be modified to include RSUs in the computation of diluted EPS under the treasury stock method? Please explain.

295. Twenty-three stakeholders directly responded to Question 46 or provided general feedback on the computation of diluted EPS. Many stakeholders identified the topic as a low priority, and some stakeholders were neutral on priority. A few stakeholders identified diluted EPS as a top priority.

Calculation of Diluted EPS under the Treasury Stock Method Related to Restricted Share Units (RSUs)

296. A few stakeholders that are investors or investor advocate groups noted that they would support the Board modifying the treasury stock method to include restricted stock units (RSUs) in the denominator of the diluted EPS computation.

297. A few stakeholders acknowledged investors' desires to include RSUs in the denominator of the diluted EPS computation, however, most stakeholders stated that a narrow-scope project should not be prioritized for several reasons, such as the following:

(a) Creating a scope exception just for RSUs would add additional complexity to the calculation of diluted EPS and create confusion (for example, if instruments with similar characteristics are treated differently).

(b) Eliminating the treasury stock method would result in RSUs being fully dilutive when awarded, affecting the denominator in the EPS calculations, but the numerator would be affected over time as the expense is amortized.

(c) There is no pervasive need to change GAAP because the treasury stock method is well understood and established in practice.

(d) Current disclosure requirements provide investors with sufficient information on unvested awards and unrecognized compensation expense.

Other Suggestions Related to the Calculation of Diluted EPS

298. Some stakeholders noted that the Board should broadly consider simplifying the calculation of diluted EPS because it (a) is unnecessarily complex, (b) does not provide decision-useful information for investors, and (c) can result in counterintuitive outcomes. One stakeholder noted that the Board should review the EPS guidance in connection with a project on distinguishing liabilities from equity.

299. One stakeholder noted that the Board should pursue a project to amend the diluted EPS guidance to exclude all unrecognized compensation expense from the calculation for all share-based compensation. Treating the unrecognized compensation as proceeds, while theoretically supportable, is not well understood in practice and results in counterintuitive results.

300. A few stakeholders noted that the Board should update the EPS guidance to capture the impact of withholding taxes upon delivery because the number of shares issued to the recipient of a stock award is generally less than the award amount since a certain amount of shares are withheld from the recipient to cover the income tax obligation(s).

Two-Class Method

301. Some stakeholders provided the following feedback about the application of the two-class method related to RSUs:

    (a) There is diversity in practice when applying the two-class method for calculating diluted EPS for RSUs that participate in dividends prior to vesting. This is a result of some entities applying the guidance in proposed FSP FAS 128-a, "Computational Guidance for Computing Diluted EPS under the Two-Class Method," which was never finalized.

    (b) Eliminate or simplify the two-class method for RSUs when calculating EPS since (i) it is overly complex because judgment is required to allocate earnings between common shareholders and participating securities, (ii) the calculation generally does not result in a material impact on EPS, and (iii) it does not provide decision-useful information. One stakeholder stated that only second classes of common stock (such as class B common stock) should be included in the two-class method.

Definition of a Public Business Entity

Question 47: Should the FASB consider amending the Master Glossary term* public business entity*? If the FASB were to reconsider the Master Glossary term* public business entity*, which type of entities should be included or excluded and why? Please explain.

Question 48: What complexity, if any, results from multiple definitions of a public entity and a nonpublic entity in GAAP? Should the FASB prioritize a project that seeks to reduce the number of definitions of a public entity and a nonpublic entity throughout GAAP? If the FASB were to pursue a project to reduce the number of definitions of a public entity and a nonpublic entity, should the FASB consider replacing the definitions of a public entity with the public business entity definition? Please explain.

Overall Feedback and Prioritization

302. Twenty-four stakeholders directly responded to Question 47 and Question 48 or provided general feedback on the definition of a public business entity. Overall, most of those stakeholders supported amending the Master Glossary term *public business entity* to exclude certain entities like non-issuer broker-dealers and conduit bond obligors. Stakeholders were mixed on the priority, with some stakeholders identifying it as a top priority and some identifying it as a low priority. Some stakeholders were neutral on the priority, noting that while it should be addressed, it is not the highest priority.

