

**Virtual Meeting via Zoom
Thursday, December 5, 2024
Agenda**

- 10:00–10:05 am (5 minutes) **Introductions and Opening Remarks**
(Michael Morrow)
- 10:05–10:20 am (15 minutes) **Topic 1—Highlights on Current Hot Topics**
- FASB Highlights (Rich Jones)
 - SEC Highlights (Gaurav Hiranandani)
 - PCAOB Highlights (Brian Degano)
- 10:20–10:50 am (30 minutes) **Topic 2—FASB Interpretive Process and the Emerging Issues Task Force (EITF)**
- Topic introduction from FASB staff and full group discussion
- 10:50 am–12:15 pm (85 minutes) **Topic 3—Financial Key Performance Indicators for Business Entities**
- Topic introduction and description of breakout room tasks–10:50-11:10 am (20 minutes)
 - **Move to virtual breakout rooms (11:10-11:15 am)** (5 minutes)
 - Breakout discussions- 11:15 am-12:15 pm (60 minutes)
- 12:15–1:00 pm (45 minutes) **LUNCH/BREAK (45 minutes)**
- 1:00– 2:00 pm (60 minutes) **Topic 3 (continued)– Financial Key Performance Indicators for Business Entities**
- Reconvene to analyze and further explore the similarities, differences, and other linkages in Council members’ views from the breakout groups.
- 2:00– 2:45 pm (45 minutes) **Topic 4— Post Implementation Review (PIR) Process**
- Topic introduction from FASB staff and full group discussion

FASB Chair Report

July 1, 2024 – September 30, 2024

LETTER FROM THE FASB CHAIR

During the third quarter, we continued to yield dividends from the robust stakeholder outreach performed during our 2021 agenda consultation. We issued three proposed ASUs and voted to move ahead with documents on other key projects, issued our fourth annual Investor Outreach Report, and engaged with stakeholders, including advisory groups and national standard setters, to help us fulfill our mission of developing standards that provide decision-useful information to investors and other allocators of capital.

Key Technical Agenda Projects and Activities

As we worked through standard-setting projects that we expect to complete by the end of the year, we achieved due process milestones on other projects. We issued a proposed ASU on derivatives scope refinements followed in September by two other proposed ASUs: one to improve to hedge accounting and one to clarify guidance on stock compensation and revenue recognition. Additionally, in July, we voted to move forward with a final ASU on induced conversions of convertible debt interest, which we expect to issue by the end of the year. We also voted to issue two proposed ASUs: one that addresses determining the acquirer in the acquisition of a variable interest entity and one that would make narrow scope improvements to the FASB Accounting Standards Codification®.

At its September meeting, the Private Company Council (PCC) also asked the FASB staff to draft two new proposed ASUs subject to the Board's endorsement—one addressing credit losses for receivables and one addressing presentation of contract assets and contract liabilities for private construction contractors.

Finally, in July, the FASB issued Chapter 6, *Measurement*, of Concepts Statement 8, which marked the completion of the FASB's Conceptual Framework. This major accomplishment was made possible by my colleagues on the Board, the FASB staff, and all our stakeholders who over the years have generously shared their input on this useful tool for the Board as it sets standards.

2024 Investor Outreach Report

In August, we published our fourth annual [Investor Outreach Report](#) detailing our robust interactions over the year ended June 30, 2024. Since launching the report in 2021, the FASB has engaged in more than 1,750 investor interactions. This is an important metric because investor input helps to drive the success of our standards and the substantial progress we've made on priorities to emerge from our last agenda consultation. We thank all the investors who have participated in our outreach and shared their perspectives and priorities.

Other Stakeholder Outreach

For our standards to be successful, we count on stakeholder feedback. During the third quarter, the FASB staff launched work on our 2024 agenda consultation and expects to issue an Invitation to Comment by the end of the year to give all stakeholders the opportunity to share their views and help shape our future agenda priorities.

During the third quarter, the FASB heard from more than 430 stakeholders. Many of those conversations included feedback on the agenda consultation initiative, including meetings with the PCC, the Financial Accounting Standards Advisory Council, the Not-for-Profit Advisory Committee, and liaison meetings with the Institute of Management Accountants and the Technical Issues Committee of the AICPA.

Our outreach with national and international standard setters continued apace. In August, we hosted representatives from the Accounting Standards Board of Japan (ASBJ) and the Korean Accounting Standards Board (KASB) for meetings in Norwalk. The meetings provide valuable insights on how our Boards have been addressing topics of mutual interest through projects on our respective agendas.

Other News

On July 1, we officially welcomed Hillary Salo to the Board as vice chair and Jackson Day to the staff as our new technical director. At the end of the quarter, we celebrated FASB senior project advisor Jim Leisenring, who retired on September 30 after more than four decades of service to the Board and U.S. and international standard setting. Jim played a pivotal role in the completion of the Conceptual Framework, and while he will be deeply missed, his professional influence will continue through the many FASB colleagues and constituents he's worked with and befriended over the years. We thank him for his commitment to the FASB and our work.

We look forward to your continued input on key issues and projects and thank you for your involvement in our standard-setting process.



Richard R. Jones
Chair, Financial Accounting Standards Board

TECHNICAL AGENDA AND OTHER PROJECTS

Technical Agenda

The FASB (the Board) undertakes technical agenda projects to establish and improve financial accounting and reporting standards. The Board evaluates potential standard-setting projects against certain criteria to determine whether a project should be added to the technical agenda. The Private Company Council (PCC) works with the Board in identifying, deliberating, and voting on improvements to financial reporting by private companies, subject to endorsement by the Board.

The following table summarizes the changes in the Board's technical agenda during the third quarter of 2024:

	Number of Projects				
	As of June 30	Added (removed)	Projects Completed	As of September 30	# EDs Issued
<i>Recognition and measurement</i>	9	1		10	3
<i>Presentation or disclosure</i>	3			3	
Total	12	1	0	13	3

The Board added one project to the technical agenda:

- Determining the Acquirer in the Acquisition of a VIE.

A detailed listing of the projects on the Board's technical agenda as of the end of the quarter is included in the appendix.

The Board issued the following proposed Accounting Standards Updates (ASUs):

- [*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*](#)
- [*Derivatives and Hedging \(Topic 815\): Hedge Accounting Improvements*](#)
- [*Compensation—Stock Compensation \(Topic 718\) and Revenue from Contracts with Customers \(Topic 606\): Clarifications to Share-Based Consideration Payable to a Customer.*](#)

The Board discussed the following projects on the technical agenda during the quarter:

Project	Board Meeting(s)	Summary of Discussions
Induced Conversions of Convertible Debt Instruments	July 17	<ul style="list-style-type: none"> • Discussed feedback received on the proposed ASU and completed redeliberations. • Affirmed its decisions to require that: <ul style="list-style-type: none"> ○ To be eligible for induced conversion accounting, an inducement offer should preserve the form and amount of consideration issuable under the conversion privileges provided in the terms of the convertible debt instrument. ○ The offer acceptance date should be used as the date as of which the induced conversion should be assessed. ○ If a convertible debt instrument has been exchanged or modified in the one-year period preceding the offer acceptance date, the conversion privileges provided in the debt terms that existed one year before the offer acceptance date should be used for the induced conversion assessment. ○ Induced conversion accounting should be applied to all convertible debt instruments that contain a substantive conversion feature and are within the scope of Subtopic 470-20, Debt—Debt with Conversion and Other Options; the assessment of whether a conversion feature is substantive should be done as of the offer acceptance date in addition to the issuance date. • Decided that the amendments will be effective for annual reporting periods (including interim reporting periods within annual reporting periods) beginning after December 15, 2025, for all entities. Early adoption is permitted. • Affirmed its decision to permit either prospective or retrospective transition with related transition disclosures. • Directed the staff to draft a final Accounting Standards Update (ASU).
Determining the Acquirer in the Acquisition of a VIE	July 17	<ul style="list-style-type: none"> • Added a project to its technical agenda to improve the requirements for identifying the accounting acquirer in Topic 805, Business Combinations. • Consistent with the EITF recommendation, decided to require that an entity consider existing factors in the business combinations guidance to determine which entity is the accounting acquirer when a VIE is acquired in a business combination effected primarily by exchanging equity interests.

		<ul style="list-style-type: none"> Decided that the proposed amendments should be applied prospectively and that early adoption would be permitted. Directed the staff to draft a proposed ASU with a 45-day comment period.
Codification Improvements	September 18	<ul style="list-style-type: none"> Discussed various Codification Improvement issues that have been received from stakeholders over the past several years. Decided to make 34 clarifications and improvements, which are expected to provide clarification to the Codification without undue incremental costs to stakeholders. Decided to (1) require retrospective transition for the proposed amendments to Topic 260, Earnings Per Share, and (2) permit prospective or retrospective transition for all other proposed amendments. Directed the staff to draft a proposed ASU with a 90-day comment period.

Other Projects

In addition to projects on its technical agenda, the Board also has:

- Framework Projects: These nonauthoritative projects, now completed, made improvements to the Conceptual Framework, which serves as a tool for the Board to use in its standard-setting activities.
- Research Projects: Projects on the Board's research agenda are those that may be considered for the technical agenda at a future date as issues and potential alternative solutions are identified.
- Private Company Council (PCC) Projects: Projects on the PCC's agenda are intended to address issues identified by private company stakeholders. These projects provide alternatives or practical expedients within GAAP that meet the needs of users of private company financial statements while reducing cost and complexity where possible. The decisions reached by the PCC are subject to Board endorsement.
- Emerging Issues Task Force (EITF) Projects: These projects result from the EITF's identification and discussion of narrow-scope improvements to timely address emerging issues. The EITF can recommend that the Board add a project to the FASB's technical agenda and address the issue using the EITF's recommended solution.
- Post-Implementation Review (PIR) Projects: These projects are aimed at evaluating whether standards that have been issued are achieving their objectives and whether there are areas of improvement that the Board should address.

The following table summarizes the changes in these projects during the third quarter of 2024:

	<u>Number of Projects</u>					
	As of June 30	Added (removed)	Transferred	Final Documents Issued	As of September 30	# of Exposure Drafts
Framework Projects	1			(1)	0	
Research Projects	7				7	
Private Company Council Projects	0	2			2	
Emerging Issues Task Force Projects	1	1	(1)		1	
Post-Implementation Review Projects	3				3	
Total	12	3	(1)	(1)	13	0

Framework Projects: During the quarter, the Board issued a new chapter of the Conceptual Framework on [Measurement](#). The chapter becomes Chapter 6 of FASB Concepts Statement No. 8, *Conceptual Framework for Financial Reporting*. The Board has now completed its work on the Conceptual Framework.

Research Projects: The Board continued to move forward on its research projects. Later this year, an Invitation to Comment (ITC) is expected to be issued for each of the following research projects: Agenda Consultation, Financial Key Performance Indicators for Business Entities, and Accounting for and Disclosure of Intangibles. Current research projects as of the end of the quarter are listed in the appendix.

