FASAC FINANCIAL ACCOUNTING STANDARDS ADVISORY COUNCIL

FASAC Meeting
Tuesday, March 4, 2025
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 (Jonathan Wiggins) • PCAOB Highlights (Barbara Vanich)
10:20–11:15 am (55 minutes)	**Topic 2: Post-Implementation Review – Leases** • Topic introduction and full group discussion
11:15 am–12:30 pm (75 minutes)	**Topic 3: Consistency in Accounting Standards** • Topic introduction, discuss Question 1, description of breakout room tasks (15 minutes) • **Break/Move to breakout rooms (11:30-11:35 am)** (5 minutes) • Breakout discussions (focusing on Breakout Questions B1-B7) – 11:35 am-12:30 pm (55 minutes)
12:30–1:30 pm (60 minutes)	**LUNCH**
1:30–2:30 pm (60 minutes)	**Topic 3 (continued): Consistency in Accounting Standards** • Reconvene to analyze and further explore the similarities, differences, and other linkages in Council members' views from the breakout groups (Breakout Questions B1-B7) • Discussion on overall questions on standard-setting (Questions 2-3)
2:30-3:00 pm (30 minutes)	**Topic 4: Derivatives Scope Refinements** • Topic update from FASB staff and full group discussion

FASB FINANCIAL ACCOUNTING STANDARDS BOARD®

STANDARDS THAT WORK

FROM MAIN STREET TO WALL STREET

FASB Chair Report

October 1, 2024 – December 31, 2024



LETTER FROM THE FASB CHAIR

The last three months of 2024 saw us reach key milestones on many of the remaining technical projects to come out of our 2021 agenda consultation. We issued two final standards and several exposure documents in key areas with extended comment periods to allow for robust input. We completed our post-implementation review (PIR) of the revenue recognition standard. Finally, we launched an all-new agenda consultation that will ensure we continue to address stakeholder priorities when our current projects have made it over the finish line.

Final Standards

On November 4, we issued our final standard on disaggregation of income statement expenses (DISE), an investor-focused project that had been on the FASB agenda, in one form or other, for more than two decades. We thank all stakeholders whose input during the 2021 agenda consultation and other outreach helped us develop a practical way to provide investors with the additional expense detail they've told us is fundamental to their understanding of a company's performance. A few weeks later, the FASB issued a standard that improves the relevance and consistency in application of the induced conversion guidance in *FASB Accounting Standards Codification*® Subtopic 470-20, Debt—Debt with Conversion and Other Options.

Exposure Documents

The fourth quarter saw the FASB issue proposed standards on internal-use software costs, government grants, and environmental credits—all top stakeholder priorities identified during our last agenda consultation—as well as our proposal to improve interim reporting. We look forward to discussing feedback on these documents during the first half of 2025.

We also issued for public comment the first proposal from our newly reconstituted Emerging Issues Task Force (EITF) that would provide guidance for identifying the accounting acquirer in a business combination. We look forward to a full discussion about the feedback at a meeting in early 2025. We also exposed a recommendation of the Private Company Council (PCC) that would introduce a practical expedient and an accounting policy election for private companies and certain not-for-profit entities related to the application of the credit losses standard to current accounts receivable and current contract assets arising from revenue transactions.

We made progress on our research agenda by publishing two Invitations to Comment (ITCs) on financial key performance indicators (KPIs) and intangibles. An ITC is a staff document prepared at the direction of the FASB chair in which the Board does not express any preliminary views. Stakeholder responses to the ITCs will help inform the Board as we consider whether to add projects in these areas to our technical agenda and, if added, to determine the objective and scope of the projects.

We've taken steps to ensure our stakeholders have enough time to provide us with thoughtful feedback on all documents currently out for public comment. First, we made it clear that we welcome stakeholder feedback in any format—it can be a comment letter, an email, a submission through our electronic feedback form, or even a phone call with a member of the FASB staff. While not all stakeholders will be affected by all of the topics exposed, we took care to stagger comment deadlines and extend comment periods—some as long as 6 months, well beyond the standard 30-to-90 days. Finally, while comment deadlines are necessary, if stakeholders need more time, we will always accept submissions after the comment period officially ends.

Post-Implementation Review

We concluded our post-implementation review of the revenue recognition standard with a report that found that, while there are lessons to be learned, overall, most stakeholders agree that the standard's long-term benefits have outweighed the costs of applying it. The report also details our PIR process, which included outreach with more than 2,200 stakeholders from diverse backgrounds, key implementation support provided throughout the adoption of the revenue standard, and how we used what we learned to improve the standard and, more broadly, the standard-setting process. We will continue our reviews on the leases and credit losses standards and expect to issue a final report on leases by the end of next year.

New Agenda Consultation Project

We closed 2024 by launching a new agenda consultation project. We've already begun to discuss potential new priorities and directions with our advisory groups and conducted outreach with close to 200 stakeholders. We kicked off 2025 with an ITC that summarizes what we heard during these discussions while inviting stakeholders to react to our learnings or share something entirely new.

2024 saw the FASB deliver on our 2021 agenda consultation priorities, but our work isn't done yet. Now more than ever, we need your continued input to ensure that our proposed standards would be operable and effective in providing investors with the information they need to make capital allocation decisions in the most cost-effective manner possible and that our future standard-setting activities continue to address areas that our stakeholders deem to be most important.

On behalf of myself and my colleagues on the Board and staff, I thank you for your support of our mission in 2024. Your continued engagement in our process will allow us to continue to develop standards whose costs are worth their benefits. Here's to a successful 2025!



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 fourth quarter of 2024:

	Number of Projects				
	As of September 30	Added (removed)	Projects Completed	As of December 31	# EDs Issued
Recognition and measurement	10	2	(1)	11	5
Presentation or disclosure	3	2	(1)	4	2
Total	**13**	**4**	**(2)**	**15**	**7**

Two projects were completed through the issuance of a final Accounting Standards Update (ASU):

- *Income Statement—Reporting Comprehensive Income—Expense Disaggregation Disclosures (Subtopic 220-40): Disaggregation of Income Statement Expenses*
- *Debt—Debt with Conversion and Other Options (Subtopic 470-20): Induced Conversions of Convertible Debt Instruments.*

The Board added four projects to the technical agenda:

- Presentation of Contract Assets and Contract Liabilities for Construction Contractors (PCC)
- Credit Losses—Topic 606 Receivables (PCC)
- Accounting for Debt Exchanges
- Disaggregation—Income Statement Expenses: Clarifying the Effective Date.

The Board considered but decided not to add a project on the following topic to the technical agenda:

- Last-in, First-Out (LIFO) Inventory Costing Method.

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):

- *Intangibles—Goodwill and Other—Internal-Use Software (Subtopic 350-40): Targeted Improvements to the Accounting for Internal-Use Software*

- *Business Combinations (Topic 805) and Consolidation (Topic 810): Determining the Accounting Acquirer in the Acquisition of a Variable Interest Entity*
- *Interim Reporting (Topic 270): Narrow-Scope Improvements*
- *Government Grants (Topic 832): Accounting for Government Grants by Business Entities*
- *Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses for Accounts Receivable and Contract Assets for Private Companies and Certain Not-for-Profit Entities*
- *Income Statement—Reporting Comprehensive Income—Expense Disaggregation Disclosures (Subtopic 220-40): Clarifying the Effective Date*
- *Environmental Credits and Environmental Credit Obligations (Topic 818).*

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

Project	Board Meeting(s)	Summary of Discussions
Financial Instruments—Credit Losses (Topic 326)—Purchased Financial Assets	October 2	• Discussed issues related to the scope of the proposed amendments and decided to: ○ Affirm its decision to include held-to-maturity debt securities that are not beneficial interests in the scope of the gross-up approach ○ Recognize expected credit losses from off-balance-sheet credit exposures through other comprehensive income when applying the gross-up approach ○ Exclude contract assets and lease receivables from the scope of the gross-up approach and clarify that any initial allowance for credit losses for acquired contract assets and lease receivables should be recognized through the income statement ○ Exclude trade accounts receivable from the scope of the gross-up approach. • Discussed issues related to revolving credit arrangements and available-for-sale debt securities and directed the staff to perform additional research.
PCC Presentation of Contract Assets and Contract Liabilities for Construction Contractors	October 16	• Endorsed the PCC's decisions on the presentation of contract assets and contract liabilities for construction contractors: ○ To provide an alternative for private companies to present contract assets and contract liabilities on a gross basis on the statement of financial position

Project	Board Meeting(s)	Summary of Discussions
		○ That the scope of the presentation alternative be private construction companies within the scope of Topic 910, Contractors—Construction ○ To require disclosure when the presentation alternative has been used ○ To require a full retrospective transition method and related disclosures, with the ability to forgo a preferability assessment the first time the presentation alternative is used. • Directed the staff to draft a proposed ASU with a 45-day comment period. • Note: The PCC subsequently discussed this project at its meeting on December 17, 2024.
PCC Credit Losses—Topic 606 Receivables	October 16	• Endorsed the PCC's decisions on the application of Topic 326, Financial Instruments—Credit Losses, to current accounts receivable and current contract assets arising from revenue transactions: ○ That the scope of the new guidance would be current accounts receivable and current contract asset balances arising from transactions accounted for under Topic 606, Revenue from Contracts with Customers ○ To provide (1) a recognition and measurement practical expedient to assume that current economic conditions as of the balance sheet date will persist through the forecast period and (2) for entities that elect the practical expedient, an accounting policy election to consider subsequent cash collections in determining the estimate of expected credit losses ○ To require disclosure when the practical expedient and accounting policy election have been used ○ That the practical expedient and accounting policy election be applied prospectively, with the ability to forgo a preferability assessment the first time they are used. • Decided that the proposed solution would apply to private companies and not-for-profit (NFP) entities, excluding NFP entities that have issued, or are conduit bond obligors for, securities that are traded, listed, or quoted on an exchange or an over-the-counter market.

Project	Board Meeting(s)	Summary of Discussions
		• Directed the staff to draft a proposed ASU with a 45-day comment period. (The proposed ASU was issued on December 3, with comments due January 17, 2025.)
Interim Reporting—Narrow-Scope Improvements, Accounting for Government Grants, and Accounting for Environmental Credit Programs	November 6	• Decided to extend the comment period on the proposed ASUs for certain projects to the following deadlines: ○ Interim Reporting—Narrow-Scope Improvements—March 31, 2025 ○ Accounting for Government Grants—March 31, 2025 ○ Accounting for Environmental Credit Programs—April 15, 2025.
Accounting for Debt Exchanges	November 20	• Added a project to address when certain debt exchange transactions with multiple creditors should be accounted for as a debt extinguishment and the issuance of new debt. • Consistent with the Emerging Issues Task Force's (EITF) recommendation, decided that a debt exchange transaction involving multiple creditors in the issuance of the new debt obligation would be accounted for as a debt extinguishment and the issuance of new debt when the following conditions are met: ○ The existing debt has been repaid in accordance with its original contractual terms or repurchased at market terms. ○ The new debt was issued at market terms following the issuer's normal marketing process for new debt issuances. • Decided that the proposed amendments would be applied prospectively and that early adoption would be permitted. • Directed the staff to draft a proposed ASU, with a comment period that will be the longer of (1) a comment period ending April 11, 2025, and (2) 30 days.
Disaggregation—Income Statement Expenses: Clarifying the Effective Date	November 20, December 18	• Decided to amend the effective date of ASU 2024-03 to clarify that public business entities are required to adopt the guidance in annual reporting periods beginning after December 15, 2026, and interim periods within annual reporting periods beginning after December 15, 2027. • Directed the staff to draft a proposed ASU with a 15-day comment period. (The proposed ASU was issued on November 25 with a 15-day comment period.)