303. Stakeholders that identified amending the definition of the term *public business entity* as a top or neutral priority generally agreed that amending the definition to exclude certain entities would reduce the compliance burden while still providing users with decision-useful information. Additionally, some stakeholders noted that complying with recent Accounting Standards Updates on segments, income taxes, and/or disaggregation of income statement expenses can be costly and not decision useful for the users of the financial statements for certain entities discussed below.

304. Stakeholders that identified amending the definition of the term *public business entity* as a low priority observed no significant complexity in practice when applying the definition today.

305. Some stakeholders noted that with a dozen variations of the terms *public entity* or *private entity,* it is confusing for preparers and/or investors to understand when certain accounting and disclosure requirements are applicable. This is particularly challenging for entities such as broker-dealers, certain NFPs, and private entities that are considered *public entities* under certain definitions and not others. Some stakeholders acknowledge that while there may be confusion at times, they (a) are not aware of any significant complexities or (b) question if it is the highest-and-best use of the Board's limited resources. One stakeholder recommended that, going forward, the Board consider the use of a public business entity definition and public entity definitions on a project-by-project basis, rather than undertake a standalone technical

project that seeks to reduce the number of definitions of a public entity or exclude certain types of public business entities from the definition. A few other stakeholders noted that if the Board were to amend the existing definitions, it could have unintended consequences and costs for entities, such as an entity may now be required to comply with disclosure requirements not previously required.

306. One stakeholder that is opposed to different Master Glossary definitions for public and private entities stated that all entities should be required to follow the same reporting requirements (that is, there should be no private company alternatives or delayed transition requirements). This stakeholder noted that there has been an increase in investors allocating capital to private companies and the line between private markets and public markets is blurred. Furthermore, allowing for reporting differences between public entities and private entities hinders private entities from going public.

Revising the Definition of Public Business Entity

307. Some stakeholders commented that there are no or few practice issues with the current application of a public business entity and did not recommend revising the definition. However, of those stakeholders that would prefer changes to the definition, many stakeholders identified SEC registered non-issuer broker-dealers and/or conduit bond obligors as entities that should be excluded from the definition of a public business entity. Those stakeholders noted that these entities meet the definition of public business entity because they are required to file financial statements with a regulatory agency, but these filings are not often made publicly available, and the primary users of the financial statements are regulators. Therefore, the cost of complying with additional public business entity requirements does not outweigh the benefit to users.

308. A few stakeholders identified other entities that should not be considered a public business entity, including:

(a) Non-SEC-registered entities with securities traded, listed, or quoted in an over-the-counter market

(b) Securities-based swap dealers

(c) Separate account entities associated with life insurance entities

(d) Employee benefit plans that are required to file financial statements with the SEC.

309. Stakeholders provided suggestions for amending the Master Glossary definition of a public business entity, including:

(a) Creating a single definition based on SEC issuer status.

(b) Aligning the Master Glossary definitions of public entity, nonpublic business entity, and public business entity under one term based on an amended public business entity definition. An amended definition for public business entity should:

   (i) Exclude from its scope entities (such as those described in paragraphs 307 and 308 of this handout) that file or furnish financial statements to the SEC for reasons unrelated to an offering of their securities

   (ii) Eliminate the reference to over-the-counter markets in the Master Glossary definition of a public business entity because the term is not defined.

Personal Financial Statements

Question 49: Is there certain implementation guidance in Topic 274 that should be updated? If yes, what is the pervasiveness of individuals (or groups of related individuals) that prepare GAAP-compliant personal financial statements? How should assets be measured? Are there additional disclosures that should be required in personal financial statements and, if so, how would they be decision useful? Please explain.

310. Twelve stakeholders directly responded to Question 49 or provided general feedback on personal financial statements. Almost all of those stakeholders noted that personal financial statements are a low priority, while one stakeholder was neutral on priority. There were no stakeholders that identified personal financial statements as a top priority.

311. Several stakeholders noted that the preparation of GAAP-compliant personal financial statements is not pervasive, citing either that they do not have clients that prepare personal financial statements or that it is not a common occurrence. In addition, stakeholders noted that they have not observed diversity in financial reporting outcomes or significant practice issues that would require changes to Topic 274, Personal Financial Statements.