PCC Projects: The PCC met in September and added two projects to its agenda: (1) Credit Losses—Topic 606 Receivables and (2) Presentation of Contract Assets and Contract Liabilities for Construction Contractors. These projects stemmed from the PCC's agenda priority process and are intended to provide accounting alternatives or practical expedients for private companies. For both projects, the PCC completed initial deliberations, and the FASB staff will be bringing the proposals to the Board for endorsement in Q4.

EITF Projects: The EITF's project on determining the acquirer in the acquisition of a VIE was transferred to the Board's technical agenda upon the Board's acceptance of the EITF's recommendation to add that project. The EITF's agenda committee subsequently met during the quarter and added a project on issuance of new debt to repay old debt to the EITF's agenda. The EITF will meet on October 28, 2024, to discuss this project and decide whether to make a recommendation to the Board.

PIR Projects: The PIR process is an evaluation of whether a standard is achieving its objective by providing investors and other allocators of capital with relevant information in ways that justify the cost of providing it. It is an important quality-control mechanism built into the standard-setting process that begins after the issuance of select standards. During the PIR process, the Board solicits and considers diverse stakeholder input and other

research to evaluate the standards that are issued and whether there are areas of improvement that the Board should address.

The FASB reports on the progress of PIR projects during its public meetings and reports regularly to the Standard-Setting Process Oversight Committee (SSPOC) of the FAF Board of Trustees. The final PIR reports are reviewed by the SSPOC and available on the FAF website.

Currently, the FASB is reviewing the following:

- [Credit losses](#)
- [Leases](#)
- [Revenue recognition](#).

For all three PIR projects, the staff is actively monitoring implementation efforts and ongoing application as well as performing outreach with investors, preparers, auditors, and regulators. All three PIR project teams are actively engaging with the PCC to see if any simplifications can be made for private companies.

In addition, the PIR report for the Revenue Recognition project is currently being finalized for issuance in 4Q. The report is the third stage of the PIR process; it is a culmination of previous reports and describes the activities conducted, including research and outreach conducted by the FASB staff, and actions taken to address any identified issues.

The following table lists activities connected with the individual projects:

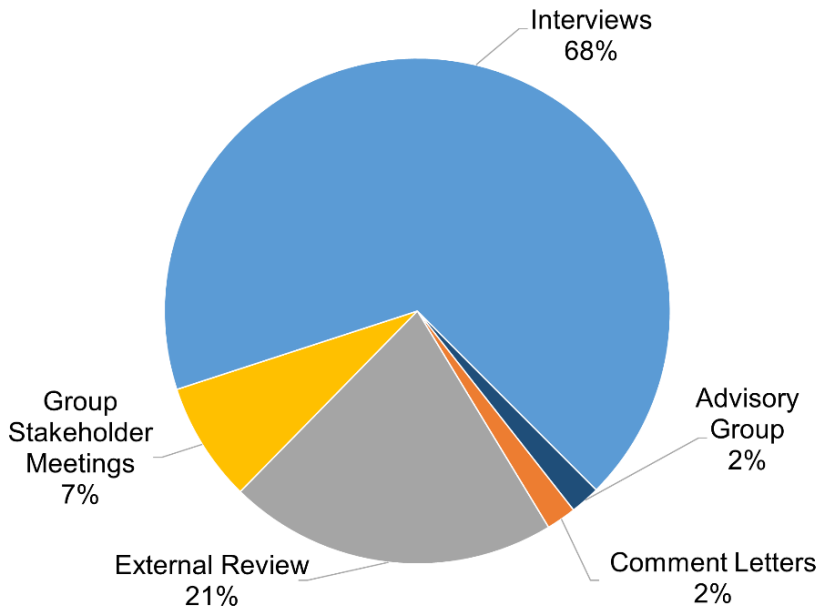
Project	Activities
Credit Losses	<ul style="list-style-type: none"> • Continued to monitor implementation of CECL and engage with stakeholders on various implementation issues through outreach, technical inquiries, advisory group meetings, and speeches. • Performed outreach with individual stakeholders in connection with inquiries related to adoption of Topic 326 and proposed ASU, <i>Financial Instruments—Credit Losses (Topic 326): Purchased Financial Assets</i>. • Prepared research and technical analysis on applying CECL to trade accounts receivable and contract assets, an issue identified by the PCC in connection with its agenda priority process. As noted above, the PCC added a project to its agenda to address this issue at its September 2024 meeting.
Leases	<ul style="list-style-type: none"> • Continued to monitor implementation efforts and engage with stakeholders on various implementation issues, including discussion at NAC and PCC meetings. • Commenced review of academic literature on the effectiveness of Topic 842. • Participated in the PCC Working Group formed in connection with the PCC’s agenda priority process discussion to determine whether areas of Topic 842 can be simplified for private companies.
Revenue Recognition	<ul style="list-style-type: none"> • In the process of drafting the final PIR report that is expected to be issued in 4Q 2024. • Conducted targeted stakeholder outreach and performed staff research on presentation of contract assets and contract liabilities for private construction contractors, an issue identified by the PCC in connection with its agenda priority process. As noted above, the PCC added a project to its agenda to address this issue at its September 2024 meeting.

ADVISORY COMMITTEE AND OTHER STAKEHOLDER ENGAGEMENT

Throughout its technical agenda and other projects, the Board and staff conduct extensive research and outreach to help understand the impact of issues and potential solutions on diverse stakeholder groups.

The following graphs and charts summarize how the Board and staff heard from stakeholders and who they heard from.

HOW DID WE HEAR FROM OUR STAKEHOLDERS IN Q3 2024?

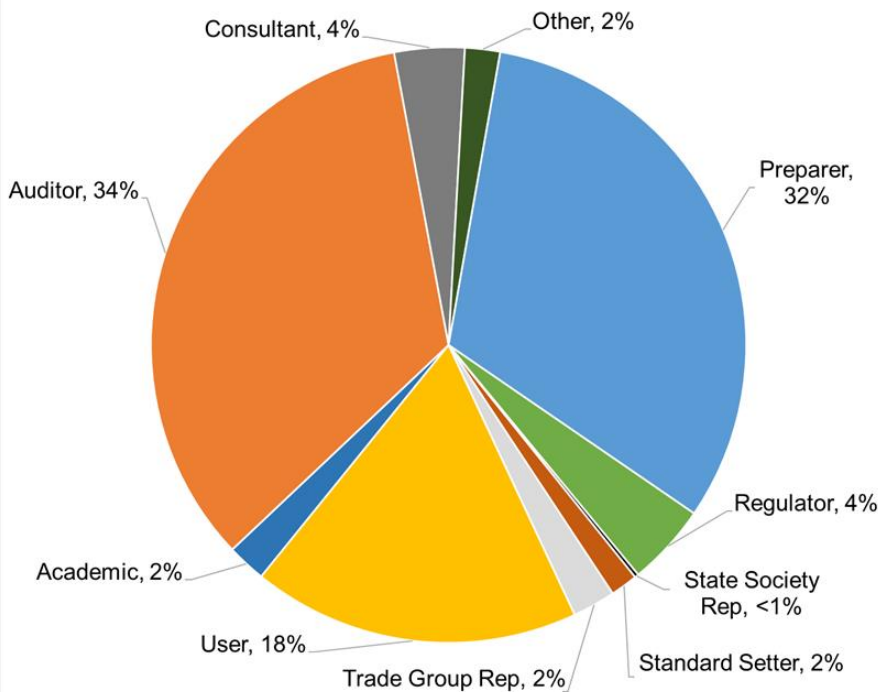


Q3 Summary Statistics		YTD
# of Interviews	106	311
# of Comment Letters	3	41
# of External Review Responses	33	56
# of Group Stakeholder Meetings	12	27
# of Advisory Group Meetings*	3	11

Notes:

*Advisory group meetings include one meeting each with NAC, FASAC, and PCC.

WHO DID WE ENGAGE WITH IN Q3 2024?



Types of Stakeholders

Preparers	
Public Entities	70%
Private Entities	25%
Not-for-Profit Entities	5%
Auditors	
Big 4 Firms	57%
Other Global	13%
U.S. National	23%
U.S. Regional & Local	7%
Investors and Other Users	
Buy-side	27%
Sell-side	23%
Credit Rating Agencies, Private Equity, Lender, and Other Users	50%

The following table summarizes the main topics discussed in meetings with the FASB’s advisory groups:

Group	Meeting Date(s)	Meeting Type	Topics
NAC	September 10, 2024	Public	<ul style="list-style-type: none"> • Agenda Consultation • Post-Implementation Review: Leases • Post-Implementation Review: Credit Losses • Accounting for and Disclosure of Software Costs • Accounting for Environmental Credit Programs • Topic 815—Derivatives Scope Refinements • Recent Trends, Concerns, and Observations— Financial Reporting Implications
FASAC	September 19, 2024	Public	<ul style="list-style-type: none"> • Disclosure Effectiveness and Process • Agenda Consultation • Update and Next Steps on Select FASB Projects
PCC	September 24, 2024	Public	<ul style="list-style-type: none"> • PCC Agenda Priorities • PCC Research Project—Credit Losses—Short-Term Trade Accounts Receivable and Contract Assets • PCC Research Project—Debt Modifications and Extinguishments • PCC Research Project—Presentation of Conditional Retainage and Overbillings as Contract Assets and Liabilities • PCC Research Project—Leases • Agenda Consultation • Summary of the Meeting with the AICPA’s Technical Issues Committee

Members appointed to advisory groups in the quarter were:

- Emerging Issues Task Force (EITF): Brandon Coleman

INTERNATIONAL ACTIVITIES

The FASB collaborates with other national standard setters and the IASB to help improve and align, where appropriate, standards across the globe. The groups monitor each other's decisions and share research and findings on projects of mutual interest. The following table details these activities during the quarter:

Activity	Meeting Date(s)
IASB/FASB Info Exchanges*	
IFRS Accounting Standards Advisory Forum (ASAF) Meeting	July 8-9, September 26-27
FASB-IASB Chair Meeting	September 5
Multilateral Activities	
World Standard Setters (WSS)	September 23-24
International Forum of Accounting Standard Setters (IFASS)	September 24-25
Bilateral Activities	
Korean Accounting Standards Board (KASB)	August 15
Accounting Standards Board of Japan (ASBJ)	August 16
*Ongoing monitoring of implementation activities through biweekly meetings between the FASB technical director and the IASB technical director.	

LEGISLATIVE/REGULATORY OUTREACH

FASB members and staff participate in ongoing dialogue with members of Congress, regulators, and other Washington, DC stakeholders to understand and explain standard setting matters that affect their constituents. The third quarter activities were:

Legislative/Regulatory Body	FASB Attendees
State Treasurers Todd Russ (OK) and Marlo Oaks (UT) and representatives from the State Financial Officers Foundation	Rich Jones
The FASB chair and the FASB technical director also continue to meet regularly with the SEC chief accountant and other senior staff of the SEC.	

