Board Meeting Handout

Investment Company Accounting and Disclosure

May 13, 2026

Meeting Purpose

1. The Board will consider the following issues raised by stakeholders:
   a. Fair value measurement of equity securities subject to contractual sale restrictions
   b. Disclosures by private credit investment funds.
2. The staff also will provide an update on its research on the application of the net asset value (NAV) practical expedient in Topic 820, Fair Value Measurement, when observable transaction data exists.

Questions for the Board

Contractual-Sale Restrictions

1. Does the Board want to add a project to its technical agenda on the fair value measurement of equity securities subject to contractual sale restrictions?
2. If the answer to Question 1 is yes, should the project's scope focus on entities that apply Topic 946, Financial Services—Investment Companies?
3. If the answer to Question 1 is yes, does the Board have any other feedback on the project's objective and scope?

Private Credit Disclosures

4. Does the Board want to add a project to its technical agenda on private credit disclosures?
5. If the answer to Question 4 is yes, which of the following approaches does the Board prefer for identifying which entities are included in the project's scope?
   a. Broad approach: All investment companies
   b. Medium approach: "Private credit" funds (business development companies (BDCs) and private investment funds)
   c. Narrow approach: BDCs.
6. If the answer to Question 4 is yes, does the Board have any other feedback on the project's objective and scope?

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Fair Value Measurement of Equity Securities Subject to Contractual Sale Restrictions

Issue Background

3. The Board received an agenda request related to Topic 820 on measuring the fair value of an equity security subject to contractual restrictions that prohibit the sale of that security. The agenda request asked that the Board reexamine the decisions made in Accounting Standards Update No. 2022-03, *Fair Value Measurement (Topic 820): Fair Value Measurement of Equity Securities Subject to Contractual Sale Restrictions*. The agenda request noted that Update 2022-03 should be reconsidered because not requiring entities to consider contractual sale restrictions (such as lock-up agreements) when measuring the fair value of equity securities produces amounts that are not consistent with the instrument's economics or the price that market participants would assign to restricted shares. The agenda request emphasized this concern for investment companies under Topic 946, asserting that the current guidance can overstate NAV, distort performance reporting and compensation, and create unequal outcomes for purchasing, redeeming, and remaining shareholders.

Current GAAP

4. Topic 946 applies to both registered investment companies and entities that possess characteristics described in paragraphs 946-10-15-6 through 15-7 (for example, entities committing to investors that their business purpose and substantive activities are solely investing funds for capital appreciation, investment income, or both).

5. Entities within the scope of Topic 946 are required to subsequently measure debt securities, equity securities, and other investments at fair value (as required by Subtopic 946-320, Financial Services—Investment Companies—Investments—Debt and Equity Securities, and Subtopic 946-325, Financial Services—Investment Companies—Investments—Other). The guidance in Topic 820 establishes a framework for measuring fair value in generally accepted accounting principles (GAAP) and applies under other accounting Topics that require or permit fair value measurements.

6. Before the amendments in Update 2022-03, stakeholders asserted that the language in an illustrative example in Topic 820 resulted in diversity in practice on whether the effects of a contractual restriction that prohibits the sale of an equity security should be considered in measuring that equity security's fair value. Some stakeholders applied a discount to the price of an equity security subject to a contractual sale restriction, whereas other stakeholders considered the application of a discount to be inappropriate under the principles of Topic 820.

7. The amendments in Update 2022-03 clarified that a contractual restriction on the sale of an equity security is not considered part of the unit of account of the equity security and, therefore, is not considered in measuring fair value. The amendments also clarified that an entity cannot, as a separate

unit of account, recognize and measure a contractual sale restriction. The amendments in Update 2022-03 also require the following disclosures for equity securities subject to contractual sale restrictions:

a. The fair value of equity securities subject to contractual sale restrictions reflected in the balance sheet
b. The nature and remaining duration of the restriction(s)
c. The circumstances that could cause a lapse in the restriction(s).

Private Credit Disclosures

Issue Background

8. The Board received feedback from stakeholders, including from its advisory groups and the Financial Accounting Standards Advisory Council (FASAC), on current issues related to private credit.[1] In April 2026, the FASB chair added a project to the Board's research agenda to monitor current trends and emerging issues and solicit stakeholder feedback to evaluate the continuing relevance of FASB standards and identify potential improvements. As part of the research project, the FASB staff has been analyzing current trends related to data infrastructure investments and nontraditional lending, including private credit.

Current GAAP

9. Private credit funds, including those structured as BDCs, are required to apply the guidance in Topic 946 and, accordingly, generally measure their investments at fair value in accordance with Topic 820.[2] Topic 820 establishes a fair value hierarchy to increase consistency and comparability in fair value measurements and related disclosures. That fair value hierarchy categorizes the inputs to valuation techniques used to measure fair value into three levels. The hierarchy gives the highest priority to quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1 inputs) and the lowest priority to unobservable inputs (Level 3 inputs).