312. Regarding how assets should be measured if the Board were to address the topic, one stakeholder noted that requiring assets to be measured at fair value in personal financial statements would likely result in more decision-useful information and consistency in reporting. However, a few stakeholders noted that a requirement to measure assets at fair value would be costly. To this point, one stakeholder noted that if there is an increase in the cost and complexity of preparing GAAP-compliant personal financial statements, it could push preparers to use a basis other than GAAP to prepare personal financial statements.

313. Additionally, one stakeholder noted that it would not support updating the disclosure requirements for personal financial statements because it would be cost prohibitive.

Chapter 8—Current Research Agenda Projects

Financial KPIs for Business Entities

314. Thirty stakeholders provided feedback[4] on financial KPIs generally. Overall, those stakeholders provided mixed views on whether the Board should address this topic as a priority and, if so, how the Board should address the topic. Many of these stakeholders, primarily investors and investor advocate groups, identified financial KPIs as a top priority, although those stakeholders had diverse views on how the Board should address the topic. Some stakeholders identified KPIs as a low priority, while some other stakeholders were neutral on priority.

315. Overall, stakeholders, many of which were investors and investor advocate groups, stated that seeing adjustments that management makes is useful because investors may have different views on what should or should not be included in calculating financial KPIs. Despite this, those stakeholders had mixed views on whether the FASB should define financial KPIs and, if so, what financial KPIs should be defined and how.

316. Stakeholders that supported a project on financial KPIs generally noted that because the use of KPIs has become pervasive and there is a lack of consistency in how entities present and define KPIs, more decision-useful information is needed to better understand management's adjustments and compare entities. Stakeholders provided the following specific feedback:

    (a) **The use of KPIs, including financial KPIs and nonfinancial KPIs, has become pervasive.**

    (b) **There is a lack of consistency in how entities present and define financial KPIs and more decision-useful, transparent information is needed.** Stakeholders noted that entities have different definitions for financial KPIs, for example, companies adjust different line items into or out of earnings before interest, taxes, depreciation, and amortization (EBITDA), which makes it difficult for investors to compare financial KPIs between different entities. Several stakeholders noted that some entities present financial KPIs but do not present enough information for investors to understand how they were calculated.

317. Conversely, stakeholders, including investors, cited several reasons why the Board does not need to prioritize a project to address financial KPIs over other topics, including:

    (a) It would be challenging to define financial KPIs due to the diverse nature of business models and differences between industries. A standardized approach may fail to capture

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[4] The Invitation to Comment, *Agenda Consultation* (ITC), did not include a specific question related to financial key performance indicators (KPIs).

those nuances and is unlikely to meet the needs of all stakeholders effectively. For example, one stakeholder noted that standardization may not be helpful and that as long as the calculations are disclosed, the differences in financial KPIs across entities can be informative.

(b) Management is best positioned to determine the financial KPIs that are most relevant to their entity's performance and strategic objectives. A few stakeholders noted that defining financial KPIs could limit an entity's ability to provide meaningful insights to its investors. Furthermore, one stakeholder said that defining financial KPIs could elevate their relevance above existing GAAP measures.

(c) The Board should not take on any projects that would result in additional presentation or disclosure requirements until the costs and benefits of applying recent new disclosure requirements, such as required by the amendments in Accounting Standards Update No. 2024-03, *Income Statement—Reporting Comprehensive Income—Expense Disaggregation Disclosures (Subtopic 220-40): Disaggregation of Income Statement Expenses*, are understood.

(d) Entities could still make adjustments to defined financial KPIs outside of the GAAP financial statements. Defining financial KPIs would not prohibit entities from making adjustments and presenting an adjusted version of a defined financial KPI.

(e) Non-GAAP metrics are sufficiently governed by the SEC for public companies and provide insights for investors, such as the current SEC non-GAAP reconciliation requirements.

(f) There would be audit implications and costs to bringing financial KPIs into the financial statements.

(g) The Board should use their resources elsewhere such as (i) improving financial statement presentation, (ii) further disaggregation of the income statement and/or statement of cash flows, or (iii) on other projects. For example, one stakeholder noted that additional income statement breakdown, such as of selling, general, and administrative (SG&A) expenses, and more segment information would be more helpful than standardizing financial KPIs.

Furthermore, a few stakeholders noted that, consistent with their comment letters in response to the Invitation to Comment, *Financial Key Performance Indicators for Business Entities* (the Financial KPIs ITC), this topic should not be a top priority.