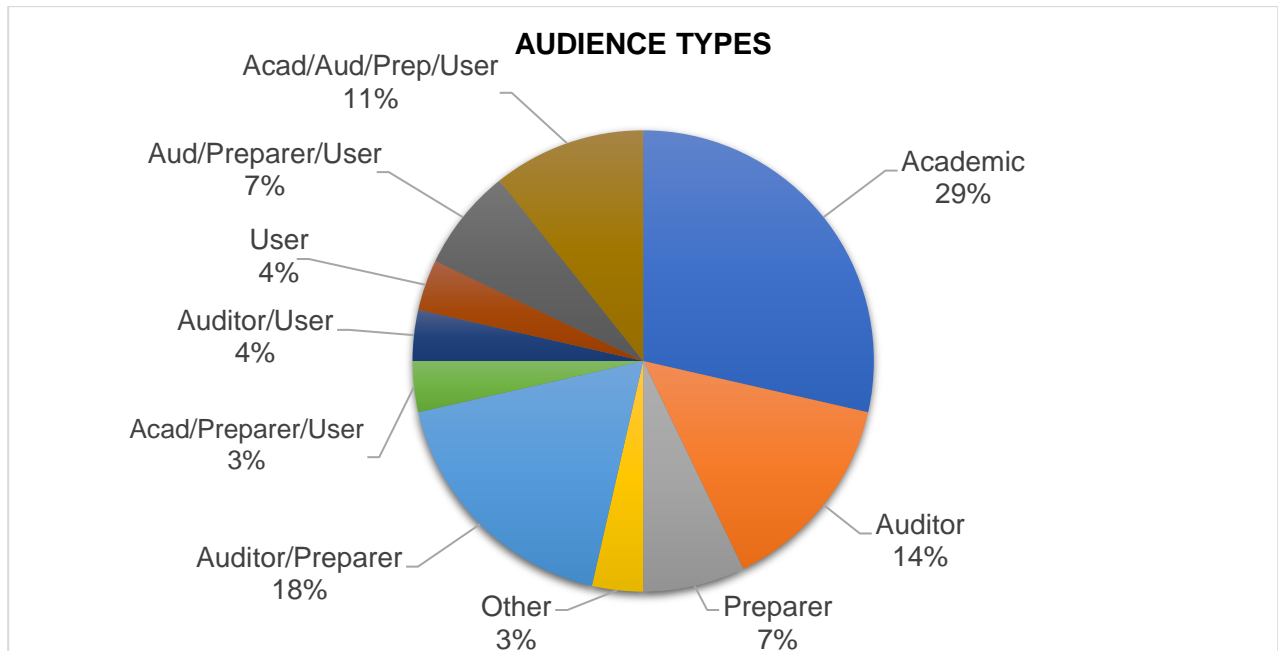
OTHER KEY COMMUNICATION ACTIVITIES

The FASB also continually communicates with a broad range of stakeholders through speaking engagements, media announcements, interviews, videos, and social media. The following tables and graphs detail the educational webinars and videos provided and summarize the speeches delivered during the quarter.

Communication Method	Event Name	Date
Webinar	FASB Update for Accounting Academics	September 6, 2024

Speech Activity			
Speaker	2022 3Q	2023 3Q	2024 3Q
FASB members	8	6	11
FASB staff	16	17	23
PCC members	0	3	0
Total	24	26	34

- A total of 34 FASB speakers presented at 28 events. 32% of speakers were FASB members and 68% were FASB staff.
- Staff speeches primarily relate to newly issued or broadly applicable recent guidance and periodic updates about FASB project developments.



Press Releases, Media Advisories, and Social Media

- The FASB issued eight press releases, media advisories, meeting recaps, and stakeholder emails on a variety of topics with accompanying social media.

Other Communications Activities and Education

- On July 12, the FASB announced the completion of its Conceptual Framework with the issuance of the Measurement chapter.
- On August 6, the FASB issued its [2024 Investor Outreach Report](#), highlighting the Board's investor outreach activities for the year ended June 30, 2024.
- On August 27, Rich Jones spoke to more than 30 financial reporting professionals at the Kennesaw University Financial Reporting Roundtable in Marietta, Georgia, which included chief accounting officers and other senior executives from corporations including Delta Airlines, Coca Cola, and UPS. As part of his visit, Rich also addressed Kennesaw University Master of Accounting students.
- On September 9, Fred Cannon, Jackson Day, and Rosemarie Sangiuolo presented at the AICPA & CIMA Conference on Banks and Savings Institutions.
- On September 17, Rich Jones spoke at the Deloitte Professional Practice Directors (PPD) Seminar in Washington, DC.

XBRL ACTIVITIES

At the request of the SEC, the FASB develops and maintains the GAAP Financial Reporting Taxonomy (GRT) and the SEC Reporting Taxonomy (SRT) applicable to public issuers registered with the SEC. In addition, the FASB staff maintains and publishes annually the Data Quality Committee Rules Taxonomy (DQCRT).

Technical Activities

- The FASB staff:
 - Issued for comment:
 - Proposed changes to the 2025 XBRL DQCRT and related release notes
 - Proposed technical and other conforming improvements for the 2025 SEC Reporting Taxonomy and related release notes.
 - Updated the GAAP Frequently Asked Questions to include Question 2.23 related to tagging values for dividend per share amounts.
 - Published proposed taxonomy improvements for:
 - 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

- Proposed Accounting Standards Update—Income Statement—Reporting Comprehensive Income—Expense Disaggregation Disclosures (Subtopic 220-40): Disaggregation of Income Statement Expenses (XBRL re-exposure).
- Published the following proposed GAAP Taxonomy Implementation Guide for the 2024 Taxonomy:
 - Income Taxes (Topic 740)
 - Employee Benefit Plans (Including Defined Contribution Plans Filing SEC Form 11-K).
- Published the following final GAAP Taxonomy Implementation Guides for the 2024 Taxonomy:
 - Subsequent Events
 - Disclosures about Offsetting Assets and Liabilities.
- Published a GAAP Taxonomy Style Guide, Reference Style Guide.
- Performed research to support various Board projects.

Outreach Activities Supporting Board Initiatives

The Taxonomy staff performed outreach in support of Board initiatives in this quarter, which included the following:

- Hosted and participated in meetings of the FASB Taxonomy Advisory Group, XBRL US Data Quality Committee, XBRL US Academic Subcommittee, various XBRL International technical working groups (including Taxonomy staff chairing the Entity Specific Disclosure Task Force), the IASB IFRS Taxonomy Consultative Group, the UK Financial Reporting Council (FRC), and the SEC Division of Economic and Risk Analysis (DERA) staff.

FASB/GASB INTERACTION

The FASB and the GASB regularly share knowledge and research, including meeting minutes and draft proposed and final standards, to support each other's work on similar standard-setting issues. The FASB and GASB directors met monthly to discuss their technical agenda projects and other matters of mutual interest, and the FASB and GASB chairs and their respective directors held their quarterly meeting to discuss technical issues and other matters of mutual interest.

Appendix—Technical Agenda and Other Projects

Revised September 30, 2024

RECOGNITION & MEASUREMENT PROJECTS	Next Milestone	Expected Date
Accounting for and Disclosure of Software Costs	Exposure Draft	4Q 2024
Accounting for Environmental Credit Programs	Exposure Draft	4Q 2024
Accounting for Government Grants	Exposure Draft	4Q 2024
Codification Improvements (Evergreen)	Exposure Draft	4Q 2024
Determining the Acquirer in the Acquisition of a VIE	Exposure Draft	4Q 2024
Financial Instruments—Credit Losses (Topic 326)—Purchased Financial Assets	Board redeliberations	Ongoing
Induced Conversions of Convertible Debt Instruments	Final ASU	4Q 2024
Share-Based Consideration Payable to a Customer	Exposure Draft	Comments Due November 14, 2024
Topic 815—Derivatives Scope Refinements	Exposure Draft	Comments Due October 21, 2024
Topic 815—Hedge Accounting Improvements	Exposure Draft	Comments Due November 25, 2024

PRESENTATION & DISCLOSURE PROJECTS	Next Milestone	Expected Date
Disaggregation—Income Statement Expenses	Final ASU	4Q 2024
Interim Reporting—Narrow-Scope Improvements	Exposure Draft	4Q 2024
Statement of Cash Flows—Targeted Improvements	Board deliberations	Ongoing

RESEARCH PROJECTS
Accounting for and Disclosure of Intangibles
Accounting for Commodities
Accounting for Derivatives
Agenda Consultation
Consolidation for Business Entities
Financial Key Performance Indicators for Business Entities
Statement of Cash Flows

PCC
Credit Losses—Topic 606 Receivables
Presentation of Contract Assets and Contract Liabilities for Construction Contractors

EITF
Issuance of New Debt to Repay Old Debt

POST-IMPLEMENTATION PROJECTS
Credit Losses
Leases
Revenue Recognition

**FASB INTERPRETIVE PROCESS AND THE EMERGING ISSUES TASK FORCE (EITF)
FINANCIAL ACCOUNTING STANDARDS ADVISORY COUNCIL
DECEMBER 5, 2024**

Session Objective

The objective of this session is to provide Council members with an update on the Emerging Issues Task Force (EITF) including its reconstituted operating procedures and process.

Overview of Materials

These materials include the following information:

- a. Background
- b. EITF Operating Procedures
- c. EITF Agenda and Agenda Criteria
- d. EITF Meetings and Due Process

Discussion questions are included on page 4.

Background

The Emerging Issues Task Force (EITF) was formed in 1984 in response to an FASB Invitation to Comment that included recommendations of the FASB's task force on timely financial reporting guidance.

In June 2021, the FASB staff issued an Invitation to Comment, Agenda Consultation (2021 ITC), to solicit feedback from stakeholders about FASB standard setting priorities. As part of that ITC, the FASB staff also requested feedback on potential improvements to the FASB standard-setting process, including the role of the EITF in the interpretive process.

Stakeholder feedback received on the 2021 ITC suggested potential revisions to the operating procedures of the EITF to improve the efficiency of the interpretive process and to more effectively utilize the resources of the EITF. That feedback was shared and discussed with FASAC in March 2023.

At its March 2023 meeting, Council members discussed the current and historical role of the EITF and identified potential areas to improve to the current interpretive process. Council members expressed overall support for the interpretive process and observed that (a) there is a need for interpretative guidance and (b) there is a benefit to a transparent interpretive process. Council members expressed their views about the types of issues that the EITF should address (such as clarifying what parts of GAAP apply to certain transactions or resolving narrow areas where there is diversity), suggested that the EITF leverage more working groups with subject matter and industry experts, and stated that the interpretive process should provide reasonable transition and effective dates for interpretative guidance.

EITF Operating Procedures

In response to feedback received from stakeholders, in March 2024, the FASB updated the [EITF Operating Procedures](#). The mission of the EITF is to assist the FASB in improving financial reporting through the timely identification and development of proposed solutions to address narrowly scoped financial accounting issues within the framework of the FASB Accounting Standards Codification®.