10. The fair value of investments made by private credit funds often involves Level 3 inputs (unobservable inputs) because market data for those debt instruments are generally not available. Instead, those

[1] As noted in materials shared for the June 2025 FASAC meeting, private credit, which is not a formally defined term, generally refers to a type of financing originated by nonbank lenders to small- and medium-sized private businesses that is not broadly syndicated.

[2] A BDC is a statutorily created closed-end investment company that provides financing to small- and mid-sized private businesses. Congress established BDCs as part of the Small Business Investment Incentive Act of 1980. The Small Business Investment Incentive Act and subsequent regulations require that a BDC hold at least 70 percent of the value of its total assets in eligible small- and medium-sized businesses.

inputs are developed using the best information available about the assumptions that market participants would use when pricing the asset.

11. Because private credit funds are subject to the guidance in Topic 946 and Topic 820, disclosures are generally provided in accordance with those Topics (or the U.S. Securities and Exchange Commission's regulations, as applicable). However, those funds are not subject to disclosures required for other types of entities that originate loans and account for those loans at amortized cost. For example, private credit funds are not required to apply (a) the Topic 310, Receivables, disclosure requirements for certain loan refinancings and restructurings by creditors when a borrower is experiencing financial difficulty or (b) the disclosure requirements in Subtopic 326-20, Financial Instruments—Credit Losses—Measured at Amortized Cost.

NAV Practical Expedient

Issue Background

12. The Board received an agenda request asking that the Board consider adding a project to its technical agenda to "evaluate the continued appropriateness of the use of net asset value (NAV) as a practical expedient by investment funds pursuant to Topic 820." The agenda request asserted that when the NAV practical expedient was created by the amendments in Accounting Standards Update No. 2009-12, *Fair Value Measurements and Disclosures (Topic 820): Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)*, "secondary markets for private fund interests were limited in scale, and observable transaction data was often sparse." It further noted that market conditions have evolved and that "secondary transactions in private fund interests have increased substantially in both volume and frequency, and many transactions now involve multiple market participants."

13. The agenda request also highlighted that reporting entities may acquire interests in private funds at prices below reported NAV and subsequently measure those investments using NAV.

14. The agenda request asked that the Board consider clarifying the following:

    a. *Role of Observable Transactions:* How observable secondary transactions should be considered when assessing the appropriateness of the NAV practical expedient
    b. *Conditions for Use of NAV:* Whether the presence of recent transactions at prices materially different from NAV should limit or preclude the use of the practical expedient
    c. *Interaction with Fair Value Hierarchy:* How the availability of transaction data affects the classification and measurement of those investments under Topic 820.

Current GAAP

15. Current guidance[3] permits, as a practical expedient, a reporting entity to measure the fair value of certain investments on the basis of the NAV per share of the investment (or its equivalent) if the NAV of the investment (or its equivalent) is calculated in a manner consistent with the measurement principles of Topic 946 as of the reporting entity's measurement date, including measurement of all or substantially all of the underlying investments of the investee in accordance with Topic 820. Related guidance in paragraphs 820-10-15-4 through 15-5 and 820-10-35-59 through 35-62 follows:

> **· > Fair Value Measurements of Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)**
>
> **820-10-15-4** Paragraphs 820-10-35-59 through 35-62 and 820-10-50-6A shall apply only to an investment that meets both of the following criteria as of the reporting entity's measurement date:
>
> a. The investment does not have a readily determinable fair value
>
> b. The investment is in an investment company within the scope of Topic 946 or is an investment in a real estate fund for which it is industry practice to measure investment assets at fair value on a recurring basis and to issue financial statements that are consistent with the measurement principles in Topic 946.
>
> **820-10-15-5** The definition of *readily determinable fair value* indicates that an equity security would have a readily determinable fair value if any one of three conditions is met. One of those conditions is that sales prices or bid-and-asked quotations are currently available on a securities exchange registered with the U.S. Securities and Exchange Commission (SEC) or in the over-the-counter market, provided that those prices or quotations for the over-the-counter market are publicly reported by the National Association of Securities Dealers Automated Quotations systems or by OTC Markets Group Inc. The definition notes that restricted stock meets that definition if the restriction expires within one year. If an investment otherwise would have a readily determinable fair value, except that the investment has a restriction expiring in more than one year, the reporting entity shall not apply paragraphs 820-10-35-59 through 35-62 and 820-10-50-6A to the investment.
>
> **> Measuring the Fair Value of Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)**
>
> **820-10-35-59** A reporting entity is permitted, as a practical expedient, to estimate the fair value of an investment within the scope of paragraphs 820-10-15-4 through 15-5 using the net asset value per share (or its equivalent, such as member units or an ownership interest in partners' capital to which a proportionate share of net assets is attributed) of the investment, if the net asset value per share of the investment (or its equivalent) is calculated in a manner consistent with the measurement principles of Topic 946 as of the reporting entity's measurement date.
>
> **820-10-35-60** If the net asset value per share of the investment obtained from the investee is not as of the reporting entity's measurement date or is not calculated in a manner

[3] The guidance for the NAV practical expedient was created by the amendments in Update 2009-12 and the disclosure requirements were revised by the amendments in Accounting Standards Update No. 2015-07, *Fair Value Measurement (Topic 820): Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)*.

consistent with the measurement principles of Topic 946, the reporting entity shall consider whether an adjustment to the most recent net asset value per share is necessary. The objective of any adjustment is to estimate a net asset value per share for the investment that is calculated in a manner consistent with the measurement principles of Topic 946 as of the reporting entity's measurement date.