318. Stakeholders suggested various solutions to address financial KPIs, which were largely consistent with those solutions that stakeholders suggested in response to the Financial KPIs ITC. For example, stakeholders suggested defining commonly used financial KPIs that apply to all entities or defining industry-specific financial KPIs. Overall, many stakeholders, primarily investors, expressed a desire to have more information about items included in the income

statement and statement of cash flows, but provided diverse views on what information is needed and the best way to provide that information in the financial statements.

319. Separate from financial KPIs for business entities, a few stakeholders suggested that the Board define an operating measure for NFPs, given diversity in practice, lack of comparability, and the increased scrutiny on all NFPs.

Accounting for and Disclosure of Intangibles

320. Twenty-four stakeholders provided general feedback[5] on the accounting for and disclosure of intangibles. Overall, those stakeholders provided mixed views on whether the Board should address this topic as a priority, and many stakeholders noted that current recognition and measurement requirements for intangibles are sufficient and should be retained. Some stakeholders, primarily investors and investor advocate groups, identified intangibles as a top priority, while some other stakeholders were neutral on priority. A few stakeholders identified intangibles as a low priority.

321. Almost all stakeholders, primarily investors and investor advocate groups, that identified intangibles as a top priority recommended that the Board prioritize enhanced disclosure requirements about intangibles rather than make broad changes to the recognition of intangibles. These stakeholders primarily noted that intangibles is a priority area to be addressed because (a) there is a lack of consistency in the recognition, measurement, presentation, and disclosure of intangibles and (b) the decision usefulness of intangibles disclosures varies by entity. For example, investors noted that intangibles may be presented in various line items on the balance sheet, sometimes as a separate *intangibles* line item or sometimes within another line item, such as *noncurrent assets*. Additionally, some investors stated that they are interested in understanding the amount of total cash spent on intangibles, but that this amount is not always clear in current disclosures. Therefore, some investors noted that greater information about intangibles is needed so that pro forma adjustments can be made to improve the comparability of financial statements and reduce the volatility of earnings.

322. Another investor identified intangibles as a top priority because there should be more scrutiny on recognizing intangibles in a business combination since it is subjective to quantify certain intangibles such as customer relationships. Separately, there were a few stakeholders that stated that the accounting for emerging technologies, such as artificial intelligence (AI), should be addressed.

[5] The ITC did not include a specific question related to intangibles.

323. Conversely, stakeholders, including investors, cited several reasons why the Board does not need to prioritize a project to address the accounting and disclosure of intangibles over other topics, including:

(a) Intangibles is not a focal point for investors, and sufficient information is currently received for analysis purposes (even if there is a lack of consistency in how entities present intangibles).

(b) Because stakeholders are likely to have diverse views on the scope, nature, and extent of a project on intangibles, finding consensus for an intangibles project would be difficult.

(c) Even though there may be a lack of consistency in accounting for intangibles and there are improvements that could be made, there is not a pressing need to address the topic at this time. For example, one stakeholder noted that there is not a widespread need to significantly revise GAAP related to intangibles.

Furthermore, a few stakeholders noted that, consistent with their comment letters in response to the Invitation to Comment, *Recognition of Intangibles* (the Intangibles ITC), this topic should not be a priority. One of those stakeholders stated that although it would be supportive of considering expanded disclosures for intangibles, doing so should not be prioritized over more pressing needs.

324. Stakeholders suggested various solutions to address intangibles, which were largely consistent with those suggested solutions that stakeholders suggested in response to the Intangibles ITC. For example, stakeholders suggested expanding disclosures for intangibles and updating the definition of R&D to clarify what should be included in R&D. A few solutions that were suggested by stakeholders as part of the Agenda Consultation ITC that were not suggested as part of the Intangibles ITC included to (a) provide specific guidance for AI-driven intangibles and (b) reconsider the definition of intangible assets.

Statement of Cash Flows

Question 52: Should the FASB pursue a project on the statement of cash flows? If yes, which improvements, if any, are most important? Should the FASB leverage the current guidance in Topic 230, Statement of Cash Flows? If yes, would it be preferable to retain the direct method, the indirect method, or both? Should this potential project be a broad project applicable to all entities that provide a statement of cash flows or limited to certain entities or industries? Please explain.