Project	Board Meeting(s)	Summary of Discussions
		• Discussed feedback received on the proposed ASU and completed redeliberations, affirming the proposed amendments. • Directed the staff to draft a final ASU.

Other Projects

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

- 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 fourth quarter of 2024:

	Number of Projects					
	As of September 30	Added (removed)	Transferred	Final Documents Issued	As of December 31	# of Exposure Drafts or Invitations to Comment
Research Projects	7				7	2
Private Company Council Projects	2		(2)		0	
Emerging Issues Task Force Projects	1		(1)		0	
Post-Implementation Review Projects	3			(1)	2	
Total	**13**	**0**	**(3)**	**(1)**	**9**	**2**

Research Projects: The Board continued to move forward on its research projects. An Invitation to Comment (ITC) was issued for each of the following research projects during the quarter: Financial Key Performance Indicators for Business Entities and Accounting for and Disclosure of Intangibles. An ITC for the Agenda Consultation project was issued in Q1 2025. Current research projects as of the end of the quarter are listed in the appendix.

PCC Projects: Two PCC projects, Credit Losses—Topic 606 Receivables and Presentation of Contract Assets and Contract Liabilities for Construction Contractors, were transferred to the Board's technical agenda upon the Board's endorsement of the decisions made by the PCC at its September 2024 meeting. These projects resulted from the PCC's agenda prioritization process and are intended to provide accounting alternatives or practical expedients for private companies. In December, a proposed ASU was issued for Credit Losses—Topic 606 Receivables, which is open for comment until January 17, 2025. The PCC discussed the project on Presentation of Contract Assets and Contract Liabilities for Construction Contractors at its meeting in December 2024.

EITF Projects: The EITF met on October 28 and discussed its project on issuance of new debt to repay old debt. At that meeting, the EITF recommended that the Board add a project to its technical agenda to clarify when a transaction with multiple creditors that involves the contemporaneous exchange of cash between the same debtor and creditor in connection with the issuance of a new debt obligation and satisfaction of an existing debt obligation by the debtor should be accounted for as a debt extinguishment and issuance of new debt. The project was transferred to the Board's technical agenda upon the Board's acceptance of the EITF's recommendation.

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.

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

The PIR project for Revenue Recognition was completed during 4Q and the final PIR report was issued on November 25, 2024. 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. Based on all the activities conducted under the Revenue PIR process, the staff concluded that the revenue recognition standard accomplished its stated purpose and that its benefits justify the implementation and ongoing compliance costs. Additionally, the Revenue PIR process provided timely feedback to improve the FASB's standard-setting process.

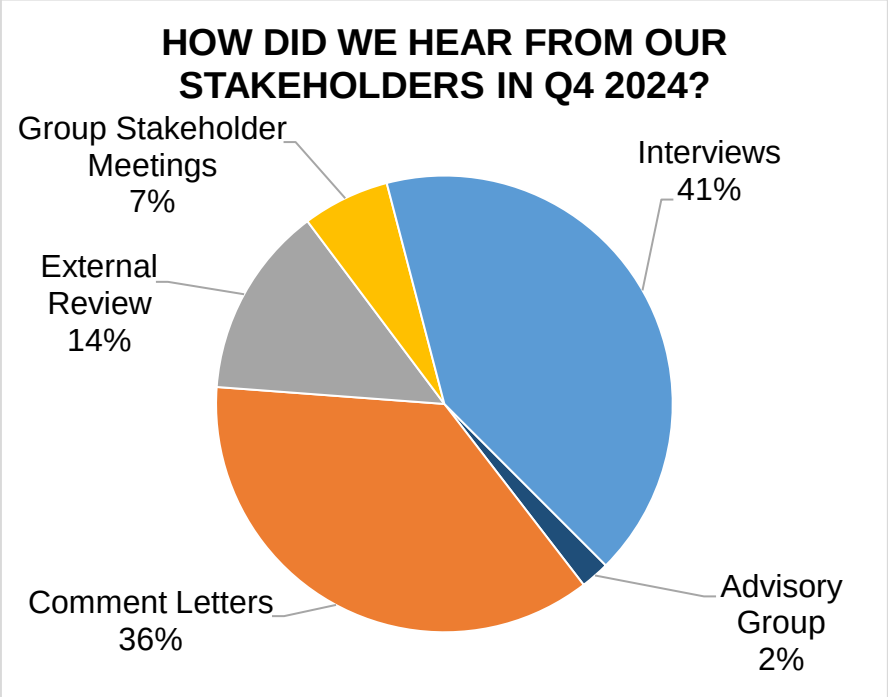
The following table lists activities connected with the individual projects:

Project	Activities
Credit Losses	• Continued to monitor implementation of CECL and engage with stakeholders on various implementation issues through technical inquiries, advisory group meetings, and speeches. • Continued redeliberations on the proposed ASU, *Financial Instruments—Credit Losses (Topic 326): Purchased Financial Assets*, including discussing this project at a Board meeting in October 2024. • Issued the proposed ASU, *Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses for Accounts Receivable and Contract Assets for Private Companies and Certain Not-for-Profit Entities*, in December 2024.
Leases	• Continued to monitor implementation efforts and engage with stakeholders on various implementation issues, including discussion at advisory group meetings. • Developed a cost survey for nonpublic preparers to be launched in Q1 2025. • Developed investor outreach materials for public and nonpublic entity investor outreach to be conducted in first half of 2025. • Participated in two PCC Working Group meetings and developed outreach materials for discussion with private company preparers to determine areas of difficulty with applying Topic 842; that outreach commenced in December 2024.
Revenue Recognition (Completed)	• Concluded the PIR process and issued the final Revenue PIR report in November 2024.

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.

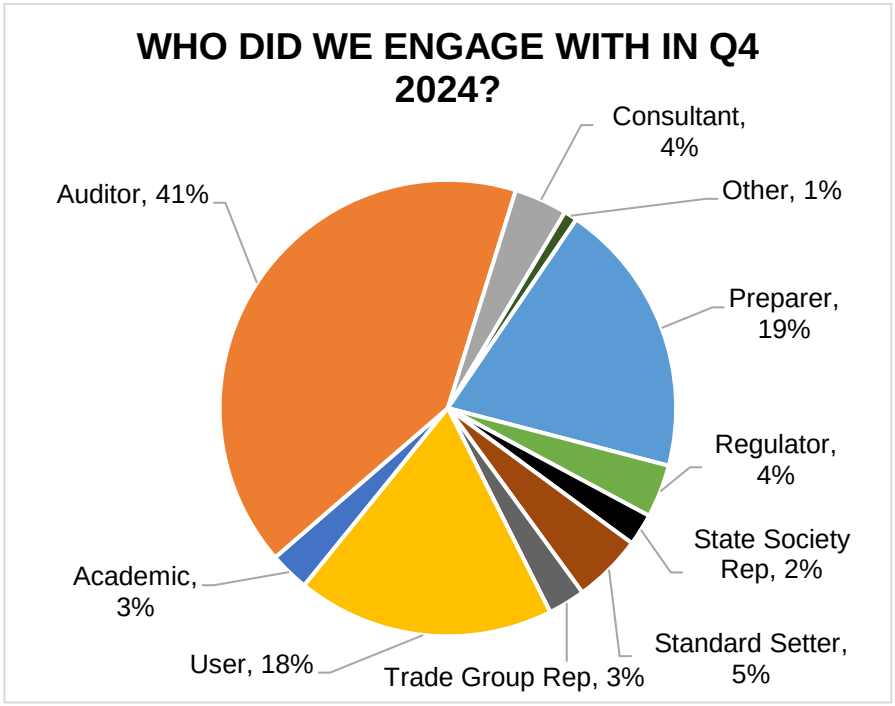
The following graphs and charts summarize how the Board and staff heard from stakeholders and who they heard from.



Q4 Summary Statistics		YTD
# of Interviews	101	412
# of Comment Letters	89	130
# of External Review Responses	33	89
# of Group Stakeholder Meetings	16	43
# of Advisory Group Meetings*	5	16

Notes:

**Advisory group meetings include one meeting each with EITF, IAC, SBAC, FASAC, and PCC.*



Types of Stakeholders	
Preparers	
Public Entities	73%
Private Entities	26%
Not-for-Profit Entities	1%
Auditors	
Big 4 Firms	64%
Other Global	17%
U.S. National	14%
U.S. Regional & Local	5%
Investors and Other Users	
Buy-side	29%
Sell-side	33%
Credit Rating Agencies, Private Equity, Lender, and Other Users	38%

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

Group	Meeting Date(s)	Meeting Type	Topics
EITF	October 28, 2024	Public	• Issuance of New Debt to Repay Old Debt
IAC	November 7, 2024	Public	• Agenda Consultation
SBAC	November 21, 2024	Public	• Share-Based Consideration Payable to a Customer • Financial Key Performance Indicators for Business Entities • Interim Reporting—Narrow-Scope Improvements • Determining the Acquirer in the Acquisition of a VIE • Issuance of New Debt to Repay Old Debt • Credit Losses—Topic 606 Receivables (PCC)
FASAC	December 5, 2024	Public	• FASB Interpretive Process and the EITF • Financial Key Performance Indicators for Business Entities • PIR Process
PCC	December 16-17, 2024	Public	• Accounting for Government Grants • Accounting for and Disclosure of Intangible Assets • Financial Key Performance Indicators for Business Entities • PCC Agenda Priorities • Debt Modifications and Extinguishments • PCC Research Project—Leases and FASB Leases Post-Implementation Review Project • Credit Losses—Topic 606 Receivables • PCC Project—Presentation of Contract Assets and Contract Liabilities for Construction Contractors

Members appointed to advisory groups in the quarter were:

- Financial Accounting Standards Advisory Council (FASAC): Yoni Engelhart, Stacy Harrington, Joseph Holmes, Eric Johnson, W. Howard Morris, Susanne Skaggs
- Investor Advisory Committee (IAC): Alex Barros, Clinton Chang
- Private Company Council (PCC): Autumn Hindman.

