FASAC FINANCIAL ACCOUNTING STANDARDS ADVISORY COUNCIL

FASAC Meeting
Thursday, September 18, 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)
9:20–10:30 am (70 minutes)	**Topic 2: Agenda Consultation** • Topic introduction, description of breakout room tasks (5 minutes) • **Break/Move to breakout rooms (9:25–9:30 am) (5 minutes)** • Breakout discussions – 9:30–10:30 am (60 minutes)
10:30 – 10:50 am	**BREAK/Move Back to Boardroom (20 minutes)**
10:50–11:50 am (60 minutes)	**Topic 2 (continued): Agenda Consultation** Reconvene to analyze and further explore the similarities, differences, and other linkages in Council members' views from the breakout groups
11:50–12:45 pm (55 minutes)	**Topic 3: Effects of the Use of Technology on Standard Setting** • Topic introduction, description of breakout room tasks (5 minutes) • **Break/Move to breakout rooms (11:55 am–12:00 pm) (5 minutes)** • Breakout discussions – 12:00–12:45 pm (45 minutes)
12:45–1:40 pm (55 minutes)	**LUNCH**
1:40–2:15 pm (35 minutes)	**Topic 3 (continued): Effects of the Use of Technology on Standard Setting** • Reconvene to analyze and further explore the similarities, differences, and other linkages in Council members' views from the breakout groups
2:15–3:00 pm (45 minutes)	**Topic 4: Post-Implementation Review—Current Expected Credit Losses (CECL)** • Full group discussion

FASB FINANCIAL ACCOUNTING STANDARDS BOARD®

STANDARDS THAT WORK
FROM MAIN STREET TO WALL STREET

FASB Chair Report

April 1, 2025 – June 30, 2025



LETTER FROM THE FASB CHAIR

The FASB achieved significant milestones on stakeholder-driven agenda priorities during the second quarter of 2025. We approved final standards on key projects, improved or clarified other areas of generally accepted accounting principles (GAAP), and monitored stakeholder feedback on exposure documents, including our 2025 Invitation to Comment: *Agenda Consultation.*

Technical Agenda Projects

During the quarter, the Board voted to move ahead with final standards for 5 of the 12 projects on our current standard-setting agenda (the Board previously voted to finalize 2 other projects in March 2025: Credit Losses—Topic 606 Receivables and Hedge Accounting Improvements). Those standards address top priorities that came out of the 2021 agenda consultation and other outreach. Accounting for and Disclosure of Software Costs responds to requests from investors and all our stakeholders to modernize this area of financial reporting. Accounting for Government Grants adds much-needed GAAP guidance in an area the Board has grappled with for decades. We owe the successful completion of these projects to our stakeholders, whose willingness to share their views helped us develop operable, cost-effective paths to improvement.

The remaining technical agenda projects the Board voted to finalize in Q2 2025—Purchased Financial Assets, Derivatives Scope Refinements, and Interim Reporting—Narrow-Scope Improvements—also received substantial input from stakeholders, including our advisory groups. We expect to issue all seven pending standards by the end of the year.

We also continued to make progress on Accounting for Environmental Credit Programs and our omnibus Codification Improvements project.

The FASB issued a final standard that improves the requirements for identifying the accounting acquirer in Topic 805, Business Combinations. It is the first recommendation from the recently reconstituted Emerging Issues Task Force (EITF) to be issued as a final standard, and we thank that group for providing direction in making financial reporting in this area more comparable and decision useful for investors. EITF recommendations also informed our proposal to provide accounting guidance for debt exchange transactions involving multiple creditors and our decision to add a

technical agenda project on Measurement of Paid-in-Kind Dividends on Equity-Classified Preferred Stock.

We also published an FASB Staff Educational Paper, which does not change or modify current GAAP, that addresses questions on how to present and disclose construction contracts that contain retainage (or retention) provisions. Questions received by the FASB and the Private Company Council (PCC) from private company stakeholders prompted the paper.

2025 Invitation to Comment: Agenda Consultation and Other Research Projects

The Invitations to Comment (ITCs) comment periods for three research agenda projects, 2025 Agenda Consultation, Financial Key Performance Indicators for Business Entities, and Recognition of Intangibles concluded during the second quarter. The FASB staff is currently analyzing comment letters and other input received on these ITCs, and our Board will begin discussing this input later this year to determine whether we should initiate standard-setting projects in these or other areas of financial reporting.

Finally, it was announced in May that the Financial Accounting Foundation Board of Trustees appointed David M. Sullivan to serve as the chair of the Financial Accounting Standards Advisory Council (FASAC), effective January 1, 2026. Dave will succeed Michael M. Morrow, who joined FASAC in 2019, has served as FASAC chair since January 1, 2020, and will conclude his service in December. We look forward to welcoming Dave and thanking Mike for his outstanding service in this important role.

I want to close by expressing my appreciation to you, our stakeholders, for providing the input we need to develop standards that provide investors with information they will use to make capital allocation decisions. Your willingness to engage in our process is at the foundation of everything we do.



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 second quarter of 2025:

Number of Projects				
As of March 31	**Added (removed)**	**Projects Completed**	**As of June 30**	**# EDs Issued**
13	**1**	**(2)**	**12**	**1**

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

- *Business Combinations (Topic 805) and Consolidation (Topic 810): Determining the Accounting Acquirer in the Acquisition of a Variable Interest Entity*.
- *Compensation—Stock Compensation (Topic 718) and Revenue from Contracts with Customers (Topic 606): Clarifications to Share-Based Consideration Payable to a Customer*.

The Board added one project to the technical agenda:

- Measurement of Paid-in-Kind Dividends on Equity-Classified Preferred Stock.

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:

- *Debt—Modifications and Extinguishments (Subtopic 470-50) and Liabilities—Extinguishments of Liabilities (Subtopic 405-20): Accounting for Debt Exchanges*.

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	April 9	• Discussed feedback received on the proposed ASU and completed redeliberations. • Affirmed the proposed amendments with some revisions and clarifications, including about (1) contracts that would not qualify for the new derivatives scope exception related to the operations or activities of parties to the contract and (2) the timing of applicability of Topic 606 guidance to share-based payment (noncash consideration) received from a customer in a revenue contract. • Decided to retain the existing predominant characteristics (correlation) assessment in GAAP (rather than affirming the fair value assessment that had been included in the proposed ASU) for determining eligibility for the new derivatives scope exception when there are multiple sources of variability (underlyings) in a contract. • Decided that the amendments will be effective for all entities for annual reporting periods (including interim periods within those annual reporting periods) beginning after December 15, 2026, and that early adoption is permitted. • Directed the staff to draft a final ASU.
Financial Instruments—Credit Losses (Topic 326)— Purchased Financial Assets	April 30	• Discussed feedback received on the proposed ASU and completed redeliberations. • Decided to refine the project objective and make narrow amendments to improve the accounting for purchased financial assets that are not purchased financial assets with credit deterioration (PCD). • Decided that an entity should evaluate non-PCD loans receivable, excluding credit cards, using the proposed seasoning guidance and use the gross-up approach to account for seasoned loans upon acquisition. • Decided that the amendments will be effective for all entities for annual reporting periods (including interim reporting periods within those annual reporting periods) beginning after December 15, 2026, and that early adoption is permitted. • Directed the staff to draft a final ASU.

Project	Board Meeting(s)	Summary of Discussions
Measurement of Paid-in-Kind Dividends on Equity-Classified Preferred Stock	April 30	• Added a project to address the measurement of paid-in-kind (PIK) dividends on equity-classified preferred stock for issuers of those instruments. • Consistent with the Emerging Issues Task Force's (EITF) recommendation, decided to require that PIK dividends be measured based on the contractual terms of the preferred stock agreement, including the stated PIK dividend rate. • Decided that the guidance should be applied either prospectively or retrospectively (to specified contracts) and that early adoption is permitted. • Directed the staff to draft a proposed ASU with a 25-day comment period.
Accounting for and Disclosure of Software Costs	May 7	• Discussed feedback received on the proposed ASU and completed redeliberations, affirming the proposed amendments with minor revisions. • Decided not to require separate presentation of cash outflows for capitalized internal-use software costs, but rather to specify that the PP&E disclosures about depreciation in Subtopic 360-10, Property and Equipment—Overall, are required for all capitalized internal-use software costs. • Decided that the amendments will be effective for all entities for annual reporting periods (including interim reporting periods within those annual reporting periods) beginning after December 15, 2027, and that early adoption is permitted. • Directed the staff to draft a final ASU.
Interim Reporting—Narrow Scope Improvements	June 18	• Discussed feedback received on the proposed ASU and completed redeliberations, affirming the proposed amendments with minor revisions. • Decided that the amendments will be effective for public business entities for annual reporting periods (including interim reporting periods within those annual reporting periods) beginning after December 15, 2027, and for entities other than public business entities for annual reporting periods (including interim reporting periods within those annual reporting periods) beginning after December 15, 2028. • Decided that early adoption is permitted. • Directed the staff to draft a final ASU.

Project	Board Meeting(s)	Summary of Discussions
Accounting for Government Grants	June 25	• Discussed feedback received on the proposed ASU and completed redeliberations, affirming the proposed amendments with certain clarifications. • Decided to clarify that the recognition threshold does not prescribe the timing of recognition for a government grant but, instead, is a threshold that must be met before an entity may consider applying the recognition guidance. • Decided to provide specific guidance about how to subsequently account for a grant related to a nondepreciable asset under the deferred income approach. • Decided that an entity should disclose, if applicable, the useful life of the related asset in the period in which the government grant is recognized on the balance sheet. • Decided that the amendments will be effective for public business entities for annual reporting periods (including interim reporting periods within those annual reporting periods) beginning after December 15, 2028, and for entities other than public business entities for annual reporting periods (including interim periods within those annual reporting periods) beginning after December 15, 2029. • Decided that early adoption is permitted. • Directed the staff to draft a final ASU.

Other Projects

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

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

The following table summarizes the changes in these projects during the second quarter of 2025:

	Number of Projects					
	As of March 31	Added (removed)	Transferred	Final Documents Issued	As of June 30	# of Exposure Drafts or Invitations to Comment
Research Projects	8				8	
PCC Projects	0				0	
EITF Projects	1	1	(1)		1	
PIR Projects	2				2	
Total	**11**	**1**	**(1)**	**0**	**11**	**0**

Research Projects: The Board continued to move forward on its research projects. The comment periods for the respective Invitations to Comment (ITC) issued in connection with the Financial Key Performance Indicators for Business Entities, Accounting for and Disclosure of Intangibles, and Agenda Consultation research projects all concluded during the second quarter. The staff will present an analysis and summary of stakeholder feedback and provide recommendations to the Board for each of these projects in the near future. Current research projects as of the end of the quarter are listed in the appendix.

PCC Projects: On April 1, the staff issued an FASB Staff Educational Paper following on the presentation of contract assets and contract liabilities for construction contractors, an issue that had been initially raised to the FASB by the PCC.

EITF Projects: The project on measurement of paid-in-kind dividends on equity-classified stock was transferred to the Board's technical agenda on April 30 upon the Board's acceptance of recommendations that had been made by the EITF at its March 26 meeting. The EITF agenda committee met on April 3 and added a project on the application of Topic 715, Compensation–Retirement Benefits, to market-return cash balance plans. The EITF met in a closed education session on that project on June 12.

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.

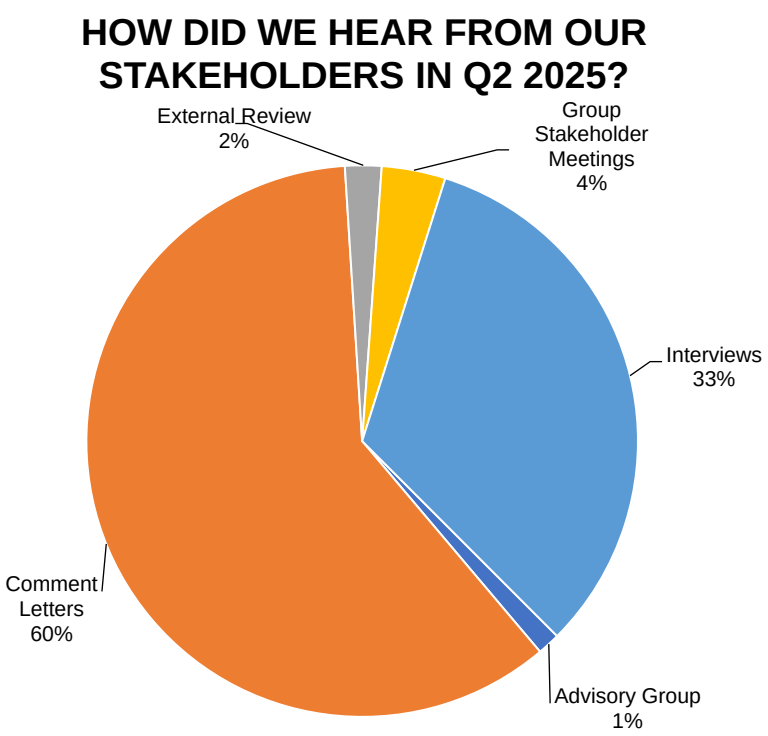
The following table lists activities connected with the individual projects:

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. • Continued drafting the final ASU on Credit Losses—Topic 606 Receivables, expected to be issued in the third quarter of 2025. • Completed redeliberations on the proposed ASU, *Financial Instruments—Credit Losses (Topic 326): Purchased Financial Assets,* in April. A final ASU is expected in the second half of 2025.
Leases	• Met with the Public Markets Advisory Committee (PMAC) and the Investor Advisory Committee (IAC) to discuss benefits and costs of Topic 842. • Met with the PCC to discuss PCC leases working group findings and other items related to the FASB's Leases PIR. • Completed the second round of investor outreach. • Completed the nonpublic entity preparer cost survey.

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.

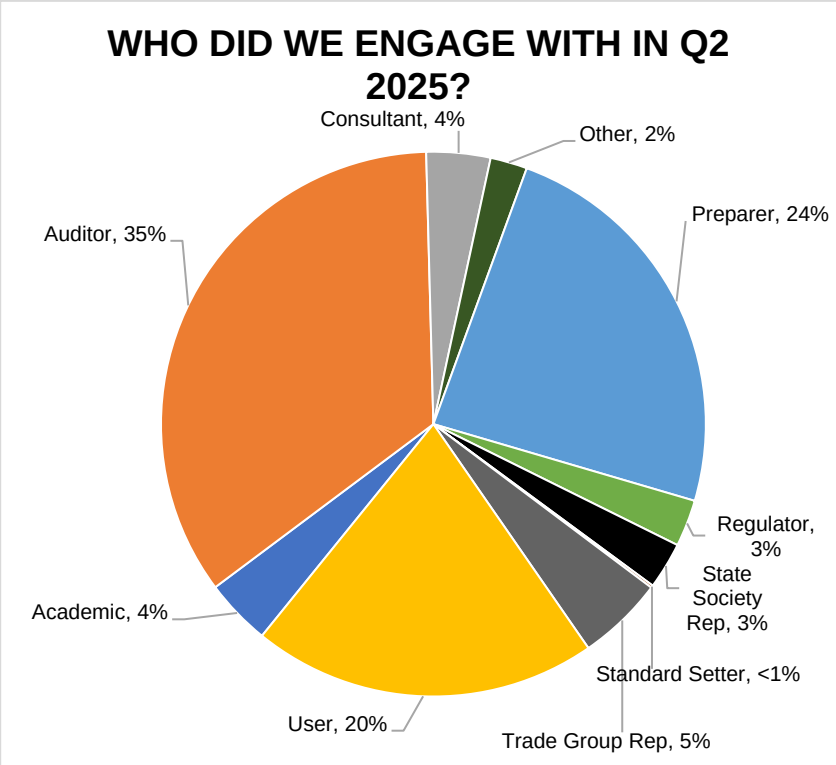
The following graphs and charts summarize how the Board and staff heard from stakeholders and who they heard from.