Overall Feedback and Prioritization

325. Forty-three stakeholders directly responded to Question 52 or provided general feedback on the statement of cash flows. Some of those stakeholders identified the topic as a top priority,

while many identified it as a low priority but still gave recommendations on a potential project. Additionally, some other stakeholders were neutral on priority.

326. Overall, stakeholders provided mixed feedback about the current statement of cash flows guidance and the direction that the Board should take on modifying the guidance. Some stakeholders suggested targeted improvements, while a few stakeholders suggested doing nothing at this time. A few stakeholders recommended that the Board undertake a project to reimagine the statement of cash flows and gave input on the timing of a broader project.

327. A few stakeholders that were in favor of any kind of project discussed how investors could benefit from more relevant cash flow information and stated that preparers struggle with applying the guidance, leading to inconsistent application and diversity in practice. Other stakeholders said that the current categories (that is, operating, investing, and financing activities) could be better aligned with other financial statements. A few stakeholders noted that improvements to the classification requirements specifically for financial institutions might provide more decision-useful information.

328. Conversely, a few stakeholders commented that the current statement of cash flows is sufficient or did not support the Board's consideration of further disclosures. One stakeholder stated that standard setting related to the statement of cash flows should not be considered until post-implementation reviews are completed on recent Accounting Standard Updates (for example, income taxes, segments, and disaggregation of income statement expenses). Another stakeholder recommended that the Board prioritize eliminating less meaningful disclosure requirements, even if the eliminations are industry specific.

Industry Scope of a Potential Statement of Cash Flows Project

329. A few stakeholders supported the Board completing the current statement of cash flows project for financial institutions. A few stakeholders stated that, for financial institutions, the categorization of cash flows (that is, operating, investing, and financing activities) is less relevant than other information provided to investors and they would not pursue the current project on the technical agenda. One stakeholder noted that, instead of the current statement of cash flows project for financial institutions, the Board should (a) eliminate the requirement for those entities to provide the statement of cash flows and (b) require disclosure of liquidity coverage ratios. Another stakeholder similarly questioned the decision usefulness of the statement of cash flows for financial institutions and suggested that the Board consider the cost and benefits before continuing to pursue a targeted improvements project for financial institutions.

330. Some stakeholders suggested that the Board should pursue a project that is applicable to all entities instead of (or before) a project that is specific to financial institutions or other

industries. One stakeholder suggested that a broader project may accomplish the same objective as a targeted improvements project for financial institutions.

Retaining the Direct Method, Indirect Method, or Both

331. Most stakeholders expressed support for retaining the indirect method and not requiring the direct method. Stakeholders noted:

    (a) The current optionality allows an entity to select which method is more decision useful for that entity.

    (b) Requiring the direct method (i) would impose undue costs and complexities for preparers and (ii) would not be decision useful for financial institutions. If required, it should not be required for private companies. Additionally, because of expense disaggregation requirements for the income statement, the direct method would not enhance the decision usefulness of the statement of cash flows.

    (c) The indirect method (i) is more frequently used in practice than the direct method and (ii) provides a meaningful link between the income statement, balance sheet, and operating cash flows.

332. A few stakeholders expressed support for the direct method only, noting that the direct method is more decision useful. Another stakeholder suggested that requiring the direct method is a potential model that the Board could consider, in addition to exploring a potential project to require greater disaggregation or additional disclosures for certain cash flows.

333. One stakeholder noted that permitting multiple reporting methods impedes some investment decisions but did not provide a point of view on which method was better.

Leveraging the Current Guidance in Topic 230

Targeted Improvements for Practice Issues

334. Some stakeholders noted that if the Board were to pursue a project, the Board should make targeted improvements leveraging the existing Topic 230 framework and focusing on clarifying guidance and addressing common implementation questions or areas where there is diversity in practice instead of a broad overhaul of the model. One stakeholder noted that a targeted project would require fewer resources than a broad overhaul while still addressing stakeholder needs. Stakeholders suggested a multitude of targeted improvements related to common classification issues that the Board should address, such as:

    (a) For financial institutions, specifically:

(i) Cash flow classifications should be better aligned with bank activities because activities that could be considered operating cash flows are required to be presented as financing or investing cash flows.