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*	
Joint FASB-IASB Educational Meeting	October 11
IASB Research Forum	November 4-5
IFRS Accounting Standards Advisory Forum (ASAF) Meeting	December 5-7
FASB-IASB Chair Meeting	December 13
Multilateral Activities	
Multi-Lateral Network (MLN) Meeting	October 15 December 13
Institute of International Finance (IIF) International Accounting and Reporting Forum	November 12
*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 FASB chair and the FASB technical director also continue to meet regularly with the U.S. Securities and Exchange Commission's (SEC) chief accountant and other senior staff of the SEC.

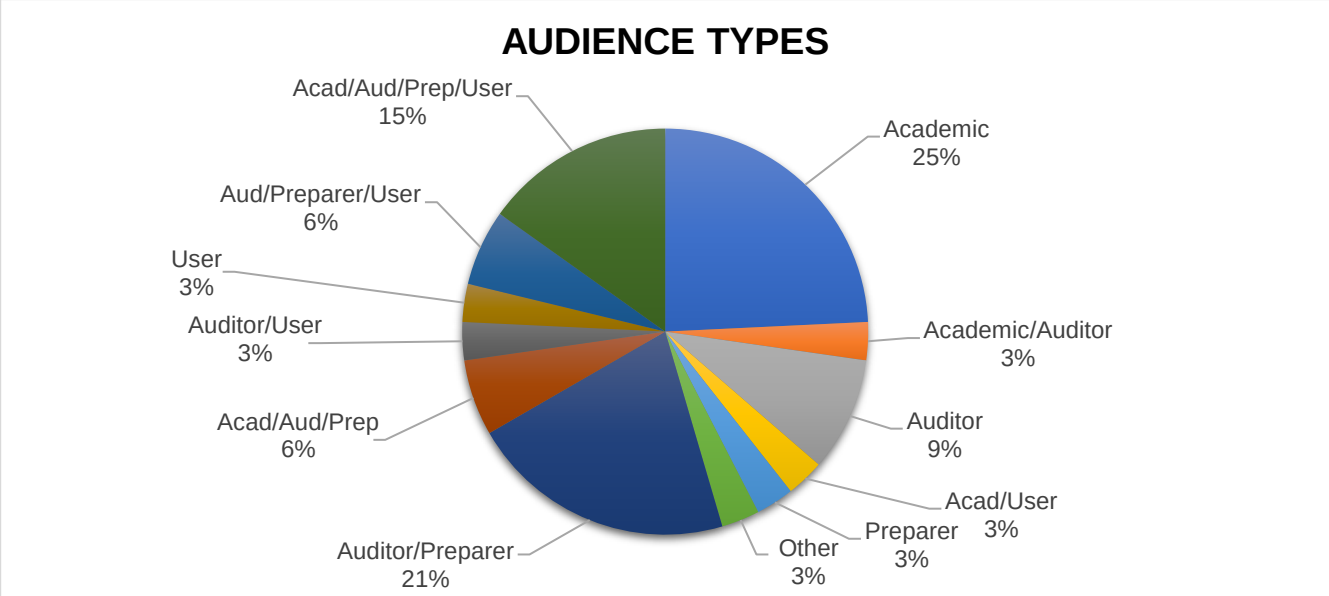
OTHER KEY COMMUNICATION ACTIVITIES

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
Video	New FASB Standard: Disaggregation of Income Statement Expenses	November 4, 2024
Video	DISE In Depth	November 4, 2024
Webinar	Governmental and Not-for-Profit Accounting Webcast for Academics (jointly with GASB)	November 8, 2024
Webinar	FASB Update for Private Companies and Not-for-Profit Organizations	December 12, 2024

Speech Activity			
Speaker	2022 4Q	2023 4Q	2024 4Q
FASB members	12	8	12
FASB staff	27	23	26
PCC members	0	0	0
Total	**39**	**31**	**38**

- *A total of 38 FASB speakers presented at 33 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 23 press releases, media advisories, meeting recaps, and stakeholder emails on a variety of topics, with accompanying social media.

Other Communications Activities and Education

- On October 10, Rich Jones participated in a 50-minute interview with Tim Gearty of Becker Professional Education, a leading provider for training for the CPA exam, for accounting students at colleges and universities, and for CPE for accountants in industry and public accounting.
- On November 1, FASB Member Fred Cannon joined members of the FASB staff for five media interviews about the FASB's new ASU on Disaggregation of Income Statement Expenses, resulting in coverage by the Wall Street Journal, Bloomberg BNA, Thomson Reuters Accounting and Compliance Alert, CFO Dive, and Accounting Today.
- On November 12, Rich Jones and Jackson Day participated in the FASB priorities panel moderated by Alice Jolla of Microsoft as part of the virtual FEI Corporate Financial Reporting Insights Conference.
- On December 9, Rich Jones, Jackson Day, and Nellie Debbeler presented the FASB Update at the AICPA & CIMA Conference on Current SEC and PCAOB Developments in Washington, DC.
- On December 13 and 16, Rich Jones participated in two separate end-of-year interviews with Jorja Siemons of Bloomberg BNA and Mark Maurer of the Wall Street Journal CFO Journal, respectively, to discuss the FASB's 2024 progress and 2025 priorities.

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:
    - Made available:
        - The final 2025 GRT (pending SEC acceptance), which included an Employee Benefit Plan Taxonomy (EBPT) and the 2025 SRT
        - The 2025 DQCRT to aid constituents in complying with the Data Quality Committee Rules published by XBRL US as validation checks for XBRL filings with the SEC
        - The 2025 GAAP Meta Model Relationships Taxonomy (MMT) to help preparers identify the proper elements for tagging their filings and assist in the consumption of data.
    - Issued for comment:
        - Proposed changes to the 2025 GRT, the 2025 EBPT (which is included in the 2025 GRT), and the 2025 GRT Reference Project along with related release notes
        - Proposed changes to the 2025 DQCRT and related release notes
        - Proposed changes to the 2025 MMT and related release notes.
    - Published proposed taxonomy improvements for:

        - Proposed Accounting Standards Update—*Derivatives and Hedging (Topic 815): Hedge Accounting Improvements*
        - Proposed Accounting Standards Update—*Intangibles—Goodwill and Other—Internal-Use Software (Subtopic 350-40): Targeted Improvements to the Accounting for Internal-Use Software*
        - Proposed Accounting Standards Update—*Business Combinations (Topic 805) and Consolidation (Topic 810): Determining the Accounting Acquirer in the Acquisition of a Variable Interest Entity*
        - Proposed Accounting Standards Update—*Interim Reporting (Topic 270): Narrow-Scope Improvements*
        - Proposed Accounting Standards Update—*Government Grants (Topic 832): Accounting for Government Grants by Business Entities*
        - Proposed Accounting Standards Update—*Income Statement—Reporting Comprehensive Income—Expense Disaggregation Disclosures (Subtopic 220-40): Clarifying the Effective Date*
        - Proposed Accounting Standards Update—*Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses for Accounts Receivable and Contract Assets for Private Companies and Certain Not-for-Profit Entities*
        - Proposed Accounting Standards Update—*Environmental Credits and Environmental Credit Obligations (Topic 818).*
    - Published as final (pending annual update) taxonomy improvements for:
        - ASU 2024-03—*Income Statement—Reporting Comprehensive Income—Expense Disaggregation Disclosures (Subtopic 220-40): Disaggregation of Income Statement Expenses*
        - ASU 2023-04—*Debt—Debt with Conversion and Other Options (Subtopic 470-20): Induced Conversions of Convertible Debt Instruments*.
    - Published the following proposed GAAP Taxonomy Implementation Guide for the 2024 Taxonomy:
        - Boolean, Fixed List, and Extensible Enumeration Elements.
    - Performed research to support various Board projects.

<u>Outreach Activities Supporting Board Initiatives</u>

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 December 31, 2024

PROJECTS	Next Milestone	Expected Date
Accounting for and Disclosure of Software Costs	Exposure Draft	Comments Due January 27, 2025
Accounting for Debt Exchanges	Exposure Draft	1Q 2025
Accounting for Environmental Credit Programs	Exposure Draft	Comments Due April 15, 2025
Accounting for Government Grants	Exposure Draft	Comments Due March 31, 2025
Codification Improvements (Evergreen)	Exposure Draft	1Q 2025
Credit Losses—Topic 606 Receivables (PCC)	Exposure Draft	Comments Due January 17, 2025
Determining the Acquirer in the Acquisition of a VIE	Board redeliberations	Ongoing
Disaggregation—Income Statement Expenses: Clarifying the Effective Date	Final ASU	1Q 2025
Financial Instruments—Credit Losses (Topic 326)—Purchased Financial Assets	Board redeliberations	Ongoing
Interim Reporting—Narrow-Scope Improvements	Exposure Draft	Comments Due March 31, 2025
Presentation of Contract Assets and Contract Liabilities for Construction Contractors (PCC)	Exposure Draft	1Q 2025
Share-Based Consideration Payable to a Customer	Board redeliberations	Ongoing
Statement of Cash Flows Targeted Improvements	Board deliberations	Ongoing
Topic 815—Derivatives Scope Refinements	Board redeliberations	Ongoing
Topic 815—Hedge Accounting Improvements	Board redeliberations	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

POST-IMPLEMENTATION PROJECTS
Credit Losses
Leases

FASAC FINANCIAL ACCOUNTING STANDARDS ADVISORY COUNCIL

ATTACHMENT 2

POST-IMPLEMENTATION REVIEW – LEASES
FINANCIAL ACCOUNTING STANDARDS ADVISORY COUNCIL (FASAC)
MARCH 4, 2025

Session Background and Objective

The Post-Implementation Review (PIR) process is part of the Financial Accounting Foundation's (FAF) Board of Trustees' oversight responsibilities of the FASB. The PIR process assists the Trustees in evaluating the effectiveness of the standard-setting process for the FASB.

The PIR process is an evaluation of whether a standard is achieving its objective by providing investors and other allocators of capital (herein referred to as "investors") with relevant information in ways that justify the costs of providing it. It is an important quality control mechanism built into FASB's standard-setting process that begins after the issuance of select standards. 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 improvement that the Board should address.

The purpose of this session is to provide Council members with an overview of the history of the leases project that led to the issuance of Accounting Standards Update No. 2016-02—*Leases (Topic 842)*, related amendments to Topic 842 (collectively, the leases standard), and significant PIR activities performed to date. This includes information about why the FASB launched a project on lease accounting in 2006 and summarizes the process that the FASB undertook in developing the leases standard and the stakeholder feedback received—including the significant input received on the various proposals for the recognition and measurement of lease contracts by entities that obtain or provide the right to use an underlying asset, referred to as lessees and lessors, respectively. FASAC has previously discussed the leases PIR process twice—in June 2021 and June 2019.

In this session, Council members will be asked to provide insights and observations on the Board's activities during the leases project and certain aspects of initially applying the leases standard.

Background Materials

These materials include:

1. History of the Leases Project
2. Significant PIR Activities
   a) Prior FASAC Discussion on Initial and Recurring Costs
   b) Prior FASAC Discussion on the Benefits and Ongoing Costs of Applying the Leases Standard

Discussion questions are included on page 12.

