FINANCIAL ACCOUNTING STANDARDS ADVISORY COUNCIL

FASAC Meeting
Thursday, June 5, 2025
Agenda

9:00–9:05 am (5 minutes)	**Introductions and Opening Remarks** (Michael Morrow)
9:05–9:20 am (15 minutes)	**Topic 1: Highlights on Current Hot Topics** • FASB Highlights (Rich Jones) • SEC Highlights (Gaurav Hiranandani) • PCAOB Highlights (Heather Jossem)
9:20–10:40 am (80 minutes)	**Topic 2: Private Credit and Debt Disclosures** • Topic introduction, description of breakout room tasks (10 minutes) • **Break/Move to breakout rooms (9:30-9:35 am) (5 minutes)** • Breakout discussions – 9:35 am-10:25 am (50 minutes) • **Break/Move back to boardroom (15 minutes)**
10:40 -11:25 am (45 minutes)	**Topic 2 (continued): Private Credit and Debt Disclosures** • Reconvene to analyze and further explore the similarities, differences, and other linkages in Council members' views from the breakout groups
11:25 am–12:30 pm (65 minutes)	**Topic 3: Business Combinations** • Topic introduction, description of breakout room tasks (10 minutes) • **Break/Move to breakout rooms (11:35-11:40 am) (5 minutes)** • Breakout discussions – 11:40 am-12:30 pm (50 minutes)
12:30–1:30 pm (60 minutes)	**LUNCH**
1:30–2:15 pm (45 minutes)	**Topic 3 (continued): Business Combinations** • Reconvene to analyze and further explore the similarities, differences, and other linkages in Council members' views from the breakout groups
2:15-2:30 pm (15 minutes)	**Topic 4: Current Trends and Changing Business Practices** • Full group discussion
2:30-3:00 pm (30 minutes)	**Topic 5: Project Updates: Accounting for and Disclosure of Software Costs and Interim Reporting** • 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

January 1, 2025 – March 31, 2025

LETTER FROM THE FASB CHAIR

The FASB made significant progress toward completing priority projects identified during our last agenda reset. That begs the question: what should the Board work on next? To answer that question, we began the first quarter of 2025 by inviting all of our stakeholders to weigh in.

Invitation to Comment: Agenda Consultation and Other Research Projects

On January 3, 2025, the FASB published an Invitation to Comment (ITC), *Agenda Consultation*, that asks all of our stakeholders to provide feedback on our future standard-setting agenda. The ITC summarizes our 2024 discussions with about 200 stakeholders, who generally noted that there is not a case to make broad changes to generally accepted accounting principles (GAAP). Instead, many of the issues that they suggested and that are described in the ITC focus on targeted improvements to GAAP. We look forward to hearing all stakeholder views by the comment deadline on June 30, 2025.

During the first quarter, we continued to receive stakeholder responses to our 2024 outstanding ITCs on Financial Key Performance Indicators for Business Entities and Accounting for and Disclosure of Intangibles. That input will provide insights into whether the FASB should initiate standard-setting projects in these areas. With comment periods for the ITCs set to conclude during the second quarter, we expect to hold discussions on these topics later this year.

Technical Agenda Projects

Progress on our technical agenda projects also continued apace. With the completion of the first quarter of 2025, 2 of the 13 projects on our standard-setting agenda were in open comment periods, 5 had progressed to the redeliberations stage, and 4 had completed redeliberations and are expected to be issued as final standards in the coming months.

Stakeholders continued to provide input on our proposed Accounting Standards Updates (ASUs) on Accounting for Environmental Credit Programs and our Codification Improvements projects, and we look forward to discussing feedback on those projects later this year. Accounting for and Disclosure of Software Costs, Accounting for Government Grants, Interim Reporting Disclosures, Purchased Financial Assets, and Derivatives Scope Refinements are all in the redeliberations phase.

The Board voted to advance four proposed standards to final standards. We finalized the Emerging Issues Task Force's recommendations on Determining the Acquirer in the Acquisition of a VIE. We also voted to move ahead with improvements to Share-Based Consideration Payable to a Customer; PCC-recommended improvements to Credit Losses—Topic 606, Receivables; and Hedge Accounting Improvements. We expect to issue the final standards in the coming months.

We were mindful of the timing for all the exposure documents and their related comment periods. Many of them had extended comment periods, some lasting up to six months, to ensure that all of our stakeholders have an opportunity to participate in our process. While we typically receive formal comment letters, we also welcome verbal input through communications with our teams. In other words, I want to emphasize that the form of the input should never be an impediment to people providing input on the direction of a project.

Advisory Groups

On March 13, the Private Company Council (PCC) published its first-ever annual report. The report highlights the accomplishments and activities of the PCC during 2024, including its engagement with more than 1,000 private company stakeholders through meetings, conferences, webcasts, comment letters, and other forms of outreach and engagement to execute our mission.

Finally, on March 27, we appointed four new members to our Public Markets Advisory Committee (PMAC), formerly the Small Business Advisory Committee. The PMAC works closely with the FASB and its staff in an advisory capacity to communicate effectively, on a timely basis, the perspectives of public companies and their stakeholders with a particular emphasis on smaller public companies and others considering accessing or that have recently accessed the public markets. The four new members of the group are:

- Jeffrey Ford, Senior Vice President, Finance, and Chief Accounting Officer, LivePerson
- Shubho Ghosh, Managing Director, Opti Capital Management, LP
- Michelle Reynolds, Chief Accounting Officer, Reddit, Inc.
- Marcel A. Snyman, Vice President, Chief Accounting Officer, Graham Holdings Company.

Your input drives everything that we do. To set standards successfully, we need your feedback. I urge you to continue to share your views on our projects and activities so that we can address issues of most importance to you.

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 first quarter of 2025:

Number of Projects				
As of December 31	**Added (removed)**	**Projects Completed**	**As of March 31**	**# EDs Issued**
15	**(1)**	**(1)**	**13**	**1**

One project was completed through the issuance of a final Accounting Standards Update (ASU):

- *Income Statement—Reporting Comprehensive Income—Expense Disaggregation Disclosures (Subtopic 220-40): Clarifying the Effective Date.*

The Board removed one project from the technical agenda:

- Presentation of Contract Assets and Contract Liabilities for Construction Contractors (PCC).

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

- Credit Risk Transfer (CRT) Transactions.

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 ASU:

- *Codification Improvements*.

In addition, the Securities and Exchange Commission's (SEC) guidance that is included in the Codification for convenience was amended to reflect the issuance of SEC Staff Accounting Bulletin No. 122.

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

Project	Board Meeting(s)	Summary of Discussions
Topic 815—Derivatives Scope Refinements	January 15	• Discussed feedback received on the proposed ASU and began redeliberations.

Project	Board Meeting(s)	Summary of Discussions
		• Directed the staff to perform further research on clarifying the proposed scope exception and the proposed predominant characteristics assessment. • Directed the staff to focus on clarifying the applicability of Topic 606, Revenue from Contracts with Customers, and other Topics for a share-based payment from a customer that is consideration for the transfer of goods or services and to not further consider under this project broader issues raised by comment letter respondents.
Share-Based Consideration Payable to a Customer	February 5	• Discussed feedback received on the proposed ASU and completed redeliberations, affirming the proposed amendments with some minor clarifications including clarifying how to apply the retrospective method of transition (if selected). • Decided that the amendments will be effective for all entities for annual reporting periods (including interim reporting periods within annual reporting periods) beginning after December 15, 2026, and that early adoption is permitted. • Directed the staff to draft a final ASU.
Determining the Acquirer in the Acquisition of a VIE	March 5	• Discussed feedback received on the proposed ASU and completed redeliberations, affirming the proposed amendments. • Decided that the amendments will be effective for all entities for annual reporting periods (including interim reporting periods within annual reporting periods) beginning after December 15, 2026, and that early adoption is permitted. • Directed the staff to draft a final ASU.
Topic 815—Hedge Accounting Improvements	March 26	• Discussed feedback received on the proposed ASU and completed redeliberations, affirming the proposed amendments with some minor revisions, including making certain provisions optional. The new guidance will clarify aspects of the guidance on hedge accounting and address several incremental hedge accounting issues arising from the global reference rate reform initiative. • Decided that the amendments will be effective for public business entities for annual reporting periods beginning after December 15, 2026, and for entities other than public business entities for annual reporting periods beginning after December 15, 2027, and that early adoption is permitted.

Project	Board Meeting(s)	Summary of Discussions
		• Directed the staff to draft a final ASU.
Credit Losses—Topic 606 Receivables	March 26	• Discussed feedback received on the proposed ASU and endorsed the PCC's recommendations, completing redeliberations on the project. • Decided that all entities should be eligible to elect 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 that entities other than public business entities that have applied the practical expedient should be eligible to elect the accounting policy election to consider subsequent cash collections in determining the estimate of expected credit losses. • Decided that the amendments will be effective for annual reporting periods (and interim reporting periods within those annual reporting periods) beginning after December 15, 2025, and that early adoption is permitted. • Directed the staff to draft a final ASU.
Presentation of Contract Assets and Contract Liabilities for Construction Contractors	March 26	• As recommended by the PCC, removed the project from the technical agenda because the PCC agreed that the FASB staff should move forward with releasing the FASB Staff Educational Paper on this issue rather than pursuing standard setting.

<u>Other Projects</u>

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

- <u>Research Projects</u>: 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.
- <u>PCC Projects:</u> 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.
- <u>Emerging Issues Task Force (EITF) Projects</u>: 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.
- <u>Post-Implementation Review (PIR) Projects</u>: 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 first quarter of 2025:

	Number of Projects					
	As of December 31	Added (removed)	Transferred	Final Documents Issued	As of March 31	# of Exposure Drafts or Invitations to Comment
Research Projects	7	1			8	1
PCC Projects	0				0	
EITF Projects	0	1			1	
PIR Projects	2				2	
Total	**9**	**2**	**0**	**0**	**11**	**1**

Research Projects: The Board continued to move forward on its research projects. In connection with the Agenda Consultation project, the staff issued an Invitation to Comment (ITC) in January. The ITC is intended to solicit broad stakeholder feedback about the future standard-setting agenda of the FASB, including financial reporting issues that should be addressed, potential solutions to those issues, and their level of priority. The ITC is open for comment through June 30th. Additionally, the FASB chair added a project to the research agenda related to hedge accounting. Current research projects as of the end of the quarter are listed in the appendix.

PCC Projects: The PCC met on March 6 and discussed both of its projects that are also on the Board's technical agenda: (1) Credit Losses—Topic 606 Receivables and (2) Presentation of Contract Assets and Contract Liabilities for Construction Contractors. At that meeting, the PCC discussed comment letter feedback and completed redeliberations related to private companies on the proposed ASU for Credit Losses—Topic 606 Receivables. On March 26, the Board endorsed the PCC's decisions and extended them beyond private companies. Additionally, the PCC voted to remove the Presentation of Contract Assets and Contract Liabilities for Construction Contractors project from its agenda and agreed that the staff should move forward with releasing the FASB Staff Educational Paper on this topic. On March 26, the Board removed that project from its technical agenda. The PCC did not add any new projects to its agenda as a result of the March 2025 meeting.

EITF Projects: The EITF agenda committee met on January 9 and added a project on accounting for paid-in-kind dividends on preferred stock. At that meeting, the committee also voted not to add a project to the EITF's agenda on the determination of the unit of account for conversion terms embedded in a debt instrument. The EITF met on March 25 and discussed its project on accounting for paid-in-kind dividends on preferred stock. At that meeting, the EITF recommended that the Board add a project to its technical agenda to address the measurement of dividends that are paid in kind on equity-classified preferred stock.

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.