820-10-35-61 A reporting entity shall decide on an investment-by-investment basis whether to apply the practical expedient in paragraph 820-10-35-59 and shall apply that practical expedient consistently to the fair value measurement of the reporting entity's entire position in a particular investment, unless it is probable at the measurement date that the reporting entity will sell a portion of an investment at an amount different from net asset value per share (or its equivalent) as described in the following paragraph. In those situations, the reporting entity shall account for the portion of the investment that is being sold in accordance with this Topic (that is, the reporting entity shall not apply the guidance in paragraph 820-10-35-59).

820-10-35-62 A reporting entity is not permitted to estimate the fair value of an investment (or a portion of the investment) within the scope of paragraphs 820-10-15-4 through 15-5 using the net asset value per share of the investment (or its equivalent) as a practical expedient if, as of the reporting entity's measurement date, it is probable that the reporting entity will sell the investment for an amount different from the net asset value per share (or its equivalent). A sale is considered probable only if all of the following criteria have been met as of the reporting entity's measurement date:

a. Management, having the authority to approve the action, commits to a plan to sell the investment.

b. An active program to locate a buyer and other actions required to complete the plan to sell the investment have been initiated.

c. The investment is available for immediate sale subject only to terms that are usual and customary for sales of such investments (for example, a requirement to obtain approval of the sale from the investee or a buyer's due diligence procedures).

d. Actions required to complete the plan indicate that it is unlikely that significant changes to the plan will be made or that the plan will be withdrawn.

16. The guidance in paragraph 820-10-50-6A includes disclosure requirements that are applicable to entities that have investments within the scope of paragraphs 820-10-15-4 through 15-5 and that are measured using the practical expedient in paragraph 820-10-35-59 on a recurring or nonrecurring basis during the period. Under that guidance, a reporting entity is required to disclose information that helps users of its financial statements to understand the nature and risks of the investments and whether the investments, if sold, are probable of being sold at amounts different from NAV per share (or its equivalent, such as member units or an ownership interest in partners' capital to which a proportionate share of net assets is attributed). The information required to be disclosed for each class of investment, in both interim and annual reporting periods, includes the following:

a. The fair value measurements (as determined by applying paragraphs 820-10-35-59 through 35-62) of the investments in the class at the reporting date and a description of the significant investment strategies of the investee(s) in the class.

b. For each class of investment that includes investments that can never be redeemed with the investees, but the reporting entity receives distributions through the liquidation of the underlying assets of the investees, the period of time over which the underlying assets are expected to be liquidated by the investees if the investee has communicated the timing to the reporting entity or announced the timing publicly. If the timing is unknown, the reporting entity should disclose that fact.
c. The amount of the reporting entity's unfunded commitments related to investments in the class.
d. A general description of the terms and conditions upon which the investor may redeem investments in the class (for example, quarterly redemption with 60 days' notice).
e. The circumstances in which an otherwise redeemable investment in the class (or a portion thereof) might not be redeemable (for example, investments subject to a lockup or gate). Also, for those otherwise redeemable investments that are restricted from redemption as of the reporting entity's measurement date, the reporting entity should disclose when the restriction from redemption might lapse if the investee has communicated that timing to the reporting entity or announced the timing publicly. If the timing is unknown, the reporting entity should disclose that fact and how long the restriction has been in effect.
f. Any other significant restriction on the ability to sell investments in the class at the measurement date.
g. If a group of investments otherwise would meet the criteria in paragraph 820-10-35-62 but the individual investments to be sold have not been identified (for example, if a reporting entity decides to sell 20 percent of its investments in private equity funds but the individual investments to be sold have not been identified) and the investments continue to qualify for the practical expedient in paragraph 820-10-35-59, the reporting entity should disclose its plans to sell and any remaining actions required to complete the sale(s).

17. Finally, the guidance in Topic 820 clarifies that investments for which fair value is measured at NAV per share (or its equivalent) using the practical expedient should not be categorized in the fair value hierarchy.

Board Meeting Handout

Equity Method of Accounting: Targeted Improvements

May 13, 2026

Meeting Purpose

1. The purpose of the May 13, 2026, meeting is for the Board to discuss the Equity Method of Accounting: Targeted Improvements project. The Board also will discuss consequential amendments, transition, benefit-cost analysis, and comment period.