History of the Leases Project

The legacy accounting for leases in GAAP and International Financial Reporting Standards (IFRS) did not require a lessee to recognize the assets and liabilities arising from operating leases on its balance sheet, but it did require that recognition for capital leases (referred to in Topic 842 as finance leases). The FASB and the International Accounting Standards Board (IASB) (collectively, the "Boards") initiated a joint project in July 2006. The objective of that joint project was to improve the financial reporting of leasing activities in light of criticism that the legacy accounting for leases failed to meet the needs of investors. In particular, the U.S. Securities and Exchange Commission (SEC) in its *2005 Report and Recommendations Pursuant to Section 401(c) of the Sarbanes-Oxley Act of 2002 On Arrangements with Off-Balance Sheet Implications, Special Purpose Entities, and Transparency of Filings by Issuers*, which was issued to the U.S. Congress, recommended that the accounting guidance for leases be reconsidered. The report observed that "the current accounting for leases takes an "all or nothing" approach to recognizing leases on the balance sheet. This results in a clustering of lease arrangements such that their terms approach, but do not cross, the "bright lines" in the accounting guidance that would require a liability to be recognized." As a consequence, arrangements with similar economic outcomes are accounted for very differently.

In addition, feedback, including findings from academic studies, indicated that because leases classified as operating leases were not recognized on a lessee's balance sheet, most investors adjusted a lessee's financial statements to capitalize operating leases. In doing so, some tried to estimate the present value of future lease payments using disclosures of future minimum rental payments (limited to contractually required "fixed" payments). Many other investors used techniques—such as multiplying the lessee's annual lease expense (included contractually required fixed and variable payments) by a factor (often in the range of six to eight) to approximate the fair value of the lessee's obligations. This adjustment was used, for example, to assess total leverage and the capital employed in operations. Other investors were unable to make adjustments and

relied on other data sources, such as data aggregators, to make investing decisions.

When the Boards added the leases project to their agendas, they agreed that the project would consider both lessee accounting and lessor accounting. In 2006, the Boards set up their International Working Group on lease accounting (hereinafter referred to as the Working Group) that included investors, preparers, and auditors of both lessees' and lessors' financial statements. The Working Group provided comments on the early proposals to improve lease accounting (in February 2007) and its members contributed informally to the development of lease accounting models during 2007 and 2008.

In April 2008, the Boards announced their intention to produce a revised standard for lessees by mid-2011 and, in July 2008, the Boards tentatively decided to defer consideration of lessor accounting and concentrate on developing an improved lessee accounting model. The Boards further determined that the timing of any new lessor standard was to be decided after publishing the joint Discussion Paper: *Leases: Preliminary Views*, in March 2009.

2009 Discussion Paper

The Discussion Paper set out the Boards' preliminary views on lessee accounting, proposing a right-of-use accounting model. The Discussion Paper would have required lessees to account for all lease contracts as the acquisition of a right to use the leased item for the lease term. A lessee would have accounted for all leases by recognizing a lease liability and a related right-of-use asset, measured as the present value of the lease payments (fixed and variable). In addition, the lessee also would have amortized the right-of-use asset typically over the lease term and recognized interest on the lease liability, consistent with the accounting for capital leases under legacy GAAP. The Discussion Paper did not discuss lessor accounting in any detail.

The Boards received 302 comment letters on the Discussion Paper. Feedback was generally supportive of the right-of-use model (recognition of assets and liabilities arising from a lease) for lessees. In addition, the following broad concerns were raised by respondents:

1. The existing guidance is well understood by both preparers and investors, and the Boards should address implementation issues relating to the existing model rather than abandon a model that is not fundamentally flawed.
2. A right-of-use model would lead to recognizing assets and liabilities for all executory contracts, including purchase orders and long-term sales and supply agreements, which would inappropriately gross up a lessee's balance sheet.
3. The right-of-use model is too complex, and its benefits would not outweigh the costs.

In addition, many respondents suggested that the Boards develop a consistent accounting model for lessees and lessors.

2010 Exposure Draft

After considering the 2009 Discussion Paper feedback, as well as input obtained from the Working Group and from others who were interested in the financial reporting of leases, the Boards published a joint Exposure Draft, *Leases* (2010 Exposure Draft), in August 2010.

The proposed guidance in the 2010 Exposure Draft further developed the right-of-use accounting model for lessees in the Discussion Paper.

The 2010 Exposure Draft also proposed that lessors change their accounting to a dual model in which a lessor would recognize a lease receivable for all leases and depending on the lessor's exposure to the risks and benefits of the underlying asset, lessors would either (a) derecognize a portion of the underlying asset or (b) continue to recognize the underlying asset and recognize a performance obligation liability. The Boards decided to include lessor accounting in the 2010 Exposure Draft in response to respondents' comments on the Discussion Paper and because the Boards saw merit in developing proposals on lessor accounting and the recognition of revenue at the same time.

The Boards received 786 comment letters in response to the 2010 Exposure Draft from entities and organizations from a range of industries, including both public business entities and private companies.

The Boards also consulted extensively on the proposals in the 2010 Exposure Draft. Roundtable discussions were held in Hong Kong, the United Kingdom, and the U.S. Workshops were organized in Australia, Brazil, Canada, Japan, South Korea, the United Kingdom, and the U.S. Members of the Boards also participated in conferences, Working Group meetings, discussion forums, and one-on-one discussions that were held across all major geographical regions. In 2011 and 2012, while redeliberating the proposals in the 2010 Exposure Draft, the Boards conducted targeted outreach on specific issues with more than 100 organizations. The targeted outreach meetings involved Working Group members, representatives from accounting firms, local standard setters from other national and regional jurisdictions, investors, and preparers—particularly those from industries most affected by the lease accounting proposals.

The main feedback received on the 2010 Exposure Draft was as follows:

1. There was general support for the recognition of assets and liabilities arising from a lease by lessees, which was consistent with comments received on the Discussion Paper.

2. Some respondents said that leases are a source of financing for a lessee and should be accounted for accordingly. Consequently, they supported the proposed right-of-use model in which a lessee would recognize separately amortization of the right-of-use asset and interest on the lease liability.
3. Others disagreed with the 2010 Exposure Draft stating that the approach would not properly reflect the economics of all lease transactions. In particular, some respondents referred to shorter term property leases as examples of leases that, in their view, were not financing transactions from either the lessee's or the lessor's perspective.
4. Despite calls for consistency between lessor and lessee accounting, many respondents disagreed with the lessor accounting proposals. Some asserted that there are not significant issues with the legacy lessor accounting requirements, that they work well in practice, and, therefore, should be retained.
5. Almost all respondents were concerned about the costs and complexity of the proposals. In particular, the respondents raised concerns about the proposed measurement of the lessee's lease liability and the lessor's lease receivable, which would have required an entity to estimate all variable lease payments to be made during the noncancellable period of a lease and during any optional extension periods that the entity considered more likely than not to occur.
6. Many respondents also were concerned about the breadth of the proposed scope, indicating that the proposed definition of a lease had the potential to capture some arrangements that they considered to be service contracts rather than leases.

2013 Exposure Draft

The Boards considered all of the feedback received during the redeliberations of the proposals in the 2010 Exposure Draft and observed that it would not be possible to reflect the views of all stakeholders because stakeholders did not have a uniform view of the economics of leases. The Boards decided to expose for comment an alternative model that was intended to be responsive to those stakeholders who said that the economics vary among different types of leases. Consequently, in May 2013 the Boards published a second joint Exposure Draft, *Leases* (2013 Exposure Draft).

The 2013 Exposure Draft proposed two approaches to the recognition and measurement of expenses arising from a lease (along with still proposing that lessees be required to recognize a lease liability and right-of-use asset for all leases). The lessee model distinguished between different types of leases based on the level of the lessee's consumption of the economic benefits embedded in the underlying asset. That model was based on the view that the recognition of a single lease expense in a lessee's income

statement would provide better information about leases for which the lessee (a) pays only for the use of the underlying asset and (b) is expected to consume only an insignificant amount of the economic benefits embedded in the underlying asset itself. A lessee would have accounted for those leases for which it consumes *more than* an insignificant amount of the benefits embedded in the underlying asset by amortizing the right-of-use asset typically over the lease term and recognizing interest on the lease liability, consistent with the accounting for capital leases under legacy GAAP. Unlike the 2010 Exposure Draft, the measurement of the lease liability and right-of-use asset would have excluded variable lease payments (except for those based on an index or rate).

The 2013 Exposure Draft also proposed a lessor model that distinguished between different types of leases based on the lessee's level of consumption of the economic benefits embedded in the underlying asset. For leases in which the lessee is expected to consume more than an insignificant portion of the economic benefits embedded in the underlying asset, the lessor would have been required to recognize its residual interest in the underlying asset separately from its right to receive lease payments (that is, its lease receivable). A lessor would account for all other leases in a similar manner to operating lease accounting in Topic 840 (that is, the lessor would (a) continue to recognize the underlying asset and (b) recognize lease income over the lease term typically on a straight-line basis). Consistent with the lessee model proposed in the 2013 Exposure Draft, the lease payments used for measuring the lease receivable or the total lease cost to be recognized over the lease term would have excluded most variable payments.

The Boards received 657 comment letters in response to the 2013 Exposure Draft from stakeholders from a range of industries. In addition, the Boards consulted extensively on the proposals in the 2013 Exposure Draft, including:

1. Consultations with more than 270 investors based in the U.S., the United Kingdom, Sweden, Switzerland, Belgium, the Netherlands, France, Australia, New Zealand, Hong Kong, Japan, and Canada.
2. Meetings with individual preparers from various industries including consumer goods, retail, aviation, oil and gas, telecommunications, and automotive. These meetings were held in Germany, France, Spain, the United States, the United Kingdom, Japan, and Brazil and included detailed discussions about the costs of implementation for those companies.
3. Roundtables held in London, Norwalk, Los Angeles, Singapore, and Brazil. These were attended by approximately 100 stakeholder representatives.
4. Meetings with all of the FASB's advisory groups—the Financial Accounting Standard Advisory Council (FASAC), the Investor Advisory Committee (IAC), the Not-for-Profit Advisory Committee (NAC), the Small Business Advisory Committee (SBAC), and the

Private Company Council (PCC).

5. Outreach meetings with various other individual preparers and groups of preparers, standard setters, and regulators. These meetings included presentations during accounting conferences, keynote presentations at industry forums, and meetings with individual organizations or groups.
6. Project webcasts that were attended by over 2,000 participants.