The EITF is designed to make recommendations to the FASB on potential agenda issues and propose solutions to timely address interpretative issues. The EITF helps to reduce the time and effort required of the FASB to evaluate the benefits and costs of addressing narrow implementation and application issues.

EITF members include representatives who can address a broad range of technical accounting topics across various industries, including investors and other allocators of capital, preparers of financial statements, and public accounting firms. In addition, individuals representing the Securities and Exchange Commission's Office of the Chief Accountant (SEC-OCA), the AICPA Financial Reporting Executive Committee (FinREC), and the Private Company Council (PCC) participate as observers.

EITF Agenda and Agenda Criteria

The EITF manages its own agenda through the EITF Agenda Committee. The EITF may accept potential agenda requests from external stakeholders, EITF members, and FASB staff. Agenda requests for the EITF are posted to the FASB website and publicly available after initial discussions with the EITF Agenda Committee.

The EITF Agenda Committee considers all relevant information pertaining to an agenda request to determine whether the potential agenda issue meets the following criteria (referred to as the "EITF agenda criteria"):

- The issue is narrow in scope such that the EITF can efficiently identify a feasible alternative and make a recommendation to the FASB.
- The issue indicates an absence of guidance, the application of certain guidance to transactions that are new or emerging, differing reasonable interpretations of current FASB guidance, or conflicting guidance in current FASB authoritative literature that has resulted or may result in diversity in financial reporting or financial reporting that could be improved.
- The resolution of the issue is not dependent upon resolving a separate issue that is outside of the purview of the EITF.

The EITF Agenda Committee also considers whether an agenda request meets the FASB's agenda criteria:

- There is an identifiable and sufficiently pervasive need to improve GAAP.
- There are technically feasible solutions and the perceived benefits of those solutions are likely to justify the expected costs of change.
- There is an identifiable scope.

EITF Meetings and Due Process

If an agenda request is added to the EITF's agenda, the issue will be discussed by EITF members at the next meeting. The objective of the meeting is for EITF members to reach a consensus on an issue and provide a recommendation for the FASB to add a project to its technical agenda and issue a proposed Accounting Standards Update with the recommended EITF solution.

When an EITF recommendation is reached, the Board will discuss the issue at a public Board meeting, determine whether to add a project to the FASB technical agenda, vote on all substantive decisions (including benefit-cost analysis), and if agreed to by a majority of the Board, direct the staff to draft a proposed Update for vote by written ballot. If the FASB adds a project to their technical agenda, the project is removed from the EITF agenda. From that point on, the project follows all FASB due process requirements from the issuance of a proposed Update through the issuance of a final Update that amends the Codification.

The EITF made recommendations to the Board to add two projects:

- (a) The EITF discussed an issue related to the issuance of new debt to repay old debt, developed a proposed solution, and recommended that the Board add a project to its technical agenda to amend the guidance. On November 20, 2024, the Board added a project (now called accounting for debt exchanges) to its technical agenda, reached decisions that are consistent with the EITF's consensus, and

directed the staff to draft a proposed Accounting Standards Update for written ballot.

- (b) The EITF discussed an issue related to determining the accounting acquirer when the acquirer is a variable interest entity, developed a proposed solution, and recommended that the Board add a project to its technical agenda to amend the guidance. The Board added that issue to its technical agenda and issued a proposed Accounting Standards Update to improve the requirements for identifying the accounting acquirer.

Discussion Questions

Question 1: Do FASAC members have any questions about (a) the current structure of the EITF and its operating procedures or (b) the EITF agenda criteria and process?

Question 2: Do Council members have any suggestions to further enhance the FASB's communication to stakeholders about the EITF process and how to submit agenda requests?

Question 3: Are there any financial reporting issues that the EITF Agenda Committee should consider (either in the short-term or longer term)?



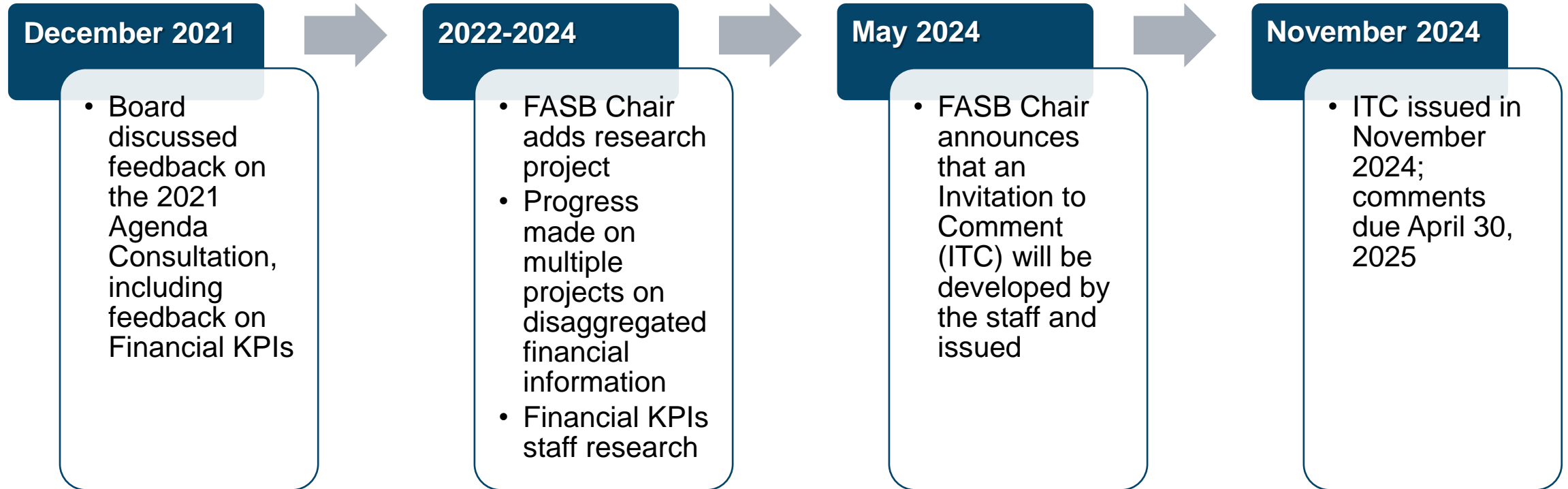
Topic 3: Financial KPIs for Business Entities

Thursday, December 5, 2024

Alanna Armstrong	Practice Fellow
Katy Rossino	Practice Fellow
Andrew Leonard	Postgraduate Technical Assistant

The views expressed in this presentation are those of the presenter.
Official positions of the FASB are reached only after extensive due process and deliberations

Project Timeline



Research Objective and Scope

- Research Objective
 - To explore the pervasiveness of perceived issues related to Financial KPIs and whether technically feasible solutions exist.
- Purpose of an Invitation to Comment
- What is a Financial KPI (for purposes¹ of the FASB staff's research)
 - Any financial measure that is not presented in the GAAP financial statements that is calculated or derived from the financial statements and/or underlying accounting records.
 - Does not include:
 - Financial statement performance measures, totals, or subtotals
 - Nonfinancial KPIs.

¹ The FASB is aware that other definitions of Financial KPIs may exist.

Examples

Financial KPIs		Financial Statement Performance Measures, Totals, and Subtotals	Nonfinancial KPIs
<ul style="list-style-type: none"> • Return on assets (ROA) • Return on equity (ROE) • Current ratio • Debt-to-equity ratio (D/E) • Adjusted revenue • Adjusted gross profit • Adjusted gross margin • Adjusted EBT • Adjusted net income • Adjusted EPS • Adjusted profit margin • FCF, or adjusted FCF • Organic sales growth, or adjusted organic sales growth 	<ul style="list-style-type: none"> • EBIT, or adjusted EBIT • EBITDA, or adjusted EBITDA • EBITDAR, or adjusted EBITDAR • EBITDAX, or adjusted EBITDAX • FFO, or adjusted FFO • Refining margin • Return on invested capital (ROIC) 	<ul style="list-style-type: none"> • Revenue • Gross profit • Gross margin • Pre-tax income (EBT) • Net income • EPS • Profit margin • Operating cash flows (OCF) 	<ul style="list-style-type: none"> • Churn • Same-store sales • Number of subscribers

Perceived Issues

- Increase in the use of Financial KPIs

Proportion Reporting a Non-GAAP KPI ²	2013	2022
SEC Filers	26%	53%
S&P 500	65%	85%



- Lack of comparability among Financial KPIs

- Among a sample of public companies reporting EBITDA reviewed by the staff, the definitions of earnings, interest, depreciation, and amortization were not consistent.

² Data supporting these statistics comes from Calcbench. Calcbench tracks non-GAAP reporting for 12 common KPIs among SEC filers.

Potential Approaches: Approach 1

- Define certain commonly used Financial KPIs (for example, EBITDA and/or FCF)
- Require (or permit) disclosure of those measures in GAAP financial statements

- Key decisions include:
 - Choose which Financial KPIs to define (commonly used across all entities; industry-specific; both)
 - Decide whether defined financial KPIs should be required or optional disclosures in GAAP financial statements.

Potential Incremental Disclosures

- Amounts for each component of the Financial KPI
- Identification of financial statement line item(s) where components of Financial KPIs are included
- Comparative periods

Potential Approaches: Approach 2

- Require (or permit) disclosure of Financial KPIs that management presents outside their financial statements

- Require (or permit) management to include Financial KPIs presented outside the financial statements in the notes to financial statements
- Similar approach to the requirements for management performance measures (under IFRS 18, Presentation and Disclosure in Financial Statements)
- Key decision would be determining which Financial KPIs would be subject to disclosure (for example, all Financial KPIs that entities present (a) outside the financial statements or (b) in their earnings announcements or other regulatory filings).

Potential Incremental Disclosures

- Reconciliation to the most comparable GAAP requirement
- Amounts for each component of the Financial KPI
- Identification of financial statement line item(s) where components of Financial KPIs are included
- Comparative periods

Next Steps

Solicit Additional Feedback

- ITC on Financial KPIs issued on November 14, 2024
- Comments due by April 30, 2025

Discussion Questions

1. Do you have feedback on the perceived issues related to Financial KPIs (such as the increase in the use of or lack of comparability among Financial KPIs)?
2. What is the relative priority of a project on Financial KPIs given the FASB's progress on other recent projects, including projects on financial statement disaggregation as well as other recognition and measurement projects? Do you believe the relative priority differs for public entities versus private companies?
3. (Investors) How often, if at all, do you use Financial KPIs in your analysis? If used, which ones?
4. Do you have feedback on the potential approaches to standard setting on Financial KPIs? If one approach is preferred to the other, why?