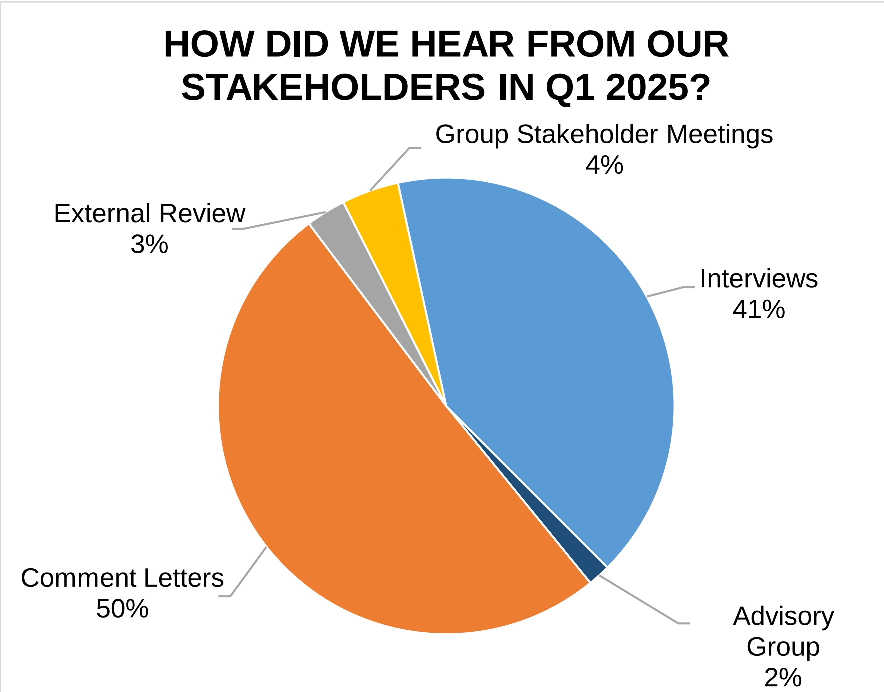
The following table lists activities connected with the individual projects:

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. • Completed redeliberations on 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*. • Continued redeliberations on the proposed ASU, *Financial Instruments—Credit Losses (Topic 326): Purchased Financial Assets*.
Leases	• Met with the Financial Accounting Standards Advisory Council (FASAC), the PCC, and the Not-for-Profit Advisory Committee (NAC) to discuss the benefits and costs of Topic 842. • Launched nonpublic preparer cost survey to obtain information from nonpublic entities on their experience with implementation and ongoing application of Topic 842. • Conducted outreach with public and nonpublic entity investors. • Discussed areas of complexity for nonpublic entities with small- to mid-sized practitioners. • Participated in two PCC Working Group meetings and performed outreach with several preparers to determine areas of difficulty with Topic 842.

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.

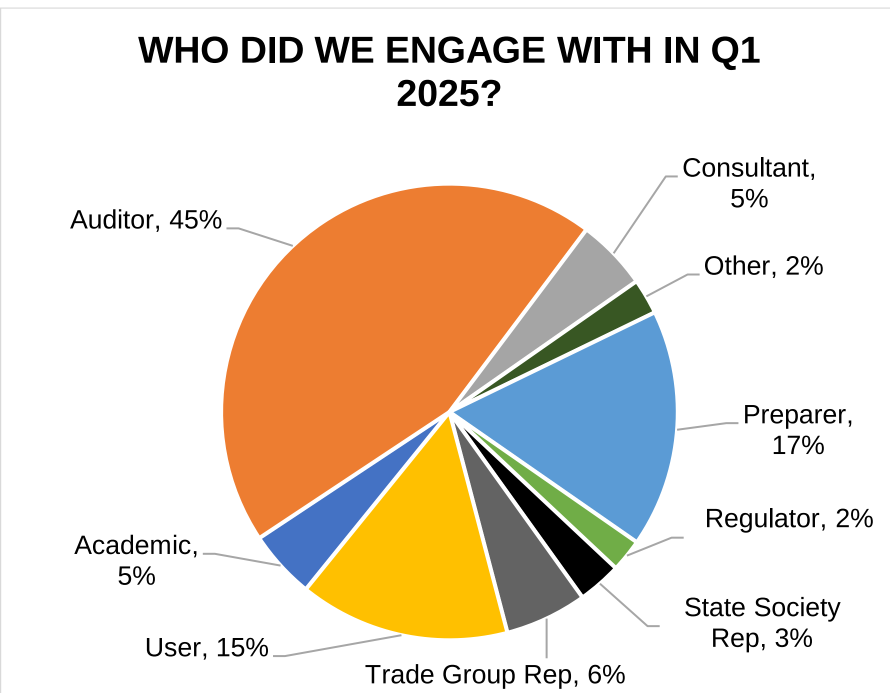
The following graphs and charts summarize how the Board and staff heard from stakeholders and who they heard from.



Q1 Summary Statistics	
# of Interviews	101
# of Comment Letters	125
# of External Review Responses	7
# of Group Stakeholder Meetings	10
# of Advisory Group Meetings*	4

Notes:

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



Types of Stakeholders	
Preparers	
Public Entities	60%
Private Entities	34%
Not-for-Profit Entities	6%
Auditors	
Big 4 Firms	53%
Other Global	19%
U.S. National	16%
U.S. Regional & Local	12%
Investors and Other Users	
Buy-side	39%
Sell-side	23%
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)	Topics
Academic Resource Group (ARG)	January 9, 2025	• Overview of the FASB Technical Agenda • The Role of the ARG • Accounting for and Disclosure of Intangibles (Research Project)
FASAC	March 4, 2025	• PIR—Leases • Consistency in Accounting Standards • Topic 815—Derivatives Scope Refinements
PCC	March 6, 2025	• PCC Agenda Priorities • Credit Losses—Topic 606 Receivables • Presentation of Contract Assets and Contract Liabilities for Construction Contractors • PCC Research Project—Leases and Update on FASB Leases PIR • Share-Based Consideration Payable to a Customer • Determining the Acquirer in the Acquisition of a VIE • Interim Reporting—Narrow-Scope Improvements
NAC	March 20, 2025	• FASB Agenda Consultation • Emerging Financial Reporting Issues in the NFP Sector • PIR—Leases • Credit Losses—Topic 606 Receivables • Topic 815—Derivatives Scope Refinements • Accounting for and Disclosure of Intangibles (Research Project) • Accounting for and Disclosure of Software Costs • Codification Improvements • Accounting for Environmental Credit Programs
EITF	March 25, 2025	• Accounting for Paid-in-Kind Dividends on Preferred Stock

Members appointed to advisory groups in the quarter were:

- NAC: Christina Dutch, Jennifer Hoffman, Diane Manning, Pete Ugo
- PCC: Michael Cheng (reappointed), Katina Curtis (reappointed)
- Public Markets Advisory Committee (PMAC), formerly known as the Small Business Advisory Committee: Jeffrey Ford, Shubho Ghosh, Michelle Reynolds, Marcel A. Snyman.

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*	
FASB-IASB Chair Meeting	February 14
IFRS Accounting Standards Advisory Forum (ASAF) Meeting	March 24-25
Multilateral Activities	
Multi-Lateral Network (MLN) Meeting	March 3
Bilateral Activities	
Canadian Accounting Standards Board (AcSB)	January 27
*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 SEC chief accountant and other senior staff of the SEC.

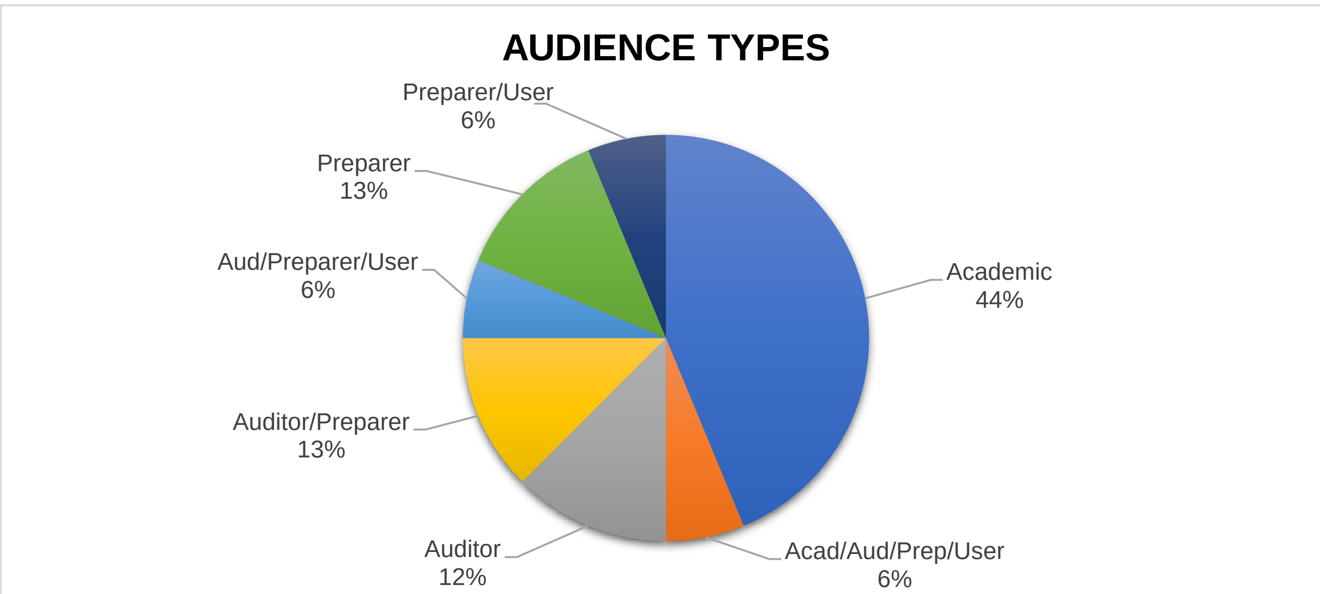
OTHER KEY COMMUNICATION ACTIVITIES

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	PCC Quarterly Update—Q1 2025	February 5, 2025
Video	FASB Agenda Consultation Project—Share Your Views	March 7, 2025
Video	Academic Research	March 20, 2025

Speech Activity			
Speaker	2023 1Q	2024 1Q	2025 1Q
FASB members	7	7	3
FASB staff	13	17	14
PCC members	0	0	0
Total	**20**	**24**	**17**

- *A total of 17 FASB speakers presented at 16 events. 18% of speakers were FASB members and 82% 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 12 press releases, media advisories, meeting recaps, and stakeholder emails on a variety of topics, with accompanying social media.

Other Communications Activities and Education

- On February 5, Rich Jones was interviewed by AICPA Director of Accounting Standards Dan Noll as part of the February 2025 edition of AICPA's "A&A Focus," a monthly webcast series on the latest in accounting, auditing, and assurance. The live interview focused on the FASB's 2025 Agenda Consultation and was viewed by more than 5,000 AICPA members.
- On March 13, the FASB published the PCC's inaugural annual report.

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

- On March 18, 2025, the SEC accepted the 2025 GRT (including the 2025 Employee Benefit Plan Taxonomy [EBPT]) and the 2025 SRT. In addition, the FASB finalized the 2025 DQCRT and the 2025 Meta Model Relationships Taxonomy (MMT).
- The FASB staff:
  - Published proposed taxonomy improvements for:
    - Proposed ASU—*Codification Improvements.*
  - Published the following proposed GAAP Taxonomy Implementation Guides for the 2025 Taxonomy:
    - *Accounting Changes*
    - *Segment Reporting (After Adoption of Accounting Standards Update 2023-07).*
  - Published the following final GAAP Taxonomy Implementation Guides for the 2025 Taxonomy:
    - *Boolean, Fixed List, and Extensible Enumeration Elements, A Guide for Preparers*
    - *Income Taxes (Topic 740).*
  - Published new DQCRT Rule Criteria and Process Document on the FASB website.
  - Performed research to support various Board projects.

Outreach Activities Supporting Board Initiatives

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

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

FASB/GASB INTERACTION

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

Appendix—Technical Agenda and Other Projects

Revised March 31, 2025

PROJECTS	Next Milestone	Expected Date
Accounting for and Disclosure of Software Costs	Board redeliberations	Ongoing
Accounting for Debt Exchanges	Exposure Draft	2Q 2025
Accounting for Environmental Credit Programs	Exposure Draft	Comments Due April 15, 2025
Accounting for Government Grants	Board redeliberations	Ongoing
Codification Improvements (Evergreen)	Exposure Draft	Comments Due April 22, 2025
Credit Losses—Topic 606 Receivables (PCC)	Final ASU	2Q 2025
Determining the Acquirer in the Acquisition of a VIE	Final ASU	2Q 2025
Financial Instruments—Credit Losses (Topic 326)—Purchased Financial Assets	Board redeliberations	Ongoing
Interim Reporting—Narrow-Scope Improvements	Board redeliberations	Ongoing
Share-Based Consideration Payable to a Customer	Final ASU	2Q 2025
Statement of Cash Flows Targeted Improvements	Board deliberations	Ongoing
Topic 815—Derivatives Scope Refinements	Board redeliberations	Ongoing
Topic 815—Hedge Accounting Improvements	Final ASU	3Q 2025

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
Hedge Accounting
Statement of Cash Flows

EITF
Accounting for Paid-in-Kind Dividends on Preferred Stock

POST-IMPLEMENTATION PROJECTS
Credit Losses
Leases

ATTACHMENT 2

PRIVATE CREDIT AND DEBT DISCLOSURES
FINANCIAL ACCOUNTING STANDARDS ADVISORY COUNCIL
JUNE 5, 2025

Session Objective

The objective of this session is to seek Council member input about existing private credit and debt disclosures and whether financial statements provide adequate information for investors and other allocators of capital (herein referred to as "investors").

Overview of Materials

This paper is structured into the following sections:

1. Private Credit Background
2. Borrower Financial Statement Disclosures
3. Private Credit Lender (Investment Fund) Accounting and Disclosures
4. Feedback on Private Credit Lender (Investment Fund) Disclosures
5. Extracts of Recent Stakeholders' Observations on Disclosures
6. Discussion Questions (see page 13)
7. Appendix A: Illustration of the Fair Value Hierarchy Disclosure.