(ii) Use of the change in loan, security, and deposit balances should be permitted as a proxy for the change in cash.

(b) Cash collected and disbursed on behalf of third parties (for example, activities performed by payment processers and insurance brokers).

(c) Derivative financial instruments, such as cash flows related to derivatives that are used as economic hedges.

(d) Government grant proceeds.

(e) Business combinations, such as the classification of contingent receivables.

(f) Debt investments purchased at a discount.

(g) The definition of cash and cash equivalents.

(h) Debt issued to purchase property, where proceeds are paid directly from the lender to the seller.

(i) Distinguishing cash transactions from noncash transactions, including constructive receipts and disbursements of cash (such as in debt refinancing transactions when proceeds flow directly from one lender to another).

(j) Interest and dividends from long-term investments held in endowments.

(k) Crypto asset transactions that are nearly immediately converted to cash (which may not always represent operating cash flows and are burdensome to track).

Other Additional Information

335. Stakeholders gave several different recommendations for potential presentation requirements, additional disclosures, and/or further disaggregation that, if standardized, would improve the information provided by the statement of cash flows. Some of those suggestions could be presented within the statement of cash flows or through additional disclosures, such as additional information about operating cash flows, maintenance versus growth capital expenditures, and recurring versus nonrecurring items. One stakeholder suggested that the repayment of old debt and the issuance of new debt could be presented separately. Other stakeholder suggestions for information that could be supplementally disclosed included:

(a) Cash received from customers

(b) Noncash transactions, such as depreciation and amortization

(c) Cash paid to employees

(d) Cash interest received.

336. Stakeholders also commented on the interaction between the statement of cash flows and financial KPIs. One stakeholder suggested defining and requiring free cash flows to be disclosed within a broad statement of cash flows project. Another stakeholder recommended that the Board consider feedback received on the Financial KPIs ITC before deciding on a statement of cash flows project because permitted financial KPIs may solve information issues that users have with the statement of cash flows. Another stakeholder suggested that the same objectives of a potential project on financial KPIs could be solved by statement of cash flows presentation improvements, such as standardizing the reconciliation of noncash items.

337. One stakeholder noted that to improve the cohesiveness of the financial statements, the Board should require entities to disclose a reconciliation of the statement of cash flows line items to the period-to-period changes in the related balance sheet line items (mainly working capital) that may not be equal.

Other Suggested Cash Flow Models

338. A few stakeholders suggested a broader model that would be a more long-term project to either revamp the purpose or structure of the statement of cash flows and increase its decision usefulness. One stakeholder suggested a model where cash flows are presented by significant receipt and spending activities instead of the existing operating, investing, and financing categories. That model also could require inclusion of any cash flows exceeding a defined threshold based on the size of an entity.

Other Feedback

339. Stakeholders gave other feedback and suggestions for the Board, including:

(a) Provide cash flow presentation guidance as needed when new recognition or measurement Accounting Standard Updates are issued, rather than pursuing a separate cash flow project.

(b) Monitor the IASB's project on IAS 7, *Statement of Cash Flows*, and consider aligning the guidance with any future amendments made by the IASB.

(c) Change the classification of cash interest paid within the statement of cash flows because including it within the operating section is unintuitive.

(d) Make changes to the statement of cash flows for public companies only.

(e) Field test any potential changes to the statement of cash flows with public companies to ensure improvements are feasible.

Accounting for Commodities

Question 53: Should financial institutions that hold physical commodities for trading purposes be permitted to apply the fair value option? Please explain, including whether and how providing an option would provide decision-useful information.

Question 54: Beyond financial institutions, are there other entities or industries that hold physical commodities for trading purposes that should be permitted to apply the fair value option to physical commodities? Please explain, including which types of entities or industries and whether and how providing an option would provide decision-useful information.

Overall Feedback and Prioritization

340. Twenty stakeholders directly responded to Question 53 and Question 54 or provided general feedback on accounting for physical commodities held for trading purposes. Some of those stakeholders, including almost all stakeholders in the banking industry, identified permitting the fair value option for physical commodities held for trading purposes as a top priority, while some identified it as a low priority because of a general lack of pervasiveness. However, many other stakeholders were neutral on priority.