Q2 Summary Statistics		
Type	Q2	YTD
# of Interviews	122	223
# of Comment Letters	225	350
# of External Review Responses	8	15
# of Group Stakeholder Meetings	13	23
# of Advisory Group Meetings*	5	9

Notes:

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



Types of Stakeholders	
Preparers	
Public Entities	67%
Private Entities	30%
Not-for-Profit Entities	3%
Auditors	
Big 4 Firms	44%
Other Global	26%
U.S. National	21%
U.S. Regional & Local	9%
Investors and Other Users	
Buy-side	45%
Sell-side	12%
Credit Rating Agencies, Private Equity, Lender, and Other Users	43%

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

Group	Meeting Date(s)	Topics
PMAC	May 15, 2025	• Recognition of Intangibles • PIR—Leases • Debt and Equity • Definition of a Public Business Entity • FASB Agenda Consultation
IAC	May 22, 2025	• Emerging Issues and Trends • PIR—Leases • FASB Agenda Consultation • Share-Settleable Instruments
FASAC	June 5, 2025	• Private Credit and Debt Disclosures • Business Combinations • Current Trends and Changing Business Practices • Project Updates: Accounting for and Disclosure of Software Costs and Interim Reporting
EITF	June 12, 2025	• Application of Topic 715 to Market-Return Cash Balance Plans (closed educational session)
PCC	June 26-27, 2025	• PCC Agenda Priorities • PCC Research Project—Short-Cycle Manufacturing • PCC Research Project—Leases and FASB Leases PIR • PCC Research Project—Weighted-Average Disclosures • PCC Research Project—Interest Method and Determining the Effective Interest Rate • PCC Research Project—Subjective Acceleration Clauses • FASB Agenda Consultation • Accounting for and Disclosure of Software Costs • Topic 815—Derivative Scope Refinements • Measurement of Paid-in-Kind Dividends on Equity-Classified Preferred Stock • Application of Topic 715 to Market-Return Cash Balance Plans • Accounting for Government Grants

Members appointed to advisory groups in the quarter were:

- FASAC: David Sullivan (FASAC Chair effective January 1, 2026)

INTERNATIONAL ACTIVITIES

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

Activity	Meeting Date(s)
IASB/FASB Info Exchanges*	
IFRS Accounting Standards Advisory Forum (ASAF) Meeting	May 28
FASB-IASB Chair Meeting	May 30
Multilateral Activities	
Multi-Lateral Network (MLN) Meeting	May 1-2
*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.

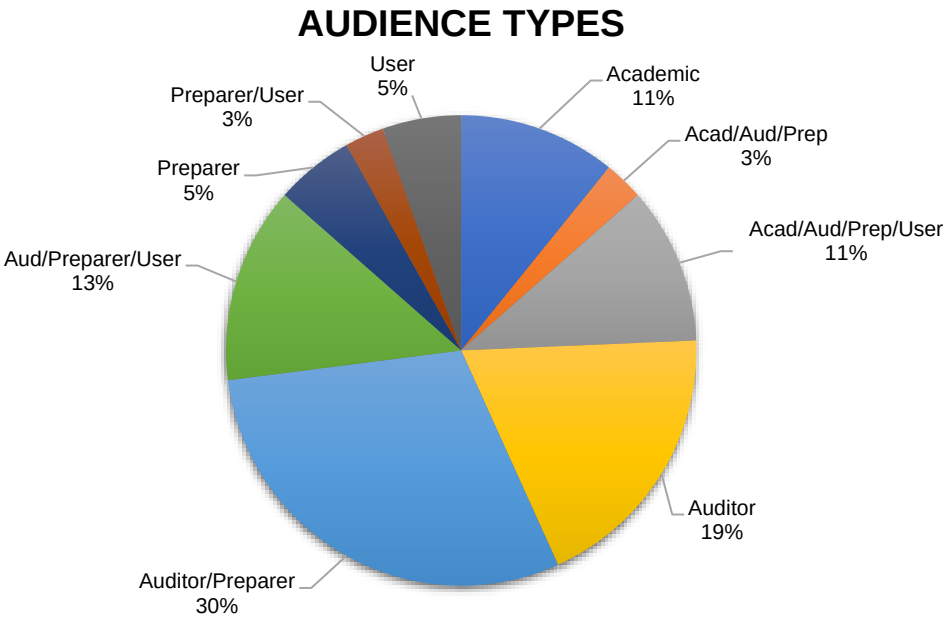
OTHER KEY COMMUNICATION ACTIVITIES

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—Q2 2025	April 8, 2025
Webinar	2025 GAAP and SEC Reporting Taxonomy Improvements and SEC Update	April 8, 2025
Webinar	FASB Update for Private Companies and Not-for-Profit Organizations	May 29, 2025

Speech Activity			
Speaker	2023 2Q	2024 2Q	2025 2Q
FASB Members	13	13	13
FASB Staff	33	35	33
PCC Members	4	4	4
Total	**50**	**52**	**50**

- *A total of 50 FASB speakers presented at 37 events. 26% of speakers were FASB members, 66% were FASB staff, and 8% were PCC members.*
- *Staff speeches primarily relate to newly issued or broadly applicable recent guidance and periodic updates about FASB*



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 April 3, Fred Cannon, Joyce Joseph, and FASB staff members participated in panels at the CFA Society of New York's "What's New in U.S. Financial Reporting?" conference in New York City.
- On April 4, the FASB hosted SEC Acting Chief Accountant Ryan Wolfe and academics from around the country for the Emerging Financial Reporting Issues Research Symposium in Norwalk. The event was co-hosted with the Chookaszian Accounting Research Center of the University of Chicago Booth School of Business. FASB members and staff participated in panels, and academics presented their research papers on cash flow information—a topic identified as a top priority for investors during the FASB's 2021 agenda consultation.

- On May 1, Rich Jones presented on the opening panel at the 23rd Annual Baruch Zicklin Financial Reporting Conference in New York City. Jackson Day also presented as part of the "Hot Topics at the FASB" panel.
- On May 21, Rich Jones and Hillary Salo participated in a sit-down interview with Bloomberg BNA in Washington, DC.
- On June 10, Hillary Salo and Sue Cosper joined PCC Chair Jere Shawver, three other PCC members, and FASB staff for the AICPA's ENGAGE 2025 conference in Las Vegas. The event included a PCC Town Hall.
- On June 11, Rich Jones presented on the opening keynote panel at the 43rd Annual University of Southern California SEC and Financial Reporting Conference in Los Angeles. Jackson Day also presented as part of the "Current Accounting Practice Issues—Part 1: Standard Setter/Regulatory Perspective" panel.

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 (DQRTC).

Technical Activities

- The FASB staff:
    - Published proposed taxonomy improvements for:
        - Proposed Accounting Standards Update*—Debt—Modifications and Extinguishments (Subtopic 470-50) and Liabilities—Extinguishments of Liabilities (Subtopic 405-20): Accounting for Debt Exchanges*.
    - Published as final (pending annual update) taxonomy improvements for:
        - Accounting Standards Update 2025-03*—Business Combinations (Topic 805) and Consolidation (Topic 810): Determining the Accounting Acquirer in the Acquisition of a Variable Interest Entity*
        - Accounting Standards Update 2025-04*—Compensation—Stock Compensation (Topic 718) and Revenue from Contracts with Customers (Topic 606): Clarifications to Share-Based Consideration Payable to a Customer*.
    - Published the following final GAAP Taxonomy Implementation Guides for the 2025 Taxonomy:
        - *Accounting Changes*
        - *Employee Benefit Plans (Including Defined Contribution Benefit Plans Filing SEC Form 11-K)*
        - *Other Comprehensive Income (including selected financial statements)*.
    - 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, 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 June 30, 2025

PROJECTS	Next Milestone	Expected Date
Accounting for and Disclosure of Software Costs	Final ASU	3Q 2025
Accounting for Debt Exchanges	Board redeliberations	Ongoing
Accounting for Environmental Credit Programs	Board redeliberations	Ongoing
Accounting for Government Grants	Final ASU	4Q 2025
Codification Improvements (Evergreen)	Board redeliberations	Ongoing
Credit Losses—Topic 606 Receivables (PCC)	Final ASU	3Q 2025
Financial Instruments—Credit Losses (Topic 326)—Purchased Financial Assets	Final ASU	3Q 2025
Interim Reporting—Narrow-Scope Improvements	Final ASU	4Q 2025
Measurement of Paid-in-Kind Dividends on Equity-Classified Preferred Stock	Exposure Draft	3Q 2025
Statement of Cash Flows Targeted Improvements	Board deliberations	Ongoing
Topic 815—Derivatives Scope Refinements	Final ASU	3Q 2025
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
Application of Topic 715 to Market-Return Cash Balance Plans

POST-IMPLEMENTATION PROJECTS
Credit Losses
Leases

Agenda Consultation

Invitation to Comment

Alicia Manders, Assistant Director
Aarika Friend, Senior Project Manager
Tiffany Wyszkowski, Project Manager
Vivian Sisson, Postgraduate Technical Assistant
Cristina Kappmeyer, Postgraduate Technical Assistant

September 18, 2025

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

FASB FINANCIAL ACCOUNTING STANDARDS BOARD® GASB GOVERNMENTAL ACCOUNTING STANDARDS BOARD® FAF FINANCIAL ACCOUNTING FOUNDATION®

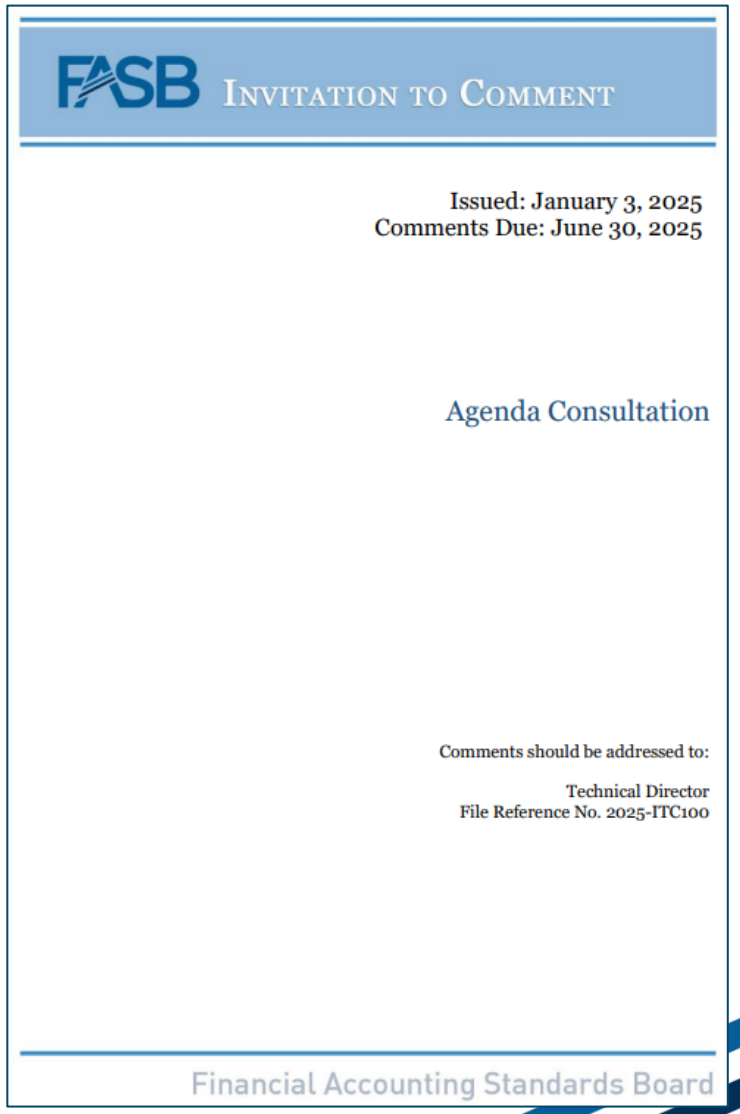
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Background

In the second half of 2024, the staff conducted outreach with a cross-section of over 200 stakeholders including investors, practitioners, preparers, and academics.

In January 2025, the FASB issued an Invitation to Comment (ITC), *Agenda Consultation*, to understand the next priority areas that the Board should address.

Feedback was received from over 120 respondents, which included comment letters and outreach discussions.


FASB Invitation to Comment

Issued: January 3, 2025
Comments Due: June 30, 2025

Agenda Consultation

Comments should be addressed to:

Technical Director
File Reference No. 2025-ITC100

Financial Accounting Standards Board

FASB Financial Accounting Standards Board

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Overview

May 2024

- Announcement by FASB Chair that the agenda consultation process is underway

2nd Half 2024

- Outreach with advisory and key stakeholder groups to identify priority areas of financial reporting

1st Half 2025

- ITC issued for public comment on January 3, 2025
- Stakeholders were invited to provide feedback on the ITC by June 30, 2025
- Additional outreach with stakeholders, including investors and advisory groups

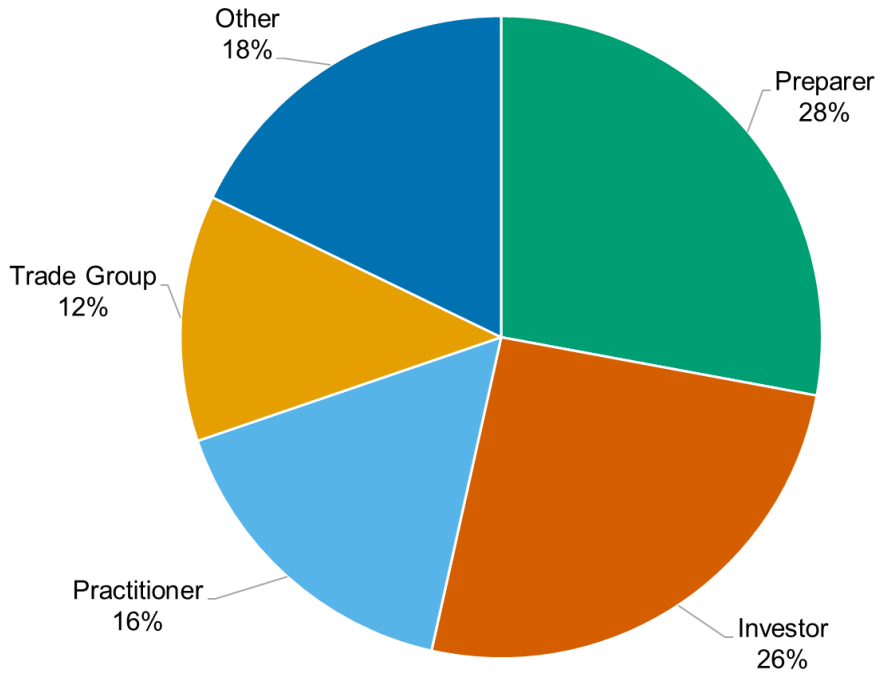
2nd Half 2025 and Beyond

- Summary of feedback to be presented to the Board
- Analyze feedback and make changes to the technical and research agendas
- Issue FASB Agenda Consultation Report

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Agenda Consultation Responses

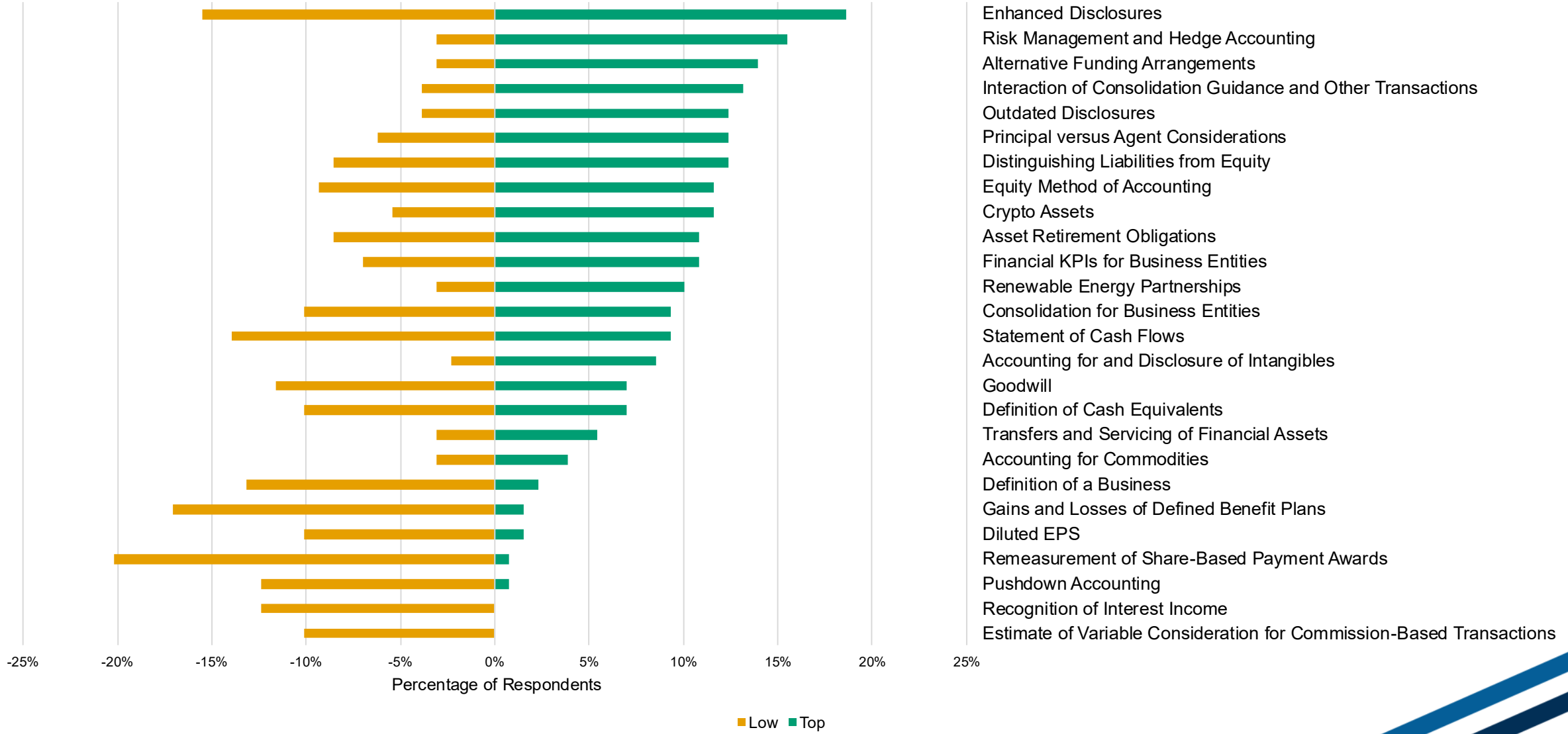
- As part of the agenda consultation process, the FASB received 129 responses* from the following types of stakeholders:**



* Responses include feedback from comment letters, stakeholder outreach meetings, and advisory group meetings received through August 29, 2025. The stakeholders represent a variety of industries, including pharmaceuticals, insurance, oil and gas, energy and environmental, crypto, and financial services.
** Category (a) *investor* includes investor advocate groups, and category (b) *other* includes individuals, advisory groups, academics, state society representatives, and standard setters.