Private Credit Background

What Is Private Credit?

Private credit (and more specifically, direct lending) generally refers to a type of financing originated by nonbank lenders to small- and medium-sized private businesses that is not broadly syndicated.[1] Accordingly, a 2024 Federal Reserve Board staff article (hereafter referred to as "FEDS Notes Report") states that private credit encompasses debt-like instruments that are not publicly traded and are offered by nonbank entities, such as private credit funds or business development companies (BDCs), to finance private businesses and that a private credit fund "is not required to be registered or regulated as an investment company under the Investment Company Act."[2] [3]

Recent Trends

According to an article published by the National Association of Insurance Commissioners, the private credit market expanded significantly following regulatory changes after the 2008 global financial crisis.[4] That article noted that banks reduced their middle-market lending due to increased capital requirements and guidelines concerning leveraged lending and that other direct lenders (alternative asset managers and private equity firms) entered the market to fill this gap.

The global market for private credit has been recently estimated to be around $1.7 trillion of assets under management (as of June 2023), with 46 percent of this total comprising direct lending.[5] For comparison, the leveraged loans market was roughly $1.4 trillion and high-yield bond market was roughly $1.3 trillion at the same point in time. Some have estimated that private credit will continue to grow rapidly in the next several years.[6]

Private Credit Borrowers

The FEDS Notes Report and the April 2024 International Monetary Fund (IMF) Global Financial Stability Report[7] both highlight that private credit borrowers in the United States are often backed by private equity sponsors. The FEDS Notes Report states that "for majority of these loans, the data show that the borrower is backed by a private equity sponsor (footnote reference omitted)," while the IMF Report notes that about 70 percent of private credit deals have private equity sponsorship.

With respect to the size of the borrower, an NBER (National Bureau of Economic Research) Working Paper noted that, in a survey, U.S. private debt managers target businesses averaging $289 million in revenue and 1,026 employees.[8] The FEDS Notes Report stated that private credit is generally extended to businesses with annual revenues ranging from $10 million to $1 billion. It also noted that, in recent years, private credit has expanded to finance larger companies that were previously funded by leveraged loans.

Borrowers of private credit are generally considered riskier than those accessing syndicated loans; the FEDS Notes Report observed higher spreads on private credit loans compared with similar instruments in the leveraged loan market. Similarly, the IMF Report noted that private credit borrowers are typically riskier compared with high-yield bond and leveraged-loan issuers. The IMF Report also indicated that businesses may borrow from private credit markets due to challenges accessing other types of financing.

An April 2025 report issued by the IMF also noted that "even before the tariffs, nearly half of DL [direct lending] borrowers had negative free operating cash flows…, prolonging their reliance on payment-in-kind (PIK) provisions [interest is added to the principal amount of the loan] and amend-and-extend restructurings (footnote reference omitted)."[9]

The industries of the businesses that utilize private credit vary, and the FEDS Notes Report (based on data provided by Pitchbook) provided the following breakdown by industry.

Sector	Value-Weighted Percentage (%)
Industries with High Collateral	47.60%
Commercial Services	16.70%
Software	15.20%
Health Care Services	8.00%
Financial Services	3.30%
IT Services	3.30%
Nonfinancial Services	2.70%
Energy Services	1.50%
Other	1.10%
Media	0.70%

A March 2025 report from the Bank for International Settlements stated that private credit funds are utilized by a growing range of industries. The report indicated that although manufacturing, technology, media and telecommunications, and industrials previously constituted a large portion of all deals, other sectors such as cleantech and life sciences now represent a greater share of the total.[10]

The FEDS Notes Report also notes that proceeds are most often used for general corporate purposes, debt refinancing, and for private equity transactions (such as leveraged buyouts).

	Loan Amount by Deal Type
Debt—General	47.24%
PE Buyout/LBO	25.80%
Debt Refinancing	21.27%
PE Growth/Expansion	5.44%
Merger/Acquisition	0.25%

Private Credit Terms and Arrangement Structures

According to the FEDS Notes Report, private credit involves bilateral negotiation of terms and conditions to meet the specific needs and objectives of the borrower and lender. The bilateral origination of a loan between a borrower and lender is known as "direct lending" (even though it can involve a small group of lenders). Loans from direct lending funds are typically senior secured, often providing first liens on the borrower's assets. The 2024 IMF

Report noted that direct lending offers custom terms, such as paid-in-kind interest when the lender is experiencing liquidity challenges.

The FEDS Notes Report states that over two-thirds of private credit takes the form of term loans, and both the FEDS Notes Report and 2024 IMF Report indicate that nearly all private credit loans have variable interest rates. The FEDS Notes Report also highlights that the average maturity for private credit has typically been around five years and there are, on average, approximately 2.5 lenders in each credit facility. A different report published by the Federal Reserve Board staff also noted that the typical loan size is approximately $65 million.[11]

Additionally, some publications note that private debt funds, particularly direct lenders, use strong loan covenants more extensively than is common in other types of financing arrangements.[12]

The 2024 IMF Report notes that the most common type of private credit investment vehicle, accounting for a significant majority of the total market, is a closed-end fund with a capital call structure and limited life cycle, similar to funds used for private equity. Moreover, the 2024 IMF Report highlights that “managers whose umbrella firm is also active in private equity hold more than three-quarters of private credit assets” and “for about 70 percent of private credit deals, the borrowing company is sponsored by a private equity firm.” That IMF Report also indicated that the sponsors of private credit may provide support to those funds in the event of short-term financial difficulty. Specifically, it noted that “private equity sponsors want to preserve the long-term value of their investments and may inject additional capital in their portfolio firms if they believe that stress will be transient.”

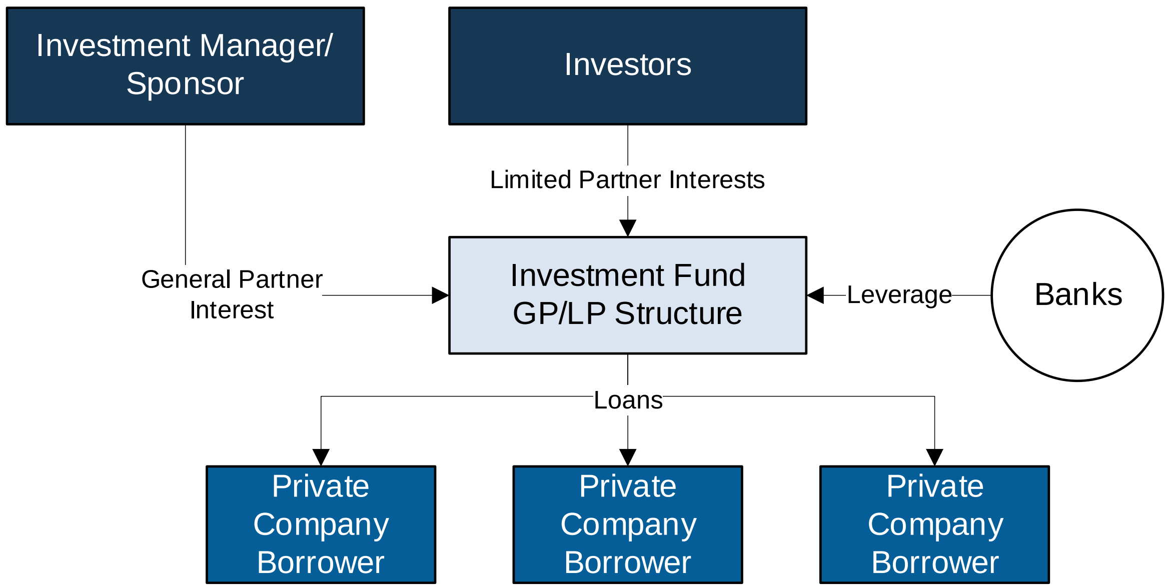
Although the assets held by private credit funds typically do not have a substantial secondary market and are usually held to maturity, the funds often minimize liquidity risk by subjecting investors (such as limited partners) to extended lock-up periods (for example, 10 years).[13] [14]

The 2024 IMF Report also examines the leverage employed by private credit funds through the raising of debt capital in addition to equity capital. The 2024 IMF Report observed that "the use of leverage [by private credit funds] appears modest."

Other sources identified cases in which direct-lending investment vehicles have secured additional debt at the fund level alongside their equity to achieve higher returns.[15] The 2025 IMF Report states that “private credit funds’ reliance on bank credit arises, in particular, from the complex asset-liabilities framework required to manage unexpected outflows.” Specifically, it noted that “besides term loans, most direct lenders offer revolving facilities to borrowers, which increases the volatility of these lenders’ cash flows. To manage this volatility, direct lenders often depend on revolving credit lines from banks.”

The 2025 IMF Report also states that “private credit funds rely on various types of financing to generate leveraged returns and to manage their liquidity needs, including subscription credit facilities and asset-based lending provided by international bank syndications and collateralized with middle-market loans…" and that "the identified portion of bank exposures to private credit vehicles globally…likely exceeds 25 percent of total assets under management in private credit funds."

For reference, the staff has provided a simplified illustration of a direct lending private credit fund structure, with general partner (GP) and limited partner (LP) interests, below.



Private Credit Investors

The NBER Working Paper states that limited partners in private credit funds include pension funds, insurance companies, family offices, and wealthy individuals. These sources of capital are similar to those for private equity funds.

Borrower Financial Statement Disclosures

Private company borrowers, including those obtaining financing through private credit, are subject to different disclosure requirements than public business entities. These differences have been discussed during recent Private Company Council (PCC) meetings.

The following table summarizes certain widely applicable[16] debt disclosure requirements for all entities, including private companies and non-SEC registrants. The table also highlights the incremental debt disclosure requirements applicable to public companies under SEC guidance that private companies are not required to disclose.

Related Guidance	Disclosures applicable to **public business entities and private companies**	Disclosures applicable **to** public companies/SEC registrants	Related Guidance
470-10-50-1	Aggregate amount of long-term borrowings for each of the five years following the date of the latest balance sheet presented	Character of each long-term debt, interest rate, maturity date, any payment contingencies, indication of priority, and basis for conversion (if applicable)	S-X Rule 5-02. 22(a)

Related Guidance	Disclosures applicable to **public business entities and private companies**	Disclosures applicable **to** public companies/SEC registrants	Related Guidance
470-10-50-4	For certain short-term obligations expected to be refinanced, a general description of the financing agreement and the terms of any new obligation incurred or expected to be incurred (or equity securities issued or expected to be issued)	Amount and terms of unused commitments for short- and long-term financing arrangements[17]	S-X Rule 5-02.19(b) and 5-02.22(b)
835-30-45-2	Effective interest rate and the face amount	Weighted-average interest rate on short-term borrowings outstanding as of each balance-sheet date	S-X Rule 5-02.19(b)
470-10-50-5	Pertinent rights and privileges of various securities outstanding (significant terms)	An entity must disclose information about significant changes in the authorized amounts of bonds, mortgages, and similar debt since the date of the latest balance sheet being filed.	S-X Rule 4-08(f)
440-10-50-1	Commitments related to debt arrangements	Assets mortgaged, pledged, or otherwise subject to lien, and the approximate amounts thereof, shall be designated and the obligations collateralized briefly identified.[18]	S-X Rule 4-08(b)

Additionally, public business entities may be required to provide other disclosures about debt issuances outside of the financial statements (for example, those required by SEC Regulation S-K, *Standard Instructions for Filing Forms Under Securities Act of 1933, Securities Exchange Act of 1934, and Energy Policy and Conservation Act of 1975*).

Private Credit Lender (Investment Fund) Accounting and Disclosures

Requirement for Fair Value Measurement under Topic 946

Private credit funds are required to apply the guidance in Topic 946, Financial Services—Investment Companies. That guidance applies to both registered investment companies and entities that possess characteristics described in paragraphs 946-10-15-6 through 15-7 (for example, entities committing to investors that their business purpose and substantive activities are solely investing funds for capital appreciation, investment income, or both).

Entities in the scope of Topic 946 are required to subsequently measure debt securities, equity securities, and other investments[19] at fair value (as required by Subtopic 946-320, Financial Services—Investment Companies—Investments—Debt and Equity Securities, and Subtopic 946-325, Financial Services—Investment Companies—Investments—Other).

The guidance in Topic 820, Fair Value Measurement, establishes a framework for measuring fair value in generally accepted accounting principles (GAAP) and applies under other accounting Topics that require or permit fair value measurements. Topic 820 establishes a fair value hierarchy to increase consistency and comparability in fair value measurements and related disclosures. That fair value hierarchy categorizes the inputs to valuation techniques used to measure fair value into three levels—the hierarchy gives the highest priority to quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1 inputs) and the lowest priority to unobservable inputs (Level 3 inputs).

Investments made by private credit funds generally will involve Level 3 inputs (unobservable inputs) to measure the fair value of these debt investments inputs for which market data are not available and that are developed using the best information available about the assumptions that market participants would use when pricing the asset.