Questions for the Board

Issue A—Scope of Topic 323

1. Does the Board want to require a single threshold (significant influence) for applying the equity method, regardless of the type of legal entity?
2. If the answer to Question 1 is yes, which of the following improvements does the Board want to make to the significant influence guidance in Subtopic 323-10, Investments—Equity Method and Joint Ventures—Overall?
    a. **Improvement 1.** Change the 20 percent presumptive threshold to remove the presumption that an entity does not have significant influence when it holds less than 20 percent of an investee.
    b. **Improvement 2.** Amend the board of directors indicator to include functionally equivalent governing bodies.
    c. **Improvement 3.** Add a rebuttable presumption that a general partner (or functional equivalent) has significant influence.
    d. **Improvement 4.** Add a rebuttable presumption that an investor with substantive participating rights has significant influence.
    e. **Improvement 5.** Add guidance on protective rights.
3. Does the Board want to explore requiring an entity to apply the in-substance common stock guidance to investments in partnerships?

Issue B—Complex Allocation Structures

4. Does the Board want to move the guidance in Subtopic 970-323, Real Estate—General—Investments—Equity Method and Joint Ventures, that is not industry or transaction specific to Subtopic 323-10 or Subtopic 323-30, Investments—Equity Method and Joint Ventures—Partnerships, Joint Ventures, and Limited Liability Entities, (as appropriate) using drafting guidelines 1–3?

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Questions for the Board

5. Which of the following improvements does the Board want to make to the guidance in (current) paragraph 970-323-35-17?
    a. **Improvement 6.** Require an entity to disregard terms and conditions that only apply in remote circumstances.
    b. **Improvement 7.** Require an entity to only follow those terms and conditions that are currently in effect.
6. Does the Board want to add illustrative examples to Topic 323, Investments—Equity Method and Joint Ventures, to show a possible method that could be used to allocate equity in earnings in complex allocation structures?

Consequential Amendments

7. Does the Board want to change the population of investments that are currently eligible for proportionate consolidation?
8. Does the Board agree that the proposed amendments to address Issue A should not affect the population of investments that are currently eligible for the proportional amortization method?
9. Does the Board want to make consequential amendments to the guidance in Topic 810, Consolidation, on allocating income to noncontrolling interest holders to reference the guidance in Topic 323 on complex allocation structures (including any changes that the Board makes to that guidance as a result of its decisions in Questions 4–6)?
10. Does the Board want to remove the guidance in paragraphs 970-810-25-1 through 25-3?

Transition and Early Adoption

11. Does the Board agree with the staff's recommendation for transition for Issues A and B?
12. Does the Board agree with the staff's recommendation for transition disclosures for Issues A and B?
13. Does the Board want to permit early adoption?

Benefits and Costs

14. Does the Board think that the expected benefits of the recommended changes for Issue A and Issue B would justify the expected costs?

Comment Period

15. What comment period does the Board select for the amendments in the proposed Accounting Standards Update?

Permission to Ballot

16. Does the Board grant the staff permission to draft a proposed Accounting Standards Update for vote by written ballot?

Project Background

2. In response to stakeholder feedback, including comments received on the 2025 Invitation to Comment, *Agenda Consultation* (2025 ITC), the Board added a project to its technical agenda on November 12, 2025, to improve the operability of the accounting for equity method investments.

3. The scope of the project, which applies to all entities, is to:

   a. Address the accounting for a subset of equity method investments in partnerships and similar entities for which the investor is unable to significantly influence the operating and financial policies of the investee but is required to apply the equity method because of presumptive levels of influence (referred to in this handout as "Issue A—Scope of Topic 323" or" Issue A").

   b. Clarify how equity method investors in non-real-estate entities should determine equity in earnings for investees with complex allocation structures (referred to in this handout as "Issue B—Complex Allocation Structures" or "Issue B").

Overview of Current Guidance

Issue A

4. Topic 323 provides the framework for determining when an investor applies the equity method to an unconsolidated investment in an investee. If an equity investment is not accounted for under the equity method, it is accounted for as an equity security under Topic 321, Investments—Equity Securities.[1] In general, an investor applies the equity method when it is able to influence the investee's operating and financial policies. However, the degree of influence that must be present differs depending on the legal form of the investee.

Investments in Corporations[2]

5. An investment in the common stock (or in-substance common stock) of a corporation is accounted for under the equity method when the investor has significant influence. Paragraph 323-10-15-6 lists the following indicators of significant influence:

   a. Representation on the board of directors

[1] Under Topic 321, Investments—Equity Securities, an investor subsequently measures its investments at fair value every reporting period, with unrealized gains and losses in earnings, unless the investment does not have a readily determinable fair value and the investor elects to apply the measurement alternative. Under the measurement alternative, 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.

[2] Throughout this handout, investments in corporations refers to all investments in the scope of Subtopic 323-10, Investments—Equity Method and Joint Ventures—Overall. Therefore, this includes investments in corporations, corporate joint ventures, and limited liability companies that do not maintain specific ownership accounts for each investor.

b. Participation in policy-making processes

c. Material intra-entity transactions

d. Interchange of managerial personnel

e. Technological dependency

f. Extent of ownership by an investor in relation to the concentration of other shareholdings.

Significant influence is also presumed to exist when an investor holds 20 percent or more of the voting stock of the investee, unless overcome by "predominant evidence to the contrary."