The main feedback received on the 2013 Exposure Draft was as follows:

1. Many stakeholders supported the recognition of a right-of-use asset and a lease liability by a lessee for all leases of more than 12 months (similar to feedback received on the 2010 Exposure Draft). Those stakeholders included most investors consulted.
2. Many stakeholders disagreed with the proposed lessee accounting model. Some of those stakeholders (a) said that the lessee accounting model in Topic 840 did not need to be changed or (b) supported expanding the lessee disclosure requirements instead of changing the recognition and measurement requirements. Other stakeholders disagreed with one or more specific lessee aspects in the 2013 Exposure Draft.
3. Many stakeholders said that there were significant improvements to the measurement proposals in the 2013 Exposure Draft, as compared with the 2010 Exposure Draft, especially relating to simplifications of variable lease payments and payments under renewal options and purchase options. Nonetheless, the majority of stakeholders still had concerns about the costs and complexity of the proposals in the 2013 Exposure Draft.
4. The majority of stakeholders disagreed with the proposed lessor accounting model because, in their view, it was not an improvement to the financial reporting for those transactions. Most of those stakeholders said that lessor accounting should not be changed substantially.

Topic 842 (Issued February 2016)

After considering all of the feedback received throughout the leases project, the Board decided that a lessee should be required to recognize right-of-use assets and lease liabilities for all leases (except for short-term leases). However, the Board sought to address many of the stakeholders' concerns about the costs and complexity of the lessee and lessor proposals (in the 2010 and 2013 Exposure Drafts) when finalizing Topic 842. Specifically, the Board:

1. Adopted a lessee accounting model that distinguishes between two lease types (finance leases and operating leases) using a classification approach that is substantially similar to legacy GAAP for distinguishing between operating leases and capital leases. The Board expected that this decision, along with other simplifications,

would result in many lessees using their existing systems and processes to apply Topic 842. Conversely, the IASB decided to require a single lessee accounting model in which a lessee accounts for all leases as finance leases, with an exemption for leases of "small assets" that are considered underlying assets of approximately $5,000 or less.

2. Substantively retained the lessor accounting model from legacy GAAP, including recognizing and distinguishing between sales-type leases, direct financing leases, and operating leases. In addition, certain of the lessor accounting requirements were aligned with revenue recognition (Topic 606).
3. Provided more robust guidance for identifying a lease, including determining whether a customer has the right to control the use of an underlying asset.
4. Allowed a lessee to not recognize assets and liabilities for short-term leases (leases with a lease term of 12 months or less). The IASB provided a similar exception.
5. Permitted a lessee to apply the leases standard at a portfolio level for leases with similar characteristics.
6. Largely aligned the requirements for determining the lease term, including the consideration of renewal, termination, and purchase options, with legacy GAAP.
7. Simplified the measurement of the lease liability by excluding variable payments other than those that depend on an index or a rate (initially measured using the index or rate at the commencement date).
8. Simplified lessee expense recognition and the process for subsequently measuring the right-of-use asset in an operating lease as compared with the proposed guidance in the Exposure Drafts.
9. Provided a practical expedient whereby a lessee may, as an accounting policy election by class of underlying asset, choose not to separate nonlease components from lease components and instead to account for each separate lease component and the nonlease components associated with that lease component as a single lease component.
10. Clarified the application of the sale guidance in revenue recognition (Topic 606) to sale and leaseback transactions and provided more robust guidance for determining when a lessee controls the underlying asset before the commencement date.

Significant PIR Activities

Since the issuance of the leases standard, the FASB and its staff have been assisting stakeholders with the implementation and ongoing application of the leases standard. The Board did not create a transition resource group to analyze and discuss implementation issues that arise because many of the concepts in the leases standard are similar to

legacy GAAP.[1] The FASB has been consistently working with stakeholders to understand implementation challenges, address their questions, and consider the need for subsequent amendments. The FASB staff has answered over 400 technical inquiries and has made certain modifications and clarifications to the leases standard to reduce the expected costs of applying that guidance.

For example, after learning from stakeholders about unanticipated costs and complexities of recognizing operating leases on the balance sheet using existing or new systems, the Board permitted entities to apply the leases standard at the adoption date as opposed to the earliest comparative period presented. That transition relief was widely used by most entities in their adoption of the leases standard. The FASB also has made several amendments to the lessor requirements to preserve the same financial reporting outcomes realized under legacy guidance.

During 2020[2] and after public entities implemented the FASB's leases standard, the staff conducted outreach with investors of public entity financial statements. The Board and the staff continue to perform outreach with investors to solicit feedback on costs and complexities in applying the leases standard and whether reported lease assets and lease liabilities and the related disclosures provide investors with decision-useful information.

For private companies and certain not-for-profit organizations, the Board deferred the mandatory effective date for private companies and certain not-for-profit organizations twice (in November 2019 and again in June 2020) to help facilitate an effective adoption of the leases standard. In addition, the Board amended the lease guidance in response to certain private company stakeholder concerns, including about applying the guidance to related party arrangements between entities under common control.

The Board and the staff have had ongoing discussions on implementation with advisory groups and liaison meetings, including with the PCC and NAC, given the extended effective date. Recently, the PCC formed a Leases Working Group to understand private company challenges and determine whether any specific areas for simplification and identifiable solutions exist. The PCC Leases Working Group and FASB staff currently are soliciting feedback from private company preparers to identify areas of significant cost and/or complexity.

Prior FASAC Discussion on Initial and Recurring Costs

On June 20, 2019, Council members discussed the FASB's post-effective-date

[1] See discussion at (among others): Summary of Update 2018-10; Remarks by Russell Golden at IMA 2019 Annual Conference; Speech by Sagar Teotia.
[2] The first round of outreach with public company investors was performed in 2020 and discussed with FASAC at the June 24, 2021 meeting.

assessment of costs and benefits of the leases standard. This session focused on public companies' initial and recurring costs of implementing the leases standard. Some Council members noted that although the adoption of the standard had an insignificant overall financial effect on some companies' financial statements, the initial level of effort and cost to apply the standard was somewhat higher than originally anticipated, primarily because of needed systems changes or new systems. Some members also commented on some of the benefits of adoption to their companies—better centralized processes to manage their leases, improved internal consistency of leases, and increased ability to manage an entity's asset base and lease obligations. Expected recurring costs include costs to capture the required data, sustain internal controls, and preserve systems.

Other members, particularly certain investors and users, were beginning to consider the resulting changes in companies' financial statements and how those changes affect their analyses or models. Those Council members indicated that additional time was needed to assess the benefits of the change in the leases standard. Council members also discussed implementation issues on the incremental borrowing rate, certain disclosures, and related parties.

Prior FASAC Discussion on the Benefits and Ongoing Costs of Applying the Leases Standard

On June 24, 2021, FASAC members discussed their assessment of the benefits and ongoing costs of applying the leases standard. Investors and other financial statement users generally stated that the leases standard resulted in additional disclosure that allowed users to enhance their analyses in comparison to the disclosures that were required under the previous leases guidance. One investor questioned whether the current information is better than the legacy practice of using a multiple of lease rent for analysis. Some Council members indicated that the divergence between IFRS Standards and GAAP results in more costs and reduced comparability. Some investors noted the leases standard had a material impact on some industries but for many other industries, the impact was immaterial.

Most preparers indicated that the implementation costs as well as the ongoing costs of application were higher than expected—and higher than the expectations that were communicated to the Board prior to the issuance of the leases standard. The increase in costs generally were a result of the following:

- New software and system upgrades needed to apply the leases standard
- Systems maintenance
- Increased headcount

- More detailed review of the company's contracts to determine whether a lease exists, and
- Additional ongoing disclosure requirements.

Some preparers noted that the leases standard resulted in more cross-collaboration with their real estate groups, leading to better internal controls around assessing whether to buy or lease certain items, as well as improved information around the total company-wide inventory of leases.

Discussion Questions

Question 1: What are your observations and insights on the history of the FASB's leases project?

Question 2: What are your observations about the standard-setting activities of the FASB's leases project, including joint deliberations with the IASB?

Question 3 (Lessee):

a) **(Investors)** How did recognizing operating leases on the balance sheet change the benefits and costs of analyzing the effects of leases?

b) **(Preparers/Auditors)** How did recognizing operating leases on the balance sheet change the benefits and costs of applying the lease accounting guidance?

Question 4: Do you have any additional observations about the benefits or costs (including initial costs and recurring costs) of applying the leases standard?

FASAC FINANCIAL ACCOUNTING STANDARDS ADVISORY COUNCIL

ATTACHMENT 3

CONSISTENCY IN ACCOUNTING STANDARDS
FINANCIAL ACCOUNTING STANDARDS ADVISORY COUNCIL (FASAC)
MARCH 4, 2025

Session Overview and Objective

The Accounting Standards Codification (the Codification) was established in 2009 and is the single official source of authoritative generally accepted accounting principles (GAAP). The Codification introduced a new structure for GAAP by:

- Reorganizing thousands of pronouncements into roughly 90 accounting topics (including legacy literature inherited from Accounting Principles Board Opinions (1959-1973), Accounting Research Bulletins (1939-1959), and AICPA Statements of Position (started in 1974) and incremental accounting guidance from Audit and Accounting Guides (started in 1950s, updates published periodically)
- Eliminating the hierarchy of GAAP
- Displaying all topics using a consistent structure
- Requiring users of the Codification to consider analogies within the Codification for similar transactions or events before looking to nonauthoritative guidance for transactions and events not specified within the Codification.

Since 2009, the FASB has continued to improve and maintain GAAP by amending the Codification through the issuance of Accounting Standards Updates. Given the cumulative development of GAAP over time and by different standard-setters, certain inconsistencies exist within the Codification, including different definitions and recognition, measurement, presentation, and disclosures requirements for entities that prepare and provide GAAP financial statements. This memo provides some examples of those inconsistencies to facilitate the Council's discussion.

The objective of this session is to solicit Council members' views about how the Board should factor consistency of accounting standards into its consideration of potential amendments to GAAP, including when evaluating benefits and costs.

Overview of Materials

These materials include the following:

1. Background on the Accounting Standards Codification
2. Examples of Inconsistencies in GAAP
    a) Definition of a Public Entity
    b) Industry Guidance
    c) Different Accounting Models in GAAP
3. Appendix A: Current Definitions of a Nonpublic Entity and a Public Entity
4. Appendix B: Industry Topics in GAAP

Discussion questions begin on page 12.

Background on the Accounting Standards Codification

In 2004, the FASB committed to creating the Codification to streamline and simplify accounting principles with the goal to improve clarity, accessibility, and consistency of GAAP. In 2009,[1] the Codification became the single source of authoritative GAAP applicable to nongovernmental entities. Rules and interpretive releases of the Securities and Exchange Commission (SEC) under authority of federal securities laws also are authoritative sources of GAAP for SEC registrants.

Before the Codification, there were many standards issued by various standard setters in different forms. Those different forms required preparers and auditors to follow an order of authority in applying the different sources (referred to as the GAAP hierarchy). Additionally, the lack of a consistent organizational structure among various standards made it difficult to locate appropriate GAAP guidance. Due to the dispersed nature of the literature issued before the Codification, many stakeholders had concerns about whether they had accessed all relevant material during their research. As a result, these stakeholders had concerns that they may have inadvertently applied one standard when another standard may have been more relevant.