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Top Priorities versus Low Priorities for Select Topics*



* The chart includes select topics only. Respondents that did not express views or expressed neutral opinions on a topic are excluded from this chart.

FASB FINANCIAL ACCOUNTING STANDARDS BOARD

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Most Frequently Identified Top Priorities

Investors and Investors Advocate Groups' Top Priorities

- Enhanced disclosures
- Asset retirement obligations
- Financial key performance indicators (KPIs)
- Accounting for and disclosure of intangibles
- Statement of cash flows

Preparers' Top Priorities

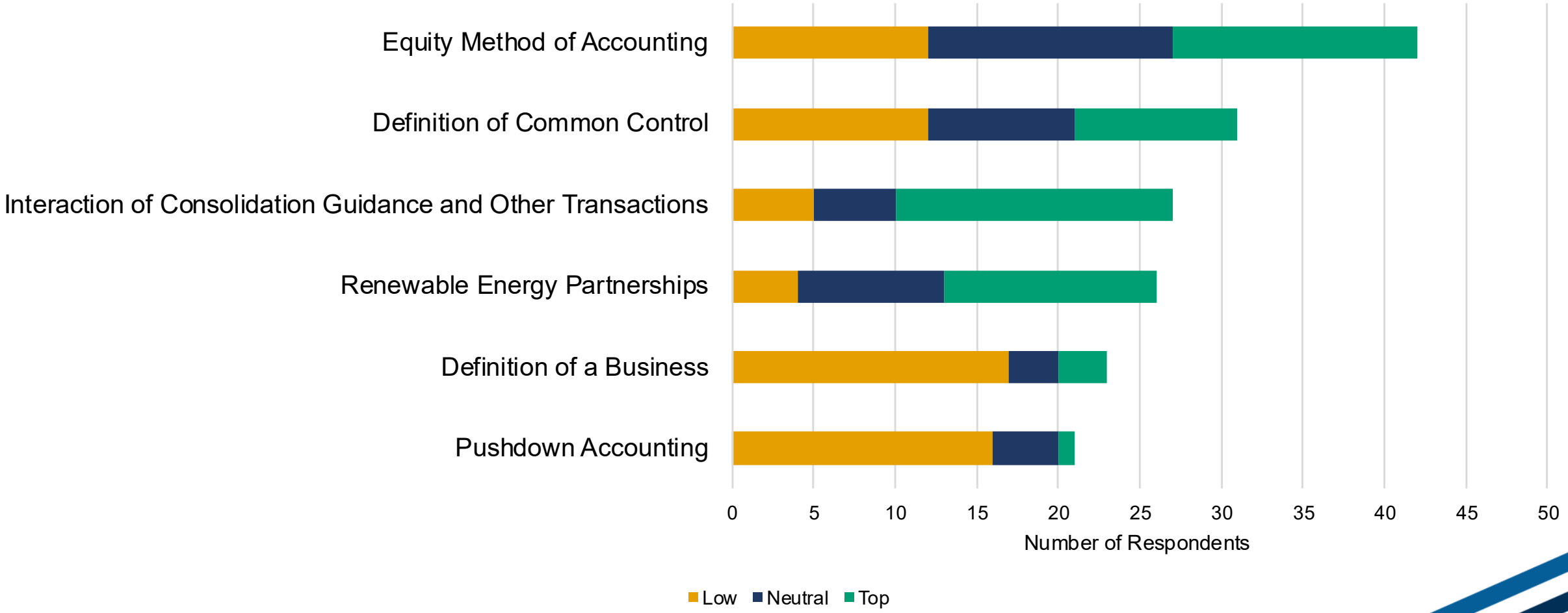
- Principal versus agent considerations
- Alternative funding arrangements
- Outdated disclosures
- Risk management and hedge accounting
- Equity method of accounting

Practitioners' Top Priorities

- Distinguishing liabilities from equity
- Interaction of consolidation guidance and other transactions
- Consolidation for business entities
- Troubled debt restructurings by borrowers
- Definition of common control

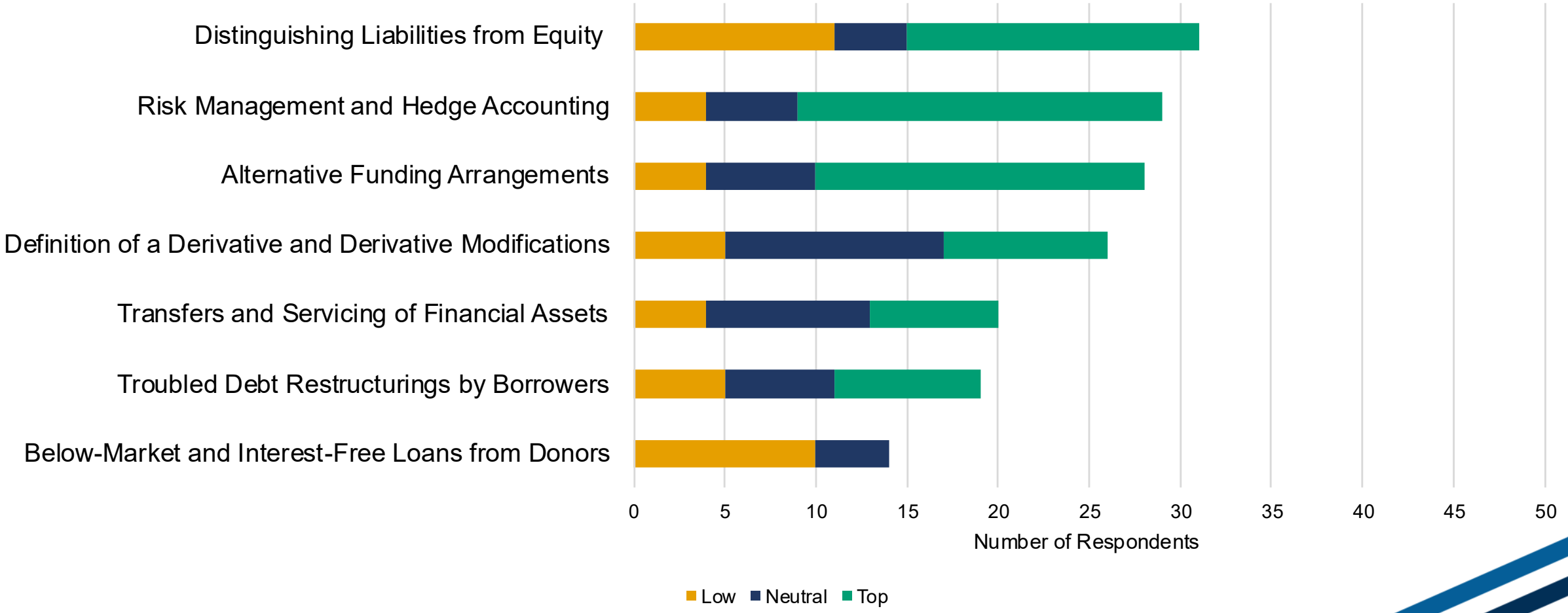
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Chapter 1—Combination of Entities



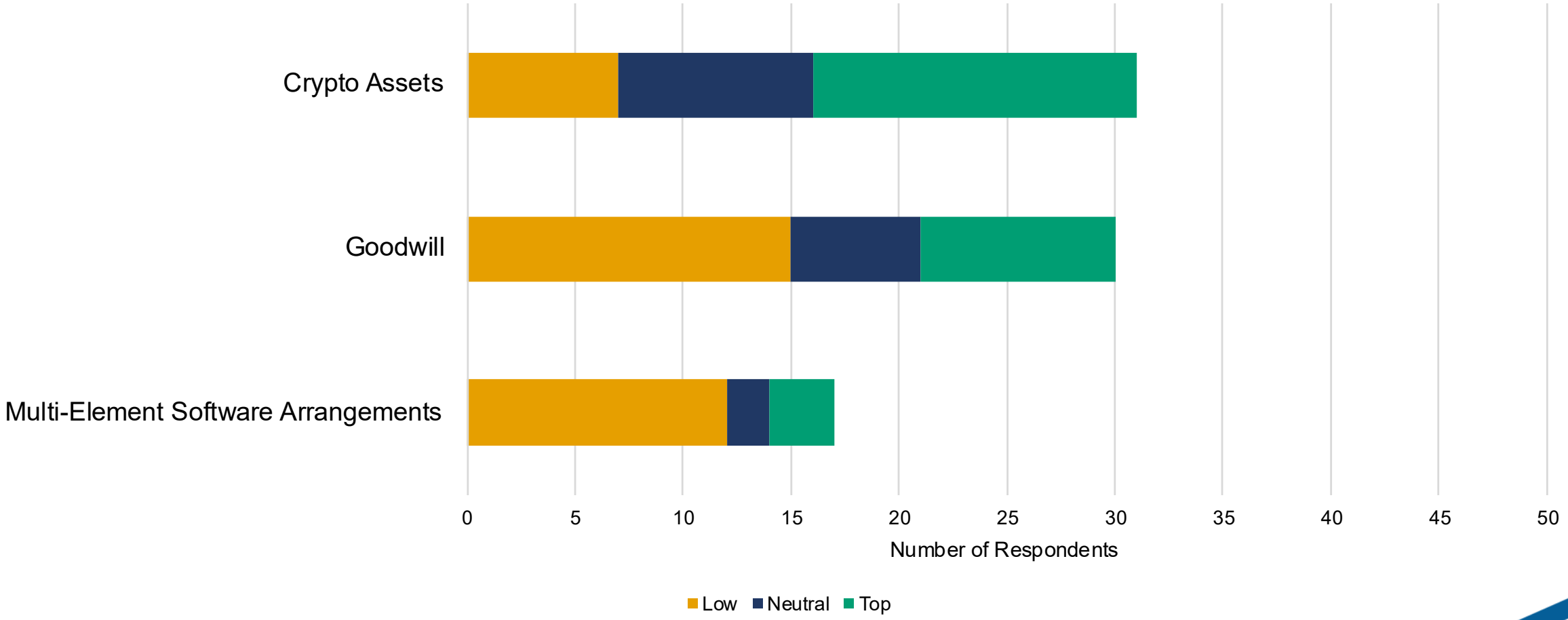
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Chapter 2—Financial Instruments



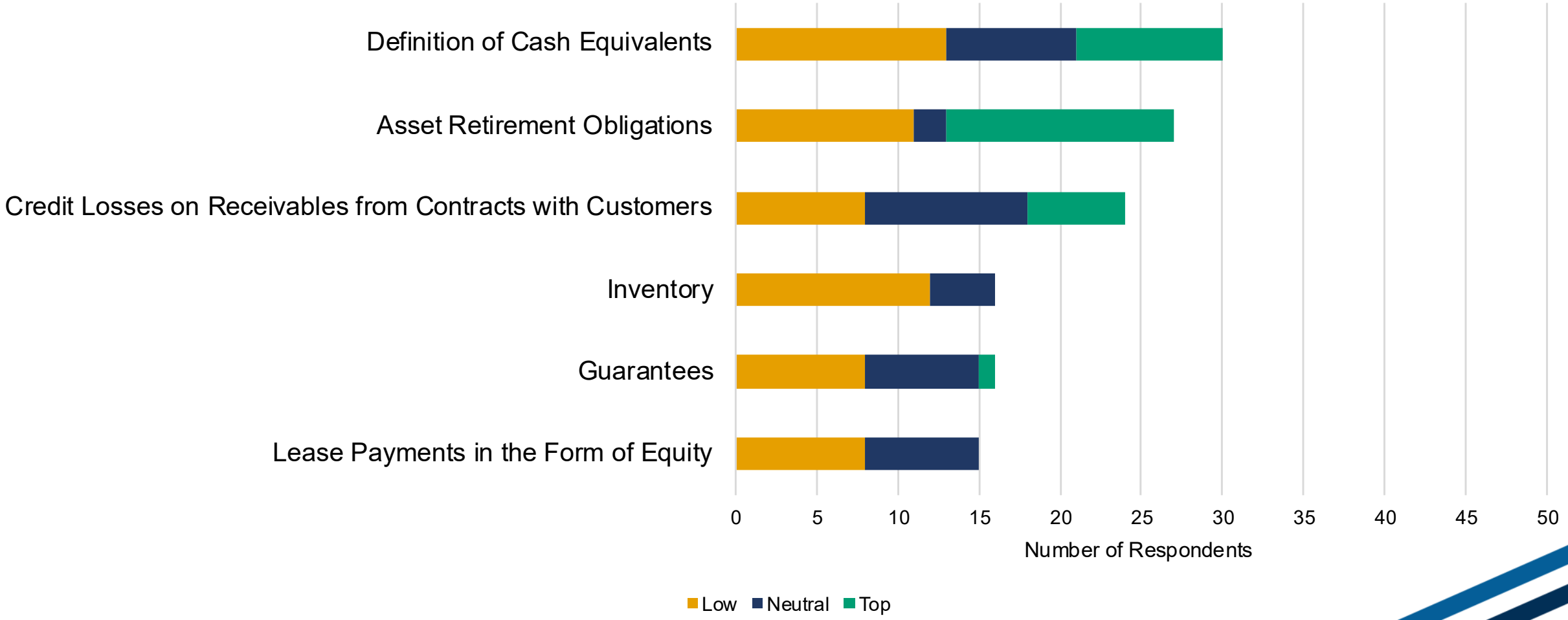
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Chapter 3—Intangibles