6. Conversely, when an investor holds less than 20 percent of the voting stock, it is presumed not to have significant influence. Paragraph 323-10-15-10 lists the following indicators in which an investor may be unable to exercise significant influence:

   a. Opposition by the investee, such as litigation or complaints to governmental regulatory authorities, challenges the investor's ability to exercise significant influence.

   b. The investor and investee sign an agreement (such as a standstill agreement) under which the investor surrenders significant rights as a shareholder.

   c. Majority ownership of the investee is concentrated among a small group of shareholders that operate the investee without regard to the views of the investor.

   d. The investor needs or wants more financial information to apply the equity method than is available to the investee's other shareholders and tries to obtain that information and fails.

   e. The investor tries and fails to obtain representation on the investee's board of directors.

7. The equity method applies only to investments in common stock or in-substance common stock. However, when assessing whether an investor has significant influence, the investor considers all interests and arrangements with the investee (not just common stock or in-substance common stock). If an investor does not hold any common stock or in-substance common stock, it cannot apply the equity method, even if it has significant influence under other contracts or arrangements.

Investments in Partnerships[3]

8. Investments in partnerships are accounted for under the equity method unless the investor's interest is "so minor [that it has] virtually no influence." This threshold was established by the American Institute of Certified Public Accountants (AICPA) Statement of Position 78-9, *Accounting for Investments in*

[3] Throughout this handout, the term *investments in partnerships* refers to all investments within the scope of Subtopic 323-30, Investments—Equity Method and Joint Ventures—Partnerships, Joint Ventures, and Limited Liability Entities. Therefore, this includes investments in partnerships, unincorporated joint ventures, and limited liability companies that maintain specific ownership accounts for each investor.

Real Estate Ventures (now codified in Subtopic 970-323). It was based on the view that, for entities that maintain specific ownership accounts for each investor, the most appropriate accounting approach is to allocate the investee's earnings to each investor's account. More specifically, the AICPA decided that the equity method must be applied to all investments in partnerships because of the economic design of those entities; not because, in its view, small percentage holdings in partnerships (represented by the virtually no influence threshold) equated to significant influence.

9. At the May 18 and 19, 1995, Emerging Issues Task Force (EITF) meeting (EITF Topic No. D-46, "Accounting for Limited Partnership Investments"), the SEC staff clarified its view and noted that "the SEC staff understands that practice generally has viewed investments of more than 3 to 5 percent to be more than minor" (see paragraph 323-30-S99-1). Although Subtopic 970-323 applies to real estate partnerships and the SEC staff announcement applies to SEC registrants, the 3–5 percent threshold is generally applied in practice to all investments in partnerships, including investments made by private companies.

Issue B

10. In a simple allocation structure, an investor generally recognizes equity in earnings using the proportion of the investee's common stock that it owns. For example, an investor that owns 40 percent of the voting stock of an investee would generally recognize 40 percent of the investee's earnings as equity in earnings.

11. In contrast, in a complex allocation structure, an investor's share of earnings may not be aligned with ownership percentages (for example, in an investee that distributes profits and losses or cash using a distribution waterfall) and determining the investor's equity in earnings requires careful consideration of the substance of the arrangement. In these circumstances, investors often calculate their share of equity in earnings by using the hypothetical liquidation at book value method (HLBV).[4] The name HLBV and the details of how to apply HLBV are not included in the Codification; however, paragraph 970-323-35-17 provides the following guidance and indicates that an investor in these types of structures must carefully consider substance over form:

> Such agreements may also provide for changes in the allocations at specified times or on the occurrence of specified events. Accounting by the investors for their equity in the venture's earnings under such agreements *requires careful consideration of substance over form* and consideration of underlying values as discussed in paragraph 970-323-35-10. To determine the investor's share of venture net income or loss, such agreements or arrangements shall be analyzed to determine how an increase or decrease in net assets of the venture (determined in conformity with GAAP) will affect cash payments to the investor over the life of the venture and on its liquidation. Specified profit and loss allocation

[4] The hypothetical liquidation at book value method (HLBV) was described in the proposed AICPA Statement of Position, *Accounting for Investors' Interests in Unconsolidated Real Estate Investments* (the proposed HLBV SOP). The proposed HLBV SOP was issued in November 2000, but ultimately not finalized.

> ratios shall not be used to determine an investor's equity in venture earnings if the allocation of cash distributions and liquidating distributions are determined on some other basis. For example, if a venture agreement between two investors purports to allocate all depreciation expense to one investor and to allocate all other revenues and expenses equally, but further provides that irrespective of such allocations, distributions to the investors will be made simultaneously and divided equally between them, there is no substance to the purported allocation of depreciation expense. [Emphasis added.]

12. Although that guidance applies to investments in real estate ventures, investors broadly analogize to it when accounting for equity method investments in complex allocation structures and use HLBV as a method for applying the guidance in paragraph 970-323-35-17. Under HLBV, the share of an investee's earnings or losses is calculated on the basis of a change in the investor's interest in the investee's net assets, assuming that the investee was to liquidate all assets at their GAAP amounts.