In defining an investment company to capture the population of entities for which fair value of investments is generally the most relevant measurement, the Board considered the possibility that an entity may measure debt investments it plans to hold to maturity at fair value. Specifically, in Accounting Standards Update No. 2013-08, *Financial Services—Investment Companies (Topic 946): Amendments to the Scope, Measurement, and Disclosure Requirements*, the Board concluded that fair value was the most relevant measurement attribute for all investments held by investment companies, including debt securities held only for returns from investment income, because investors in the investment company typically transact on the basis of net asset value per share, which is calculated using the fair value of the investment company's underlying investments.

Investment Company Disclosures

Investment companies that are nonregistered investment partnerships are required to include a condensed schedule of investments (paragraphs 946-210-50-4 through 50-6). Minimum disclosures include categorization by all of the following:

1. Type of investment (such as common stocks, preferred stocks, fixed-income securities, and so forth)
2. Country or geographical region
3. Industry
4. Derivatives, where the underlying is not a security.

As part of that disclosure, an entity is required to report the percent of net assets that each such category represents, as well as the total fair value and cost for the type of investment and geographic region. An entity also is required to disclose the name, number of shares or principal amount, fair value, and type of both of the following:

1. Each investment (including short sales) constituting more than 5 percent of net assets, except for derivative instruments
2. All investments in any one issuer aggregating more than 5 percent of net assets, except for derivative instruments.

As previously noted, private credit structures sometimes take the form of a business development company (BDC).[20] BDCs are required to file periodic reports under the Securities Exchange Act of 1934, including Form 10-K and Form 10-Q. The financial statements of BDCs are subject to the same requirements as registered investment companies, including the requirements related to disclosing investment schedules[21] (Articles 6 and 12 of Regulation S-X [in addition to other applicable Articles of Regulation S-X]).

Fair Value Measurement Disclosures

The objective of the disclosure requirements in Topic 820 is to provide information about the extent to which fair value is used to measure recognized assets and liabilities, the inputs used to develop the measurements, and the effect of certain of the measurements on earnings for the period.[22] Topic 820 requires entities to provide the following information about assets and liabilities measured at fair value:

1. The valuation techniques and inputs that a reporting entity uses to arrive at its measures of fair value, including judgments and assumptions that the entity makes
2. The uncertainty in the fair value measurements as of the reporting date
3. How changes in fair value measurements affect an entity's performance and cash flows.

Two of the key disclosure requirements in Topic 820 are (1) the fair value hierarchy and (2) the significant inputs used in a fair value measurement. Appendix A provides an illustration of the fair value hierarchy disclosure (see paragraph 820-10-55-100).

Furthermore, many disclosure requirements depend on the level in the hierarchy; disclosure requirements increase when fair value measurements rely on inputs other than quoted prices for the assets or liabilities. Accordingly, some disclosure requirements are specific to Level 3 fair value measurements.

For example, an entity that has recurring and nonrecurring fair value measurements within Level 2 and Level 3 of the hierarchy is required to disclose the valuation techniques and inputs used for those measurements (paragraph 820-10-50-2(bbb)(1)). Additionally, an entity that has Level 3 fair value measurements is required to disclose quantitative information about significant unobservable inputs used in its measurements.[23]

Entities also are required to report the range and weighted average of significant unobservable inputs used to develop Level 3 fair value measurements, including the method for calculating the weighted average (for example, weighting by relative fair value).[24]

An illustrative example of this disclosure requirement (paragraph 820-10-55-103) is provided below.

FASAC FINANCIAL ACCOUNTING STANDARDS ADVISORY COUNCIL

Quantitative Information about Level 3 Fair Value Measurements

($ in millions)	Fair Value at 12/31/X9	Valuation Technique(s)	Unobservable Input	Range (Weighted Average)[e]
Residential mortgage-backed securities	125	Discounted cash flow	Constant prepayment rate	3.5% – 5.5% (4.5%)
			Probability of default	5% – 50% (10%)
			Loss severity	40% – 100% (60%)
Commercial mortgage-backed securities	50	Discounted cash flow	Constant prepayment rate	3.0% – 5.0% (4.1%)
			Probability of default	2% – 25% (5%)
			Loss severity	10% – 50% (20%)
Collateralized debt obligations	35	Consensus pricing	Offered quotes	20 – 45 (30)
			Comparability adjustments (%)	-10% – +15% (+5%)
Direct venture capital investments: healthcare	53	Discounted cash flow	Weighted average cost of capital	7% – 16% (12.1%)
			Long-term revenue growth rate	2% – 5% (4.2%)
			Long-term pretax operating margin	3% – 20% (10.3%)
			Discount for lack of marketability [a]	5% – 20% (17%)
			Control premium [a]	10% – 30% (20%)
		Market comparable companies	EBITDA multiple [b]	10 – 13 (11.3)
			Revenue multiple [b]	1.5 – 2.0 (1.7)
			Discount for lack of marketability [a]	5% – 20% (17%)
			Control premium [a]	10% – 30% (20%)
Direct venture capital investments: energy	32	Discounted cash flow	Weighted average cost of capital	8% – 12% (11.1%)
			Long-term revenue growth rate	3% – 5.5% (4.2%)
			Long-term pretax operating margin	7.5% – 13% (9.2%)
			Discount for lack of marketability [a]	5% – 20% (10%)
			Control premium [a]	10% – 20% (12%)
		Market comparable companies	EBITDA multiple [b]	6.5 – 12 (9.5)
			Revenue multiple [b]	1.0 – 3.0 (2.0)
			Discount for lack of marketability [a]	5% – 20% (10%)
			Control premium [a]	10% – 20% (12%)
Credit contracts	38	Option model	Annualized volatility of credit [c]	10% – 20% (13%)
			Counterparty credit risk [d]	0.5% – 3.5% (2.2%)
			Own credit risk [d]	0.3% – 2.0% (0.7%)

(a) Represents amounts used when the reporting entity has determined that market participants would take into account these premiums and discounts when pricing the investments.
(b) Represents amounts used when the reporting entity has determined that market participants would use such multiples when pricing the investments.
(c) Represents the range of the volatility curves used in the valuation analysis that the reporting entity has determined market participants would use when pricing the contracts.
(d) Represents the range of the credit default swap spread curves used in the valuation analysis that the reporting entity has determined market participants would use when pricing the contracts.
(e) Unobservable inputs were weighted by the relative fair value of the instruments. For credit contracts, the average represents the arithmetic average of the inputs and is not weighted by the relative fair value or notional amount.

(Note: For liabilities, a similar table should be presented.)

When complying with the disclosure requirements, Topic 820 provides guidance about how much aggregation or disaggregation an entity should undertake. Paragraph 820-10-50-2B states that entities should determine the appropriate classes of assets and liabilities based on their nature, characteristics, risks, and fair value hierarchy level. It notes that more classes may be necessary for Level 3 measurements due to higher uncertainty and subjectivity. Determining these classes requires judgment, and they often need greater disaggregation than the line items in the financial statement.

Nonpublic entities are exempt from disclosing the range and weighted average of significant unobservable inputs used to develop Level 3 fair value measurements but are required to provide quantitative information about significant unobservable inputs used in the fair value measurement.

Additionally, for recurring Level 3 fair value measurements, among other requirements, an entity is required to disclose (a) a rollforward of the beginning and ending balances,

(b) unrealized gains or losses for the period included in income, and (c) the line item in the income statement where the unrealized gains or losses are recognized. However, nonpublic entities are not required to disclose a full Level 3 rollforward.

Entities also are required to provide a narrative description of the uncertainty of a fair value measurement from the use of significant unobservable inputs if those inputs reasonably could have been different at the reporting date (for example, how a change in those significant unobservable inputs to a different amount might result in a significantly higher or lower fair value measurement at the reporting date).[25]

Feedback on Private Credit Lender (Investment Fund) Disclosures

November 2024 FASB Investor Advisory Committee (IAC) Meeting

During the November 7, 2024 IAC meeting, an IAC member commented on the recent growth of private credit funds and expressed a view that limited information is provided to investors by these funds. The IAC member noted that, typically, investors receive only the fair value of underlying investments as of the balance sheet date, without detailed information on performance or key credit measures, such as the default rate of the underlying portfolio. That IAC member also observed that more detailed information underlying the investments might be accessible only to certain investors. For example, larger investors might have access to more comprehensive data supporting the fund's fair value estimates. IAC members discussed the possibility of enhancing disclosure requirements to enable investors to better understand the performance of borrowers within the funds.

A Board member shared his perspective on the discussion held by IAC members on this topic and pointed out that, since private credit investments are predominantly measured at fair value, investors may exhibit skepticism regarding the reliability of those fair value measurements.

Another Board member sought clarification on whether the issue pertained to the underlying assumptions used to measure fair value and the lack of detail supporting those measurements, or how such details might differ from what is provided by entities that are required to measure loans at amortized cost.

IMF Report

The 2024 IMF Report considered the fair value measurements made by private credit funds by analyzing BDCs, which file financial statements with the SEC. According to the 2024 IMF Report, "the analysis shows that private credit prices move less than in high-yield and leveraged-loan markets, even though private credit borrowers are riskier." It also notes that "the smaller valuation adjustment is offset by an additional discount applied to market prices of BDC shares…." It further notes that "evidence suggests that adjustments to the values of private credit loans are smaller and slower than those observed in public markets" and commented on the effects of frequent valuation changes as follows.

> Industry commentary suggests that in illiquid asset classes such as private credit, valuations are inherently uncertain and subjective, potentially diminishing the advantages of more frequent mark-to-market practices. Beyond the associated costs and risk of mispricing, frequent mark-to-market assessments could exacerbate procyclical tendencies and increase market volatility. Moreover, the emphasis on frequent valuations might incentivize investors and managers to prioritize short-term performance, undermining the long-term advantage offered by the buy-and-hold nature of private credit. Institutional investors are also incentivized to avoid balance sheet volatility and demand more frequent and rigorous valuations from investment managers.
>
> However, stale valuations could also distort capital allocation, exacerbate conflicts of interest, and undermine confidence in private credit markets. Inaccurate or infrequent mark-to-market practices hinder investors from making informed decisions and managing risks effectively. Stale valuations could also affect market integrity when incentives are not aligned. For example, managers may have incentives to maintain high valuations during fundraising periods to reference historically higher returns. Conflicts of interest also arise from managers' fees based on valuation. Stale valuations make it difficult for stakeholders to assess potential losses in a timely manner and, in a downturn scenario, could fuel a loss of confidence in the segment.

Regulators

An SEC commissioner, in a speech on private credit in October 2024, noted that "inaccurate valuations are also a real concern, but likewise not a cause for excessive worry."[26] The commissioner explained that the lack of a secondary market and the bespoke nature of private credit make valuing outstanding loans difficult, but the risks associated with valuation are mitigated by the long-term nature of private credit investing; private credit funds generally hold loans until they are paid off or refinanced. The Commissioner also noted that "as private credit finds its way into publicly traded vehicles, such as BDCs or private credit exchange-traded funds, public markets will be able to test valuations (footnote reference omitted)."

Extracts of Recent Stakeholders' Observations on Disclosures

Recent suggestions on ways to improve various disclosures were received from stakeholders and are included in the 2025 Invitation to Comment, *Agenda Consultation* (2025 ITC). Those suggestions included observations about the debt and fair value measurement disclosures.

Some investors requested more information about debt covenants, future cash obligations, liquidity needs, and key assumptions and judgments. Others requested additional information about debt issued after year-end but before the financial statements are issued.

Other stakeholders have indicated that certain disclosures have become outdated and questioned whether they continue to be relevant and/or cost beneficial. These stakeholders suggested that the Board revisit certain disclosure requirements to ensure that they are still relevant and still provide decision-useful information to investors.

For example, stakeholders identified fair value measurement disclosures within Topic 820 and derivative disclosures within Topic 815, Derivatives and Hedging, as burdensome and costly to provide. Investors noted that while these disclosures can be helpful when an entity holds a limited number of instruments, the disclosures become less decision useful when an entity holds a large volume of related assets or liabilities because the disclosures are highly aggregated.

Discussion Questions

Question 1: Are the current debt disclosures provided by private company borrowers and public company borrowers adequate?

Question 2: If not, what improvements to the GAAP debt disclosures for private company or public company borrowers are needed? How would that information be used to better inform investment decisions?

Question 3: Do Council members have any feedback on the current disclosure requirements for private credit lenders (investment funds), including the investment and fair value disclosure requirements in Topic 946 and Topic 820?

Question 4: How are the challenges of measuring the fair value of the assets in private credit funds similar to or different from those encountered in measuring other assets and liabilities that require Level 3 inputs (such as the assets held by private equity funds or other investment companies)?

Question 5: Are there other prevalent financial reporting issues that the Board should be aware of related to private credit arrangements or debt disclosures?

Question 6: Do Council members have any other comments or questions?