341. Some stakeholders encouraged the Board to not only consider the fair value option for physical commodities held for trading purposes by financial institutions, but to also consider permitting it for all entities that hold physical commodities and executory contracts related to physical commodities and manage them on a fair value basis. Despite this, a few of those stakeholders noted that permitting the fair value option for physical commodities held for trading purposes by financial institutions is the most urgent issue to address.

Financial Institutions That Hold Physical Commodities for Trading Purposes

342. Almost all stakeholders generally agreed that the Board should expand the fair value option to allow financial institutions that hold physical commodities for trading purposes to measure them at fair value for various reasons. Several stakeholders observed that there is an accounting mismatch between physical commodities (typically measured at the lower of cost or net realizable value) and the related derivative positions (typically measured at fair value through earnings) that entities enter into for hedging purposes They noted that this difference in measurement creates artificial volatility that obscures an entity’s net economic exposure to changes in underlying commodity prices.

343. Stakeholders noted that entities may try to mitigate that accounting mismatch and volatility by applying fair value hedge accounting, but because of the specific identification criteria within Topic 815 and the basis differential (such as location or quality) that exists between the physical commodity and the hedging instrument, (a) applying the hedging model can be complex and costly and (b) those items and transactions do not always qualify for hedge accounting. Several stakeholders noted that if physical commodities were measured at fair value, entities would not need to apply hedge accounting to manage the volatility in earnings, which would simplify the accounting.

344. Overall, many stakeholders stated that allowing the fair value option would better reflect the nature, economics, and future cash flows of physical commodities, more accurately portray an entity's risk management practices, and provide more decision-useful information to investors. Furthermore, several stakeholders noted that broker dealers that apply industry-specific guidance in Topic 940, Financial Services—Brokers and Dealers, often account for physical commodities at fair value as trading assets, so permitting all financial institutions to apply the fair value option would enhance consistency and comparability within that industry. Additionally, a few stakeholders observed that a fair value option would align the measurement of physical commodities under GAAP with guidance under IFRS Standards.

Other Entities or Industries beyond Financial Institutions That Hold Physical Commodities for Trading Purposes

345. Many stakeholders noted that the fair value option should be expanded to all entities, irrespective of industry, because, similar to financial institutions, nonfinancial institutions may routinely acquire physical commodities for trading purposes and use derivative instruments to hedge those exposures. Those stakeholders cited similar reasons as discussed above for financial institutions.

346. Stakeholders identified several entities and industries that the fair value option for physical commodities would be most relevant for, such as energy, agriculture, metals, mining, power, and utilities. A few stakeholders noted potential challenges related to expanding the fair value option to entities outside of financial institutions, such as challenges in defining the scope of entities that should qualify for the fair value option for physical commodities.

Other Feedback

347. Some stakeholders suggested that executory contracts that are managed on a fair value basis, such as those that provide for the right or obligation to transport and/or store physical commodities, also should be permitted to elect the fair value option. Those stakeholders noted that it is not uncommon for entities to economically hedge their exposure to such

arrangements, but similar to hedges of physical commodities, it has historically been challenging to achieve hedge accounting for these arrangements.

348. One stakeholder identified several areas that the Board would need to consider if it decides to add a project to permit the use of fair value, including what constitutes a commodity for purposes of the guidance, how to define when a commodity is held for trading purposes, and whether gains and losses on commodities for which the fair value option has been elected should be presented gross or net in the income statement.

Top Priority Topics beyond Those Described in the ITC

Question 4: Are there any financial accounting and reporting topics beyond those in this ITC that should be a top priority for the Board to address? Please explain, including the following:

a. The nature of the topic
b. The reason for the recommended change
c. Whether the topic is specific to a subset of companies, such as public companies, private companies, or NFPs, or specific to a certain industry
d. How the Board should address this topic (that is, the scope, objective, potential solutions, and the expected benefits and expected costs of those solutions)
e. What is the urgency to complete standard setting on this topic (that is, how quickly the issue needs to be addressed).

349. Twenty-nine stakeholders identified one or more topics beyond those in the ITC that should be a top priority for the Board to address. In total, those stakeholders described more than 30 additional topics for the Board to consider.