The goal of the Codification was not to create new GAAP—it was to integrate and synthesize existing GAAP. The Codification essentially flattened the hierarchy into a single authoritative source that consolidated the accounting literature into a unified and structured format. The uniform structure includes broad sections, accounting topics, and

[1] The FASB issued Statement of Financial Accounting Standards No. 168, *The FASB Accounting Standards Codification and the Hierarchy of General Accepted Accounting Principles*, a replacement of FASB Statement No. 162.

consistent sections within each Subtopic—an overview/background, scope and scope exceptions, glossary, recognition, initial and subsequent measurement, derecognition, presentation/disclosure, implementation guidance, transition/effective date, and so forth.

To increase the utility of the Codification for public companies, portions of authoritative content issued by the SEC and selected SEC staff interpretations and administrative guidance are included for reference in the Codification, such as Regulation S-X; Financial Reporting Releases; Accounting Series Releases; Interpretive Releases; and SEC Staff guidance in Staff Accounting Bulletins, EITF Topic D, and SEC Staff Observer comments. The content in the Codification labeled as SEC staff guidance is provided for the convenience of stakeholders and does not constitute rules or interpretations of the SEC, nor does such guidance bear official Commission approval. The SEC's normal update procedures are not changed by the inclusion of SEC content in the Codification, and, accordingly, there may be delays between the release of the SEC's changes and updates to the Codification.

The Codification also addressed what entities should do if the guidance for a transaction or event is not specified within authoritative GAAP for that entity. Paragraph 105-10-05-2 of the Codification states the following:

> If the guidance for a transaction or event is not specified within a source of authoritative GAAP for that entity, an entity shall first consider accounting principles for similar transactions or events within a source of authoritative GAAP for that entity and then consider nonauthoritative guidance from other sources.

Some examples of sources of nonauthoritative guidance include: widely recognized and prevalent practices either generally or in the industry, FASB Concepts Statements, AICPA Issues Papers, International Financial Reporting Standards, and pronouncements of professional associations or regulatory agencies.

It was expected that the Codification would reduce the amount of time and effort required to research an accounting issue, mitigate the risk of noncompliance with standards through improved usability of the literature, and provide real-time updates as the FASB releases amendments to the Codification.

Examples of Inconsistencies in GAAP

For purposes of this discussion, the materials include examples of three different types of inconsistencies in GAAP—different definitions (specifically, the definition of a public entity), industry-specific guidance, and different accounting models. These examples focus on GAAP requirements, rather than permitted alternatives, options, practical

expedients, or accounting policy elections.

Definition of a Public Entity

The Codification includes multiple definitions of the terms *nonpublic entity* and *public entity*, which were developed to establish recognition, measurement, disclosure, and effective date requirements for certain sets of reporting entities (see Appendix A for those different definitions). In the past, some stakeholders have suggested that the FASB should reduce the number of definitions to minimize confusion and misunderstanding by investors, preparers, and practitioners when applying GAAP.

In December 2013, the FASB issued Accounting Standards Update No. 2013-12, *Definition of a Public Business Entity: An Addition to the Master Glossary*. The amendments in Update 2013-12 revised the Master Glossary to include a definition of a public business entity (PBE) for prospective use in GAAP. It did not affect the requirements that existed in 2013 or the definitions of a nonpublic entity and public entity. Having one PBE definition was intended to reduce the complexity of multiple definitions of a nonpublic entity and public entity within GAAP on a going-forward basis. Furthermore, the PBE definition clarifies which nonpublic entities potentially qualify for alternative financial accounting and reporting guidance as a private company.

A PBE is defined as:

> [A] business entity meeting any one of the criteria below. Neither a not-for-profit entity nor an employee benefit plan is a business entity.
>
> a. It is required by the U.S. Securities and Exchange Commission (SEC) to file or furnish financial statements, or does file or furnish financial statements (including voluntary filers), with the SEC (including other entities whose financial statements or financial information are required to be or are included in a filing).
>
> b. It is required by the Securities Exchange Act of 1934 (the Act), as amended, or rules or regulations promulgated under the Act, to file or furnish financial statements with a regulatory agency other than the SEC.
>
> c. It is required to file or furnish financial statements with a foreign or domestic regulatory agency in preparation for the sale of or for purposes of issuing securities that are not subject to contractual restrictions on transfer.
>
> d. It has issued, or is a conduit bond obligor for, securities that are traded, listed, or quoted on an exchange or an over-the-counter market.

e. It has one or more securities that are not subject to contractual restrictions on transfer, and it is required by law, contract, or regulation to prepare U.S. GAAP financial statements (including notes) and make them publicly available on a periodic basis (for example, interim or annual periods). An entity must meet both of these conditions to meet this criterion.

An entity may meet the definition of a public business entity solely because its financial statements or financial information is included in another entity's filing with the SEC. In that case, the entity is only a public business entity for purposes of financial statements that are filed or furnished with the SEC.

In developing the Master Glossary definition of a PBE, the Board discussed replacing the definitions of a nonpublic entity and a public entity throughout GAAP but decided not to at that time. Instead, the Board observed that it may consider whether to amend GAAP, in part, by using the Master Glossary definition of a PBE, rather than definitions of a nonpublic entity and a public entity.

The definition of PBE differs from some of the definitions of nonpublic entity and public entity in the Codification. The following table provides examples of those definitional differences.

Example	PBE	Nonpublic entity and public entity
An entity required by the SEC to file or furnish financial statements with the SEC, or does file or furnish financial statements with the SEC.	Is a PBE	Some definitions do not address this
A consolidated subsidiary of a public company.	Is not a PBE for purposes of its standalone financial statements, unless those statements are included in an SEC filing: (a) By its parent (b) By other registrants (or those that are issuers and are required to file or furnish financial	Some definitions consider a consolidated subsidiary of a public company to be public

	statements with the SEC)	
A business entity that has securities that are not subject to contractual restrictions on transfer and that is by law, contract, or regulation required to prepare GAAP financial statements and make them publicly available on a periodic basis.	Is a PBE	Definitions do not address this

Some examples from the Codification where various definitions of a nonpublic entity and a public entity are used to establish different measurement and disclosure requirements include the following. The full definitions are all listed in Appendix A:

- **Segment Reporting (Topic 280):** Requires *public entities* (with certain exceptions) to identify and disclose information about their operating segments. This topic uses Public Entity (Definition 1), which is used in four other Topics.
- **Debt (Topic 470):** Requires *public entities* to disclose the amount by which an instrument's if-converted value exceeds its principal amount for convertible debt instruments with cash conversion (paragraph 470-20-50-5). This topic uses Public Entity (Definition 3), which is used in one other Topic.
- **Compensation—Retirement Benefits** (**Topic 715):** A *nonpublic entity* that sponsors a defined benefit pension plan or other defined benefit postretirement plan is exempt from certain disclosures, as compared to a public entity (paragraph 715-20-50-5). This topic uses Nonpublic Entity (Definition 1), which is used in nine other Topics.
- **Compensation—Stock Compensation (Topic 718):** *Nonpublic entities* are exempt from certain disclosure requirements and are permitted to use a different measurement attribute than public entities for certain equity instruments and liabilities arising from share-based payment arrangements. This topic uses Nonpublic Entity (Definition 1), which is used in nine other Topics.
- **Business Combinations (Topic 805):** A *public entity* that is an acquirer is required to disclose the amounts of revenue and earnings of the acquiree since the acquisition date included in the consolidated income statement for the reporting period, certain comparative information, and material nonrecurring pro forma adjustments directly attributable to the business combination(s) included in the supplemental pro forma information (paragraph 805-10-50-2(h)), unless impracticable. Similar disclosures are required for healthcare and not-for-profit entities that are *public entities* (Sections 954-805-50 and 958-805-50). This topic

uses Public Entity (Definition 1), which is used in four other Topics.

- **Extractive Activities—Oil and Gas (Topic 932):** *Publicly traded companies* with significant oil and gas activities are required to disclose supplementary information including proved oil and gas reserve quantities; capitalized costs and results of operations for oil- and gas-producing activities; costs incurred for property acquisition, exploration, and development; and standardized measures of discounted future net cash flows (paragraph 932-235-50-2). This Topic uses Publicly Traded Company (Definition 2), which only is used in this Topic.

Industry-Specific Guidance

The Industry Area of the Codification (Topic Codes 905–999) contains guidance for over 30 specific industries or types of activity, such as banking, insurance, and software (see Appendix B for a complete listing). Most of the industry guidance within GAAP is a result of codifying industry-specific accounting standards and interpretations that were developed over time by multiple standard setters. In some cases, in the absence of specific authoritative guidance, industries have developed their own practices. For example, descriptions of industry accounting practices and examples are widely published by the AICPA, accounting firms, industry groups, and others.

One of the goals of the Codification was to eliminate redundant content and provide consistency by segregating industry guidance from all other relevant guidance contained in other general Topics. While the Codification provides a general framework for financial reporting, the industry guidance in the Codification was designed to contain incremental industry-specific guidance. Under GAAP, entities within the scope of the industry (as described or defined in GAAP) currently must follow the industry-specific guidance and all other relevant guidance contained in other Topics that does not conflict with the industry guidance.

Stakeholders have shared different views about the potential benefits and costs of establishing and maintaining authoritative industry-specific guidance. For example, in 2007, the SEC chartered the Advisory Committee on Improvements to Financial Reporting (CiFR) to examine the U.S. financial reporting system in order to make recommendations intended to increase the usefulness of financial information to investors, while reducing the complexity of the financial reporting system to investors, preparers, and auditors. CiFR issued a final report[2] to the SEC in 2008 that included research and commentary on substantive complexity, the standards-setting process, the audit process and compliance, and delivering financial information. One of CiFR's

[2] Final Report of the Advisory Committee on Improvements to Financial Reporting to the Securities and Exchange Commission

recommendations to reduce complexity in financial reporting was that any new FASB projects should be based on business activities and that the FASB should eliminate or reduce industry-specific guidance in GAAP.[3]

Some of the observations in the CiFR report that supported reducing or eliminating industry-specific guidance at that time were that industry-specific guidance may:

- Contribute to avoidable complexity by making financial reports less comparable
- Unnecessarily increase the volume of accounting guidance, which adds to the costs of implementation, maintaining GAAP, training accountants, and retaining industry experts
- Compound the complexity that investors experience in understanding the variety of financial accounting and reporting standards.

Some of the observations in the CiFR report that supported expanding or retaining industry-specific guidance at that time were that industry-specific guidance may:

- Alleviate complexity by allowing industry reporting to better meet the specific investor needs in that industry
- Enhance comparability across entities within an industry
- Depict important differences in the economics of an industry
- Fill a need where GAAP is otherwise lacking and simplify or reduce the amount of guidance a company in an industry would need to consider
- Address prevalent industry issues quickly, given the audience is narrower than broadly applicable amendments to GAAP.