FASAC FINANCIAL ACCOUNTING STANDARDS ADVISORY COUNCIL

Appendix A: Illustration of the Fair Value Hierarchy Disclosure (paragraph 820-10-55-100)

($ in millions)		Fair Value Measurements at the End of the Reporting Period Using			
	12/31/X9	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Gains (Losses)
Description					
Recurring fair value measurements					
Equity securities[a]					
Equity securities—real estate industry	$ 93	$ 70	$ 23		
Equity securities—oil and gas industry	45	45			
Equity securities—financial services industry	150	150			
Equity securities—healthcare industry	110	110			
Equity securities—other	30	30			
Total equity securities	$ 428	$ 405	$ 23		
Available-for-sale debt securities					
Residential mortgage-backed securities	$ 149		$ 24	$ 125	
Commercial mortgage-backed securities	50			50	
Collateralized debt obligations	35			35	
U.S. Treasury securities	85	$ 85			
Corporate bonds	93		93		
Total available-for-sale debt securities	$ 412	$ 85	$ 117	$ 210	
Hedge fund investments					
Equity long/short	$ 55		$ 55		
Global opportunities	35		35		
High-yield debt securities	90			$ 90	
Hedge fund investments measured at net asset value[f]	30				
Total hedge fund investments	$ 210		$ 90	$ 90	
Other investments					
Private equity fund investments[b]	$ 25			$ 25	
Direct venture capital: healthcare[a]	53			53	
Direct venture capital: energy[a]	32			32	
Other investments measured at net asset value[f]	45				
Total other investments	155			110	
Derivatives					
Interest rate contracts	57		$ 57		
Foreign exchange contracts	43		43		
Credit contracts	38			38	
Commodity futures contracts	78	$ 78			
Commodity forward contracts	20		20		
Total derivatives	$ 236	$ 78	$ 120	$ 38	
Total recurring fair value measurements	$ 1,441	$ 568	$ 350	$ 448	
Nonrecurring fair value measurements					
Long-lived assets held and used[c]	$ 75		$ 75		$ (25)
Goodwill[d]	30			$ 30	(35)
Long-lived assets held for sale[e]	26		26		(15)
Total nonrecurring fair value measurements	$ 131		$ 101	$ 30	$ (75)

(a) On the basis of its analysis of the nature, characteristics, and risks of the securities, the reporting entity has determined that presenting them by industry is appropriate.

(b) On the basis of its analysis of the nature, characteristics, and risks of the investments, the reporting entity has determined that presenting them as a single class is appropriate.

(c) At 9/30/X9, in accordance with Subtopic 360-10, long-lived assets held and used with a carrying amount of $100 million were written down to their fair value of $75 million, resulting in an impairment charge of $25 million, which was included in earnings for the period.

(d) At 11/30/X9, in accordance with Subtopic 350-20, goodwill with a carrying amount of $65 million was written down to its implied fair value of $30 million, resulting in an impairment charge of $35 million, which was included in earnings for the period.

(e) At 5/1/X9, in accordance with Subtopic 360-10, long-lived assets held for sale with a carrying amount of $35 million were written down to their fair value of $26 million, less costs to sell of $6 million (or $20 million), resulting in a loss of $15 million, which was included in earnings for the period.

(f) In accordance with Subtopic 820-10, certain investments that are measured at fair value using the net asset value per share (or its equivalent) practical expedient have not been classified in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the statement of financial position.

(Note: For liabilities, a similar table should be presented.)

NOTES

[1] See https://pitchbook.com/blog/what-is-private-debt. Strategies such as distressed debt, venture debt, and mezzanine finance are also considered private credit. The document generally focuses on direct lending, which is the largest of these strategies. See additional discussion at https://www.bloomberg.com/news/articles/2024-02-20/what-is-private-credit-how-does-it-work-and-what-are-the-risks.

[2] Cai, Fang, and Sharjil Haque, "Private Credit: Characteristics and Risks," *FEDS Notes*, February 23, 2024, https://doi.org/10.17016/2380-7172.3462.

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

[4] See https://content.naic.org/sites/default/files/capital-markets-primer-private-credit.pdf.

[5] See figures 1a and 1b in the FEDS Notes Report. https://www.federalreserve.gov/econres/notes/feds-notes/private-credit-characteristics-and-risks-accessible-20240223.htm Also see https://www.brookings.edu/articles/what-is-private-credit-does-it-pose-financial-stability-risks/, which notes that "roughly 40% of private credit funds invest primarily in the U.S."

[6] See Private Credit Market: 2024 Outlook & Opportunities | Morgan Stanley.

[7] See https://www.imf.org/-/media/Files/Publications/GFSR/2024/April/English/ch2.ashx.

[8] See https://www.nber.org/system/files/working_papers/w30868/w30868.pdf

[9] See https://www.imf.org/-/media/Files/Publications/GFSR/2025/April/English/text.ashx.

[10] Avalos, Fernando, Doerr, Sebastion, and Pinter, Gabor. "The Global Drivers of Private Credit*,*" *BIS Quarterly Review*, March 2025, (https://www.bis.org/publ/qtrpdf/r_qt2503b.pdf).

[11] See https://www.federalreserve.gov/econres/notes/feds-notes/private-credit-growth-and-monetary-policy-transmission-20240802.html. That paper also noted that "over the last few years, direct lenders have underwritten more jumbo loans of $1 billion or more…. Historically, these jumbo loans had been underwritten in public credit markets, but the increased size of private credit lenders, supported by strong institutional and retail investor inflows, has allowed them to finance larger deals."

[12] For example, see "Private Credit: Cutting Through the Jargon," *Blackstone*, https://pws.blackstone.com/emea/wp-content/uploads/sites/20/blackstone-secure/Private-Credit-Cutting-Through-the-Jargon-EMEA.pdf.

[13] The FEDS Notes Report states:

> Given the absence of a liquid secondary market for many private credit instruments, lenders typically hold these loans until maturity or a refinancing event. As a result, these loan contracts can include features uncommon to traditional bank loans, such as a structured equity component, high prepayment penalties, or a role in oversight or management of the company.

[14] See also the Federal Reserve's May 2023 Financial Stability Report. https://www.federalreserve.gov/publications/files/financial-stability-report-20230508.pdf.

[15] Ellias, Jared A. and de Fontenay, Elisabeth. 2025. "The Credit Markets Go Dark." *134 Yale Law Journal* 696. https://ssrn.com/abstract=4879742 or http://dx.doi.org/10.2139/ssrn.4879742.

[16] This table excludes certain disclosures, including those specific to (a) default debt, covenant violations, and waivers under S-X Rule 4-08(c), (b) subjective acceleration clauses, (c) convertible debt, (d) fair value information (because these disclosure requirements are for public business entities), (e) guarantor disclosures (because these disclosure requirements only apply to certain SEC registrants that guarantee public debt), and (f) fair value option liabilities.

[17] Under the amendments in Accounting Standards Update No. 2023-06, *Disclosure Improvements: Codification Amendments in Response to the SEC's Disclosure Update and Simplification Initiative,* paragraph 470-10-50-6 would require similar disclosure for all entities (including private companies). The effective date for each amendment in Update 2023-06 will be the date on which the SEC's removal of that related disclosure from Regulation S-X or Regulation S-K becomes effective, with early adoption prohibited. For all entities, if by June 30, 2027, the SEC has not removed the

applicable requirement from Regulation S-X or Regulation S-K, the pending content of the related amendment will be removed from the Codification and will not become effective for any entity.

[18] Paragraph 440-10-50-1 would be revised to align with Regulation S-X Rule 4-08(b) under the amendments in Update 2023-06.

[19] Topic 326, Financial Instruments—Credit Losses, provides a scope exception for "financial assets measured at fair value through net income." See paragraph 326-20-15-3. Therefore, (unlike for a bank, which would typically measure similar loans at amortized cost), the guidance in Topic 326 does not apply to loans made by a private credit fund.

[20] As noted in the 2024 International Monetary Fund (IMF) Global Financial Stability Report, "a rapidly growing segment in the United States is known as business development companies (BDCs), which account for 14 percent of the market."

[21] See 2024 AICPA Audit and Accounting Guide, *Investment Companies*.

[22] The disclosure requirements for debt investments measured at fair value in Topic 820, Fair Value Measurement, originated in FASB Statement No. 157, *Fair Value Measurements*. Those disclosure requirements have been revised several times, most recently by the amendments in Accounting Standards Update No. 2018-13, *Fair Value Measurement (Topic 820): Disclosure Framework—Changes to the Disclosure Requirements for Fair Value Measurement,* as part of the Board's disclosure framework project. For equity securities subject to contractual sale restrictions, see Accounting Standards Update No. 2022-03, *Fair Value Measurement (Topic 820): Fair Value Measurement of Equity Securities Subject to Contractual Sale Restrictions*.

[23] The paragraph also states:

> A reporting entity is not required to create quantitative information to comply with this disclosure requirement if quantitative unobservable inputs are not developed by the reporting entity when measuring fair value (for example, when a reporting entity uses prices from prior transactions or third-party pricing information without adjustment). However, when providing this disclosure, a reporting entity cannot ignore quantitative unobservable inputs that are significant to the fair value measurement and are reasonably available to the reporting entity.

[24] In lieu of the weighted average, entities may disclose other quantitative measures, like the median or arithmetic average, if such information would be a more reasonable and rational method to reflect the distribution of unobservable inputs used to develop the Level 3 fair value measurements. In these cases, entities do not need to explain the omission of the weighted average.

[25] See paragraph 820-10-50-2(g) for the complete requirement.

[26] See https://www.sec.gov/newsroom/speeches-statements/peirce-remarks-private-credit-forum-101524.

ATTACHMENT 3

Business Combinations
Financial Accounting Standards Advisory Council
June 5, 2025

Session Objective

The objective of this session is to discuss current generally accepted accounting principles (GAAP) on the accounting for a business combination and seek Council member input about whether potential improvements to GAAP, including those raised in recent research projects, are needed.

Overview of Materials

These materials include the following:

1. History on the Accounting for Business Combinations
2. Changes Made to the Acquisition Method (Purchase Method)
3. Differences in Accounting for Business Combinations and Asset Acquisitions
4. Related Areas within FASB Research Projects
5. IASB Project on Business Combinations—Disclosures, Goodwill, and Impairment
6. Discussion Questions (pages 14 and 15)
7. Appendix A: Business Combinations and Asset Acquisitions Areas Described in FASB Research Projects
8. Appendix B: Business Combinations Post-Implementation Review (PIR).

History on the Accounting for Business Combinations

Topic 805, Business Combinations, establishes the current accounting and reporting requirements for business combinations.

The accounting for business combinations was first addressed by the Accounting Principles Board in APB Opinion No. 16, *Business Combinations*, which was issued in 1970. In developing Opinion 16, the APB observed that most business combinations before World War II were classified either as a "merger" (the acquisition of one company by another) or a "consolidation" (the formation of a new corporation). Accounting for both types of combinations generally followed traditional principles for the acquisition of assets or the issuance of shares of stock. Emphasis shifted after World War II from evaluating the legal form to distinguishing between a continuance of the former ownership (accounted for as a pooling of interests) or a new ownership (accounted for as a purchase); significant differences between the pooling of interest and purchase methods developed in practice. In Opinion 16, the APB concluded that both methods are acceptable in accounting for business combinations and required a combination to meet specific conditions to apply the pooling of interests method.

Elimination of the Pooling of Interests Method

In 1996, the FASB added the business combinations project to its agenda with the objective of improving the transparency of accounting and reporting of business combinations, including the accounting for goodwill and other intangible assets. That project reconsidered the requirements of Opinion 16 and APB Opinion No. 17, *Intangible Assets*. The main reason for taking on the project was the increase in merger and acquisition activity that brought more attention to the fact that two transactions that are economically similar may be accounted for by different methods that produce dramatically different financial statement results.

The objective of the project was achieved through phases that focused on specific changes. The completion of the first phase of the project resulted in the elimination of accounting for a business combination using the pooling method, new guidance for the initial recognition and measurement of acquired intangible assets (both in a business combination and other than in a business combination), and new guidance for the subsequent recognition and measurement of intangible assets. That guidance was originally issued in FASB Statement No. 141, *Business Combinations,* and FASB Statement No. 142, *Goodwill and Other Intangible Assets*, which superseded Opinions 16 and 17, respectively.

Reconsideration of the Acquisition Method (Purchase Method)

The FASB and the International Accounting Standards Board (IASB) worked together on the second phase of the project, which retained the fundamental requirements in Statement 141 that the acquisition method of accounting (which Statement 141 called the purchase method) be used for all business combinations. The second phase of the project established principles and requirements for *how* the acquirer (a) recognizes and measures the identifiable assets acquired, the liabilities assumed, and any noncontrolling interest (NCI) in the acquiree, (b) recognizes and measures the goodwill acquired (or a gain from a bargain purchase), and (c) determines what information to disclose about the nature and financial effects of the business combination.

The second phase resulted in the issuance of FASB Statement No. 141 (revised 2007), *Business Combinations,* and IFRS 3 (Revised), *Business Combinations*. Statement 141(R) replaced Statement 141's cost-allocation process, instead, requiring that the assets acquired, liabilities assumed, and any NCI be recognized at fair value, with some limited exceptions.