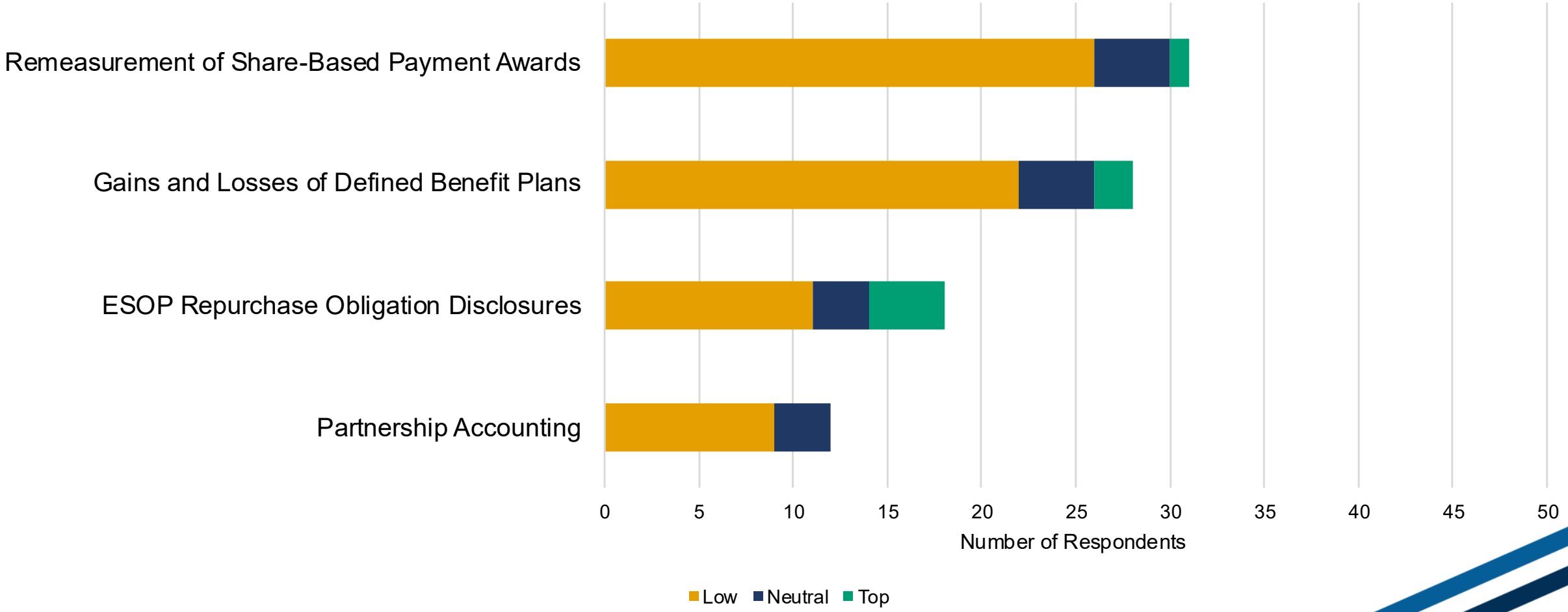
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Chapter 4—Other Assets and Liabilities



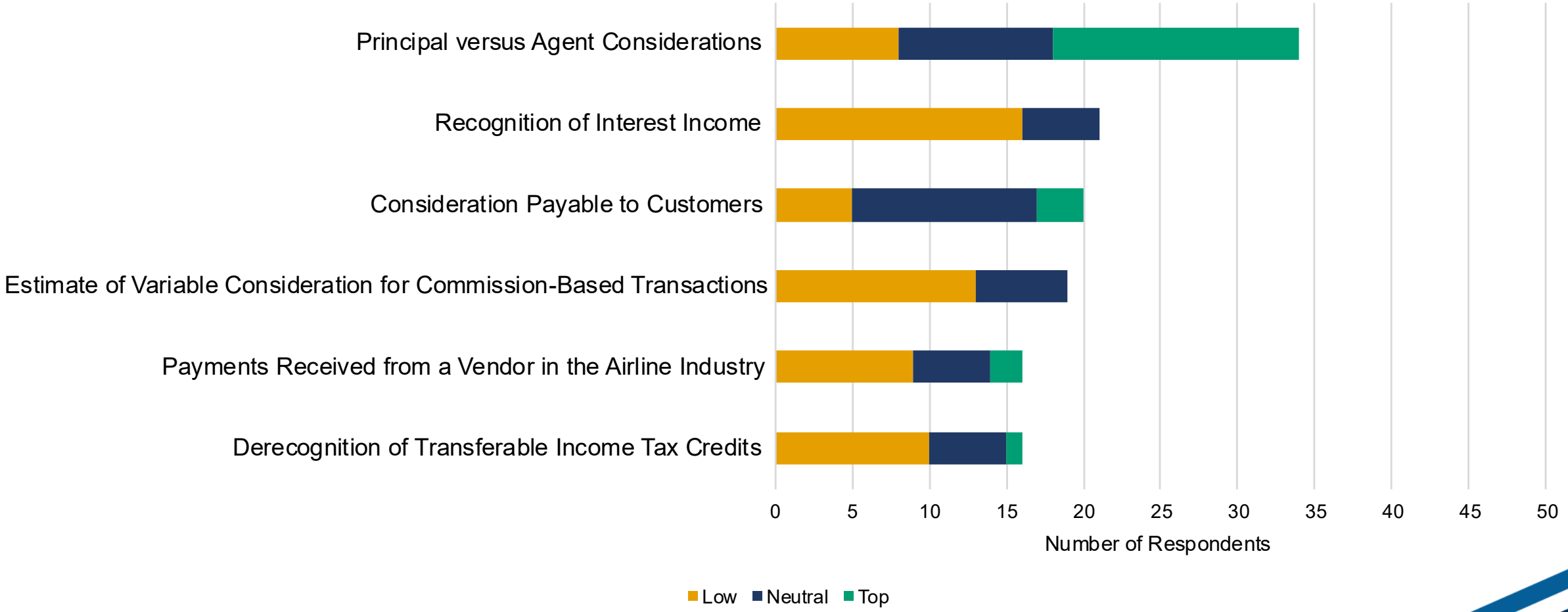
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Chapter 5—Retirement and Other Employee Benefits



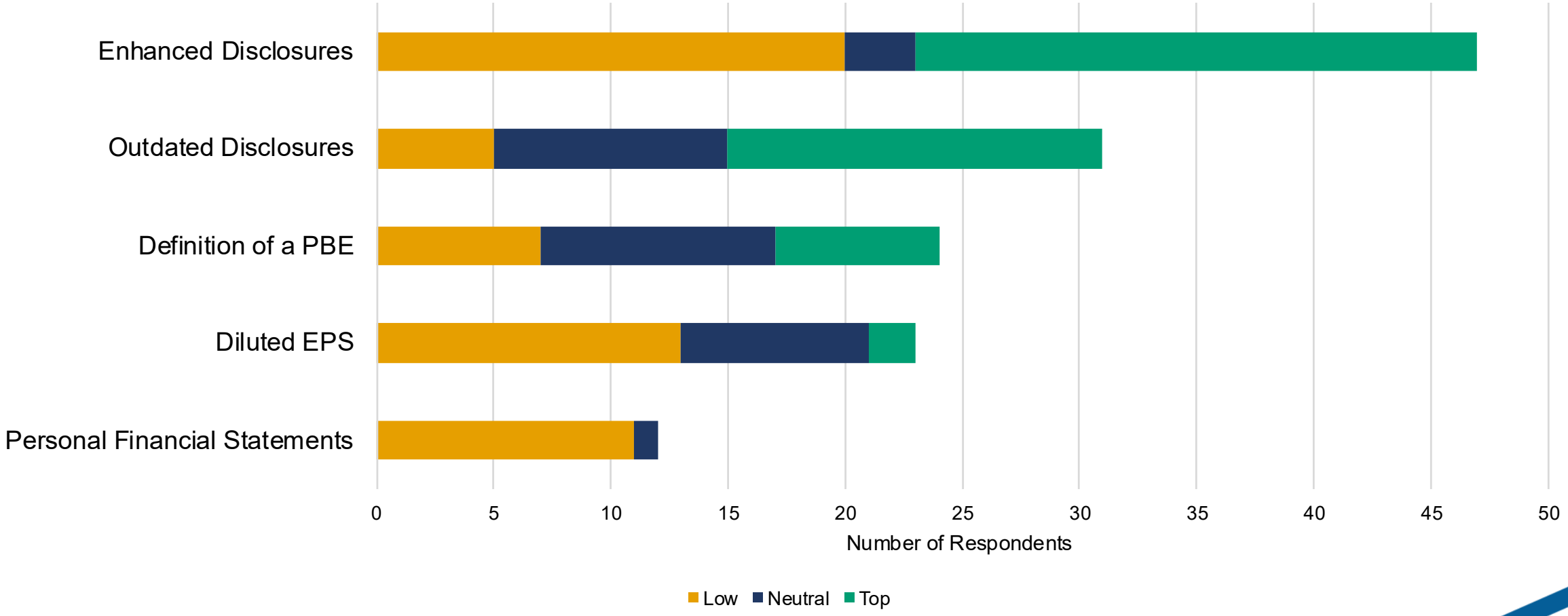
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Chapter 6—Income and Expenses



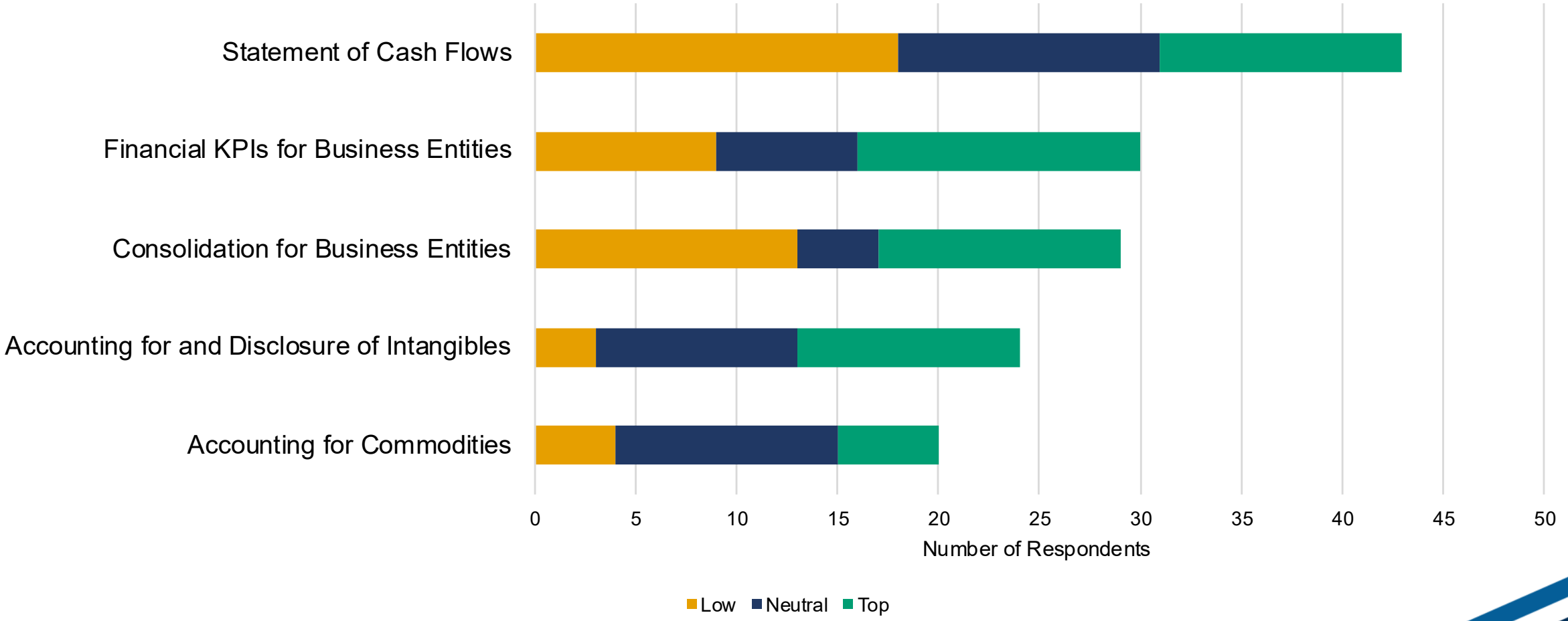
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Chapter 7—Presentation and Disclosure of Financial Reporting Information

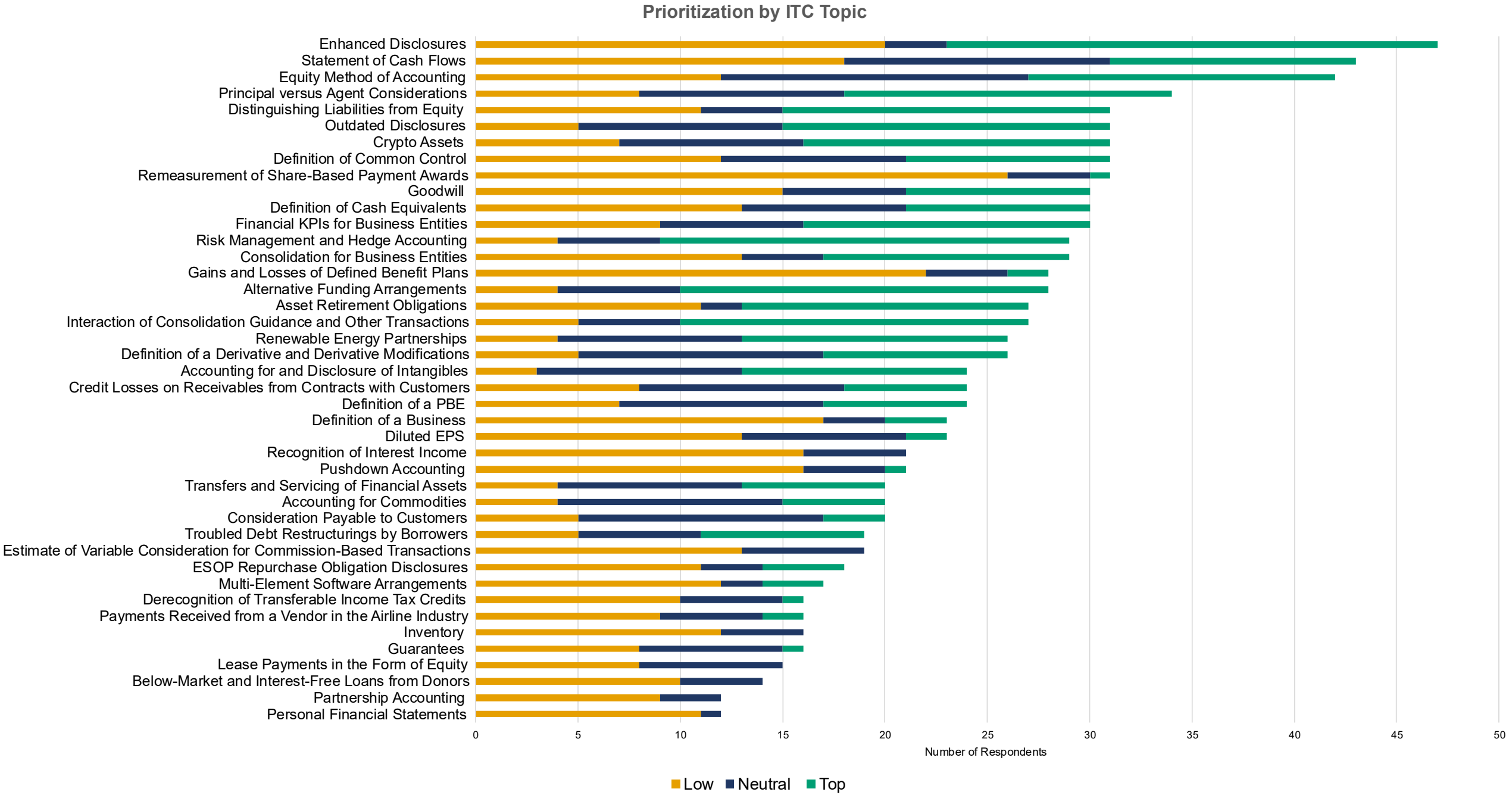


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Chapter 8—Current Research Agenda Projects



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Next Steps



The Board will begin to analyze ITC feedback and make changes to the technical and research agendas based on all feedback received and the Board's agenda criteria.



In 2026, the FASB staff will issue an agenda consultation report that summarizes the robust stakeholder feedback received and how that feedback has influenced the Board's research and technical agendas.

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FASAC FINANCIAL ACCOUNTING STANDARDS ADVISORY COUNCIL

ATTACHMENT 2B

AGENDA CONSULTATION
FINANCIAL ACCOUNTING STANDARDS ADVISORY COUNCIL
SEPTEMBER 18, 2025

Session Objective

The objective of this session is to seek Council members' input about the broad stakeholder feedback received on the future standard-setting agenda of the FASB.

Overview of Materials

This paper provides background on the FASB's agenda consultation process and an overview of stakeholder feedback received. Appendix A provides an additional chart with stakeholders' prioritization responses by topic. Overall discussion questions about the stakeholder feedback received are on page 4.

The remainder of this paper provides information on four financial reporting topics. For each of these topics, there is background about the existing requirements, a summary of stakeholder feedback received, and discussion questions. The four topics are as follows:

1. Equity method of accounting (discussion questions on page 12)
2. Consolidation for business entities (discussion questions on page 18)
3. Asset retirement obligations (AROs) (discussion questions on page 21)
4. Distinguishing liabilities from equity (discussion questions on page 27).