Appendix A – SEC Guidance for Non-GAAP Financial Measures

- Regulation G and Item 10(e) of Regulation S-K define a non-GAAP financial measure as:
 - A numerical measure of a registrant’s historical or future financial performance, financial position or cash flows that:
 - (i) Excludes amounts, or is subject to adjustments that have the effect of excluding amounts, that are included in the most directly comparable measure calculated and presented in accordance with GAAP in the statement of comprehensive income, balance sheet, or statement of cash flows (or equivalent statements) of the issuer; or
 - (ii) Includes amounts, or is subject to adjustments that have the effect of including amounts, that are excluded from the most directly comparable measure so calculated and presented.
- Regulation G and Item 10(e) of Regulation S-K also require registrants to reconcile non-GAAP financial measures to GAAP financial measures. For example, Item 10(e) of Regulation S-K requires:
 - (1)(i)(b) A reconciliation (by schedule or other clearly understandable method), which shall be quantitative for historical non-GAAP measures presented, and quantitative, to the extent available without unreasonable efforts, for forward- looking information, of the differences between the non-GAAP financial measure disclosed or released with the most directly comparable financial measure or measures calculated and presented in accordance with GAAP



INVITATION TO COMMENT

Issued: November 14, 2024
Comments Due: April 30, 2025

Financial Key Performance Indicators for Business Entities

Comments should be addressed to:

Technical Director
File Reference No. 2024-ITC100

Notice to Recipients of This Invitation to Comment

The Board invites feedback on all matters in this Invitation to Comment. We request comments by April 30, 2025, by one of the following methods:

- Emailing comments to director@fasb.org, File Reference No. 2024-ITC100
or
- Sending a letter to “Technical Director, File Reference No. 2024-ITC100, FASB, 801 Main Avenue, PO Box 5116, Norwalk, CT 06856-5116.”

All comments received are part of the FASB’s public file and are available at www.fasb.org.

A copy of this Invitation to Comment is also available at www.fasb.org.

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Invitation to Comment

Financial Key Performance Indicators for Business Entities

November 14, 2024

Comment Deadline: April 30, 2025

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PURPOSE, SCOPE, AND BACKGROUND

Purpose

This Invitation to Comment (ITC) is being issued as part of the Financial Accounting Standards Board's (FASB or Board) research project on financial key performance indicators (Financial KPIs) for business entities. An ITC is a staff document prepared at the direction of the FASB chair in which the Board does not express any preliminary views. Responses to the questions in this ITC will help inform the Board as it considers whether to add a project on Financial KPIs to its technical agenda and, if added, to determine the objective and scope of the project.

In previous outreach, including the 2021 Invitation to Comment, *Agenda Consultation*, the FASB received feedback from stakeholders that a project on Financial KPIs should be considered. However, respondents expressed diverse views on the nature and extent of the perceived issues, whether the Board should add a project to its technical agenda, and, if a project is added, the objective of the project. While a potential project on Financial KPIs was often highlighted as a priority by investors, it was rarely cited as a priority by preparers.

The FASB staff is issuing this ITC to solicit additional feedback on potential standard setting for Financial KPIs, including the following:

1. Should Financial KPIs be standardized and, if so, which ones?
2. Should Financial KPIs be required or permitted to be disclosed in an entity's generally accepted accounting principles (GAAP) financial statements and, if so, when and for what types of entities?

Question 1 (All Respondents): Please describe what type of stakeholder you (or your organization) are from the list below, including a discussion of your background and what your point of view is when responding to this ITC:

- a. Academic
- b. Investor, other allocator of capital, or other financial statement user, such as:
 - i. Equity analyst: buy side
 - ii. Equity analyst: sell side
 - iii. Credit-rating agency analyst
 - iv. Fixed-income analyst
 - v. Accounting analyst
 - vi. Quantitative analyst
 - vii. Portfolio manager
 - viii. Private equity
 - ix. Individual investor
 - x. Lender
 - xi. Long-only focus
 - xii. Long/short focus

- xiii. Other
- c. Practitioner/auditor
- d. Not-for-profit organization preparer
- e. Private company preparer
- f. Public company preparer
- g. Regulator
- h. Standard setter
- i. Other.

Scope

Financial KPIs

For purposes of this document, a Financial KPI¹ is any financial measure that is calculated or derived from the financial statements and/or underlying accounting records that is not presented in the GAAP financial statements. This includes:

1. Measures derived from amounts presented in the financial statements (for example, a current ratio calculated using current assets and current liabilities as presented in a classified balance sheet)
2. Measures derived from adjusting amounts presented in the financial statements (for example, adjusted net income, adjusted revenue, and adjusted earnings per share (EPS))
3. Measures derived from or calculations based on other information included in financial statements or other financial records (for example, earnings before interest, taxes, depreciation, and amortization (EBITDA), free cash flow (FCF), organic sales growth, and funds from operations (FFO)).

Financial Statement Performance Measures, Totals, and Subtotals

The financial statements include certain financial performance measures, totals, and subtotals that appear directly in the financial statements. Current GAAP requires certain performance measures (for example, EPS), totals (for example, revenue), and subtotals (for example, net income or current liabilities in a classified balance sheet), and entities may also provide certain other subtotals on a voluntary

¹The FASB is aware that other definitions of Financial KPIs may exist. However, for the purposes of this ITC the term *Financial KPIs* is used as described within this document.

basis (for example, gross profit).² Those financial reporting measures, totals, and subtotals presented in the financial statements are *not* Financial KPIs as described in this ITC and are not the subject of this ITC.

Nonfinancial KPIs

Some business entities also provide measures or ratios not derived directly from information in the financial statements or underlying accounting records (for example, same-store sales, number of subscribers, and churn). For purposes of this document, these are referred to as Nonfinancial KPIs. Those measures are *not* Financial KPIs for purposes of this ITC.

Background

At its December 2021 and May 2022 Board meetings, the Board considered stakeholders' feedback received on the 2021 Agenda Consultation, which included feedback on Financial KPIs (see Appendix B for a summary of the feedback and recent investor outreach). The Board did not add a project on Financial KPIs to its technical agenda at that time for the following reasons:

1. The Board expressed a need for additional information on the perceived issues and potential solutions.
2. The Board discussed a desire to evaluate whether further progress on the Disaggregation of Income Statement Expenses project would address some or all of the perceived issues related to Financial KPIs.
3. The Board voiced concerns about the feasibility of creating standardized definitions of Financial KPIs that would be broadly meaningful across entities and industries.

The FASB chair added a project on Financial KPIs to the research agenda to explore the pervasiveness of the perceived issues related to Financial KPIs and whether technically feasible solutions exist.

Other FASB Projects on Presentation of Financial Performance

Since the issuance of the 2021 Agenda Consultation, the FASB has made progress on other improvements that will provide investors with more disaggregated financial information about an entity's performance, for example:

²Additionally, the U.S. Securities and Exchange Commission (SEC) requires minimum captions and other presentation requirements in the financial statements of registrants and most other entities who file with or furnish GAAP financial statements to the SEC.

1. Disaggregation of Income Statement Expenses. 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*, require that public business entities disclose detailed information about the types of expenses (including employee compensation, depreciation, and amortization) in commonly presented expense captions (such as cost of sales; selling, general, and administrative expenses; and research and development).
2. Segment Reporting. The amendments in Accounting Standards Update No. 2023-07, *Segment Reporting (Topic 280): Improvements to Reportable Segment Disclosures*, require that public entities disclose more information about a reportable segment’s expenses.

In addition, the FASB continues to work on projects on the statement of cash flows that are exploring potential updates to provide investors with additional information about an entity’s cash flows. The Board is developing targeted improvements to the statement of cash flows for financial institutions, and separately has a research project on the statement of cash flows to further explore potential improvements to that statement.

Perceived Issues with Financial KPIs

When evaluating potential projects to add to its technical agenda, the Board considers whether there is an identifiable and sufficiently pervasive need to improve GAAP. In other words, the Board considers what improvement is needed and if there are feasible standard-setting solutions at a reasonable cost.

In outreach performed as part of the 2021 Agenda Consultation and as part of the FASB’s research project on Financial KPIs, the FASB sought to understand, at a more granular level, the perceived issues related to Financial KPIs. That research suggested that there is an increase in the use of Financial KPIs that reduces comparability because standardized definitions of Financial KPIs do not exist.

Increase in the Use of Financial KPIs

To better understand the perceived issues related to the increase in Financial KPIs, the FASB staff researched the prevalence of entities reporting Financial KPIs.³ From 2013 to 2022, the proportion of SEC filers reporting a Financial KPI increased from 36 percent to 53 percent. Among the S&P 500, which reflects large

³The FASB staff used data from Calcbench. Calcbench is a data provider that collects data on SEC filers’ Financial KPI reporting from Form 8-K filings or flash news articles (like Business Wire). If Calcbench does not track a particular Financial KPI, or an entity does not appear in the Calcbench data set, it is not reflected in the statistics discussed in this ITC.

public companies, the increase was from 65 percent to 85 percent over the same period. Those increases in Financial KPI reporting also were present across most industry sectors. From 2013 to 2022, all but one industry (drugs, soaps, perfumes, and tobacco) saw double digit growth in the presentation of Financial KPIs.⁴

The table below lists the five most common Financial KPIs that SEC filers and companies in the S&P 500 presented in 2022.⁵

Financial KPI	Percentage of SEC Filers Reporting Measure	Percentage of S&P 500 Reporting Measure
EBITDA or adjusted EBITDA	33%	28%
Adjusted EPS	31%	68%
Adjusted net income	31%	54%
Adjusted operating income	14%	30%
FCF or adjusted FCF	12%	27%

See Appendix E for a summary of other commonly reported Financial KPIs.

In addition to entities reporting Financial KPIs, there are financial data services that also provide Financial KPIs to their clients. For example, a well-known data service calculates and provides EBITDA for entities in all sectors except banking. In addition to the data service's standard EBITDA calculation, the data service also provides certain industry-specific EBITDA measures. See Appendix E for a summary of additional Financial KPIs provided by that data provider.

Question 2 (All Respondents): What is the relative priority of a project on Financial KPIs given the FASB's progress on other recent projects, including projects on financial statement disaggregation as well as other recognition and measurement projects? Do you believe the relative priority differs for public entities versus private companies? Please explain why or why not.

Question 3 (Investors): How often, if at all, do you use Financial KPIs in your analysis? If used, which ones?

⁴For this analysis, the FASB used the Fama French 17 industry definitions.

⁵Calcbench tracks Financial KPI reporting for (a) adjusted cost of sales, (b) adjusted EPS, (c) adjusted gross profit, (d) adjusted gross profit percentage, (e) adjusted net income, (f) adjusted operating cash flow, (g) adjusted revenue, (h) EBITDA or adjusted EBITDA, (i) FCF or adjusted FCF, (j) FFO or adjusted FFO, (k) FFO per share or adjusted FFO per share, and (l) operating income or adjusted operating income.

Question 4 (Investors): If you use Financial KPIs in your analysis, do you calculate the measures yourself, use measures provided by a financial data service, or use the measures provided by management? If provided by management, do you make any additional adjustments before using the Financial KPIs in your analysis?