Paths Forward

13. On the basis of the project scope that the Board decided to pursue and the feedback from Board members at the November 12, 2025, meeting, the staff performed research and outreach on the following paths forward (which are not intended to be mutually exclusive).

    a. Issue A—Scope of Topic 323

        1. **Path A1**—Whether the scope of Topic 323 should be changed to establish a single threshold (significant influence) for applying the equity method, regardless of the type of legal entity.

        2. **Path A2**—Whether the qualitative factors of significant influence in Subtopic 323-10 would be operational for investments in partnerships.

    b. Issue B—Complex Allocation Structures

        1. **Path B1**—Whether to move the guidance in paragraph 970-323-35-17 to Subtopic 323-10 and whether other paragraphs in Subtopic 970-323 should be moved to Subtopic 323-10 that more broadly relate to equity method investments in all types of industries (and, therefore, should not be industry or transaction specific).

        2. **Path B2**—Whether targeted improvements should be made to paragraph 970-323-35-17 on complex allocation structures to address key challenges in the accounting for those arrangements.

        3. **Path B3**—Whether implementation guidance and illustrative examples on the allocation of equity in earnings in complex allocation structures should be added to Topic 323.

Targeted Improvements

14. On the basis of research and stakeholder feedback, the staff identified the following targeted improvements to Topic 323 that the Board will consider in the May 13, 2026, meeting:

a. Related to Path A2:[5]

1. **Improvement 1**—Change the 20 percent presumptive threshold to remove the presumption that an entity does not have significant influence when it holds less than 20 percent of an investee. Under this improvement, when an investor holds more than 20 percent of an investee, there would be a rebuttable presumption that the investor has significant influence. In contrast, when an investor holds less than 20 percent interest of an investee, the investor would evaluate whether it has significant influence based on facts and circumstances; if the investor has significant influence, it would be required to use the equity method.

2. **Improvement 2**—Amend the indicator about representation on a board of directors to include functionally equivalent governing bodies. Under this improvement, the first indicator of significant influence would be amended (changes are underlined) to be "representation on the board of directors or an equivalent governing body of the investee" to acknowledge that some entities have governing bodies that are similar to a board of directors (for example, limited liability companies [LLC] with a board of managers).

3. **Improvement 3**—Add a rebuttable presumption that a general partner (or functional equivalent, for example, the managing member of an LLC) has significant influence.

4. **Improvement 4**—Add a rebuttable presumption that an investor with substantive participating rights has significant influence.

5. **Improvement 5**—Add guidance on protective rights. Under this improvement, the guidance would be amended to include the concept of protective rights to assist an entity in determining whether its rights are protective in nature and do not represent significant influence.

b. Related to Path B2:

1. **Improvement 6**—Require an entity to disregard terms and conditions that only apply in remote circumstances. The term *remote* would be linked to the definition of remote in the Master Glossary ("the chance of the future event or events occurring is slight").

2. **Improvement 7**—Require an entity to only follow those terms and conditions that are currently in effect.

Consequential Amendments

15. The Board will consider the following guidance for consequential amendments:

a. Proportionate consolidation

[5] Improvements 1–5 would only apply if the Board decides to require a single threshold (significant influence) for applying the equity method, regardless of the type of legal entity (see Question 1).

b. The proportional amortization method in Subtopic 740-323, Income Taxes—Investments—Equity Method and Joint Ventures

c. Topic 810

d. Subtopic 970-810, Real Estate—General—Consolidation.

Transition Method

Issue A

16. The staff identified the following transitions methods for Issue A for the Board's consideration that differ on the basis of whether an investment is accounted for under the measurement alternative in Topic 321 or not when the investment is no longer within the scope of Topic 323 after applying the proposed amendments for Issue A:

    a. **Investments accounted for under the measurement alternative.** If an entity elects the measurement alternative, it would apply the proposed amendments using a modified prospective approach. Under this approach, an entity would use the carrying amount of its equity method investment on the date of adoption as the new cost basis under the measurement alternative in Topic 321.[6]

    b. **Investments not accounted for under the measurement alternative.** If an entity does not elect the measurement alternative, an entity would be required to apply the proposed amendments for Issue A using a modified retrospective approach. Under this approach, an entity would apply the amendments as of the beginning of the period of adoption, with a cumulative-effect adjustment to the opening balance of retained earnings as of the date of adoption; prior-period amounts would not be restated.

Issue B

17. For Issue B, the staff identified the following transition method for the Board's consideration:

    a. **Prospective approach.** Under this approach, an entity would apply the proposed amendments to all transactions recognized on or after the adoption date.

Transition Disclosures

18. The Board will consider the following transition disclosures required by Topic 250, Accounting Changes and Error Corrections:

[6] This is similar to the guidance in paragraph 323-10-35-36 for how to transition from the equity method to the measurement alternative when an investor no longer has significant influence.

a. **Issue A**—Under the transition method(s) for Issue A, an entity would disclose the nature of and reason for the change in accounting principle and the cumulative effect of the change on retained earnings as of the date of adoption (if applicable).

b. **Issue B**—Under the transition method for Issue B, an entity would disclose the nature of and reason for the change in accounting principle.