Background

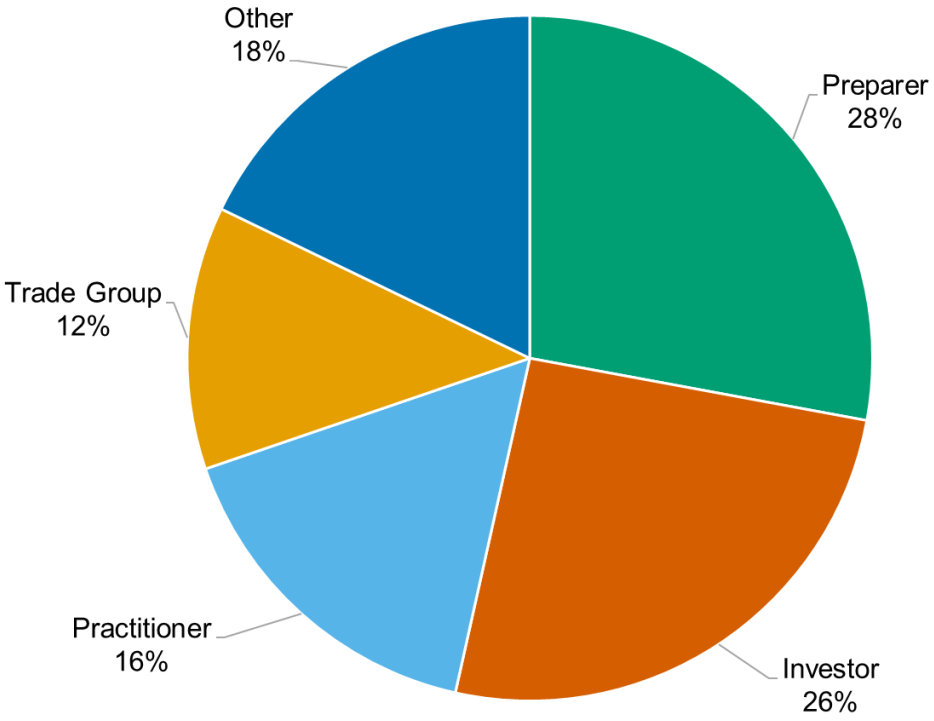
As a result of the progress on the 2021 Agenda Consultation priorities, FASB Chair Richard R. Jones announced in May 2024 that the FASB would undertake a similar agenda consultation process to understand the priority areas that the Board should next address.

Throughout the second half of 2024, the FASB staff and Board members met with more than 200 stakeholders, approximately one-third of which were investors or other financial statement users ("investors"), to identify priority areas of improvement to financial reporting. In addition to investors, a cross-section of stakeholders participated in that preliminary outreach, including preparers, practitioners, and academics—from public companies, private companies, and not-for-profit organizations (NFPs). The discussions included within the January 2025 Invitation to Comment, *Agenda Consultation* (the Agenda Consultation ITC), was based on input raised from those stakeholders.

The purpose of the Agenda Consultation ITC was to solicit broad stakeholder feedback about the future standard-setting agenda of the FASB. The feedback on the Agenda Consultation ITC is essential in ensuring that the FASB continues to allocate its finite resources to achievable standard-setting projects that fulfill its primary mission of improving financial accounting and reporting standards and addressing topics that are of the highest priority to its stakeholders.

Overview of Feedback Received

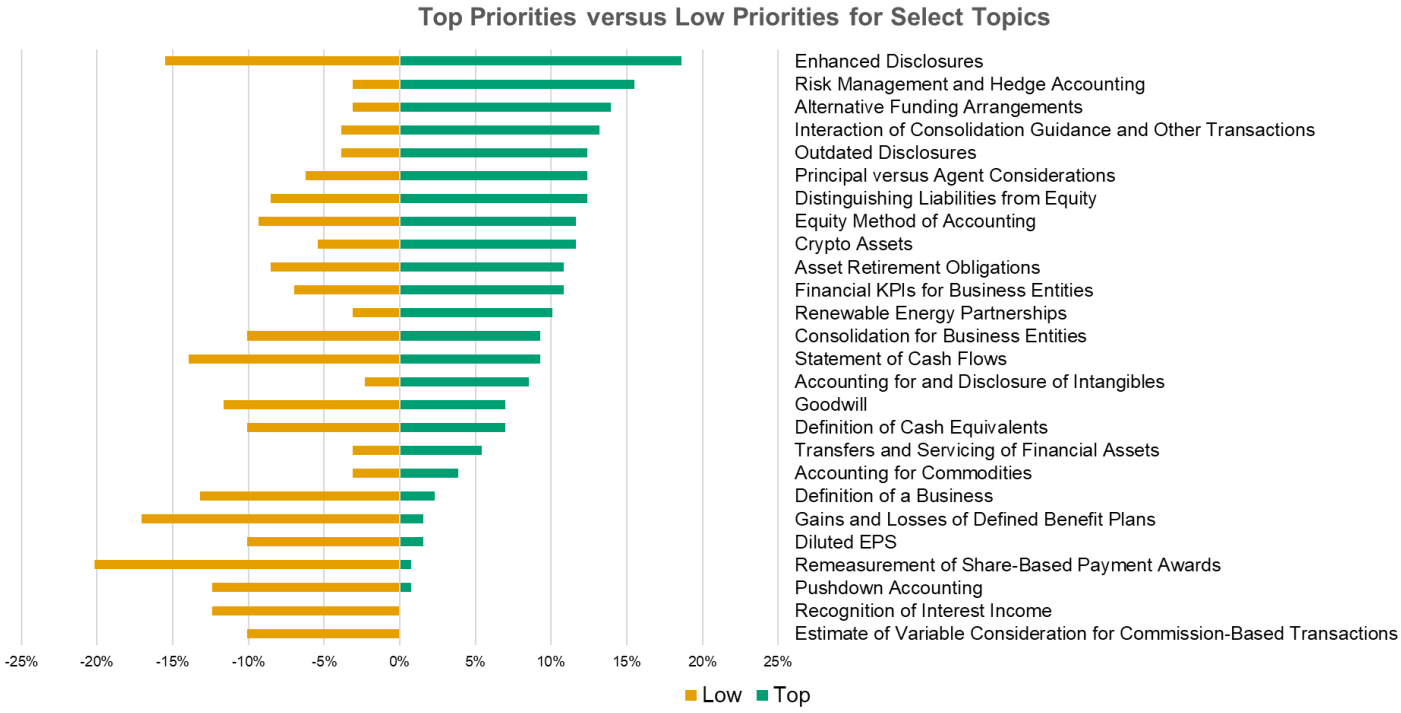
The comment period for the Agenda Consultation ITC ended on June 30, 2025, and 129 responses were received through August 29, 2025, which includes feedback from comment letters, stakeholder outreach meetings, and advisory group meetings. The following diagram provides a breakdown of those respondents,[1] by stakeholder type:[2]



[1] The stakeholders represent a variety of industries, including pharmaceuticals, insurance, oil and gas, energy and environmental, crypto, and financial services.

[2] The *investor* category includes investor advocate groups. The *other* category includes individuals, advisory groups, academics, state society representatives, and standard setters.

Appendix A of this memo includes a full list of priorities for each topic included in the Agenda Consultation ITC. The following diagram provides a side-by-side comparison of stakeholders' views on the top and low priorities for select topics:



The following table provides the most frequently identified top priorities by practitioners, preparers, and investors and investor advocate groups (topics with additional discussion questions for the September 2025 FASAC meeting are in blue):

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

Overall Discussion Questions

Question 1 (All): What are your overall reactions or insights on the topics that stakeholders identified as top priorities and low priorities? What challenges or opportunities should the Board consider in developing its overall priorities for its future standard-setting agenda?

Question 2 (All): Is there a pervasive need to change the following areas of generally accepted accounting principles (GAAP)?

a. Equity method

b. Consolidation for business entities

c. AROs

d. Distinguishing liabilities from equity.

The remainder of this memo provides information about four financial reporting topics for discussion at the September 2025 FASAC meeting.

Equity Method of Accounting[3]

Background

An entity that has the ability to exercise significant influence over operating and financial policies of an investee is required to apply the equity method,[4] which is often referred to as one-line consolidation. Under the equity method, an investor recognizes its share of

[3] Related to the equity method of accounting, the January 2025 Invitation to Comment, *Agenda Consultation* (Agenda Consultation ITC), also asked questions about investments in renewable energy partnerships. These investments generally are made in limited partnerships in which (a) a sponsor acts as a general partner and oversees the development of a renewable energy project and (b) a tax equity investor or investors provide funding through limited partnership interests in return for tax credits generated by the project. These partnerships often have complex allocations of earnings that are not aligned with ownership percentages. For those investments for which the tax equity investor has the ability to exercise significant influence, the investor will typically account for its investment in the partnership using the equity method of accounting. Because of the complex earnings allocation in these partnerships, investors often calculate their share of equity method earnings by using the hypothetical liquidation book value (HLBV) method. HLBV, while not in the Accounting Standards Codification, is rooted in the guidance in paragraph 970-323-35-17. Under HLBV, which was described in the proposed AICPA Statement of Position, *Accounting for Investors' Interests in Unconsolidated Real Estate Investments*, the share of an investee's earnings or losses is calculated on the basis of a change in the investor's interest in the investee's net assets, assuming that the investee was to liquidate all assets at their GAAP amounts.

[4] As described in the SEC Staff Announcement: Accounting for Limited Partnership Investments, in paragraph 323-30-S99-1, (a) the U.S. Securities and Exchange Commission (SEC) staff's position on the application of the equity method to investments in limited partnerships is that investments in all limited partnerships should be accounted for in accordance with the equity method unless the investor's interest is so minor that the limited partner may have virtually no influence over partnership operating and financial policies and (b) the SEC staff understands that practice generally has viewed investments of more than 3 to 5 percent to be more than minor.

the earnings or losses of an investee in the periods that those earnings and losses are reported by the investee. The carrying amount of the equity method investment is adjusted for the investor's share of the investee's earnings or losses, and the recognized earnings or losses are reported in income. That amount should include adjustments similar to those made in preparing consolidated statements, including the following:

1. **Intra-entity profits and losses.** Adjustments to eliminate some or all intra-entity profits and losses.
2. **Basis differences.** Adjustments to amortize, if appropriate, any difference between investor cost and underlying equity in net assets of the investee at the date of investment.
3. **Investee capital transactions.** Adjustments to reflect the investor's share of changes in the investee's capital.

Equity method investors generally qualify to elect the fair value option upon initial recognition of the equity method investment. If elected, that would require the investor to remeasure the equity method investment at fair value at each reporting date, with changes in fair value recognized in net income.

Agenda Consultation ITC Feedback Received

The Agenda Consultation ITC asked stakeholders the following questions related to equity method accounting:

> **Question 5:** Does the equity method of accounting provide decision-useful information to investors that affect their capital allocation decisions? Please explain.
>
> **Question 6:** Should the FASB consider requiring equity method investments to be accounted for consistently with other equity investments in accordance with Topic 321? Please explain.

Forty-two stakeholders directly responded to Question 5, Question 6, Question 7, or provided general feedback on the equity method of accounting. Overall, those stakeholders provided mixed views on whether the Board should address this area as a priority and, if so, how the Board should address it. While some stakeholders noted that the equity method should be top priority, some identified the topic as a low priority, and some were neutral on whether the equity method should be prioritized.

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

1. **Top priority.** The equity method is unnecessarily complex and costly to apply. For example, it can be challenging and costly to record the proportionate share of earnings. As another example, determining the investments to which the equity method should be applied can be challenging because there is a different scope for investments in corporate entities and investments in limited partnerships and significant influence is not well defined. Additionally, the equity method provides

questionable benefits to users. Although stakeholders that identified the equity method as a top priority agreed that the equity method is challenging and should be addressed, there was no clear consensus among those stakeholders on how the Board should address the topic; that is, whether the equity method of accounting should be eliminated or retained and improved. Stakeholders recommended a wide range of solutions, such as:

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

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

c. Codifying and clarifying guidance on applying the hypothetical liquidation at book value (HLBV) method.[5]

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

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

3. **Low priority.** Although there may be challenges in applying the equity method, it is generally well understood by preparers and users and there is no pervasive need to significantly change GAAP at this time. For example, one stakeholder

[5] Similar feedback was received in response to questions in the Agenda Consultation ITC about renewable energy partnerships.

noted that the equity method is operable and the accounting aligns with the value of equity method investments. Several stakeholders that identified equity method as low priority cautioned that making significant changes to the equity method, or eliminating the equity method, could have unintended consequences and decrease the decision usefulness of information provided to users.

Decision Usefulness of the Equity Method

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

However, a few stakeholders said that the equity method does not provide (or rarely provides) decision-useful information to users because it does not reflect the economics of the investment. One stakeholder observed that recording an equity method investee's share of GAAP earnings is often inconsistent with the change in the fair value of the investment (for example, an investee may be incurring losses from research and development [R&D] activities, but those activities may be increasing the investment's fair value). Another stakeholder noted that the measurement of equity method investments can differ materially from the fair value. For example, if a user is estimating an exit price for the investment in an overall valuation or estimating how many shares the equity method investor could repurchase upon divestment, that user must make its own fair value estimate.

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

Topic 321 Requirement

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

1. **Significantly reduce operational challenges and the cost and complexity of accounting for equity method investments.** Many equity method investments are manually tracked, which increases the potential for errors or omissions.

Accounting for equity method investments consistent with other equity investments would significantly reduce challenges associated with accounting for basis differences, contingent consideration, intra-entity profits, differences in fiscal year-ends, differences in accounting frameworks used, and other aspects. The guidance in Topic 321, including the measurement alternative, is widely understood for other equity investments and would be easier to understand for preparers and users.

2. **Increase consistency in application.** Entities would be able to apply the measurement alternative to a large majority of private company equity investments, which would provide more consistency in application, because it would not require entities to determine the fair value of those investments.
3. **Provide more decision-useful information.** The measurement alternative would align the measurement of the investment with its economic value upon an impairment or observable price change in an orderly transaction for an identical or similar investment. Additionally, the impairment model under Topic 321 would provide sufficient information about impaired investments; under the equity method, recognizing losses solely because an equity method investee is incurring GAAP losses may often provide information that is not decision useful (or that is even potentially misleading).

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

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

1. **The equity method is already well understood by preparers and investors.** For example, one stakeholder noted that entities have already developed internal processes and controls to apply the equity method.
2. **Requiring fair value would require subjective valuations and may be more costly, complex, and burdensome to apply than the equity method.** The Topic 321 requirement would rely on subjective valuations and would add significant complexity, which can be equally or more complicated to apply as compared with Topic 323, Investments—Equity Method and Joint Ventures. Specifically, it could be challenging for entities with private investments that do not have observable quotes or data to establish reliable assumptions and estimates of fair value. One stakeholder noted that it could be challenging to determine what constitutes an observable price change, similar to the issues that already exist today for equity instruments accounted for under the measurement alternative in Topic 321.

Additionally, there could be more frequent impairments under the measurement alternative as compared with Topic 323.

3. **Equity method is the best model for strategic investments.** For strategic investments where management intends to hold the investment over a longer time period and manages the investment on a non-fair-value basis, fair value measurement does not reflect the nature of the investment. Requiring entities to recognize unrealized gains and losses on these investments in earnings would diminish management's ability to differentiate equity method investments from other equity investments. One stakeholder noted that the relationship between an investor and an equity method investee is commonly different than the relationship between an investor with a minor interest in a public company investee; this difference supports that investments in entities where an investor has significant influence over the investee should not be accounted for consistently with other equity investments in accordance with Topic 321.
4. **There may be less decision-useful information provided to users, especially in certain industries, and fair value would introduce significant volatility into financial statements.** Users in certain industries find that the equity method provides decision-useful information. The fair value of the equity method investment may be less indicative of the investor's economic interest in the investee's operations than the proportionate share of equity, which would result in less information about the underlying performance of the investee. For example, one trade group representing real estate companies noted that applying the fair value to equity method investments would not provide users with the operating and cash flow information desired, while a user stated that eliminating the equity method would mean losing vital information necessary for understanding the economic substance of those investments. Requiring fair value could introduce more subjectivity and significant volatility, which would not be helpful to investors. One stakeholder noted that investors may need to use non-GAAP measures to adjust for the market volatility and share of quarterly income. Another stakeholder noted that because the Topic 321 requirement would revert to the cost method, this would not be decision useful for users.
5. **An equity method investor is already able to elect to apply the fair value option.** Because the fair value option is available on an investment-by-investment basis, there is no need to eliminate the equity method of accounting.
6. **There would be reduced comparability between GAAP and IFRS Standards.** Because IFRS Standards and GAAP both include the equity method, eliminating the equity method would reduce comparability between international and U.S. companies.