Since 2009, the FASB has replaced some of the industry guidance in GAAP with guidance that generally applies to all entities, regardless of industry-specific or transaction-specific fact patterns. For example, the revenue recognition standard eliminated most industry-specific applications and created a single, largely principles-based, model for revenue transactions as well as detailed implementation guidance. However, implementation efforts were significant, especially in industries for which previous industry-specific

[3] Recommendation 1.6 states:

> *U.S. GAAP should be presumptively based on business activities, rather than industries. As such, the SEC should recommend that any new projects undertaken jointly or separately by the FASB be scoped on the basis of business activities, except in rare circumstances. Any new projects should include the elimination of existing industry-specific guidance—particularly that which conflicts with generalized U.S. GAAP—in relevant areas as a specific objective of those projects, except in rare circumstances.*
>
> *Considering the pace of convergence efforts, the SEC should also recommend, that in conjunction with its current codification project, the FASB add a project to its agenda to eliminate existing industry-specific guidance which conflicts with generalized U.S. GAAP, except in rare circumstances.*

revenue guidance was removed.[4] Additionally, some current projects are directed at (and recent FASB Invitations to Comment (ITCs) include questions for stakeholders about) industry-specific matters. For example:

- The technical agenda includes a project to make targeted improvements to the statement of cash flows for financial institutions.[5]
- In response to feedback received from private construction company stakeholders, the Private Company Council added a project to its technical agenda to address the presentation of contract assets and contract liabilities for private construction companies within the scope of Topic 910, Contractors—Construction. While the PCC considered pursuing industry-specific standard-setting on this issue, the PCC has recently decided to explore[6] providing an example disclosure, which would not be industry specific.
- The Agenda Consultation ITC asks stakeholders whether there are any financial accounting and reporting topics that should be a top priority for the Board to address—and whether the topic is specific to a subset of companies or to a certain industry. That ITC also summarizes feedback from stakeholders, including industry-specific suggestions for targeted financial reporting improvements within the financial institution, healthcare, insurance, not-for-profit organization, and airline industries.
- The Recognition of Intangibles ITC asks stakeholders whether the Board should consider aligning the recognition guidance for all intangibles, including those with specific industry-based guidance.
- The Financial Key Performance Indicators for Business Entities ITC asks stakeholders if the FASB defines certain Financial Key Performance Indicators (KPIs) whether those KPIs should be measures that are commonly used across all entities, measures that are industry-specific, or both.

Different Accounting Models in GAAP

The Codification also includes different recognition and measurement models within the topics that are "industry-agnostic." Some examples that are briefly described below are intangible assets, investments in debt securities, and loans and receivables.

[4] See FASB Post-Implementation Review on Revenue from Contracts with Customers (Topic 606)
[5] The Agenda Consultation ITC also asks whether a potential project to improve the statement of cash flows should be a broad project applicable to all entities that provide a statement of cash flows or limited to certain entities or industries.
[6] See recap of PCC discussion from December 2024 here: https://fasb.org/page/PageContent?pageId=/about-us/Advisory-Groups/pcc/announcements/pcc-meeting-recap-december-16-and-17-2024.html.

Intangible Assets[7]

GAAP includes varying requirements for recognition and measurement of intangible assets depending on the type of intangible asset being accounted for. An entity currently evaluates the specific facts and circumstances and nature of the intangible—such as the intangible's purpose and how it was obtained or developed—to determine the relevant area(s) within GAAP. The recognition of an intangible can vary on the basis of the nature of the intangible, its stage of development, and whether it was acquired in a business combination or an asset acquisition. Therefore, some intangibles are recognized as assets either in whole or in part, while others are not recognized as assets at all. In addition, in some cases, costs incurred to create an intangible that is not recognized as an asset are considered R&D efforts, while, in other cases, those costs are considered normal operating expenses (general and administrative). If recognized, the subsequent accounting for an intangible asset can include amortization, impairment, and remeasurement (for example, remeasurement of certain crypto assets to fair value).

In-process research and development (IPR&D) is frequently cited as an example of a type of intangible for which there is a difference between (1) accounting for an intangible acquired as part of a business combination and (2) accounting for an intangible acquired through an asset acquisition or internally developed. IPR&D acquired in a business combination is recognized at fair value as an indefinite-lived intangible asset until the research and development (R&D) project is completed or abandoned, regardless of whether the IPR&D has an alternative future use. In contrast, costs incurred for R&D and IPR&D acquired in an asset acquisition with no alternative future use are immediately expensed. This accounting is further complicated because R&D costs incurred after the acquisition of IPR&D in a business combination for the same project are expensed as incurred.

Investments in Debt Securities (Topics 320 and 326)

The Codification includes different measurement requirements for investments in debt securities depending on how the securities are classified. Debt securities are required to be classified according to management's intent and ability to hold those securities.[8] There is inconsistency in the measurement attributes for the three classification categories required by GAAP. Debt securities that are classified according to management's intent and ability to hold those securities are generally measured as follows:

- Debt securities that are classified as trading securities (securities that are

[7] The content in this section is an excerpt from the FASB's Recognition of Intangibles ITC. Additional details and questions for stakeholders are provided in that document.
[8] An entity may instead elect an option to measure a debt security (on an instrument-by-instrument basis) at fair value with changes recorded in earnings.

acquired with the intent of selling it within hours or days) are required to be measured at fair value with changes included in earnings.

- Debt securities that are classified as held-to-maturity (securities that the entity has the positive intent and ability to hold to maturity) are required to be measured at amortized cost; impairment losses are required to be recognized immediately for expected credit losses.
- Debt securities that are classified as available-for-sale (securities that the entity has not classified as trading or as held-to-maturity) are required to be measured at fair value with changes excluded from earnings and reported in other comprehensive income until realized (with certain exclusions for securities that are designated as being hedged in a fair value hedge).

Loans and Receivables (Topics 310 and 326)

Similar to investments in debt securities, the Codification requires loans and receivables to be classified into categories that require different measurement of these assets. Generally, loan receivables are classified according to management's intent.[9] Loans and receivables are generally classified based on management's intent as follows:

- Loan receivables that are classified as held-for-investment (the entity has the positive intent and ability to hold the receivable for the foreseeable future or to maturity/payoff) are required to be measured at amortized cost; impairment losses are required to be recognized immediately for expected credit losses.
- Loan receivables that are classified as held-for-sale (originated or purchased with the positive intent to sell) are required to be measured at the lower of amortized cost (subject to impairment losses for expected credit losses) or fair value.

[9] An entity may instead elect to measure its loans or receivables at fair value with changes in fair value recorded in net income.

Overall Question (Before Breakout Group Discussions):

Question 1 (All): What are other examples of (non-optional) inconsistency in accounting standards that you have encountered in applying GAAP or in analyzing financial statements?

Breakout Group Discussion Questions: Examples to Consider

Definitions: Public Business Entity

Question B1 (All): What complexity, if any, results from multiple definitions of a public entity and a nonpublic entity in GAAP? Should the Board consider a project that seeks to reduce the number of definitions of a public entity and a nonpublic entity throughout GAAP? If the Board were to pursue a project to reduce the number of definitions of a public entity and a nonpublic entity, should the Board consider replacing the various definitions of a public entity (and related terms) with the public business entity definition? Please explain.

Industry-Specific Guidance (Recognition, Measurement, Presentation, Disclosure)

Question B2 (Investors): Do you compare financial information across industries or by industry? How do you compare conglomerates (multi-business entities)? Are there inconsistencies in the accounting among or within your industry sectors?

Question B3 (All): How and in what circumstances should the Board consider providing industry-specific guidance compared to broader standards that are applicable to all companies?

Question B4 (All): What should the Board consider in adding to, maintaining, or removing the current industry specific guidance in GAAP? Are there certain industry Topics in GAAP that should be broadly addressed by the Board? If so, what Topics, why, and how?

Different Accounting Models

The materials include the following examples of different accounting models in GAAP: intangible assets/IPR&D, investments in debt securities, and loans and receivables.

Question B5 (Investors): How do different accounting models affect the information used by investors in their models and analyses within or among entities?

Question B6 (All): How do different accounting models affect the application of accounting standards and auditing financial statements?

Question B7 (All): Should the form or manner in which an asset is acquired or a liability assumed affect the accounting outcome? Should management's intent affect accounting?

Overall Questions (After Breakout Group Discussions/Report Outs):

Question 2 (All): Does inconsistency in accounting standards increase or decrease complexity in financial accounting and reporting? For example:

a. **(Investors):** How does inconsistency in GAAP affect the information used by investors in their models and analyses when making capital allocation decisions?
b. **(Preparers/Practitioners):** How does inconsistency in GAAP affect the application of accounting standards, communicating results, competitor benchmarking, and auditing financial statements?

Question 3 (All): How should the Board factor consistency within GAAP into its decision-making processes? For example:

a. In what circumstances should consistency be a priority for the Board?
b. In what circumstances should the Board consider consistency in establishing the objective of a project or making a case to change GAAP?

In what circumstances should the Board consider consistency in its benefit and costs analysis throughout the development of potential changes to GAAP?

Appendix A: Current Definitions of a Nonpublic Entity and a Public Entity

Full Description of Each Definition

Public Entity (Definition 1)

A business entity or a not-for-profit entity that meets any of the following conditions:

1. It has issued debt or equity securities or is a conduit bond obligor for conduit debt securities that are traded in a public market (a domestic or foreign stock exchange or an over-the-counter market, including local or regional markets).
2. It is required to file financial statements with the Securities and Exchange Commission (SEC).
3. It provides financial statements for the purpose of issuing any class of securities in a public market.

See Topic(s): 280, 740, 805, 954, 958

Public Entity (Definition 2)[10]

An entity that meets any of the following criteria:

a. Its debt or equity securities are traded in a public market, including those traded on a stock exchange or in the over-the-counter market (including securities quoted only locally or regionally).
b. It is a conduit bond obligor for conduit debt securities that are traded in a public market (a domestic or foreign stock exchange or an over-the-counter market, including local or regional markets).
c. Its financial statements are filed with a regulatory agency in preparation for the sale of any class of securities.

See Topic(s): 740

Public Entity (Definition 3)

An entity that meets any of the following criteria:

a. Has equity securities that trade in a public market, either on a stock exchange (domestic or foreign) or in an over-the-counter market, including securities quoted only locally or regionally
b. Makes a filing with a regulatory agency in preparation for the sale of any class of equity securities in a public market

[10] This Master Glossary term for Topic 740 will be superseded as a result of the amendments in Accounting Standards Update No. 2023-09, *Income Taxes (Topic 740)—Improvements to Income Tax Disclosures*, which are effective for public business entities for annual periods beginning after December 15, 2024, and for entities other than public business entities for annual periods beginning after December 15, 2025.

c. Is controlled by an entity covered by the preceding criteria. That is, a subsidiary of a public entity is itself a public entity.

An entity that has only debt securities trading in a public market (or that has made a filing with a regulatory agency in preparation to trade only debt securities) is not a public entity.