19. The Board also will consider whether the transition disclosures will be required in each interim and annual financial statement period in the fiscal year of adoption.

Analysis of Benefits and Costs

20. The Board will discuss whether the expected benefits of the proposed amendments would justify the expected costs.

Comment Period of a Proposed Update

21. The Board will discuss the comment period for a forthcoming proposed Update.

Board Meeting Handout

Accounting for and Disclosure of Intangibles

May 13, 2026

Meeting Purpose

1. The purpose of this meeting is for the Board to decide whether to add a project on intangibles to its technical agenda in response to stakeholder feedback received on the 2024 Invitation to Comment, *Recognition of Intangibles* (the Intangibles ITC), and the 2025 Invitation to Comment, *Agenda Consultation* (2025 Agenda Consultation ITC).

Questions for the Board
1. Does the Board want to add a project on intangibles to its technical agenda? 2. If the answer to Question 1 is yes, does the Board have any feedback on the scope, objective, and path forward?

Background

2. The Intangibles ITC was issued in December 2024 to help inform the Board as it considers whether to add a project on intangibles to its technical agenda. The staff provided a summary of feedback received on the Intangibles ITC at the September 24, 2025 Board meeting. See the Accounting for and Disclosure of Intangibles Board meeting handout for the September 24, 2025 Board meeting for more details on the feedback received. See the 2025 Agenda Consultation Board meeting handout for the October 8, 2025 Board meeting for the intangibles feedback received in response to the 2025 Agenda Consultation ITC.

3. The Board made no decisions at the September 24, 2025 Board meeting. At this meeting, the Board will discuss additional staff research performed in the following areas:

    a. Research and development (R&D) in Topic 730, Research and Development

        1. Definition of R&D and related implementation guidance (referred to as “Issue A” in this handout)

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2. Scope of Subtopic 730-10, Research and Development—Overall, specifically as it relates to selling and administrative activities (referred to as "Issue B" in this handout)

3. R&D disclosures (referred to as "Issue C" in this handout).

b. Scope and description of advertising costs in Subtopic 720-35, Other Expenses—Advertising Costs (referred to as "Issue D" in this handout).

Issue A: Definition of R&D and Related Implementation Guidance

4. The Master Glossary defines the term *research and development* as follows:

> Research is planned search or critical investigation aimed at discovery of new knowledge with the hope that such knowledge will be useful in developing a new product or service (referred to as product) or a new process or technique (referred to as process) or in bringing about a significant improvement to an existing product or process.
>
> Development is the translation of research findings or other knowledge into a plan or design for a new product or process or for a significant improvement to an existing product or process whether intended for sale or use. It includes the conceptual formulation, design, and testing of product alternatives, construction of prototypes, and operation of pilot plants.

Issue B: Scope of Subtopic 730-10

5. Paragraph 730-10-15-4(c) notes that the guidance in Subtopic 730-10 does not apply to selling and administrative activities and specifically refers to computer software, as follows:

> **730-10-15-4** The guidance in this Topic does not apply to the following transactions and activities:
>
> c. *The acquisition, development, or improvement of a process by an entity for use in its selling or administrative activities.* A process may be intended to achieve cost reductions as opposed to revenue generation. However, (e) specifically excludes market research or market testing activities from research and development activities. Those activities were excluded because they relate to the selling function of an entity. Thus, while in the broadest sense of the word, a process may be used in all of an entity's activities, the acquisition, development, or improvement of a process by an entity for use in its selling or administrative activities shall be excluded from the definition of research and development activities. *To the extent, therefore, that the acquisition, development, or improvement of a process by an entity for use in its selling or administrative activities includes costs for computer software, those costs are not research and development costs.* Examples of the excluded costs of software are those incurred for *development by an airline of a computerized reservation system or for development of a general management information system.* See Subtopic 350-40 for guidance related to costs of computer software developed or obtained for internal use and Subtopic 985-20 for computer software intended to be sold, leased, or marketed. [Emphasis added.]

Issue C: R&D Disclosures

6. Paragraph 730-10-50-1 provides the following disclosure requirements for R&D costs:

> **730-10-50-1** Disclosure shall be made in the financial statements of the total **research and development** costs charged to expense in each period for which an income statement

is presented. Such disclosure shall include research and development costs incurred for a computer software product to be sold, leased, or otherwise marketed.

7. The staff has identified the following alternatives if the Board decides to add a project on R&D disclosures to its technical agenda:

   a. Alternative 1—Disaggregation by disaggregation of income statement expense (DISE) categories

   b. Alternative 2—Disaggregation by elements of R&D

   c. Alternative 3—Disaggregation by program.

Issue D: Advertising Costs

8. Subtopic 720-35 describes advertising as follows:

> Advertising is the promotion of an industry, an entity, a brand, a product name, or specific products or services so as to create or stimulate a positive entity image or to create or stimulate a desire to buy the entity's products or services. Advertising generally uses a form of media—such as mail, television, radio, telephone, facsimile machine, newspaper, magazine, coupon, or billboard—to communicate with potential customers.