Topic 321 Election

Acknowledging the challenges that entities may face in applying the equity method and given that it may not provide decision-useful information for all industries and reporting

entities, some stakeholders suggested that the Board retain the equity method of accounting and consider permitting entities to elect to account for these investments under Topic 321. For example, one stakeholder noted that because the equity method is useful for certain industries and reporting entities, requiring equity method investments to be accounted for under Topic 321 may not be appropriate in all situations but applying Topic 321 could simplify the guidance for some.

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

1. Permit or require certain industries to continue to apply the equity method because it may provide benefits to users in those industries.
2. Allow entities to elect either the application of Topic 323 or the application of Topic 321 on an investment-by-investment basis upon purchase or acquisition of the investment. Because entities have different strategic objectives underlying equity method investments—some equity method investments are core to an entity's business, while other equity method investments are undertaken to advance a specific business priority—this type of option would allow an entity to decide which would be best to apply.
3. Allow entities that are measuring their equity method investments at fair value to elect the measurement alternative in Topic 321 for investments in private entities.

Other Suggestions

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

1. **Codify and clarify when and how to use HLBV to recognize equity method earnings.** Many stakeholders discussed HLBV, although those stakeholders provided mixed feedback about whether the Board should codify HLBV. Some stakeholders noted that HLBV is an appropriate method for allocating equity method earnings and provides decision-useful information to investors when renewable energy and similar partnerships have complex capital allocation structures. Therefore, those stakeholders recommended that the Board codify and clarify when and how to use the HLBV method to recognize equity method earnings or attribute comprehensive income to noncontrolling interests in consolidation. However, other stakeholders did not support codifying HLBV. Those stakeholders indicated that HLBV involves complex accounting assumptions and legal interpretations, which can be costly and may not provide decision-useful information or reflect the true economics of the underlying investments.

2. **Allow the proportional amortization method (PAM)[6] for more investments.** One stakeholder noted that the PAM may provide more decision-useful information for investors in real estate entities because those entities may expect to recover their investments through steady, relatively predictable streams of cash flows.
3. **Allow real estate companies to use the proportionate share of consolidation for joint ventures.** One stakeholder noted that this would be similar to the exception[7] that permits oil and gas industries to use proportionate consolidation.
4. **Allow equity method investments to be measured at cost**. A few stakeholders suggested that the Board allow nonmarketable equity investments to be accounted for using the cost less impairment method. Those stakeholders said that this would simplify the accounting and reduce costs by applying a consistent accounting method for all nonmarketable equity investments, irrespective of the level of influence. One of those stakeholders more broadly suggested that the Board introduce that policy election for all equity securities without readily determinable fair values.
5. **Require equity method investments to be measured at fair value with remeasurements recognized in earnings, without the ability to elect the measurement alternative.** One stakeholder noted that users need information on the value of the equity method investment.
6. **Require additional disclosures.** A few stakeholders, primarily users, noted that greater insight into equity method investees would be helpful, such as the investee's debt, revenues, and cash flows.

Stakeholders noted that certain aspects of the equity method of accounting involve significant complexity and reliance on interpretive guidance or industry practice.

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[6] Under the proportional amortization method (PAM), if certain criteria are met, an investor may elect to amortize the cost of that investment in proportion to the income tax credits and other income tax benefits expected to be received over the life of the investment. The amendments in Accounting Standards Update No. 2023-02, *Investments—Equity Method and Joint Ventures (Topic 323): Accounting for Investments in Tax Credit Structures Using the Proportional Amortization Method*, expanded the application of the PAM to more equity investments that generate income tax credits and other income tax benefits from tax credit programs. Paragraph 323-740-25-1 describes the conditions that must be met for an entity to be able to elect to account for investments using the PAM.

[7] Paragraph 810-45-14 provides the following guidance:

> **810-10-45-14** If the investor-venturer owns an undivided interest in each asset and is proportionately liable for its share of each liability, the provisions of paragraph 323-10-45-1 may not apply in some industries. For example, in certain industries the investor-venturer may account in its financial statements for its pro rata share of the assets, liabilities, revenues, and expenses of the venture. Specifically, a proportionate gross financial statement presentation is not appropriate for an investment in an unincorporated legal entity accounted for by the equity method of accounting unless the investee is in either the construction industry (see paragraph 910-810-45-1) or an extractive industry (see paragraphs 930-810-45-1 and 932-810-45-1). An entity is in an extractive industry only if its activities are limited to the extraction of mineral resources (such as oil and gas exploration and production) and not if its activities involve related activities such as refining, marketing, or transporting extracted mineral resources.

Therefore, stakeholders provided other suggestions for targeted improvements to the equity method of accounting, such as the following:

1. Simplify or eliminate the accounting for basis differences.
2. Reconsider the presumption of significant influence for limited partnerships with 3 to 5 percent ownership, especially for passive investments, and/or coordinate with the U.S. Securities and Exchange Commission (SEC) to establish a single threshold for applying the equity method of accounting, regardless of the type of legal entity (and investment).
3. Change the scope of Topic 323, such as by (a) broadening the scope to include preferred stock and other noncommon equity investments or (b) narrowing the scope to only include investments in which the entity has a purpose or intent to invest for a business partnership or relationship (and excluding investments that were acquired solely for investing purposes).
4. Simplify the requirement for an investor to calculate the dilution gain or loss, share of proceeds, and change in investment balance each time its proportionate ownership in an investee changes.

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

Equity Method of Accounting Discussion Questions

Question 3: Many stakeholders recommended that the Board retain the equity method of accounting and not require all equity method investments to be accounted for under Topic 321. However, some stakeholders suggested that the Board consider permitting entities to *elect* to account for these investments under Topic 321.

a. **All:** Should the FASB consider permitting entities to *elect* to account for equity method investments under Topic 321, which would include the ability to elect the measurement alternative? If so, should this election be available to all equity method investments or limited to certain types of equity method investments (for example, investments in certain industries)? Please explain.

b. **Preparers/Others**: Some stakeholders noted that applying the measurement alternative in Topic 321 would significantly reduce operational challenges and the cost and complexity of accounting for those investments. Other stakeholders noted that applying that alternative may be more costly, complex, and burdensome than applying the equity method. In your experience, is application of the measurement alternative in Topic 321 challenging in practice? If so, what

aspects are the most challenging and what changes could be made to that alternative to improve the operability?

c. **Investors**: Comment letter respondents noted that application of the measurement alternative in Topic 321 to equity method investments would result in investors receiving less information than under current requirements and would introduce significant volatility into financial statements. For these reasons, respondents suggested asking investors what disclosures they would need if equity method investments were accounted for under the measurement alternative.

   (1) Do current financial statements and disclosures provide investors with sufficient decision-useful information necessary to understand the financial effect of equity method investments? What if the entity elects to apply the fair value option to its equity method investment?

   (2) What disclosures would be needed if equity method investments were accounted for under the measurement alternative in Topic 321? How do these differ from the disclosures provided today if the entity elects to apply the fair value option to its equity method investment?

Consolidation of Business Entities

Background

Topic 810, Consolidation, provides guidance for determining whether an entity has a controlling financial interest in another entity and, therefore, is required to consolidate that entity. An entity with a variable interest[8] in another entity must (unless a scope exception applies) consider detailed guidance in Topic 810 to determine which of the two primary consolidation models (the voting interest entity [VOE] model or the variable interest entity [VIE] model) should be applied. At a high level, a VOE is an entity in which control can be conveyed through a majority voting interest. By contrast, a VIE may be controlled through variable interests other than a majority voting interest.

The criteria used to determine if an entity is a VIE or VOE consider whether (1) the entity has sufficient equity investment at-risk; (2) as a group, the holders of equity investment at-risk have the characteristics of a controlling financial interest;[9] and (3) equity investors'

[8] As defined in the Master Glossary of the Codification, *variable interests* are the investments or other interests that will absorb portions of a variable interest entity's (VIE's) expected losses or receive portions of the entity's expected residual returns. Variable interests in a VIE are contractual, ownership, or other pecuniary interests in a VIE that change with changes in the fair value of the VIE's net assets exclusive of variable interests. As noted in paragraph 810-10-25-26, assets and operations of the legal entity typically create the legal entity's variability (and, thus, are not variable interests), and liabilities and equity interests typically absorb that variability (and, thus, are variable interests).

[9] In Topic 810, Consolidation, the characteristics of a controlling financial interest are described in more detail as "the power, through voting rights or similar rights, to direct the activities of a legal entity that most

voting rights are proportional to the economics.[10] An entity lacking any of these characteristics is a VIE.

Generally, under the VOE model, the usual condition for a controlling financial interest is ownership of a majority voting interest.[11] Under the VIE model, a controlling financial interest is assessed differently than under the VOE model. This assessment is different because a controlling financial interest in a VIE may be achieved other than by ownership of shares or voting interests. A controlling financial interest in the VIE model requires both (1) the power to direct the activities that most significantly affect the VIE's economic performance and (2) the obligation to absorb losses of (or the right to receive benefits from) the VIE that could potentially be significant to the VIE.

A reporting entity with a controlling financial interest in a VIE is referred to as the *primary beneficiary*. The reporting entity could be (but is not limited to being) an equity investor, another capital provider (such as a debt holder), or a party with another contractual arrangement (such as a guarantor). However, a VIE may issue voting equity interests, and the entity that holds a majority voting interest may be the primary beneficiary of the VIE.

Additionally, the guidance on related parties differs under the VOE and VIE models. For example, under the VIE model, the primary beneficiary may be identified as an entity in a related party group that, collectively, has the characteristics of a controlling financial interest, even if the individual entity determined to be the primary beneficiary does not have those characteristics on its own.

As part of the 2021 Agenda Consultation, stakeholders provided feedback that applying the guidance in Topic 810 for VIEs is unnecessarily complex and difficult to explain and understand. These respondents recommended that the FASB prioritize a project to consider developing a single consolidation model for business entities. In response to this feedback, in April 2022, the Board removed a project from its technical agenda on reorganizing the consolidation guidance, and the FASB chair added a research project to explore whether a single consolidation model could be developed.

Agenda Consultation ITC Feedback Received

The Agenda Consultation ITC asked stakeholders the following questions related to consolidation of business entities:

> **Question 50:** Should the FASB prioritize a project to develop a single consolidation model? If yes, should the FASB leverage the guidance in IFRS 10, the VIE model, or the voting interest entity model as a starting point? If the FASB should not prioritize a single consolidation model, should the FASB make

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significantly impact the entity's economic performance," "the obligation to absorb the expected losses of the legal entity," and "the right to receive the expected residual returns of the legal entity."

[10] If voting rights are not proportional to economics, it must be considered whether substantially all of the activities of the entity involve or are conducted on behalf of the entity with proportionately few voting rights.

[11] Including, for limited partnerships and similar entities, a majority of a limited partnership's kick-out rights through voting interests.

targeted improvements to better align the current voting interest entity and VIE guidance, including simplifying the determination of whether an entity is a VIE or a voting interest entity? Please explain.

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

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

Challenges Encountered under Current Guidance

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

Many of these stakeholders (and a few that did not support prioritizing changes to the consolidation guidance at this time) highlighted challenges associated with determining whether an entity is a VIE or a VOE under the guidance in Topic 810. These stakeholders noted that the guidance for determining whether an entity is a VIE or a VOE is complex, time consuming, challenging to apply, the source of significant diversity in practice, and can be redundant with the analysis used to determine which entity, if any, is required to consolidate another entity. Some of these stakeholders also indicated that the Board should consider changes to the guidance on determining whether an entity's equity investment at risk is sufficient (which is part of determining whether an entity is a VIE or a VOE). Those stakeholders noted that this requirement was developed as part of a previous iteration of the VIE model that has since been superseded, results in diversity in practice, or could be clarified or improved for early-stage investment companies.

Some stakeholders observed inconsistencies between the guidance in the VIE and VOE models. For example, these stakeholders noted that the models contain similar concepts but different requirements that can result in reporting entities reaching different consolidation conclusions about substantively similar legal entities that are controlled through voting interests, and one of those stakeholders highlighted the potential for structuring opportunities. The differences in requirements that stakeholders highlighted included (1) how decision-making rights are considered, (2) the definitions of participating (veto) rights, (3) the number of entities that need to hold kick-out rights over a decision maker to prevent it from having control, and (4) the consideration of related parties.

Some stakeholders also highlighted challenges associated with the related-party guidance in the VIE model. These stakeholders noted that this guidance is difficult to navigate and apply. Some also observed that the related party guidance can produce

outcomes in which an entity is required to consolidate another entity when it does not have a controlling financial interest on its own (for example, when two related parties share power and one of those related parties is required to consolidate the VIE).

Single Consolidation Model

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

Of the stakeholders that supported a single approach, there was mixed feedback about whether the Board should use IFRS 10, *Consolidated Financial Statements*,[12] or the guidance for determining the primary beneficiary in Topic 810 as a starting point. Some stakeholders that supported leveraging IFRS 10 also noted that, notwithstanding their recommendation of leveraging that guidance, it was not important for the Board to achieve "convergence" as an objective. Some stakeholders also highlighted aspects of IFRS 10 that may be unsuitable in the U.S. context (for example, IFRS 10 does not allow for industry-specific exceptions and would benefit from a more robust principal and agent framework).

Some noted that if the current guidance in Topic 810 for determining the primary beneficiary of a VIE is used in developing a single model, the Board should (1) reconsider the related-party requirements, (2) address future voting rights, and (3) address how kick-out rights would affect the single model.

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

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

1. The current guidance is operational in practice and well understood.
2. There is no pervasive need to justify the scope and cost of such a project. Complex transactions warrant complex accounting guidance, and changing the guidance is unlikely to reduce cost and complexity.

[12] Under IFRS 10, *Consolidated Financial Statements*, an investor controls an investee if the investor has all the following: (a) power over the investee, (b) exposure, or rights, to variable returns from its involvement with the investee, and (c) the ability to use its power over the investee to affect the amount of the investor's returns.

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

Other Suggested Approaches

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

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

Separate from determining which entity has a controlling financial interest, some stakeholders suggested reconsidering or eliminating VIE presentation and disclosure requirements.

Accounting Outcomes

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

However, a few stakeholders identified accounting outcomes that result from the application of the consolidation guidance that are inconsistent with the underlying economics of the transactions. One specific example provided related to the consolidation of VIEs that (1) are bankruptcy remote special-purpose vehicles (SPVs) and (2) issue debt to entities that are not under common control. In this example, the stakeholder

explained that the application of the consolidation guidance results in the primary beneficiary reporting the SPV's debt in its balance sheet even though that debt is not an obligation of the entity. That stakeholder noted that this accounting outcome can provide the appearance that the entity has leverage that it is not obligated to repay, which is inconsistent with the underlying economics of the transaction. Additionally, as discussed above, a few stakeholders identified examples where the consolidation conclusion under the VIE and VOE models differs for entities that are controlled through voting interests and indicated that such outcomes may not be reflective of substantively different economics.

Consolidation for Business Entities Discussion Questions

Question 4 (All): Are there pervasive accounting outcomes resulting from the application of the consolidation guidance that are inconsistent with the underlying economics of the transaction? If so, please provide examples.

Question 5 (All): Stakeholders provided mixed feedback on whether the Board should make significant changes to the consolidation guidance. If the Board were to undertake a consolidation project, what should be its primary objective? For example, should the objective focus primarily on:

a. Reducing costs and complexity

b. Improving the decision usefulness of financial reporting by changing consolidation outcomes

c. Other (and please explain)?

Question 6 (All): Some stakeholders indicated that the Board should consider developing a single consolidation model. What do you think would be the main benefit of a single consolidation model that replaces the separate VIE and VOE models? For example, some of the potential benefits mentioned by stakeholders were that a single model could:

a. Result in guidance that is more similar to the guidance in IFRS 10

b. Address challenges associated with determining whether an entity is a VIE or a VOE

c. Resolve unnecessary differences in application and outcomes between the VIE and VOE models

d. Address challenges encountered in applying the related party guidance for VIEs

e. Other (and please explain).

To what extent do you think these potential benefits could also be achieved through targeted improvements?

AROs

Background

An ARO is an obligation associated with the retirement of a tangible long-lived asset that may result from the acquisition, construction, development, and/or normal operation of that asset (such as oil refineries, pipelines, and wells). Stakeholders noted that AROs are common in oil and gas, mining, utilities, and nuclear energy industries and industrial sectors such as cement and chemicals.