See Topic(s): 470, 718

Nonpublic Entity (Definition 1)

Any entity that does not meet any of the following conditions:

a. Its debt or equity securities trade in a public market either on a stock exchange (domestic or foreign) or in an over-the-counter market, including securities quoted only locally or regionally.

b. It is a conduit bond obligor for conduit debt securities that are traded in a public market (a domestic or foreign stock exchange or an over-the-counter market, including local or regional markets).

c. It files with a regulatory agency in preparation for the sale of any class of debt or equity securities in a public market.

d. It is required to file or furnish financial statements with the Securities and Exchange Commission.

e. It is controlled by an entity covered by criteria (a) through (d).

See Topic(s): 105, 220, 350, 360, 405, 715, 718, 820, 830, 954

Nonpublic Entity (Definition 2)

Any entity other than one that meets any of the following criteria:

a. Has equity securities that trade in a public market either on a stock exchange (domestic or foreign) or in an over-the-counter market, including securities quoted only locally or regionally

b. Makes a filing with a regulatory agency in preparation for the sale of any class of equity securities in a public market

c. Is controlled by an entity covered by the preceding criteria.

An entity that has only debt securities trading in a public market (or that has made a filing with a regulatory agency in preparation to trade only debt securities) is a nonpublic entity.

See Topic(s): 480, 718

Nonpublic Entity (Definition 3)

Any entity other than one with any of the following characteristics:

a. Whose debt or equity securities trade in a public market either on a stock exchange (domestic or foreign) or in the over-the-counter market, including securities quoted only locally or regionally

b. That is a conduit bond obligor for conduit debt securities that are traded in a public market (a domestic or foreign stock exchange or an over-the-counter market, including local or regional markets)

c. That makes a filing with a regulatory agency in preparation for the sale of any class of debt or equity securities in a public market

d. That is controlled by an entity covered by a., b., or c.

Conduit debt securities refers to certain limited-obligation revenue bonds, certificates of participation, or similar debt instruments issued by a state or local governmental entity for the express purpose of providing financing for a specific third party (the conduit bond obligor) that is not a part of the state or local government's financial reporting entity. Although conduit debt securities bear the name of the governmental entity that issues them, the governmental entity often has no obligation for such debt beyond the resources provided by a lease or loan agreement with the third party on whose behalf the securities are issued. Further, the conduit bond obligor is responsible for any future financial reporting requirements.

See Topic(s): 715

Nonpublic Entity (Definition 4)

Any entity that does not meet any of the following conditions:

a. Its debt or equity securities trade in a public market either on a stock exchange (domestic or foreign) or in the over-the-counter market, including securities quoted only locally or regionally.

b. It is a conduit bond obligor for conduit debt securities that are traded in a public market (a domestic or foreign stock exchange or an over-the-counter market, including local or regional markets).

c. It files with a regulatory agency in preparation for the sale of any class of debt or equity securities in a public market.

d. It is controlled by an entity covered by the preceding criteria.

NO INCOMING LINKS

Nonpublic Entity (Definition 5)

An entity that does not meet any of the following criteria:

a. Its debt or equity securities are traded in a public market, including those traded on a stock exchange or in the over-the-counter market (including securities quoted only locally or regionally).

b. It is a conduit bond obligor for conduit debt securities that are traded in a public market (a domestic or foreign stock exchange or an over-the-counter market, including local or regional markets).

c. Its financial statements are filed with a regulatory agency in preparation for the sale of any class of securities.

See Topic(s): 715, 740

Publicly Traded Company (Definition 1)

A publicly traded company includes any company whose securities trade in a public market on either of the following:

a. A stock exchange (domestic or foreign)

b. In the over-the-counter market (including securities quoted only locally or regionally), or any company that is a conduit bond obligor for conduit debt securities that are traded in a public market (a domestic or foreign stock exchange or an over-the-counter market, including local or regional markets).

Additionally, when a company is required to file or furnish financial statements with the SEC or makes a filing with a regulatory agency in preparation for sale of its securities in a public market it is considered a publicly traded company for this purpose.

Conduit debt securities refers to certain limited-obligation revenue bonds, certificates of participation, or similar debt instruments issued by a state or local governmental entity for the express purpose of providing financing for a specific third party (the conduit bond obligor) that is not a part of the state or local government's financial reporting entity. Although conduit debt securities bear the name of the governmental entity that issues them, the governmental entity often has no obligation for such debt beyond the resources provided by a lease or loan agreement with the third party on whose behalf the securities are issued. Further, the conduit bond obligor is responsible for any future financial reporting requirements.

See Topic(s): 220, 270

Publicly Traded Company (Definition 2)

A business entity that has any of the following characteristics:

a. Whose securities are traded in a public market on a domestic stock exchange or in the domestic over-the-counter market (including securities quoted only locally or regionally)

b. That is a conduit bond obligor for conduit debt securities that are traded in a public market (a domestic or foreign stock exchange or an over-the-counter market, including local or regional markets)

c. Whose financial statements are filed with a regulatory agency in preparation for the sale of any class of securities in a domestic market.

See Topic(s): 932

Publicly Traded Entity (or Public Entity) [Only one definition]

Any entity that does not meet the definition of a nonpublic entity [Linked to nonpublic entity-3]

See Topic(s): 715

Appendix B: Industry Topics in GAAP

Topic	Codification Reference	Primary Legacy Source of the Guidance
Agriculture	Topic 905	AICPA Audit and Accounting Guide
Airlines	Topic 908	AICPA Audit and Accounting Guide; AICPA SOP 88-1
Contractors – Construction	Topic 910	AICPA Audit and Accounting Guide; EITF
Contractors – Federal Government	Topic 912	AICPA Audit and Accounting Guide; ARB 43
Development Stage Entities	Topic 915	*Topic superseded by the FASB*
Entertainment – Broadcasters	Topic 920	FAS 63; revised by the FASB post-Codification
Entertainment – Cable Television	Topic 922	FAS 51
Entertainment – Casinos	Topic 924	AICPA Audit and Accounting Guide; SAB 11; revised by the FASB
Entertainment – Films	Topic 926	AICPA SOP 00-2; revised by the FASB post-Codification
Entertainment – Music	Topic 928	FAS 50
Extractive Activities – Mining	Topic 930	EITF
Extractive Activities – Oil and gas	Topic 932	AICPA Audit and Accounting Guide; APB 21; FAS 19; EITF; revised by the FASB post-Codification
Financial Services – Brokers and Dealers	Topic 940	AICPA Audit and Accounting Guide
Financial Services – Depository and Lending	Topic 942	AICPA Audit and Accounting Guide; APB 23; EITF; revised by the FASB post-Codification
Financial Services – Insurance	Topic 944	AICPA Audit and Accounting Guide; revised by the FASB post-Codification
Financial Services – Investment Companies	Topic 946	AICPA Audit and Accounting Guide
Financial Services – Mortgage Banking	Topic 948	FAS 65; SAB 7; S Section of Reg S-X; AICPA SOP 01-6; revised by the FASB post-Codification
Financial Services – Title Plant	Topic 950	FAS 61
Franchisors	Topic 952	FAS 45; revised by the FASB post-Codification
Health Care Entities	Topic 954	AICPA Audit and Accounting Guide
Not-for-Profit Entities	Topic 958	AICPA Audit and Accounting Guide

Topic	Codification Reference	Primary Legacy Source of the Guidance
Plan Accounting – Defined Benefit Pension Plans	Topic 960	AICPA Audit and Accounting Guide; FAS 35; revised by the FASB post-Codification
Plan Accounting – Defined Contribution Pension Plans	Topic 962	AICPA Audit and Accounting Guide; revised by the FASB post-Codification
Plan Accounting – Health and Welfare Benefit Plans	Topic 965	AICPA SOP 92-6; AICPA SOP 99-2; revised by the FASB post-Codification
Real Estate – General	Topic 970	EITF; revised by the FASB post-Codification
Real Estate – Common Interest Realty Associations	Topic 972	AICPA Audit and Accounting Guide
Real Estate – Real Estate Investment Trusts	Topic 974	AICPA SOP 75-2; S Section of Reg S-X
Real Estate – Retail Land	Topic 976	FAS 66
Real Estate – Time-Sharing Activities	Topic 978	AICPA SOP 04-2; EITF
Regulated Operations	Topic 980	FAS 71; EITF; revised by the FASB post-Codification
Software	Topic 985	FAS 86; EITF; revised by the FASB post-Codification
U.S. Steamship Entities	Topic 995	*Topic superseded by the FASB*

FASAC Advisory Group Meeting

Topic 815—Derivatives Scope Refinements

Ken Matsuo, Lead Project Manager
Lucy Cheng, Supervising Project Manager
Emily Knebel, Practice Fellow

March 4, 2025

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

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Topic 815–Derivatives Scope Refinements

- **Project Objectives**
  - Refine the scope of derivative accounting.
  - Address existing diversity in practice in accounting for a share-based payment received from a customer in a revenue contract.
- **Stakeholder Feedback**
  - A frequently cited challenge was the broad interpretation of the accounting definition for derivatives and the complexity of applying scope exceptions.
  - Accounting for certain contracts as derivatives may not provide decision-useful information because the contracts relate to the performance of one of the parties to the contract.
- **Current Guidance**
  - Entities must evaluate whether a contract feature meets the accounting definition of a derivative. If so, entities must then evaluate whether any of the derivative scope exceptions apply.
  - Derivatives are measured at fair value.
- **Latest Developments**
  - On January 15, 2025, the Board discussed the comment letter feedback on the proposed Update and began redeliberations. Meeting handout (comment letter summary) is linked here.
  - The Board will continue redeliberations at a future meeting.

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Topic 815–Derivatives Scope Refinements - Issue 1

Main Proposed Provisions

- New scope exception for contracts with underlyings based on the operations or activities specific to one of the parties to the contract
- Replace the current predominant characteristics assessment with a fair value assessment

Comment Letter Themes

- Overall support for a principles-based scope exception
- Clarifications of certain terms used in the proposed scope exception
- Interactions with contracts in entity's own equity and embedded derivatives
- Application of fair value assessment
- Other applicable GAAP

The Board directed the staff to conduct additional research and analysis on clarifying the proposed scope exception and the predominant characteristic assessment but not on improving other applicable GAAP.

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Topic 815–Derivatives Scope Refinements - Issue 2

Main Proposed Provisions

- Apply Topic 606, Revenue from Contracts with Customers, first to a share-based payment received from a customer as consideration for the transfer of goods or services, before other Topics apply

Comment Letter Themes

- Overall support for the scope clarification
- Suggested clarification on various areas, such as interaction with existing guidance on variable consideration and contract asset recognition
- Broader issues related to measurement of noncash consideration and related contract assets

The Board directed the staff to retain the current scope of Issue 2 and not further research the broader measurement and disclosure issues under this project.

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Discussion Questions

With respect to the proposed amendments and comment letter feedback:

1. Do Council members have any feedback on Issue 1?
2. Do Council members have any feedback on Issue 2?

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