Question 5 (Preparers): Does your company present Financial KPIs outside the financial statements? Do your company's peers present Financial KPIs outside the financial statements?

Lack of Comparability Among Financial KPIs

To better understand the perceived issues related to comparability, the FASB staff researched a sample of public companies that report EBITDA. Among those companies, the companies' definitions of earnings, interest, depreciation, and amortization were different. Some companies included interest income in their definitions of interest while others did not. Other companies combined amortization and depreciation into a single amount, making it challenging to determine what those companies considered to be amortization or depreciation. It also was unclear whether a consistent definition of amortization is used and how the capitalization of costs (for example, depreciation that is capitalized into inventory) affects depreciation. Finally, among entities with income attributable to a noncontrolling interest, some excluded the noncontrolling interest from their definition of earnings while others did not.

Question 6 (Investors): If you use Financial KPIs in your analysis, are the Financial KPIs you use comparable across different entities? If you believe that those Financial KPIs are comparable across different entities, how do you know that those Financial KPIs are calculated on a comparable basis?

Question 7 (Preparers): If your company and your company's peers present Financial KPIs outside the financial statements, are the Financial KPIs comparable? If you believe that the Financial KPIs that are presented are comparable, how do you know that those Financial KPIs are calculated on a comparable basis?

Addressing Perceived Issues with Financial KPIs

Over the years, the FASB staff has received diverse feedback about addressing the perceived issues with Financial KPIs. Some stakeholders support the FASB defining certain commonly used Financial KPIs, such as EBITDA, because those measures are viewed as widely applicable across many sectors and can provide a useful starting point for comparison among entities. In addition, some stakeholders noted that if a common definition is included in the financial statements, any non-GAAP disclosure of an adjusted figure would need to be reconciled to the closest GAAP requirement (for example, adjusted EBITDA

presented outside the financial statements would be reconciled to EBITDA as included in the financial statements).

Some stakeholders support increased transparency surrounding Financial KPIs in the financial statements rather than standardization. Those stakeholders noted that Financial KPIs are important tools that allow management to articulate its specific view of an entity's performance and by design should be entity specific.

Other stakeholders do not support the FASB undertaking a project on Financial KPIs. Some of those stakeholders indicated that even if certain commonly used Financial KPIs were defined, many entities would continue to present adjusted versions, potentially diminishing the benefit of a standardized definition. Furthermore, a small number of investors indicated that current GAAP totals and subtotals (for example, net income and cash flow from operations) are sufficient and that elevating any Financial KPIs to the GAAP financial statements would give those measures undue prominence.

This ITC is intended to gather information about those diverse views to aid the Board and the FASB staff in determining next steps.

POTENTIAL APPROACHES

Approach 1: Define and Require (or Permit) Disclosure of Common Financial KPIs

One approach for a potential project would be to define certain commonly used Financial KPIs (for example, EBITDA and/or FCF) and require or permit disclosure of those measures in an entity's GAAP financial statements.

Question 8 (Investors): Would you benefit from standardized GAAP definitions of commonly used Financial KPIs? Please explain why or why not.

Which Financial KPIs Should Be Defined?

The first decision to make under Approach 1 would be to choose which Financial KPIs to define. One possible alternative would be to define Financial KPIs that are commonly used by investors or commonly presented by entities. On the basis of preliminary investor outreach, EBITDA and FCF are commonly used Financial KPIs by investors. Similarly, entities commonly present a form of EBITDA or FCF (28 and 27 percent of entities in the S&P 500 during 2022, respectively).

An alternative would be to define Financial KPIs that are common within specific industries, but not necessarily common across all entities. For example, FFO in the real estate industry; earnings before interest, taxes, depreciation, amortization, and exploration (EBITDAX) and refining margin in the oil and gas industry; or return on invested capital in the retail industry.

Question 9 (All Respondents): If the FASB defines certain Financial KPIs, should the defined Financial KPIs be measures that are commonly used across all entities, measures that are industry-specific, or both? What should the FASB consider in determining which Financial KPIs to define?

Question 10 (All Respondents): Are there certain Financial KPIs you believe that the FASB should define? If so, what are they and why?

Should Disclosure of Defined Measures Be Required or Optional?

The second decision to make under Approach 1 would be to determine whether disclosing the defined measures should be required or optional in an entity's GAAP financial statements.

Question 11 (All Respondents): Should disclosure of certain defined measures be required or optional? If required, how should that requirement be determined (for example, should all entities be required to disclose the defined measure or only entities in specified industries)? Please explain.

Question 12 (All Respondents): Should the FASB provide criteria for entities to use to determine when a defined Financial KPI needs to be disclosed? For example, an entity could be required to disclose a Financial KPI that has been defined by the FASB in the financial statements if it presents it or an adjusted version outside the financial statements (for example, if EBITDA is defined and an entity presents adjusted EBITDA).

Question 13 (All Respondents): If the FASB defines certain Financial KPIs that are common within specific industries, should all entities within those industries be required to disclose the defined measure?

Approach 2: Require (or Permit) Disclosure of Financial KPIs Presented by Management Outside the Financial Statements

Another approach for a potential project would be to require or permit an entity to disclose Financial KPIs that management presents outside the financial statements. This approach could be similar to the presentation requirements for management performance measures (MPMs) under International Financial Reporting Standards (IFRS) 18, *Presentation and Disclosure in Financial Statements*. See Appendix D for a summary of the IFRS 18 reporting requirements for MPMs.

What Financial KPIs Would Be Subject to Disclosure?

The key decision to make under Approach 2 would be to establish the specific criteria to determine if an entity would be required or permitted to disclose a Financial KPI within its GAAP financial statements. One alternative would be to require or permit disclosure within GAAP financial statements of all Financial KPIs that entities present outside the financial statements, regardless of the venue or format. Another alternative would be to require or permit disclosure within GAAP financial statements any Financial KPIs that entities present in their earnings announcements or other regulatory filings.

Question 14 (All Respondents): Should an entity be required to disclose a Financial KPI in GAAP financial statements if the entity communicates the Financial KPI elsewhere? If so, what incremental benefits does requiring (rather than permitting) disclosure provide?

Question 15 (All Respondents): If the FASB pursues Approach 2, should the criteria for identifying Financial KPIs that must be (or are permitted to be) disclosed in GAAP financial statements be broad or narrow? For example, should all Financial KPIs communicated outside financial statements be disclosed or should only those communicated in earnings announcements and regulatory filings be disclosed?

Question 16 (All Respondents): Are there other criteria that you believe should be used to identify Financial KPIs that would be required to be (or are permitted to be) disclosed in GAAP financial statements? If so, what are they and why should they be included?

Overall Preferred Approach and Disclosure

Approaches 1 and 2 are not mutually exclusive. The FASB could pursue standard setting that combines elements of Approach 1 and Approach 2.

Question 17 (All Respondents): Which potential approach for standard setting on Financial KPIs do you prefer and why?

Question 18 (Investors): Would a combined approach that incorporates elements of Approaches 1 and 2 provide decision-useful information that is incremental to either approach in isolation? Please explain how the approaches should be combined, including why that approach would provide incremental decision-useful information.

Question 19 (Preparers and Practitioners): Is either Approach 1 or 2 inoperable? Please explain why or why not.

Question 20 (All Respondents): Are there other approaches that should be considered? If so, please describe and comment on whether (and what) incremental disclosures should be required under an alternative approach.

What Incremental Disclosures Would Be Useful?

Under any approach to set standards related to Financial KPIs, the accompanying disclosures are also important to consider. For defined Financial KPIs, possible incremental disclosures could include the amounts for each component of the Financial KPI (as defined), the financial statement line item(s) in which those components are included, and the Financial KPI for comparative periods (if an entity provides comparative period financial statements). For undefined Financial KPIs, possible incremental disclosures could include the definition of the Financial KPI, management's considerations for disclosing the Financial KPI, a reconciliation to the most comparable GAAP requirement, and the financial statement line item(s) in which each reconciling item is included.

Question 21 (All Respondents): For any undefined Financial KPIs that must be (or are permitted to be) disclosed in GAAP financial statements, should an entity be required to provide a reconciliation in the financial statements to the most comparable GAAP requirement? Please explain why or why not.

Question 22 (All Respondents): Would disclosure about the components of Financial KPIs and the financial statement line items in which those components are included be useful? Please explain why or why not. If yes, should that disclosure be required?

Question 23 (All Respondents): For any undefined Financial KPIs that must be (or are permitted to be) disclosed in GAAP financial statements, should management be required to explain the element of their performance the undefined Financial KPI is meant to convey and how the undefined Financial KPI is used by management?

Question 24 (All Respondents): If an entity provides comparative financial statements, should it be required to disclose comparative period information for Financial KPIs disclosed? Please explain why or why not.

Question 25 (All Respondents): Are there any other disclosures that you believe should accompany Financial KPIs (defined or undefined) that would be disclosed in GAAP financial statements? If so, what are they and why?

Appendix A: Examples of Financial KPIs, Financial Statement Performance Measures, Totals, and Subtotals, and Nonfinancial KPIs

The table below provides examples of Financial KPIs, financial statement performance measures, totals, and subtotals, and Nonfinancial KPIs.⁶

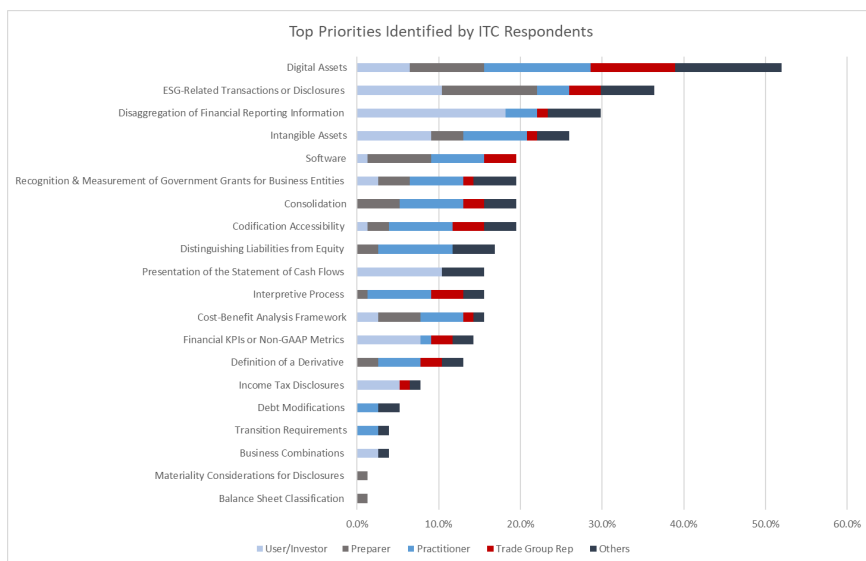
Financial Statement Performance Measures, Totals, and Subtotals	Financial KPIs	Nonfinancial KPIs
<ul style="list-style-type: none"> • Revenue • Gross profit • Gross margin • Pre-tax income (EBT) • Net income • EPS • Profit margin • Operating cash flows (OCF) 	<ul style="list-style-type: none"> • Return on assets (ROA) • Return on equity (ROE) • Current ratio • Debt-to-equity ratio (D/E) • Adjusted revenue • Adjusted gross profit • Adjusted gross margin • Adjusted EBT • Adjusted net income • Adjusted EPS • Adjusted profit margin • FCF or adjusted FCF • Organic sales growth or adjusted organic sales growth • EBIT or adjusted EBIT • EBITDA or adjusted EBITDA • EBITDAR or adjusted EBITDAR • EBITDAX or adjusted EBITDAX • FFO or adjusted FFO • Refining margin • Return on invested capital (ROIC) 	<ul style="list-style-type: none"> • Churn • Same-store sales • Number of subscribers

⁶The list of examples is not comprehensive and is intended only for illustrative purposes.