Subtopic 410-20, Asset Retirement and Environmental Obligations—Asset Retirement Obligations, states that an entity should recognize the fair value of a liability for an ARO in the period in which it is incurred if a reasonable estimate of fair value[13] can be made. If a reasonable estimate of fair value cannot be made in the period that the ARO is incurred, the liability should be recognized when a reasonable estimate of fair value can be made. In periods after the initial measurement of an ARO, an entity is required to measure and incorporate changes because of the passage of time and the timing or amount of estimated cash flows. The guidance requires entities to disclose (1) a general description of the ARO and the associated long-lived assets, (2) the fair value of assets that are legally restricted for purposes of settling the ARO, (3) a rollforward of the carrying value the ARO, and (4) if the fair value of an asset retirement obligation cannot be reasonably estimated, that fact and the reasons. Subtopic 410-20 provides additional guidance about uncertainty in performance obligations, the determination of a reasonable estimate of fair value, and examples of instances in which a reasonable estimate of the

[13] For example, paragraph 410-20-55-13 provides the following guidance:

> This implementation guidance illustrates paragraph 410-20-30-1. In estimating the fair value of a liability for an asset retirement obligation using an expected present value technique, an entity shall begin by estimating the expected cash flows that reflect, to the extent possible, a marketplace assessment of the cost and timing of performing the required retirement activities. Considerations in estimating those expected cash flows include developing and incorporating explicit assumptions, to the extent possible, about all of the following:
>
> a. The costs that a third party would incur in performing the tasks necessary to retire the asset
> b. Other amounts that a third party would include in determining the price of the transfer, including, for example, inflation, overhead, equipment charges, profit margin, and advances in technology
> c. The extent to which the amount of a third party's costs or the timing of its costs would vary under different future scenarios and the relative probabilities of those scenarios
> d. The price that a third party would demand and could expect to receive for bearing the uncertainties and unforeseeable circumstances inherent in the obligation, sometimes referred to as a market-risk premium.

fair value of an ARO cannot be made, such as for an asset with an indeterminate useful life.

Agenda Consultation ITC Feedback Received

The Agenda Consultation ITC asked stakeholders the following question related to asset retirement obligations:

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

Twenty-seven stakeholders[14] directly responded to Question 31 or provided general feedback on AROs. Many of the stakeholders identified AROs as a top priority. Most of those were investors and investor advocate groups. Those that identified AROs as a top priority suggested revising recognition and measurement requirements, disclosure requirements, or a combination of those. A few stakeholders were neutral on priority, noting that they would not be opposed if the Board decided to address the topic, while some stakeholders—primarily practitioners—indicated that it is a low priority for the Board to address.

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

Furthermore, stakeholders noted that even when AROs are recognized, there is a lack of disclosure concerning the key assumptions (such as timing of asset retirement, estimated costs for remediation, inflation rate applied to costs, and discount rates) used to measure the AROs. These stakeholders noted that this lack of transparency makes it difficult for investors to compare entities and impairs effective capital allocation. Multiple investors

[14] Additionally, one stakeholder has submitted an agenda request related to this topic that the Board has not yet considered. The feedback for that agenda request has not been incorporated in this memo.

and one investor advocate group stated that entities that report under IFRS Standards often provide more robust disclosure about AROs that they find decision useful.

Stakeholders noted that the measurement guidance (that is, fair value) for AROs does not often align with the ultimate settlement of the obligation because the AROs are often settled through an entity's completion of remediation and not a market transaction. Stakeholders noted that when calculating the fair value of the ARO, entities often incorporate their own nonperformance risk, which results in entities with higher credit risk reporting artificially lower liabilities. This undermines the comparability of financial statements because it permits financially strained entities to report lower liabilities despite greater uncertainty in meeting long-term obligations. Some stakeholders noted that measuring AROs at fair value can be complex and operationally burdensome. But some of those stakeholders that noted this was a low priority stated that fair value is a sufficient measurement method because (1) it is used for the measurement of other liabilities and (2) if applied appropriately, it should appropriately reflect the final settlement of a liability.

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

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

1. Limit an entity's ability to not recognize an ARO to rare situations. In those rare situations when an asset has an indeterminate life, the entity should be required to disclose (a) the nature of the ARO, (b) the rationale for not recognizing the ARO, and (c) the potential magnitude of the unrecognized AROs (for example, providing a range of possible outcomes).
2. Eliminate the guidance on indeterminate useful life.
3. Require an entity to disclose the assumptions (for example, timing of asset retirement, estimated costs for remediation, inflation rate applied to costs, and discount rates) used to measure AROs.
4. Change the measurement requirements from fair value to the best estimate of expected costs to fulfill the obligation.
5. Require no discounting or require an entity to use a discount rate that incorporates a risk-free rate instead of its own credit quality.
6. Provide industry-specific guidance for sectors with significant AROs.

AROs Discussion Questions

Question 7 (All): Stakeholders provided mixed feedback on whether the Board should make improvements to the financial reporting for *unrecognized* AROs. If the Board were to undertake an ARO project, what issues or potential solutions should the FASB prioritize? For example, stakeholders suggested the following:

(a) Change the recognition criteria to limit unrecognized AROs to rare situations or to eliminate the guidance on indeterminate useful life.

(b) Require more disclosures about unrecognized AROs (such as a range of possible outcomes).

Question 8 (All): Stakeholders also provided feedback on improvements to financial reporting for *recognized* AROs. If the Board were to undertake an ARO project, what issues or potential solutions should the FASB prioritize? For example, stakeholders suggested the following:

(a) Change the measurement requirements (to the best estimate of expected costs, to eliminate discounting, to require a risk-free rate, or otherwise).

(b) Require more disclosures about recognized AROs (such as key assumptions used to measure an ARO).

Distinguishing Liabilities from Equity

Background

Subtopic 815-40, Derivatives and Hedging—Contracts in an Entity's Own Equity, provides guidance for determining whether freestanding instruments and embedded features are indexed to (the "indexation guidance") and potentially settled in (the "settlement guidance") an entity's own stock. Subtopic 815-40 also includes guidance and illustrative examples to help an entity evaluate whether those contracts can be excluded from derivative accounting. The outcome of this evaluation can affect whether an embedded feature is recognized separately as a derivative and how a contract is classified (as a liability or as equity), subsequently measured, and disclosed. For example, if a contract is required to be accounted for as a derivative, it must be measured at fair value, with changes reported in earnings each period.

Agenda Consultation ITC Feedback Received

The Agenda Consultation ITC asked stakeholders the following questions related to distinguishing liabilities from equity:

> **Question 13:** If the FASB were to make targeted improvements to the liabilities and equity guidance in Subtopic 815-40, would you support those changes if they significantly changed current financial reporting outcomes? For example, would you support accounting for more contracts indexed to an entity's own equity as equity as compared with today? Please explain.
>
> **Question 14:** What targeted improvements, if any, to the liabilities and equity guidance in Subtopic 815-40 should the FASB consider making? For example, should the improvements focus on the indexation guidance in the Scope and Scope Exceptions Section of Subtopic 815-40, the

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

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

Many stakeholders that identified distinguishing liabilities from equity as a top priority or supported changes noted that the guidance in Subtopic 815-40 (1) is challenging and costly to apply and is a frequent reason for financial statement restatements and (2) can result in outcomes that are difficult for users to understand and are diverse in practice, inconsistent, and counterintuitive.

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

1. Current guidance is sufficiently clear, and practice has been developed on how to analyze complex instruments.
2. Current guidance generally results in appropriate outcomes.
3. There is a high risk for unintended consequences with a broad scope project because of the complexity of the current guidance.
4. Liabilities and equity is a conceptual topic that has been debated for a long time without a satisfactory solution.

Changes in Financial Reporting Outcomes

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

1. Liability classification can be highly judgmental and costly because it requires estimating fair value. More equity-classified contracts would simplify the accounting for those instruments.
2. The income statement volatility that results from the changes in fair value of equity-linked financial instruments does not provide decision-useful information. More equity-classified contracts would provide more transparent financial reporting.

Several stakeholders identified certain share-settleable instruments that they indicated, in their view, should be equity classified but are liability classified under current guidance. For example, one stakeholder identified several instruments, including (1) warrants in

which certain terms of the warrants change upon a transfer of the warrants to another party (such as warrants issued by a special-purpose acquisition company) and (2) warrants in which inputs to the calculation of the settlement amount to offset the effect of a fundamental transaction (such as a merger announcement) are specified in the agreement (such as a "greater of" share price calculation and floor for the volatility input).

Targeted Improvements

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

A few stakeholders noted that the Board should include Topic 480, Distinguishing Liabilities from Equity, as part of a more comprehensive project that provides guidance for how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity. Additionally, some stakeholders urged the Board to consider codifying the temporary equity guidance from ASR No. 268, *Presentation in Financial Statements of "Redeemable Preferred Stocks*",[15] and potentially make targeted improvements to that guidance to align with other GAAP.

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

Indexation Guidance

Almost all the stakeholders that identified liabilities and equity as a top priority noted that the indexation guidance in the Scope and Scope Exceptions Section of Subtopic 815-40 should be prioritized. For example, one stakeholder noted that the current indexation guidance does not contemplate the intention or probability of potential settlement adjustments, which can lead to financial reporting outcomes that do not align with the most likely settlement outcome for the instrument. Another stakeholder noted that it is often unclear to practitioners (1) whether commonly observed adjustments are consistent with the inputs to the fair value of a fixed-for-fixed forward or option on equity shares or (2) how they should consider the interaction of those inputs with certain settlement features (such as a share price input that has a cap or a floor) that can have the effect of introducing leverage. This stakeholder further noted that, in most cases, the complexity stems from the evaluation of adjustments that either are not expected to occur or, if they occur, would have an insignificant impact on the overall settlement value of the instrument.

[15] ASR No. 268, *Presentation in Financial Statements of "Redeemable Preferred Stocks"*, requires equity instruments with redemption features that are not solely within the control of the issuer to be classified outside of permanent equity (often referred to as classification in "temporary equity").

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

1. **Require an entity to disregard variables that are not extraneous.** Several stakeholders suggested exploring a model that would generally permit instruments to be equity classified as long as settlement adjustments are affected by variables that are not extraneous to the entity or the valuation of an equity instrument, such as the entity's own stock or an option or forward on the entity's own shares. Although these stakeholders provided different variations of this type of model, the underlying premise of these models focused on variables that are extraneous, which they view as less prescriptive than current guidance, and that would result in more equity-classified instruments. One stakeholder that provided this approach noted that this evaluation could be performed in the overall context of the contract and would focus the required analysis on the nature of the adjustment, rather than on the specifics of how the adjustment is calculated.
2. **Require an entity to disregard features that (a) have a remote likelihood of occurring or (b) do not have a predominant impact on the contract's overall settlement amount.** Under this approach, contracts with features that have a remote likelihood of occurring or that do not have a predominant impact on the contract's overall settlement amount would not be precluded from equity classification. One stakeholder noted that this approach could improve the operability of the guidance when there are new market developments. Another stakeholder suggested considering only those features that are expected to result in an adjustment to the settlement amount that is more than insignificant to the overall fair value of the contract.
3. **Account for certain adjustments to the settlement amount as a deemed dividend, like a downround provision.** Under this approach, certain adjustments to the settlement amount of an instrument issued by an entity would be treated similarly to a downround provision and, therefore, would not result in liability classification. Rather, the impact of the adjustment would be accounted for as a deemed dividend if and when the adjustment is triggered.

The indexation guidance is a two-step process that involves evaluating the feature's (1) contingent exercise provisions ("Step 1") and (2) settlement provisions, including any adjustments to the settlement amount ("Step 2"). A few stakeholders encouraged the Board to focus on only changing Step 2 of the indexation guidance, while a few stakeholders suggested combining the two steps. Other stakeholders did not specify if the focus should be on Step 1, Step 2, or both.

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

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

2. Add exceptions for certain adjustment provisions, such as those that are within an entity's control and those that are contingent but not probable of occurring.
3. Remove the requirement to consider whether an adjustment affects the settlement value on a leveraged basis.
4. Clarify whether an entity's decision to increase settlement amount variability to a particular input to reduce the effects of that input on the instrument's overall fair value should prevent the instrument from being considered indexed to the entity's own stock.
5. Require an entity to disregard "nominal, protective provisions" when assessing indexation (consistent with the scope of Topic 718, Compensation—Stock Compensation, for contracts that are indexed "at least in part" to the price of the entity's shares or other equity instruments, for example).

Settlement Guidance

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

1. **Add a threshold to the evaluation.** For example, for contracts with net cash settlement provisions that are triggered only when an event occurs, such as a fundamental transaction, incorporate a model similar to Topic 718 under which a contract would not be classified as a liability until it is probable that it would be settled in cash. As another example, one stakeholder suggested that an entity disregard a settlement provision unless the contingency that triggers the settlement provision is more-likely-than-not to occur.
2. **Disregard certain events.** For example, disregard certain common settlement provisions that trigger net cash settlement, such as cash settlement upon a change of control transaction or a business combination.
3. **Eliminate the additional conditions necessary for equity classification in paragraph 815-40-25-10.**

However, other stakeholders noted that the Board does not need to focus on amending the settlement guidance at this time. One stakeholder noted that since the implementation of the amendments in Accounting Standards Update No. 2020-06, *Debt—Debt with Conversion and Other Options (Subtopic 470-20) and Derivatives and Hedging—Contracts in Entity's Own Equity (Subtopic 815-40): Accounting for Convertible Instruments and Contracts in an Entity's Own Equity*, which simplified the settlement guidance, there have been fewer challenges in applying that guidance. Furthermore, this

stakeholder noted that if the Board pursues a project that addresses the settlement guidance, it should also consider the impact of different forms of settlement more holistically (considering both Topic 480 and the SEC's guidance on temporary equity) because the considerations about form of settlement are more pervasive. Another stakeholder stated that the ultimate impact of the changes to the settlement guidance may be limited because of the SEC's temporary equity guidance for public companies.

Other Suggestions

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

1. Remove double and triple negative phrases from the guidance because they are difficult to understand and apply.
2. Use simpler and easier-to-understand language for the classification of equity contracts and the evaluation of embedded conversation features.
3. Allow simple agreements for future equity (SAFE) instruments and economically similar arrangements, such as bridge loans, to be equity classified by adding a scope exception.
4. Explore a simpler approach to bifurcation similar to the Board's approach in Update 2020-06.
5. Revisit the current and noncurrent balance sheet presentation guidance for both equity-linked and debt instruments.
6. Clarify how to account for contingently issuable warrants before their issuance.
7. Adopt strict definitions of liabilities and equity and require hybrid instruments that do not meet either definition to be presented separately on the balance sheet with extensive disclosures.
8. Allow any instrument to be classified in equity, unless it is directly settleable in cash.
9. Require enhanced disclosures about the potential adjustment to an instrument's settlement amount.