350. While many of the topics described were identified by a single stakeholder, there were topics that were mentioned more frequently, such as the following:

(a) **Make targeted improvements to LDTI to clarify the guidance and improve the decision usefulness of the information.** Stakeholders, from the life insurance industry, stated that the Board should make targeted improvements to LDTI to clarify the guidance and improve the decision usefulness of the information. For example, some stakeholders suggested that the Board:

(i) Permit entities to use the sovereign bond rate for the discount rate when an upper-medium grade (low-credit risk) yield (generally interpreted to be A-rated fixed-income instruments) is not available in that market.

(ii) Revise the deferred acquisition costs (DAC) amortization guidance so that both terminations less than or more than expected would true-up the DAC balance, as long as the net impact of the amortization and true-up does not increase the DAC balance.

(iii) Cap the benefit ratio at 100 percent and require immediate recognition of an additional liability when calculating additional insurance liabilities for death and other insurance benefits and for annuitization benefits (colloquially known as AICPA Statement of Position 03-1, *Accounting and Reporting by Insurance Enterprises for Certain Nontraditional Long-Duration Contracts and for Separate Accounts* (SOP 03-1), liabilities). Stakeholders noted that this would avoid deferring losses and would maintain consistency with the liability for future policy benefits net premium ratio method.

(iv) Permit an offsetting gain at inception of a reinsurance contract entered into contemporaneously with a direct contract sold at a loss.

(b) **Enhance the process to evaluate costs and benefits of new guidance.** The Board should more clearly and transparently identify and communicate costs and benefits. For example, one stakeholder suggested that the Board rank or score each cost and benefit, and another stakeholder suggested that the Board develop a public document that defines a consistent cost-benefit framework that it follows for each standard-setting project that includes (i) the effect on different types of entities, (ii) whether information requested by users could be provided outside of the financial statements, (iii) the type of user requesting standard setting, and (iv) whether existing software systems can be leveraged to comply with proposed requirements. Additionally, some of those stakeholders encouraged the Board to more frequently engage in cross-stakeholder outreach, such as through roundtables.

(c) **Clarify what constitutes an accounting change, and develop a framework for evaluating preferable accounting practices.** The Board should consider developing a framework in Topic 250, Accounting Changes and Error Corrections, for evaluating preferable accounting practices.

(d) **Make targeted improvements to the guidance for HTM debt securities.** The guidance in Topic 320 does not provide entities with enough flexibility to react to changes in the regulatory capital and liquidity rules. The Board should consider allowing more flexibility in applying Topic 320 to HTM debt securities.

(e) **Permit reclassification of stranded tax effects.** The Board should permit reclassification from AOCI to retained earnings for all future stranded tax effects, not just those related to the 2017 Tax Cuts and Jobs Act.

(f) **Consider industry-specific matters.** The Board should (i) develop illustrative examples to demonstrate how to apply current guidance to transactions and fact patterns in specific industries, such as for Topic 606, and (ii) apply an industry-specific lens when evaluating and prioritizing projects on its agenda because a one-size-fits-all approach can result in guidance that is either overly burdensome or misaligned with the economic realities of an industry.

351. Additionally, most of the other topics identified by stakeholders generally fell under one of the following categories:

(a) Reduce diversity in practice by clarifying certain areas of GAAP, such as the accounting for certain transactions in a business combination, the scope of Subtopic 470-40, Debt—Product Financing Arrangements, the presentation and disclosure requirements regarding retainage for construction contractors, the subsequent measurement of contract assets that will be settled with noncash consideration, the recognition of the foreign exchange effects on foreign-currency denominated AFS debt securities, and the classification of cost of sales for private companies.

(b) Better reflect the economics of certain transactions by updating certain areas of GAAP, such as for nonrecourse financing obligations and lessor accounting.

(c) Reduce unnecessary complexity by simplifying certain areas of GAAP, such as the measurement of equity securities in accordance with Topic 321 and the recognition of forfeitures of stock-based compensation.

(d) Consider whether GAAP needs to address certain emerging trends, such as inflation's effect on asset values and depreciation.

(e) Increase decision usefulness and transparency of financial statements, such as by creating a consistent recognition model for subsequent events, enhancing the segment reporting disclosures, addressing the accounting for stock buybacks, and improving financial statement presentation.

(f) Improve FASB internal processes, such as by forming a technology advisory group, incorporating the basis for conclusions into the Codification, and evaluating how to reduce the cost and complexity of financial reporting.