Changes Made to the Acquisition Method (Purchase Method)

Included in Table 1 below is an overview of the key changes made to the purchase method of accounting in Statement 141 by Statement 141(R):[1]

Table 1: Key Changes Made to the Acquisition Method (Purchase Method)

Area	Acquisition Method Statement 141(R) (Topic 805)	Purchase Method Statement 141 (Superseded in 2007)
Scope	Applies to all transactions and other events in which one entity obtains control over one or more other businesses.	Applied only to business combinations in which control was obtained by transferring consideration.
Definition of the acquirer	Defines the acquirer as the entity that obtains control of one or more businesses in the business combination.	No definition provided (but provided guidance on identifying the acquirer).
Measuring the identifiable assets acquired, the liabilities assumed, and NCI	Assets acquired, liabilities assumed, and NCI in the acquiree are measured at the acquisition-date fair value, with limited exceptions.	Cost of an acquisition was allocated to the individual assets acquired and liabilities assumed on the basis of their estimated fair values (cost-allocation process). No guidance provided on measuring the NCI's share of the consolidated subsidiary's assets and liabilities at the acquisition date.
Acquisition-related costs	Recognized separately from the acquisition (generally as expenses in the periods incurred).	Included in the costs incurred to effect the acquisition.
Restructuring costs expected (not obligated) to incur	Recognized separately from the business combination.	Recognized as a liability assumed at the acquisition date.
Business combination achieved in stages	Identifiable assets and liabilities, as well as NCI, are recognized at the full amounts of their acquisition-date fair value.	Identified the cost of each investment, the fair value of the underlying identifiable net assets acquired, and the goodwill at each stage (resulted in a blend of historical costs and fair values).

[1] Table 1 is a summary of the main changes made by the Board in FASB Statement No. 141 (revised 2007), *Business Combinations*, that remain in current generally accepted accounting principles (GAAP) (Topic 805, Business Combinations). Therefore, it excludes references to guidance that the Board subsequently amended or superseded. For example, Table 1 excludes the superseded guidance on assets and liabilities arising from contingencies that was amended in 2009 by FASB Staff Position No. FAS 141(R)-1, *Accounting for Assets Acquired and Liabilities Assumed in a Business Combination That Arise from Contingencies*.

Contingent consideration	Contingent consideration is required to be recognized at the acquisition date and measured at fair value at that date.	Contingent consideration obligations usually were not recognized at the acquisition date. Rather, they were recognized when the contingency was resolved and consideration was issued or became issuable.
Bargain purchase gain	A bargain purchase is defined as a business combination in which the total acquisition-date fair value of the identifiable net assets acquired exceeds the fair value of the consideration transferred plus any NCI in the acquiree. Requires the acquirer to recognize that excess in earnings as a gain.	"Negative goodwill" was allocated as a pro rata reduction of the amounts that otherwise would have been assigned to particular assets acquired.
Research and development	Acquisition-date fair values of research and development assets acquired (including those that have no alternative future use) in a business combination are recognized separately from goodwill.	Research and development assets acquired in a business combination that have no alternative future use were required to be measured at their acquisition-date fair values and then immediately charged to expense (FASB Interpretation No. 4, *Applicability of FASB Statement No. 2 to Business Combinations Accounted for by the Purchase Method*).

Differences in Accounting for Business Combinations and Asset Acquisitions

Under GAAP, the accounting requirements for acquisitions are determined on the basis of whether the assets acquired and liabilities assumed constitute a *business*. For a business combination, recognition of assets and liabilities is based on a fair value model. That is, the acquirer recognizes the assets acquired, liabilities assumed, and any NCI in the acquiree at the acquisition-date fair value, with limited exceptions.

If the assets acquired and liabilities assumed do not constitute a business, an entity is required to account for the transaction or other event as an asset acquisition.[2] The accounting for asset acquisitions largely originates from Opinion 16 as issued in 1970 and has very brief requirements on determining and allocating cost. That guidance was carried forward in the Board's projects on business combinations without reconsideration,[3] and was codified in Subtopic 805-50, Business Combinations—Related Issues.

---

[2] GAAP does not define an "asset acquisition;" however, for ease of reference, this memo refers to transactions that do not meet the definition of a business as asset acquisitions.

[3] As indicated in paragraph B20 of Statement 141(R):

> The [FASB and IASB (the Boards)] considered whether to expand the scope of this Statement to all acquisitions of groups of assets. They noted that doing so would avoid the

The Creation of and Revisions to the Definition of a Business

Statement 141 did not include a definition of a business and instead referred to EITF guidance on whether a group of net assets constitutes a business. During the development of Statement 141(R), stakeholders suggested that the FASB reconsider that guidance, which was viewed as both unnecessarily restrictive and open to misinterpretation. The FASB, in conjunction with the IASB, developed a joint definition of a business and included that definition in Statement 141(R) (which was codified in Topic 805).

In 2013, the FASB added a project to its technical agenda to clarify the definition of a business in Topic 805. This project was added in response to stakeholder feedback that the definition of a business at that time was applied too broadly, resulting in many transactions being recorded as business acquisitions that to them were more akin to asset acquisitions. In addition, stakeholders said that analyzing transactions under that definition was difficult and costly. Those concerns about the definition of a business were also the primary issues raised in connection with the *Post-Implementation Review Report on FASB Statement No. 141 (revised 2007),* Business Combinations (see Appendix B). Additionally, given the scope of Subtopic 610-20, Other Income—Gains and Losses from the Derecognition of Nonfinancial Assets, stakeholders had raised questions about the interaction of the definition of a business and an in substance nonfinancial asset.

The FASB split the project into three phases. The completion of phase 1 and phase 2 resulted in a:

1. Narrower definition of a business (through an added qualitative “screen” to determine when substantially all of the fair value of the gross assets acquired [or disposed of] is concentrated in a single identifiable asset or group of similar identifiable assets).[4]
2. Clarification of the accounting for in substance nonfinancial assets, which primarily affected the real estate industry, as well as other industries such as power and utilities, alternative energy, life sciences, and shipping.[5]

need to distinguish between those groups that are businesses and those that are not. However, both Boards noted that broadening the scope of this Statement beyond acquisitions of businesses would require further research and deliberation of additional issues and delay the implementation of this Statement’s improvements to practice. The Boards therefore did not extend the scope of this Statement to acquisitions of all asset groups.

[4] Accounting Standards Update No. 2017-01, *Business Combinations (Topic 805): Clarifying the Definition of a Business.*

[5] Accounting Standards Update No. 2017-05, *Other Income—Gains and Losses from the Derecognition of Nonfinancial Assets (Subtopic 610-20): Clarifying the Scope of Asset Derecognition Guidance and Accounting for Partial Sales of Nonfinancial Assets*.

The objective of phase 3 of the project was to improve the accounting for asset acquisitions and business combinations by narrowing the differences between the recognition of assets and businesses. On the basis of research performed and feedback received, including feedback in response to the 2021 Invitation to Comment, *Agenda Consultation*, the FASB decided to deprioritize the project, and it was removed from the technical agenda in June 2022.

The following table includes a list of the key differences between the acquisition accounting for assets and a business. Some of those differences are explicit in GAAP, while others exist because there is no specific guidance for asset acquisitions.

Table 2: Key Differences between the Accounting for Asset Acquisitions and Business Combinations

<table>
<tr><th></th><th>Asset Acquisitions</th><th>Business Combinations</th></tr>
<tr><td rowspan="6">Assets Acquired and Liabilities Assumed</td><td colspan="2">General Recognition and Measurement of Assets Acquired and Liabilities Assumed</td></tr>
<tr><td>The cost of the asset acquisition group is generally allocated to the individual assets acquired or liabilities assumed on the basis of their relative fair values (paragraph 805-50-30-3).</td><td>Assets acquired and liabilities assumed are measured at their acquisition date fair values, with limited exceptions (paragraphs 805-20-30-1 through 30-2).</td></tr>
<tr><td colspan="2">Acquisition of in Process Research and Development (IPR&D)</td></tr>
<tr><td>The “cost” of tangible and intangible identifiable research and development assets is based on relative fair value.

Those costs are expensed if there are no alternative future uses. Tangible and intangible identifiable research and development assets that have alternative future uses are capitalized and subsequently amortized (paragraph 730-10-25-2(c)).</td><td>IPR&D is measured at fair value and capitalized as an indefinite-lived asset, irrespective of alternative future use, until the acquirer completes or abandons the project.

Capitalized IPR&D will be either impaired or amortized in future periods (once research and development efforts are completed or abandoned, an entity determines the useful life of the assets on the basis of the guidance in Subtopic 350-30, Intangibles—Goodwill and Other—General Intangibles Other Than Goodwill).</td></tr>
<tr><td colspan="2">Acquisition of Intangibles</td></tr>
<tr><td>Recognize intangibles in accordance with Topic 350, Intangibles—Goodwill and Other (may qualify for recognition even though they do not meet either the contractual-legal criterion or the separability criterion).

As a result, an assembled workforce intangible asset may be recognized and measured at relative fair value at the acquisition date.</td><td>Recognize intangible assets at fair value if they meet the contractual-legal criterion or the separability criterion.

An assembled workforce is not an identifiable asset and therefore is subsumed into goodwill (paragraph 805-20-55-6).

Private Company Alternative:

Same as above criterion, except noncompete agreements and customer-related intangibles that cannot be sold or licensed independently from other assets of a business are not recognized separately from goodwill.</td></tr>
</table>

FASAC FINANCIAL ACCOUNTING STANDARDS ADVISORY COUNCIL

	Asset Acquisitions	Business Combinations
	Acquired/Assumed Contingencies	
	Accounted for in accordance with Topic 450, Contingencies. Acquired loss contingencies are recognized if they are both probable of occurring and can be reasonably estimated. Gain contingencies are not recognized until the contingency is resolved.	Recognized and measured at fair value **if** determinable at the acquisition date or during the measurement period. Otherwise, acquired contingencies are accounted for in accordance with Topic 450. Paragraph 805-20-35-3 requires that the acquirer develop a systematic and rational basis for subsequent recognition and measurement.
	Deferred Tax Assets and Liabilities	
	Because goodwill is not recognized in an asset acquisition, the measurement of deferred income tax assets acquired and liabilities assumed in an asset acquisition will usually require an iterative approach that affects the measurement of other individual assets and assumed liabilities in the net asset group. The measurement of deferred taxes on temporary differences in an asset acquisition is determined using the simultaneous equations method described in Topic 740, Income Taxes.	Generally recorded on most temporary book/tax differences of assets acquired and liabilities assumed.
	Reassessment of Lease Classification	
	No explicit guidance. Therefore, there is diversity in practice and some are of the view that lease classification must be reassessed, while others analogize to business combination accounting.	Reassessment of lease classification is not required unless the lease contract has been significantly modified (paragraph 842-10-55-11).
	Leases in Which the Acquiree Is a Lessee—Measurement	
	No explicit guidance. The lease liability and right-of-use asset is generally measured as if it were a new lease (by analogy to business combinations). Intangible assets or liabilities are recorded at fair value for favorable or unfavorable terms of the lease (when compared with market terms) and generally classified separately from the right-of-use asset. The cost of the acquisition to the buyer is allocated to the identifiable assets, which include the right-of-use asset.	The acquirer measures the lease liability at the present value of the remaining lease payments, as if the acquired lease were a new lease of the acquirer at the acquisition date. The acquirer measures the right-of-use asset at the same amount as the lease liability as adjusted to reflect favorable or unfavorable terms of the lease when compared with market terms (paragraph 805-20-30-24).

	Asset Acquisitions	Business Combinations
	Sellers' Contractual Indemnification Assets	
	No explicit guidance. Topic 805 is sometimes applied by analogy.	Under paragraph 805-20-25-27, an acquirer in a business combination must recognize an indemnification asset at the same time that it recognizes the indemnified item, measured on the same basis as the indemnified item, subject to any contractual limitations and collectability.
	Reacquired Rights	
	No explicit guidance. Diversity in practice exists about whether reacquired rights are recognized. Some may determine the measurement basis of reacquired rights either (1) using a measurement based solely on the remaining contractual terms (by analogy to Topic 805) or (2) based on fair value.	Guidance provides an exception to the fair value measurement principle. Measurement is based solely on the remaining contractual terms.
Consideration Transferred	**General Measurement of Consideration Transferred**	
	If the consideration given in exchange for the assets (or net assets) acquired is in the form of cash or other monetary assets, the consideration is measured as the amount of cash or other monetary asset paid at the date of acquisition. If the consideration given is in the form of liabilities incurred or equity interests issued, the liabilities incurred and equity interests issued are initially recognized at the date of acquisition. If the consideration given is in the form of nonfinancial assets or in substance nonfinancial assets within the scope of Subtopic 610-20, Other Income—Gains and Losses from the Derecognition of Nonfinancial Assets, the assets surrendered are derecognized and the assets acquired are treated as noncash consideration. (paragraphs 805-50-30-1 through 30-2)	The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred, the liabilities incurred, and the equity interests issued (paragraph 805-30-30-7).