Agenda Decision Criteria

9. The Board’s agenda decision criteria are:

   a. There is an identifiable and sufficiently pervasive need to improve generally accepted accounting principles (GAAP).

   b. The issue has an identifiable scope.

   c. There are technically feasible solutions, and the expected benefits of those solutions are likely to justify the expected costs of change.

Board Meeting Handout

Nonrefundable Transferable Tax Credits

May 13, 2026

Meeting Purpose

1. The purpose of this meeting is for the Board to decide whether to add a project to its technical agenda related to the guidance for nonrefundable, transferable tax credits (TTCs). The Board will consider feedback received from stakeholders on TTCs, including feedback received as part of the FASB's 2025 Invitation to Comment, *Agenda Consultation* (2025 ITC).

Questions for the Board

1. Does the Board have any questions, comments, or observations about the feedback received and information on TTCs?
2. Does the Board have enough information to make an agenda decision on TTCs? If not, what other information does the Board need to make a decision? If there is enough information, does the Board want to add a project to its technical agenda related to accounting for TTCs that would address:
   a. What guidance should be applied to account for TTCs
   b. The derecognition of TTCs?
3. If the answer is yes to 2(a) and/or 2(b), does the Board have feedback on the scope or objective of this project?

Background

2. The U.S. tax system offers a range of tax credits to corporations. Recent U.S. legislation expanded available tax credits, many of which allow transferability or direct payment options (that is, refundable tax credits). Generally accepted accounting principles (GAAP) do not directly address how to account for TTCs that an entity generates that can be either (a) used to reduce an income tax payment or (b) sold to another taxpayer. The issues in this handout focus on the accounting for entities that generate TTCs.

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Stakeholder Feedback

Government Grants

3. Feedback on TTCs was received in response to the amendments in proposed Accounting Standards Update, *Government Grants (Topic 832): Accounting for Government Grants by Business Entities* (proposed Update on government grants). Some respondents suggested that the Board consider the application of the scope to TTCs and other tax credits that are not explicitly within the scope of Topic 740, Income Taxes, given the prevalence of these types of credits.

Environmental Credit Programs

4. Feedback also was received in response to the amendments in proposed Accounting Standards Update, *Environmental Credits and Environmental Credit Obligations (Topic 818)*. Some respondents suggested that the Board specify the accounting for transferable income tax credits.

2025 ITC

5. In response to the 2025 ITC, stakeholders provided feedback on the accounting for TTCs. The following question was posed to stakeholders:

> **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.

Derecognition of Transferable Income Tax Credits within Topic 740

6. For tax credits within Topic 740, stakeholders noted that entities apply by analogy the derecognition guidance in Topic 606, Revenue from Contracts with Customers, Subtopic 610-20, Other Income—Gains and Losses from the Derecognition of Nonfinancial Assets, or Subtopic 958-605, Not-for-Profit Entities—Revenue Recognition—Contributions.

7. 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.

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

9. 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 (1) when transferable tax credits are subject to the derecognition criteria in Topic 606 or Subtopic 610-20 and (2) how the derecognition criteria apply 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

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

11. 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, TTCs) as it relates to the amendments in the proposed Update on government grants that was issued in November 2024.

Agenda Decision Criteria

12. For Issues A and B (see below) in this handout, the Board will evaluate whether to add a project to its technical agenda on the accounting for TTCs based on the following agenda decision criteria:

    a. Is there an identifiable and sufficiently pervasive need to improve GAAP?

    b. Are there technically feasible solutions, and are the expected benefits of those solutions likely to justify the expected costs of change?

    c. Does the issue have an identifiable scope?

Issue A: Accounting for Nonrefundable Transferable Tax Credits

13. Issue A considers whether the Board wants to add a project that would address the guidance that should be applied to account for TTCs.

Alternatives for the Board's Consideration

14. The staff has identified four alternatives for the Board's consideration to address the accounting for TTCs:

    a. **Alternative A1**: Include TTCs within the scope of Topic 740.

    b. **Alternative A2**: Include TTCs within the scope of Topic 832, Government Grants.

c. **Alternative A3**: Allow an accounting policy election on the basis of the entity's intended monetization of the TTC.

d. **Alternative A4**: Provide no additional guidance.

Issue B: Derecognition of Nonrefundable Transferable Tax Credits

15. Issue B considers whether the Board wants to provide derecognition guidance for TTCs.

Alternatives for the Board's Consideration

16. The staff has identified three potential alternatives for the Board's consideration. These alternatives depend on the Board's decision in Issue A, and the Board could decide to pursue Alternatives B1, B2, B3, or both B1 and B2.

    a. **Alternative B1**: Provide clarification on the relevant guidance for derecognition of TTCs.

    b. **Alternative B2**: Clarify income statement presentation of gains or losses on derecognition. This alternative is only applicable if the Board decides that TTCs should be accounted for in accordance with Topic 740.

    c. **Alternative B3**: Provide no additional guidance.