Appendix B: Feedback Received on Financial KPIs

The FASB issued the 2021 Agenda Consultation⁷ to solicit broad feedback from stakeholders about the FASB’s future standard-setting initiatives. Chapter 2, *Emerging Areas in Financial Reporting*, includes a discussion of Financial KPIs. The discussion solicited feedback on the potential standardization of certain non-GAAP KPIs in response to stakeholders’ observations about an increasing focus on Financial KPIs combined with a decrease in comparability of those Financial KPIs.

Forty-one respondents from various stakeholder groups, including practitioners, preparers, trade groups, and state CPA societies, provided feedback on the Financial KPIs discussion in the 2021 Agenda Consultation. The following diagram provides an illustration of the topics that the 77⁸ total respondents identified as top priority:



⁷[2021 FASB Agenda Consultation Report](#).

⁸The FASB received 522 total responses to the 2021 ITC. Four hundred and forty-five of these responses solely addressed the accounting for digital assets. The other 77 responses addressed the ITC more broadly. The diagram included in this document provides a breakdown of those 77 respondents who broadly addressed topics in the ITC.

As shown, investors assigned a higher priority to the topic of Financial KPIs than many other topics. However, four other topics were a higher priority for investors than Financial KPIs: disaggregation of financial reporting information, presentation of the statement of cash flows, ESG-related transactions and disclosures, and intangible assets.

Respondents that supported the Financial KPI topic expressed that defining Financial KPIs would provide investors with a common starting point for well understood Financial KPIs and could increase comparability by reducing diversity in practice. However, other respondents, especially preparers, viewed the Financial KPI topic as a low priority. Those respondents expressed concerns about the difficulties in providing standardized measures of Financial KPIs across industries and noted that management is best positioned to define Financial KPIs. Furthermore, some respondents indicated that greater disaggregation of financial reporting information could address many of the relevant issues related to the topic of Financial KPIs. For example, disaggregated income statement information may benefit investors by providing more granular information about the source of common adjustments entities make to create Financial KPIs.

Stakeholders from all groups observed that adjustments made to performance measures are often industry-specific or entity-specific and, therefore, entities are likely to continue making unique adjustments to any standardized Financial KPIs.

Following the issuance of the 2021 Agenda Consultation, the FASB continued its research on Financial KPIs. The FASB discussed the topic with its Investor Advisory Committee in November 2023 and performed additional targeted outreach with different types of investors, including accounting analysts, industry analysts, and credit rating analysts. Feedback received from the Investor Advisory Committee and the investors that participated in targeted outreach was diverse, particularly regarding the prioritization and objective of a project on Financial KPIs.

Appendix C: SEC Guidance for Non-GAAP Financial Measures

The history of the SEC's focus on non-GAAP reporting dates back more than 50 years. In 1973, the SEC issued Accounting Series Release No. 142⁹, warning of possible investor confusion from the use of financial measures outside GAAP. In 2001, the SEC provided cautionary advice¹⁰ to registrants on using pro forma financial information in earnings releases. Then, following a mandate under the Sarbanes-Oxley Act of 2002 to issue rules on non-GAAP financial measures, the SEC issued Regulation G¹¹ and amended Regulation S-K, Item 10¹² in 2003. The SEC staff also has published guidance in its Compliance & Disclosure Interpretations (C&DIs) related to non-GAAP financial measures¹³ that were most recently updated in 2022.

Regulation G applies whenever any material information that includes a non-GAAP financial measure is disclosed or released publicly (for example, in press releases). Item 10(e) of Regulation S-K applies to all SEC filings that include non-GAAP financial measures. Item 10(e) of Regulation S-K includes reporting requirements consistent with those under Regulation G, as well as incremental requirements including disclosures focused on why management believes that the non-GAAP financial measure provides investors with useful information and the additional purposes for which management uses the non-GAAP financial measure.

Regulation G and Item 10(e) of Regulation S-K define a non-GAAP financial measure as:

A numerical measure of a registrant's historical or future financial performance, financial position, or cash flows that:

- (i) Excludes amounts, or is subject to adjustments that have the effect of excluding amounts, that are included in the most directly comparable measure calculated and presented in accordance with GAAP in the statement of comprehensive income, balance sheet or statement of cash flows (or equivalent statements) of the issuer; or

⁹See SEC Accounting Series Release No. 142, Release No. 33-5337 (Mar. 15, 1973).

¹⁰See SEC Cautionary Advice Regarding the Use of "Pro Forma" Financial Information, [Release 33-8039](#).

¹¹See SEC [Regulation G](#).

¹²See SEC [Regulation S-K, Item 10\(e\)](#).

¹³See SEC Division of Corporation Finance Compliance & Disclosure Interpretations, [Non-GAAP Financial Measures](#).

- (ii) Includes amounts, or is subject to adjustments that have the effect of including amounts, that are excluded from the most directly comparable measure so calculated and presented.

Regulation G and Item 10(e) of Regulation S-K also require registrants to reconcile non-GAAP financial measures to GAAP financial measures. For example, Item 10(e) of Regulation S-K requires:

- (1)(i)(b) A reconciliation (by schedule or other clearly understandable method), which shall be quantitative for historical non-GAAP measures presented, and quantitative, to the extent available without unreasonable efforts, for forward-looking information, of the differences between the non-GAAP financial measure disclosed or released with the most directly comparable financial measure or measures calculated and presented in accordance with GAAP.

Appendix D: IFRS 18, *Presentation and Disclosure in Financial Statements*

IFRS 18 introduced management-defined performance measures (MPM) and is requiring certain disclosures relating to those MPMs under that standard. As part of the IFRS 18 reporting requirements, an entity must disclose:

1. A description of the financial performance aspect that the MPM communicates to users of financial statements
2. How the MPM is calculated
3. A reconciliation between the MPM and the most comparable subtotal of income and expenses specified by IFRS Accounting Standards and, for each reconciling item, the amount(s) related to each line item in the statement(s) of financial performance
4. The income tax effect and noncontrolling interest effect of each item in the reconciliation
5. The method that an entity uses to determine the income tax effect of each reconciling item.

If an entity changes, adds, or removes an MPM from its disclosure, the entity must also communicate the effects of, and rationale for, the change, addition, or removal, as well as restated comparative information.

IFRS 18 requires disclosures only for measures that meet the definition of an MPM. Therefore, it excludes many measures from disclosure, including those that are not solely financial measures (like same-store sales or number of subscribers). Under the guidance in paragraph 117 in IFRS 18, an MPM is a “subtotal of income and expenses that an entity uses in public communications outside financial statements . . . to communicate to users of financial statements management’s view of an aspect of financial performance of the entity as a whole.” MPMs that do not meet this definition are not subject to disclosure in financial statements under the guidance in IFRS 18. The IASB considered expanding the scope of MPMs to incorporate measures based on financial statement elements other than income and expenses but determined that doing so would go beyond the scope of the project’s focus on the reporting of financial performance in the statement of profit or loss and the related notes.

Appendix E: Additional Financial KPI Data

In the Purpose, Scope, and Background section of this document, the FASB staff summarized data reflecting the increase in the presentation of the five most common Financial KPIs by SEC filers and companies in the S&P 500. In this appendix, we have included the 5 most common Financial KPIs (first 5 rows) and summarized the same data for certain other Financial KPIs.

Financial KPI	Percentage of SEC Filers Reporting Measure	Percentage of S&P 500 Reporting Measure
EBITDA or adjusted EBITDA	33%	28%
Adjusted EPS	31%	68%
Adjusted net income	31%	54%
Adjusted operating income	14%	30%
FCF or adjusted FCF	12%	27%
Adjusted gross profit	10%	15%
Adjusted gross profit %	8%	11%
Adjusted revenue	6%	17%
Adjusted COGS	3%	7%
FFO or adjusted FFO	2%	4%
FFO per share or adjusted FFO per share	1%	4%
Adjusted operating cash flow	1%	2%

Additionally, in the Purpose, Scope, and Background section of this document, the FASB staff observed that, in addition to entities presenting Financial KPIs in public communications, there are financial data services that also calculate and provide Financial KPIs to their clients. We specifically noted one financial data provider that calculates EBITDA for entities in all sectors except banking. Below we have listed examples of additional Financial KPIs that are provided by certain data providers:

- Adjusted revenue
- Adjusted net revenue
- Organic sales growth
- Adjusted net premium earned
- Adjusted gross profit
- Adjusted operating income
- Adjusted EBITDA
- Adjusted net income
- Adjusted EPS
- FCF.

Appendix F: Questions for Respondents

Background

Question 1 (All Respondents): Please describe what type of stakeholder you (or your organization) are from the list below, including a discussion of your background and what your point of view is when responding to this ITC:

- a. Academic
- b. Investor, other allocator of capital, or other financial statement user, such as:
 - i. Equity analyst: buy side
 - ii. Equity analyst: sell side
 - iii. Credit-rating agency analyst
 - iv. Fixed-income analyst
 - v. Accounting analyst
 - vi. Quantitative analyst
 - vii. Portfolio manager
 - viii. Private equity
 - ix. Individual investor
 - x. Lender
 - xi. Long-only focus
 - xii. Long/short focus
 - xiii. Other
- c. Practitioner/auditor
- d. Not-for-profit organization preparer
- e. Private company preparer
- f. Public company preparer
- g. Regulator
- h. Standard setter
- i. Other.

Question 2 (All Respondents): What is the relative priority of a project on Financial KPIs given the FASB's progress on other recent projects, including projects on financial statement disaggregation as well as other recognition and measurement projects? Do you believe the relative priority differs for public entities versus private companies? Please explain why or why not.

Question 3 (Investors): How often, if at all, do you use Financial KPIs in your analysis? If used, which ones?

Question 4 (Investors): If you use Financial KPIs in your analysis, do you calculate the measures yourself, use measures provided by a financial data service, or use the measures provided by management? If provided by management, do you make any additional adjustments before using the Financial KPIs in your analysis?

Question 5 (Preparers): Does your company present Financial KPIs outside the financial statements? Do your company's peers present Financial KPIs outside the financial statements?