	Asset Acquisitions	Business Combinations
	Transaction Costs	
	Transaction costs are capitalized as a component of the assets acquired (paragraph 805-50-30-1).	Acquisition-related costs (advisory, legal, accounting, etc.) are expensed as incurred (paragraph 805-10-25-23).
	Contingent Consideration	
	If Topic 815, Derivatives and Hedging, is applicable, include the contingent consideration amount as part of the basis in the asset acquired. Account for subsequent changes in accordance with Topic 815 (through earnings). If contingent consideration does not meet the definition of a derivative or meets a scope exception, **there is no specific guidance.** Some companies recognize contingent consideration and a corresponding increase to the cost basis of the asset when: 1. Probable and reasonably estimable (Topic 450). 2. The contingency is resolved (by analogy to the superseded guidance in Statement 141) 3. Recoverability model—Up to an amount where there would be no gain on Day 1 (by analogy to equity method guidance). Because there is no specific guidance (for initial recognition and measurement *or* subsequent measurement), diversity in practice exists for subsequent changes in recorded amounts. For example, if an entity uses the Topic 450 approach, subsequent changes are generally recorded as adjustments to the carrying amount of the assets.	Recorded at fair value at the acquisition date. Acquirer's obligation to pay contingent consideration is classified as a liability (Topic 480, Distinguishing Liabilities from Equity, or Topic 815) or equity (Subtopic 815-40, Derivatives and Hedging—Contracts in Entity's Own Equity). Contingently returnable consideration is classified as an asset. Subsequent changes in fair value are recognized through earnings until settled, if classified as an asset or liability. Equity-classified contingent consideration is not remeasured after the acquisition date, and subsequent settlement is accounted for within equity.
	Stock Compensation	
	No explicit guidance. Therefore, there is diversity in practice. Some may apply Topic 805 (measured at fair value as of the acquisition date). Others may apply Topic 718, Compensation—Stock Compensation (measured on the basis of a grant date fair value).	Equity interests issued as consideration in a business combination are measured at fair value at the acquisition date. An entity considers whether equity interests issued should be treated as compensation versus consideration paid (paragraphs 805-10-55-24 through 55-26).

	Asset Acquisitions	Business Combinations
Goodwill and Bargain Purchase Gains	**Goodwill**	
	Goodwill is not recognized. There is **no explicit guidance** on how to allocate any excess consideration transferred (and transaction costs) over the fair value of the net assets acquired. In practice, that excess is generally reallocated to certain acquired assets (nonfinancial assets) on the basis of relative fair value.	Any excess consideration transferred over the fair value of the net assets acquired is goodwill and is recognized as a separate asset.
	Bargain Purchase	
	Assets are recognized at cost and there should not be a bargain purchase. Issues arise with the interaction of the asset acquisition guidance in Subtopic 805-50 and guidance requiring measurement at fair value (for example, financial instruments). Diversity in practice exists in those situations because there is **no explicit guidance**. If the assets being acquired are not eligible for reduction, an entity may have a gain.	If the fair value of the assets acquired and liabilities assumed exceeds the fair value of the consideration transferred, a gain is recognized on the acquisition date (paragraph 805-30-25-2).
Financial Statement Disclosure and Other	**Financial Statement Disclosure**	
	No specific disclosures required for asset acquisitions. Entities generally follow the disclosure requirements in accordance with other GAAP on the basis of the nature of the assets acquired or liabilities assumed.	Disclosure objectives and specific disclosures required to enable users of the financial statements to evaluate the nature and financial effects of business combinations.
	Measurement Period	
	No concept of a measurement period in an asset acquisition. All valuations of assets acquired (and liabilities assumed) must be finalized before the next reporting date.	The acquirer is allowed a period of time after the acquisition date (not to exceed one year) to finalize the valuations for the consideration transferred, the assets acquired, and the liabilities assumed. Measurement period adjustments are recognized in the reporting period in which the adjustment amount is determined.
	Pushdown Accounting	
	Diversity may exist in practice.	An election can be made to “push down” an acquirer’s stepped-up basis in the separate financial statements of the acquiree, creating a new basis of accounting and new reporting entity (paragraph 805-50-25-4).

	Asset Acquisitions	Business Combinations
	Common Control Transactions	
	The transfer of net assets that are not a business generally does not constitute a change in the reporting entity; therefore, the transaction is accounted for at carrying value *prospectively* in the period in which the transfer occurs.	Transfer of a business constitutes a change in reporting entity; therefore, it is accounted for at carrying amount with *retrospective* adjustment of prior period financial statements.

Related Areas within FASB Research Projects

The FASB has several research projects, some of which are exploring areas related to the accounting for business combinations and asset acquisitions. Specifically, the FASB's research project on the accounting for and disclosure of intangibles is exploring differences in the recognition of intangibles depending on how the item is acquired or developed. Additionally, as part of the FASB's agenda consultation research, the FASB is requesting broad stakeholder feedback on input received to improve:

1. The definition of a business
2. The definition of common control
3. The applicability and operability of the asset acquisitions guidance
4. The accounting for goodwill
5. Disclosures about business acquisitions and dispositions.

A description of those research projects, including excerpts from recent FASB Invitations to Comment and questions asked in those documents are provided in Appendix B.

IASB Project on Business Combinations—Disclosures, Goodwill, and Impairment

In March 2024, the IASB published the Exposure Draft, *Business Combinations—Disclosures, Goodwill and Impairment*. The Exposure Draft included proposed amendments to:

1. IFRS 3, *Business Combinations*—The IASB proposed to add new disclosure requirements that would result in an entity disclosing both:
   a. Information about the performance of business combinations. Specifically, an entity would disclose information about the entity's acquisition-date key objectives and related targets for a strategic business combination and the extent to which those key objectives and related targets are met in subsequent periods.
   b. Quantitative information about the synergies expected to arise from a business combination.
2. IAS 36, *Impairment of Assets*—The IASB proposed some targeted amendments to the requirements in IAS 36 relating to the calculation of value in use, the allocation of goodwill to cash-generating units, and the disclosure requirement.

The IASB received 143 comment letters in response to its proposal and is in the process of redeliberating the proposal.

Discussion Questions

Question 1 (All): Are there any new or evolving business transactions or changing business practices as they relate to merger and acquisition activity that the Board should be aware of?

Question 2 (Investors):

a. Are the following suggestions related to business combination and asset acquisition accounting (detailed descriptions are in Appendix A) a priority for investors?

(1) Address the differences in the recognition of intangibles depending on how the item is acquired or developed.
(2) Further revise the definition of a business.
(3) Develop a definition of common control.
(4) Clarify the applicability and operability of the asset acquisitions guidance.
(5) Consider ways to reduce the cost of applying the accounting for goodwill (broadly or for certain industries, such as banking), including amortizing or expensing goodwill on the acquisition date.

If so, what improvements may be most significant in providing investors with better, more useful financial statement information?

b. Do current financial statements and disclosures provide investors with sufficient decision-useful information necessary to understand the financial effect of business combinations? Are there current disclosure requirements that do not provide meaningful information? If "yes," please explain which disclosures should be removed or how they should be improved.

c. Are the following suggestions to improve disclosures about business acquisitions and dispositions (from the Agenda Consultation ITC in Appendix A) a priority for investors?

(1) When there are earnout provisions associated with the disposition of a business, such as targets tied to the future performance of the disposed business and the likelihood that those are met, require the seller to provide more information on the expectations of earning those amounts beyond the current disclosures about variable consideration and contingent gains.
(2) Require preacquisition financial statements for an acquiree in a business combination.

Question 3 (Preparers/Others):

a. What, if any, are the current operability and auditability challenges in applying the guidance for business combinations and asset acquisitions?

b. Should the FASB consider improvements to the guidance for any of the identified areas within the accounting for business combinations or asset acquisitions? If "yes," what improvements would be most significant to reduce unnecessary cost and complexity? Please explain.

Appendix A: Business Combinations and Asset Acquisitions Areas Described in FASB Research Projects

Accounting for and Disclosure of Intangibles

The objective of this project is to consider potential ways to improve the accounting for and disclosure of intangibles, including internally developed intangibles and research and development.

On December 19, 2024, the FASB issued the Invitation to Comment, *Recognition of Intangibles* (Intangibles ITC),[6] which gives stakeholders the opportunity to provide feedback on ways to improve the accounting for this area that includes the accounting for acquired and internally developed intangibles. Included below are relevant extracts from that document (the full document can be found here):

> The recognition guidance for intangibles depends on how the item is acquired or developed. The different requirements for recognizing intangibles that are acquired in a business combination, acquired in an asset acquisition, or internally developed result in inconsistent recognition of intangibles.
>
> In addition, subsequent measurement guidance is different for intangibles that are acquired (either in a business combination or an asset acquisition) as compared with the subsequent measurement guidance for internally developed intangibles, which results in financial reporting differences. Stakeholders have observed that the varying requirements create differences between the book values and earnings of entities that grow organically (that is, few intangibles recognized on the balance sheet and little amortization expense because intangibles are internally developed) and entities that grow through acquisition (that is, numerous intangibles recognized on the balance sheet and significant amortization expense because intangibles are acquired). Numerous investors have highlighted that this inconsistency in accounting reduces their ability to understand and analyze organic versus inorganic growth within and between entities.
>
> Furthermore, acquiring an intangible and internally developing an intangible may be viewed as similar activities. For example, outsourcing the development of an intangible, using an entity's own labor force to develop an intangible, or acquiring a partially developed intangible in an asset acquisition or in a business combination are often viewed as economically

[6] Comment period ends May 30, 2025.

similar. However, applying the different recognition and measurement guidance can have a significant effect on the financial statements.

The Intangibles ITC includes the following questions for respondents related to the accounting for business combinations and asset acquisitions:

> **Question 8:** Should the Board consider aligning the recognition guidance for intangibles (a) acquired as part of a business combination, (b) acquired in an asset acquisition, (c) that are internally developed, or (d) newly developed [recognition] criteria [that can be applied to obtain consistent outcomes regardless of how an intangible is developed or acquired]? If so, how should the guidance be aligned? Should the recognition guidance be aligned for all intangibles, including those with specific industry based guidance, or only certain categories? Would such an alignment result in decision-useful information? Please explain your response. If a new model is recommended, please provide details on that model, including how it would be an improvement to current GAAP and achieve consistent recognition of intangibles.
>
> **Question 9:** Practitioners and preparers—Are there operability or auditability challenges in applying the acquired intangibles recognition guidance? Please explain your response, including what the specific challenges are and how the Board could address them.
>
> **Question 10:** Investors—Does the different treatment for intangibles (a) acquired as part of a business combination, (b) acquired in an asset acquisition, or (c) that are internally developed affect your analysis? Do the differences in the financial reporting results present challenges in evaluating organic growth versus inorganic growth? Please explain your response.
>
> **Question 11:** If the Board does not pursue a project to align the recognition guidance for all intangibles, the Board could pursue a project to develop comprehensive guidance for the recognition of internally developed intangibles based on the current business combinations or asset acquisitions guidance. Would it be operable to leverage either the separability criterion or the contractual-legal criterion from the business combinations guidance or the asset acquisitions recognition criteria to recognize internally developed intangibles? Would this result in decision-useful information? Please explain your response.

Agenda Consultation

The objective of this research project is to solicit broad stakeholder feedback about the future standard-setting agenda of the FASB. On January 3, 2025, the FASB issued the

Invitation to Comment, *Agenda Consultation* (Agenda Consultation ITC), that gives stakeholders the opportunity to provide feedback on its future standard-setting agenda.[7] Included below are relevant extracts from that document, including questions for respondents (the full document can be found here):

Definition of a Business

In 2017, the Board issued Accounting Standards Update No. 2017-01, *Business Combinations (Topic 805): Clarifying the Definition of a Business*, to address stakeholder concerns that the definition of a business was too broad and was difficult and costly to apply. The amendments in Update 2017-01 narrowed the definition of a business and established a qualitative screen to reduce the number of transactions that need to be further evaluated. As part of the outreach performed in preparing this ITC, it was recommended that the Board consider further revisions to the definition of a business.

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

Definition of Common Control

Stakeholders provided feedback that it can be difficult to determine whether entities are under common control, especially when evaluating multiple parties (for example a control group).

The term *common control* is not defined in the Master Glossary; however, examples are provided in Subtopic 805-50, Business Combinations—Related Issues. Determining when separate entities are under common control can affect financial statements because some areas of GAAP (such as business combinations accounting) exclude, or require specific accounting for, transactions between entities that are under common control. Additionally, the lack of a definition for the term *common control* creates complexity for private companies in determining whether they are required to apply the VIE guidance to legal entities under common control. Therefore, stakeholders suggested that the FASB define common control to improve the operability of GAAP.

[7] Comment period ends June 30, 2025.

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

Interaction of Consolidation Guidance and Other Transactions

Stakeholders noted there are certain areas of GAAP that interact with the guidance in Topic 810, Consolidation, that result in unnecessary complexity and diversity in practice. Stakeholders suggested that the FASB consider revising the following guidance:

[Two of the requests that relate to the accounting for asset acquisitions or business combinations are as follows:]

Guidance	Stakeholders' Observations	Stakeholders' Suggested Alternatives
Accounting for the initial consolidation of a business (a business combination) and the accounting for asset acquisitions	The accounting for asset acquisitions in Subtopic 805-50 is incomplete and lacks specific guidance for certain items (such as contingent consideration, noncontrolling interests, income taxes, and employee benefits). It also may be unclear when the guidance in Subtopic 805-50 applies versus when asset-specific guidance applies. Without specific recognition and measurement guidance, entities have analogized to other areas of GAAP and diversity in practice exists in accounting for these transactions.	Clarify the applicability and operability of Subtopic 805-50.
Recognition and measurement requirements for acquisitions of VIEs	The guidance for acquisitions of VIEs that do not meet the definition of a business is different than the requirement for other asset acquisitions (in Subtopic 805-50). Current accounting can produce different outcomes for economically similar transactions.	Consider either (1) requiring Subtopic 805-50 to be applied to all asset acquisitions, including acquisitions of VIEs that do not meet the definition of a business, or (2) requiring Topic 810 to be applied to all asset acquisitions.

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

Goodwill

Entities are required to test the goodwill of a reporting unit for impairment at least annually or more frequently if certain conditions exist. If the carrying amount of the reporting unit exceeds its fair value, the entity must determine the extent of goodwill impairment and recognize the impairment loss in earnings. Private companies and NFPs may elect an accounting alternative to amortize goodwill.

Stakeholders provided feedback that the accounting for goodwill does not appropriately reflect the economics and is costly to apply. These stakeholders, who indicated that their proposed solutions would be most relevant in certain industries (such as banking), suggested allowing entities to (1) amortize goodwill or (2) expense goodwill on the acquisition date.

In June 2022, the Board removed a project from its technical agenda to revisit the subsequent accounting for goodwill. The objective of that project included identifying solutions to reduce the cost and complexity incurred by preparers to subsequently account for goodwill, while not significantly diminishing the decision usefulness of information for investors. The Board had provided leanings that it would prefer a model that required the amortization of goodwill with potential impairment triggers (the "amortization-with-impairment" approach) over the current impairment model. However, some Board members were concerned that the amortization-with-impairment approach did not sufficiently rebalance the expected benefits and expected costs in a way that created a compelling case for change.

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

Enhanced Disclosures

The FASB has recently issued standards that enhance the disclosures for various areas, including revenue, leases, segments, income taxes, and income statement expenses. Investors and other stakeholders, in both the public and private company sectors, continue to request additional quantitative and/or qualitative financial reporting information about a range of areas. Stakeholders explained that additional information would provide investors with a better understanding of the performance of an entity and would better enable investors to assess the future cash flows and risks in their capital allocation decisions. Stakeholders requested a broad spectrum of additional information…

[Two of the requests that relate to the acquisition/disposition of a business are as follows:]

- When there are earnout provisions associated with the disposition of a business, such as targets tied to the future performance of the disposed business and the likelihood that those are met, require the seller to provide more information on the expectations of earning those amounts beyond the current disclosures about variable consideration and contingent gains.
- Require preacquisition financial statements for an acquiree in a business combination.

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

Appendix B: Business Combinations Post-Implementation Review (PIR)

The Financial Accounting Foundation completed a PIR of Statement 141(R) in May 2013. The purpose of the PIR was to (a) determine whether Statement 141(R) was accomplishing its stated purpose, (b) evaluate Statement 141(R)'s implementation and continuing compliance costs and related benefits, and (c) provide recommendations to improve the FASB's standard-setting process.

The following are excerpts from the PIR findings:

> The requirements in Statement 141R that stakeholders have the most difficulty applying relate to: measuring assets acquired and liabilities assumed using the fair value requirements in Statement 157, measuring the fair value of contingent consideration, and determining whether a transaction is a business combination or an asset purchase. Preparers for medium to small entities have the most difficulty.
>
> Statement 141R introduced more complexity and costs to the accounting for business combinations than the FASB anticipated. Much of the complexity relates to the application of Statement 157's measurement requirements.

The FASB did not anticipate that the models to measure assets and liabilities that do not have readily determinable fair values would become so complex and difficult to understand. This had led some acquirers to structure the timing of business combinations to allow sufficient time to complete the required valuations.

The PIR also found that investors generally found the information resulting from the guidance in Statement 141(R) to be decision useful in understanding and analyzing most business combination transactions. The following PIR excerpt describes findings on investor opinions:

> According to the investor participants, the most useful information is the description of the transaction, the combined earnings as if the acquisition occurred at the beginning of the year, and the post-acquisition earnings of the acquiree. They indicated that the information provided by Statement 141R is less useful for forecasting earnings, forecasting cash flows, and trend analysis. Many of the practitioner and preparer participants also indicated that the disclosures do not provide useful information or forecasting earnings or cash flows.

Overall, investors supported the concept of measuring assets acquired and liabilities assumed at acquisition-date fair value and the concept of obtaining control that triggers a business combination. However, some participants of the PIR questioned the reliability or decision usefulness of the information reported when the business combination includes assets and liabilities that are difficult to measure at fair value or when the business combination results in a bargain purchase. Participants also were concerned about applying business combination accounting to transactions that are in substance an asset purchase (this was addressed by Accounting Standards Update No. 2017-01, *Business Combinations (Topic 805): Clarifying the Definition of a Business*).

Finally, the PIR found that Statement 141(R) improved the relevance and completeness of business combination information. However, improvements in comparability, reliability, and representational faithfulness were not fully achieved largely because of the fair value measurement requirements. Overall, the PIR found that the application of Statement 141(R) may not result in decision-useful information consistently and reliably for business combinations that include significant assets and liabilities that are difficult to measure at fair value, that may be asset purchases, that result in bargain purchases, and that involve mutual entities or more than two entities.

ATTACHMENT 4

Current Trends and Changing Business Practices
Financial Accounting Standards Advisory Council (FASAC)
June 5, 2025

Session Background and Objective

The purpose of this session is to seek Council members' observations about current geopolitical, economic, and regulatory trends, focusing on those that may have financial reporting implications. During FASAC planning calls, some have asked whether improvements to the current information about risks and uncertainties disclosed in the financial statements are needed.

The materials include the history of Topic 275, Risks and Uncertainties, a summary of the current guidance in Topic 275, and a summary of some other areas of generally accepted accounting principles (GAAP) where risk disclosures are required.

In this session, Council members will be asked for their views about the current disclosures and whether there is a need for financial reporting improvements related to disclosures about risks and uncertainties.

History of Current Disclosure Requirements in Topic 275

The American Institute of Certified Public Accountants (AICPA) issued its *Report of the Task Force on Risks and Uncertainties* in 1987. That report was intended to help other standard-setting bodies improve information that helps users identify risks and uncertainties. The AICPA tasked a Special Committee on Financial Reporting with developing a recommendation on (a) the nature and extent of information that management should make available and (b) the extent to which auditors should report on various elements of that information. In its 1993 report, *The Information Needs of Investors and Creditors: A Report on the AICPA's Special Committee's Study of the Information Needs of Today's Users of Financial Reporting*, the Committee stated:

> Users want operating opportunities and risks identified based on the company and its segments rather than on an industry-wide basis. They also want information about opportunities and risks resulting from concentrations in assets, customers and suppliers.

Following the Committee's recommendation, the AICPA issued Statement of Position 94-6, *Disclosure of Certain Significant Risks and Uncertainties*, in 1994. SOP 94-6 is the original source of most of the guidance that was codified in GAAP as Topic 275.

Summary of Current Guidance

The guidance applies to all entities preparing financial statements in accordance with GAAP.[1] The required disclosures are limited to matters that are significant to the entity and that pose a risk in the near term to the entity.

The guidance discusses three categories of risks and uncertainties related to the:

1. Nature of the entity's operations
2. Estimates used in the financial statements
3. Vulnerability due to certain concentrations.

The disclosure requirements do not extend to risks and uncertainties that might be associated with any of the following:

1. Management or key personnel
2. Proposed changes in government regulations
3. Proposed changes in accounting principles
4. Deficiencies in internal controls
5. The possible effects of acts of God, war, or sudden catastrophes.

Nature of Operations

Disclosures about the existing risks and uncertainties related to the nature of operations need not be quantitative and include the following:

1. Descriptions of products and services and principal markets
2. Relative importance of businesses within the entity and how that is determined.

Estimates Used in the Financial Statements

In addition to a statement that estimates are used in the financial statements, disclosures include the following:

1. If it is reasonably possible that a change in conditions or circumstances may happen in the near term, the effect of the change.
2. If such a change is reasonably possible but the entity uses risk mitigation

---

[1] Condensed financial statements and notes issued at interim periods are excluded from the guidance. When comparative statements are provided, the disclosures apply only to the most recent period.

techniques to mitigate the material effect on the entity, disclosures are encouraged but not required.

It is important to note that these disclosures focus on how a current estimate can change in the future, not how the carrying amount of a line item is an estimate or assumption that could reasonably have been determined to be different as of the reporting date.

Vulnerability Due to Certain Concentrations

Vulnerability from concentrations arises because an entity is exposed to a risk of loss greater than it would have experienced if it had mitigated its risk through diversification. Financial statements must disclose concentrations if they meet all of the following criteria:

1. The concentration exists at the date of the financial statements.
2. The concentration makes the entity vulnerable to the risk of a near-term severe impact.
3. It is at least reasonably possible that the events causing the severe impact will occur in the near term.

Disclosure of concentrations that meet those criteria is required for concentrations in business volume, revenue, supply sources, and market or geographical areas including risks related to operating outside of one's home country. Concentrations of financial instruments, such as loan or deposit concentrations are not addressed in Topic 275; however, disclosures about these concentrations may be required in other areas of GAAP.

Topic 275 also includes several examples and specific guidance related to development-stage entities, labor subject to collective bargaining agreements, and estimates of the useful lives of intangibles.

Other Areas of GAAP That Require Risk-Related Disclosures

Topic 275 acknowledges that there are other disclosures required by GAAP related to concentrations of financial instruments and other risks and uncertainties.

Concentration of Credit Risk

The guidance on financial instruments contains several disclosures related to concentrations of credit risk. Those concentrations can be with a counterparty or groups of counterparties (if the group is engaged in similar activities and shares similar economic characteristics). Disclosure requirements[2] that provide information about this risk include:

1. Information about the (shared) activity, region, or economic characteristic that identifies the concentration
2. The maximum amount of loss (gross fair value) if parties that make up the concentration failed completely to perform and the collateral is worthless.
3. Information about collateral, the entity's policies on collateral, and the entity's access to collateral
4. Information about the entity's master netting agreements, the entity's policies on entering master netting agreements, and a brief description of the terms of those arrangements.

Market Risk of All Financial Instruments

GAAP also encourages disclosures in the financial instruments guidance about market risk, such as:

1. More details about current positions and perhaps activity during the period
2. The hypothetical effects on comprehensive income (or net assets), or annual income, of several possible changes in market prices
3. A gap analysis of interest rate repricing or maturity dates
4. The duration of the financial instruments
5. The entity's value at risk from derivatives and from other positions at the end of the reporting period and the average value at risk during the year.

This list is not all-inclusive, and an entity is encouraged to develop other ways of reporting quantitative information.

Objectives of Financial Statement Disclosures

In 2014, the Board proposed its framework for establishing disclosure requirements that was finalized in 2018. That framework is used by the Board and staff in establishing new financial disclosures and revising existing disclosures as part of the Board's technical projects, along with considerations about whether the expected benefits of changing disclosure requirements justify the expected costs to provide that information.

In developing its framework for establishing disclosure requirements, the Board considered information about how general economic, market, or entity-specific factors can affect line items. The Board concluded that information about how particular line items are sensitive to potential changes in the future because of general economic, market, or entity-specific factors is more appropriate for inclusion by public companies in

[2] These disclosure requirements are described in detail in Topic 825, Financial Instruments.

management's discussion and analysis. Additionally, the Board is unlikely to require these types of disclosures for private companies because users of private company financial statements have greater access to management. Therefore, the Board's framework does not include concepts that would systematically consider these types of disclosures when establishing or improving GAAP disclosure requirements.

Discussion Questions

Question 1: Are there current trends related to financial reporting that the Board should be aware of? Should the Board consider improvements to the financial statement information as a consequence of these trends?

Question 2: What observations or questions do you have about the current financial statement disclosures of certain significant risks and uncertainties?

Question 3: Are there challenges in applying the current requirements or improvements needed in the financial statement information? For example, are current disclosure requirements adequate during periods of market volatility?