Question 6 (Investors): If you use Financial KPIs in your analysis, are the Financial KPIs you use comparable across different entities? If you believe that those Financial KPIs are comparable across different entities, how do you know that those Financial KPIs are calculated on a comparable basis?

Question 7 (Preparers): If your company and your company's peers present Financial KPIs outside the financial statements, are the Financial KPIs comparable? If you believe that the Financial KPIs that are presented are comparable, how do you know that those Financial KPIs are calculated on a comparable basis?

Approach 1: Define and Require (or Permit) Disclosure of Common Financial KPIs

Question 8 (Investors): Would you benefit from standardized GAAP definitions of commonly used Financial KPIs? Please explain why or why not.

Question 9 (All Respondents): If the FASB defines certain Financial KPIs, should the defined Financial KPIs be measures that are commonly used across all entities, measures that are industry-specific, or both? What should the FASB consider in determining which Financial KPIs to define?

Question 10 (All Respondents): Are there certain Financial KPIs you believe that the FASB should define? If so, what are they and why?

Question 11 (All Respondents): Should disclosure of certain defined measures be required or optional? If required, how should that requirement be determined (for example, should all entities be required to disclose the defined measure or only entities in specified industries)? Please explain.

Question 12 (All Respondents): Should the FASB provide criteria for entities to use to determine when a defined Financial KPI needs to be disclosed? For example, an entity could be required to disclose a Financial KPI that has been defined by the FASB in the financial statements if it presents it or an adjusted version outside the financial statements (for example, if EBITDA is defined and an entity presents adjusted EBITDA).

Question 13 (All Respondents): If the FASB defines certain Financial KPIs that are common within specific industries, should all entities within those industries be required to disclose the defined measure?

Approach 2: Require (or Permit) Disclosure of Financial KPIs Presented by Management Outside the Financial Statements

Question 14 (All Respondents): Should an entity be required to disclose a Financial KPI in GAAP financial statements if the entity communicates the Financial KPI elsewhere? If so, what incremental benefits does requiring (rather than permitting) disclosure provide?

Question 15 (All Respondents): If the FASB pursues Approach 2, should the criteria for identifying Financial KPIs that must be (or are permitted to be) disclosed in GAAP financial statements be broad or narrow? For example, should all Financial KPIs communicated outside financial statements be disclosed or should only those communicated in earnings announcements and regulatory filings be disclosed?

Question 16 (All Respondents): Are there other criteria that you believe should be used to identify Financial KPIs that would be required to be (or are permitted to be) disclosed in GAAP financial statements? If so, what are they and why should they be included?

Overall Preferred Approach and Disclosure

Question 17 (All Respondents): Which potential approach for standard setting on Financial KPIs do you prefer and why?

Question 18 (Investors): Would a combined approach that incorporates elements of Approaches 1 and 2 provide decision-useful information that is incremental to either approach in isolation? Please explain how the approaches should be combined, including why that approach would provide incremental decision-useful information.

Question 19 (Preparers and Practitioners): Is either Approach 1 or 2 inoperable? Please explain why or why not.

Question 20 (All Respondents): Are there other approaches that should be considered? If so, please describe and comment on whether (and what) incremental disclosures should be required under an alternative approach.

Question 21 (All Respondents): For any undefined Financial KPIs that must be (or are permitted to be) disclosed in GAAP financial statements, should an entity be required to provide a reconciliation in the financial statements to the most comparable GAAP requirement? Please explain why or why not.

Question 22 (All Respondents): Would disclosure about the components of Financial KPIs and the financial statement line items in which those components are included be useful? Please explain why or why not. If yes, should that disclosure be required?

Question 23 (All Respondents): For any undefined Financial KPIs that must be (or are permitted to be) disclosed in GAAP financial statements, should management be required to explain the element of their performance the undefined Financial KPI is meant to convey and how the undefined Financial KPI is used by management?

Question 24 (All Respondents): If an entity provides comparative financial statements, should it be required to disclose comparative period information for Financial KPIs disclosed? Please explain why or why not.

Question 25 (All Respondents): Are there any other disclosures that you believe should accompany Financial KPIs (defined or undefined) that would be disclosed in GAAP financial statements? If so, what are they and why?

**POST-IMPLEMENTATION REVIEW PROCESS
FINANCIAL ACCOUNTING STANDARDS ADVISORY COUNCIL
DECEMBER 5, 2024**

Session Objective

The objective of this session is to provide an overview of the FASB's post-implementation review (PIR) process and seek Council members views about the PIR process.

Overview of Materials

These materials include the following:

- a. Background
- b. Overview of the PIR Process and Objectives
- c. Stages of the PIR Process
- d. Recent and Ongoing PIR Projects.

Discussion questions are included on page 5.

Background

The PIR process is an evaluation of whether a standard is achieving its objective by providing investors and other allocators of capital with relevant information in ways that justify the cost of providing it.

In May 2020, the Trustees of the Financial Accounting Foundation (FAF Trustees) decided that the PIR process should be part of the FASB's standard-setting processes. Prior to that time, the FAF Trustees directed the FAF's PIR team in a review of FASB standards.

In June 2020, FASAC members provided feedback on the FASB's PIR process. The PIR process and objectives, as discussed with FASAC, were approved by the FAF Trustees at its May 2020 meeting. Specifically, the PIR objectives and PIR process outlined below were discussed with FASAC and approved by the FAF Trustees.

FASAC members generally supported the PIR process change and indicated that responding to evolving issues in a timely manner should be a priority. Several Council

members suggested that the Board consider future incorporation of smaller projects into the PIR process in a streamlined, accelerated, and cost-effective manner.

The formal PIR process as approved by the FAF Trustees and discussed herein is an important part of the standard-setting process and its oversight. Importantly, it is a critical opportunity for the FASB to learn about its guidance and improve the standard-setting process. Additionally, some of the activities that are leveraged in the PIR process are undertaken for many (or most) Accounting Standards Updates issued by the FASB, including evaluating the implementation of the guidance and improving the standard-setting process when feedback indicates that improvements are needed.

Overview of the PIR Process and Objectives

During the PIR process, the FASB solicits and considers diverse stakeholder input and other research to evaluate the standards that are issued and whether there are areas of improvements the Board should address. The PIR process is an important quality control mechanism that begins after the issuance of select standards.

One of the primary benefits of having the PIR process embedded within the overall standard-setting process is that it is a more efficient and effective way to continually improve the standard-setting process and the resulting standards. For example, if it becomes evident during a PIR that portions of a given standard are not understandable or that unexpected costs arise during implementation, the Board can address those issues on a timely basis.¹

The PIR process has three main objectives:

- 1) To determine whether a standard is accomplishing its stated purpose. This includes assessing whether:
 - a. The standard resolved the issues underlying its need.
 - b. Decision-useful information is being reported to, and used by, investors, creditors, and other users of financial statements.
 - c. The standard is operational; that is, stakeholders can apply the standard as intended, the standard is understandable, and preparers are able to report the information reliably.

¹ A PIR could result in the need for the FASB to take standard-setting action to address (1) areas of the standard that are not understandable, (2) unintended consequences that were not foreseen during development of the standard, and/or (3) unexpected costs (either one time or ongoing) based on the actual results observed as compared with the expectations documented in the Board's basis for conclusions. Like all aspects of the Board's standard-setting activities, actions resulting from a PIR are subject to the Board's normal due process.

- d. Any significant unexpected changes to financial reporting or operating practices resulted from applying the standard.
 - e. Any significant unanticipated consequences resulted from applying the standard.
- 2) To evaluate the selected standard's implementation and continuing compliance costs and related benefits. This includes assessing whether:
- a. Implementation and continuing compliance costs are consistent with the costs that the Board considered and stakeholders expected.
 - b. Benefits are consistent with what the Board intended and stakeholders expected.
- 3) To provide feedback to improve the standard-setting process. This includes assessing whether the results of the review suggest that improvements are needed.

Stages of the PIR Process

The PIR process comprises of three stages and is subject to FAF Trustee oversight throughout these three stages.

Stage 1—Post-Issuance Date Implementation Monitoring of the PIR Process: This stage begins after issuance of the standard and continues until at least three years after the latest effective date of the standard. During the post-issuance date implementation monitoring period (and before the effective date), at a macro level, Stage 1 activities consist of:

1. Actively monitoring practice as stakeholders prepare for initial implementation of the standard
2. Developing and disseminating implementation guidance and educational material
3. Communicating and performing outreach with stakeholder organizations, including outreach with the academic community (leveraging advisory councils, committees, and resource groups where applicable) to generate interest in research activities associated with the standard that are the subject of the PIR process.

After the effective date of the final standard, the Board will perform an archival review of financial reports and survey financial statement preparers (with the assistance of the academic community when needed).

Stage 2—Post-Effective Date Evaluation of Costs and Benefits: This stage begins after the effective date of the final standard and continues for approximately three to five years. Stage 2 activities consist of:

1. Understanding the costs that a preparer incurred in applying the standard as well as the costs that investors incurred in analyzing and interpreting the information that the standard provides
2. Understanding the benefits of the standard to investors as well as to preparers
3. Monitoring the ongoing application of the standard.

In this stage, the Board may consider sponsoring academic research to assess certain aspects of the standard to provide information to the Board on the effectiveness of the standard.

Stage 3—Summary of Research and Reporting: Following the completion of Stages 1 and 2, the Board summarizes its research in a final report. The final report is a culmination of previous reports and describes the activities conducted and actions taken to address any identified issues. In addition, a memorandum summarizing the PIR findings is prepared and discussed by the Board at a public meeting. The final PIR report is reviewed by the FAF's Standard-Setting Process Oversight Committee (SSPOC) and is published on the FAF website.

In addition, there are additional examples of PIR process activities noted on the FASB's [website](#).

Recent and Ongoing PIR Projects

The FASB completed the PIR process for the revenue recognition standard, Accounting Standards Update No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, in November 2024. The final report was approved by the Standard-Setting Process Oversight Committee of the FAF Trustees and [published](#) on November 25, 2024.

The FASB is currently conducting PIR projects on [leases](#), Accounting Standards Update Accounting Standards Update No. 2016-02, *Leases (Topic 842)*, and [current expected credit losses](#) (CECL), Accounting Standards Update No. 2016-13, *Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*. Those PIR projects are currently expected to be completed in the next 1-2 years.

FASAC members have provided input on the PIR projects on revenue recognition, leases, and credit losses. For example, FASAC sessions were held shortly after the public company effective date in each of the standards and after the standards had been applied for multiple periods².

² FASAC discussions on implementation occurred at the following meetings: Revenue Recognition – [March 2018](#), [September 2019](#), and [December 2023](#); Leases- [June 2019](#) and [June 2021](#); Credit Losses: [September 2020](#).

Discussion Questions

Question 1: Do Council members have any feedback on the recently completed revenue PIR report?

Question 2: Do Council members have any comments or suggestions on the ongoing PIR process related to leases and CECL?