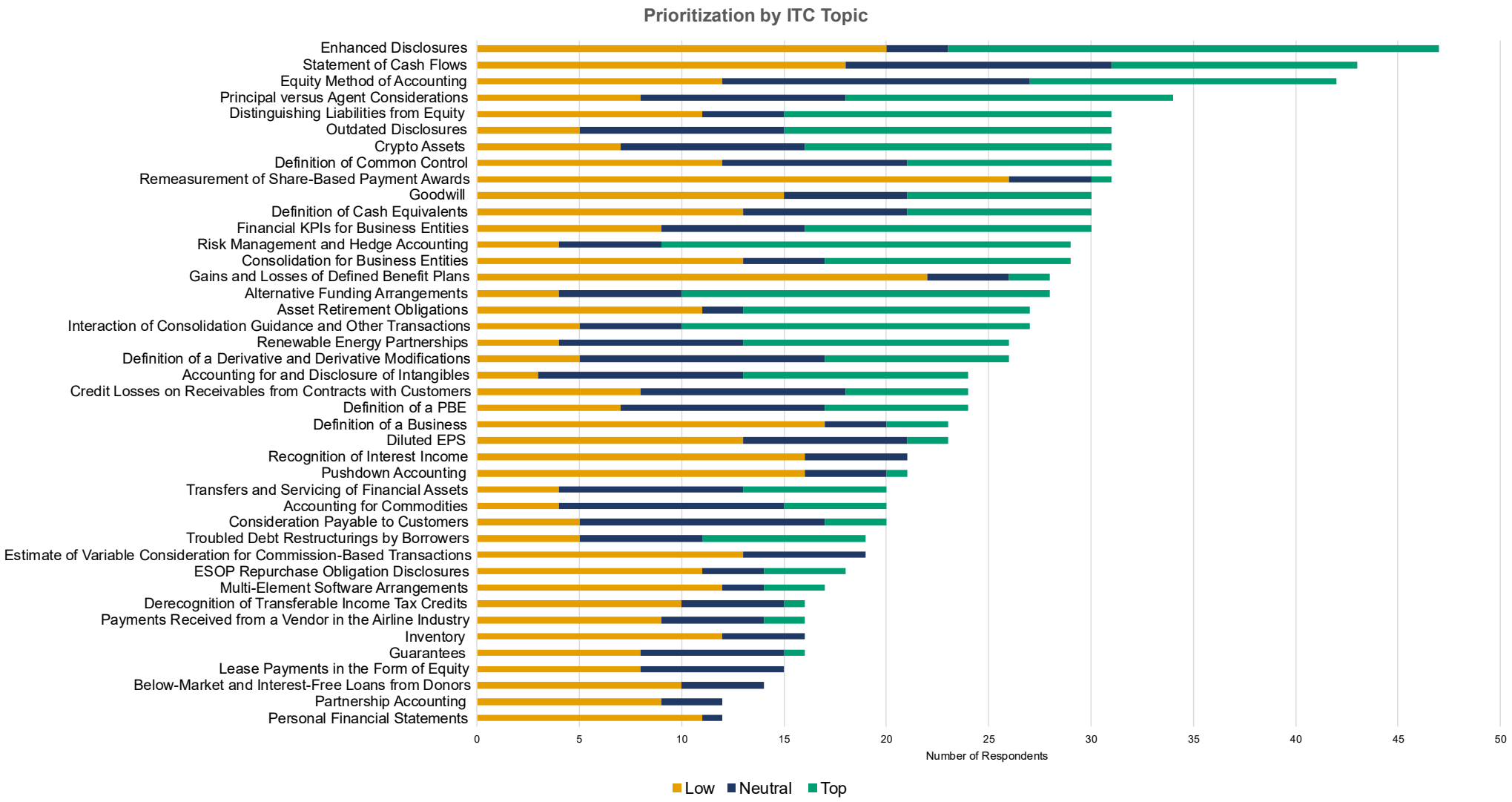
Distinguishing Liabilities from Equity Discussion Questions

Question 9 (Investors): Several stakeholders noted that certain share-settleable instruments[16] are required to be classified as liabilities because of terms that apply only in unlikely scenarios (for example, upon a fundamental change). Some also observed that the resulting income statement volatility is not decision useful. If these instruments were to be classified in equity instead, what additional disclosures would be needed to provide investors with sufficient decision-useful information?

[16] Such as, an instrument that may be settled in cash or shares.

Question 10 (Preparers/Practitioners): Stakeholders provided feedback on various aspects of Subtopic 815-40. Some focused on the guidance for determining whether an instrument is considered indexed to an entity's own stock, while others addressed the guidance for assessing whether an instrument is classified in stockholders' equity in the statement of financial position, a determination that depends on the form of settlement (if the instrument will settle in cash or shares). Should the Board prioritize one of these areas or address all issues related to Subtopic 815-40 together, and why? Please explain.

Appendix A: Prioritization by ITC Topic



FASAC FINANCIAL ACCOUNTING STANDARDS ADVISORY COUNCIL

ATTACHMENT 3

EFFECTS OF THE USE OF TECHNOLOGY ON STANDARD SETTING
FINANCIAL ACCOUNTING STANDARDS ADVISORY COUNCIL
SEPTEMBER 18, 2025

One of the broad strategic areas that FASAC has had a continuing interest in discussing is the potential impact of the use of technology on standard setting and financial reporting. The objective of this discussion is to seek Council members' observations about how technology should be considered by the FASB—specifically, how technology could affect future standard setting, including the current and future accounting and disclosures and the Board's analysis of the expected costs and expected benefits.

Discussion Questions

Question 1: Current and Future Accounting and Disclosures

What should the FASB be aware of or continue to monitor in considering current and future accounting and disclosure requirements? For example:

a. **(All)** Is there current accounting guidance that is outdated and should be improved, given changes in technology and the evolution of business?
b. **(Investors):**
    - How does technology affect the volume or nature of disclosure requirements needed in generally accepted accounting principles (GAAP) financial statements?
    - Will technology reduce investors' consideration of the financial statements and notes as a whole and increase investors' focus on excerpts and summaries of descriptive and numerical financial statement data? If so, could those excerpts and summaries help identify the most critical and least critical disclosures?
    - Do advances in technology increase, decrease, or have no effect on the need for structured financial statement data?
c. **(Preparers/Practitioners):** How does technology affect the costs associated with accounting and disclosure?

Question 2: Technology Investments in Financial Reporting and Financial Analysis

a. **(Preparers/Practitioners):** How have investments in technology in the past three years changed companies' preparation of financial statements? What investments

or changes in technology are expected in the next three years? Does the current state or expected future state vary significantly across entities?

b. **(Investors):** How have investments in technology in the past three years changed the use/consumption of the information in the financial statements by investors? What investments or changes in technology are expected in the next three years? Does the current state or expected future state vary significantly across entities?

Question 3: Expected Benefits and Expected Costs in Standard Setting

What should the FASB be aware of (or do) in considering the relationship that technology has with the expected benefits and expected costs of potential future changes in standard setting (including recognition, measurement, disclosure, presentation, and transition)? For example:

a. ***Costs.*** Does technology allow companies to create data that are more accessible, higher quality, or more granular (for example, in financial planning and analysis)? How does/will technology affect the magnitude or the nature of the costs to provide certain information in the financial statements?
b. ***Judgments.*** How is technology deployed in accounting areas that require significant judgment (for example, level three fair value measurement)? Should future accounting and disclosure requirements necessitate less judgment so that the related information can be more easily automated and processed?
c. ***Technological Capabilities.*** When setting financial accounting standards, how should the FASB consider the expected costs and expected benefits for companies/investors with the most advanced and least advanced technology capabilities?
d. ***Other.*** Are there any other implications of technology for the financial reporting environment that the FASB should be aware of?

Question 4: Learning and Research

What should the FASB be aware of (or do) in considering the changes in the advancement in technology, skills, and education? For example:

a. How is technology being used and taught in academic settings?
b. How is the Codification being used and how should advances in technology be considered in preparing and maintaining the Codification (for example, the appropriateness of AI overlays)?

FASAC FINANCIAL ACCOUNTING STANDARDS ADVISORY COUNCIL

ATTACHMENT 4

POST-IMPLEMENTATION REVIEW—CECL
FINANCIAL ACCOUNTING STANDARDS ADVISORY COUNCIL
SEPTEMBER 18, 2025

Session Background and Objective

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

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

The purpose of this session is to provide Council members with an overview of the history of the credit losses project that led to the issuance of Accounting Standards Update No. 2016-13, *Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments* (CECL), and significant PIR activities performed to date. This includes information about why the FASB launched a project on credit losses following the global financial crisis in 2007.

In this session, FASAC members will be asked to provide insights and observations on the Board's activities during the credit losses project, certain aspects of initially applying the guidance, and the benefits and costs of the ongoing application of the CECL standard.

Structure of these Materials:

These materials are organized as follows:

- Section 1: History of the Credit Losses Project
- Section 2: Expected Benefits and Expected Costs

Discussion questions are included on page 13.

Section 1: History of the Credit Losses Project

Prior to CECL, credit impairment of financial assets carried at amortized cost was recognized using the *incurred loss* accounting model in Subtopic 450-20, Contingencies—Loss Contingencies. A credit loss was accrued in the financial statements as an incurred loss (credit loss expense) when the loss was *probable* and *reasonably estimable* based on information available as of the balance sheet date.

The incurred-loss model was criticized for delayed recognition of credit losses, commonly referred to as "too little, too late." An entity could have had a reasonable expectation of future losses that were not reflected in its financial statements because the likelihood of loss was not yet probable. Diversity also existed in the application of the "probable" threshold and the indicators for when it had been reached. The combined effect of delayed recognition and diversity in practice resulted in a misalignment between accounting standards and the market's perception of credit risk, most evident during periods of economic stress when equity valuations by market participants incorporate loss assumptions for amounts not yet reflected in an entity's book value.

In October 2008, as part of a joint approach to dealing with the reporting issues arising from the global financial crisis, the FASB and the IASB created the Financial Crisis Advisory Group (FCAG). FCAG considered how improvements in financial reporting could enhance investors' confidence in financial markets. In its report issued on July 28, 2009, FCAG identified delayed recognition of losses associated with loans (and other financial instruments) and the complexity of multiple impairment approaches as primary weaknesses in accounting standards and application of those standards. FCAG recommended exploring alternatives to the incurred loss model that would use more forward-looking information because the incurred loss model delays recognition of credit losses until it is probable a loss has been incurred.

2010 Proposed Update

In May 2010, the FASB issued the proposed Accounting Standards Update, *Accounting for Financial Instruments and Revisions to the Accounting for Derivative Instruments and Hedging Activities—Financial Instruments (Topic 825) and Derivatives and Hedging (Topic 815)*, which included proposals on classification and measurement, credit impairment, and hedge accounting. Regarding credit impairment, the objective of the amendments in the 2010 proposed Update was to ensure that the allowance balance reflected all estimated credit losses for the remaining life of a financial instrument. To accomplish that objective, the FASB proposed that an entity should measure credit impairment when the entity does not expect to collect all contractual amounts due. The

credit loss would not need to be considered “probable” to be recorded under the amendments in the 2010 proposed Update. Rather, an entity would measure expected credit losses assuming that the economic conditions existing at the reporting date would remain unchanged for the remaining life of the financial assets. Additionally, interest income would be recognized by applying the effective interest rate to the amortized cost basis net of any allowance for credit losses.

The Board performed extensive outreach to obtain feedback on the 2010 proposed Update from all stakeholders, including investors, preparers, auditors, and regulators. Stakeholders provided feedback through public comment letters, investor questionnaires, field visits with preparers, in-person meetings, and public roundtable meetings. More than 2,800 comment letters were received and posted on the FASB’s website. Approximately 2,000 of those comment letters were submitted by banking institutions. The Board and staff completed eight field visits with various entities to discuss the operability and the costs and benefits. Field visit participants included banking institutions of various sizes, nonfinancial entities, and an insurance company. The Board and staff received feedback from 120 investors employed by more than 60 firms through in-person meetings and calls with individual investors and groups of investors representing a variety of perspectives. Investors included buy-side analysts employing long-only and long-short strategies, sell-side analysts specializing in either the bank- or insurance-related sectors, as well as analysts from ratings agencies. The Board and staff also received feedback through 5 public roundtable meetings held with more than 65 participants, including investors, preparers, regulators, auditors, and others representing various perspectives.

Many respondents to the 2010 proposed Update agreed with recording the entire credit loss in the period estimated. Furthermore, superseding the probable threshold for recognizing credit losses was widely supported. Many investors noted that the probable threshold that had existed for recognizing credit losses prevented financial institutions from recognizing credit losses that were imminent in 2007 and 2008. While most stakeholders supported the objective of a single impairment model, some asserted that the 2010 proposed Update retained three different impairment models (that is, one for pools, one for individual assets, and one for purchased assets). Additionally, stakeholders expressed concern about the requirement to assume that economic conditions as of the reporting date would remain unchanged in the future because it would limit the information that is considered to past events and current conditions. Respondents noted that restricting the ability to include future conditions would generate significant volatility in the income statement and the amount of reserves would be procyclical (overstated reserves at the trough of a cycle and understated reserves at the peak of a cycle) and, thus, could have severe, unfavorable effects on the overall economy.

Finally, stakeholders (including investors) opposed the proposal that interest income

should be recognized on the basis of applying the effective interest rate to the amortized cost basis net of any allowance for credit losses, preferring instead to maintain the approach in then-current generally accepted accounting principles (GAAP) that measures interest income and credit losses separately. Many of those respondents stated that the primary issue is delayed recognition of impairment losses in net income as opposed to the interest recognition model. Respondents noted that the model in the 2010 proposed Update would decrease transparency to investors because investors generally wanted interest income and net interest margin based on the effective interest method with credit losses reported separately. Investors stated that the proposal would negatively affect their abilities to analyze net interest margin, a key metric for analysis of a financial institution's performance. Many investors stated that the interest income model would make many products look the same based on their reported yields because products that have a high effective contractual interest rate due to credit would reflect a similar net interest margin as that of products with a lower rate and little expected credit losses. Therefore, investors stated that interest income recognition that reflects an effective interest rate based on the contractual terms gives investors an indication of the risk characteristics of the underlying asset.

2011 Supplementary Document

In redeliberating its original impairment proposal, the FASB issued a Supplementary Document, *Accounting for Financial Instruments and Revisions to the Accounting for Derivative Instruments and Hedging Activities—Impairment,* in January 2011. The 2011 Supplementary Document was a variant of the 2010 proposal and would have eliminated any initial recognition threshold but introduced two different measurement objectives for the credit impairment allowance. For the "good book" (or performing loans), an entity would have recorded the higher of the time-proportionate expected credit loss or credit losses expected to occur within the foreseeable future (in other words, expected credit losses would be ratably recognized to better align with the credit-risk compensation embedded in the coupon accrual). For the "bad book" (or nonperforming loans), an entity would have recorded the entire amount of expected credit losses. An asset would have transferred from the good book to the bad book when the collectibility of a financial asset became so uncertain that the entity's credit risk management objective changed from receiving the regular payments from the debtor to recovery of a portion of the financial asset.

The Board received more than 200 comment letters in response to the 2011 Supplementary Document. The FASB staff also performed extensive outreach with preparers, regulators, auditors, investors, and other interested parties during the comment period. Generally, preparers and auditors supported the development of an impairment model that would address the "too little, too late" concern. The procyclicality

of reserving also was an overriding concern of those stakeholders. Furthermore, they supported moving away from the "probable" threshold that was required to recognize credit losses. Many respondents to the 2011 Supplementary Document indicated that the condition for when to transfer an asset between the good book and the bad book needed to be further refined for the proposed amendments to be operable. Some suggested that a bright line be established to promote consistent application. Many preparers and auditors noted that without stronger definitions of the important terms, the model would not be operable, auditable, or understandable, and comparability would not be achieved. Additionally, respondents said that the concept of "foreseeable future period" was vague and could lead to counterintuitive results (such as the foreseeable future being shortened during a downturn in the economy, thereby potentially decreasing the credit impairment allowance overall). Finally, many nonfinancial institutions stated that they do not manage their financial assets in the same way as financial institutions and, therefore, they found the good book and the bad book proposal unfamiliar and inconsistent with their current practices. In addition, preparers argued that reporting credit losses in a ratable fashion would not reflect actual loss experience; noting that the credit risk is greatest at origination and tapers down over the life of the asset. Those preparers also argued that ratably recognizing expected credit loss would not address the objective of addressing "too little, too late."

Leveraging the feedback received from June 2011 through July 2012, the FASB developed a "three bucket" impairment model. Similar to the model in the 2011 Supplementary Document, the three-bucket model would have eliminated any initial recognition threshold but utilized two different measurement objectives for the allowance for credit losses, depending on the extent of credit deterioration (or recovery) since origination or acquisition. For Bucket 1, an entity would have recorded an allowance for credit losses equal to 12 months of expected credit losses (sometimes referred to as "12 months of expected losses"). For Bucket 2 and Bucket 3, an entity would have recorded all lifetime expected credit losses. Bucket 2 would have included financial assets evaluated collectively. Bucket 3 would have included financial assets evaluated individually. Based on decisions reached through July 2012, an asset would "transfer" from Bucket 1 to Bucket 2 (or Bucket 3) when both (1) there has been a more-than-insignificant deterioration in credit quality and (2) it is at least reasonably possible that some or all of the cash flows may not be collected.

While developing application guidance for the three-bucket model, the Board received requests to clarify a number of principles in the model, including the Bucket 1 measurement objective and the "transfer criteria" that trigger a change in the measurement of credit losses. Many stakeholders viewed the proposed transfer criteria as reintroducing an incurred loss recognition threshold for a full lifetime loss estimate. From April 2012 through July 2012, the FASB staff and individual Board members held

detailed working sessions with stakeholders (including investors, preparers, auditors, and regulators) to address the application issues through additional clarifying guidance. Despite those efforts, stakeholders continued to express significant concerns about whether the three bucket impairment model was operable, auditable, and understandable. The most significant operability concerns related to the use of two different measurement objectives—a portion of total expected losses for some assets and a full measurement approach for assets that have exhibited significant deterioration since origination or acquisition. Concerns were raised about (1) the ambiguity of the criteria for determining which measurement objective to utilize, (2) the potential for earnings management relating to the timing of the transfers between measurement objectives, and (3) the potential "cliff effect" of moving from an approach that measures a portion of total expected losses for some assets to a full measurement approach, and vice versa. Many stated that the model would result in inconsistent application and would not provide investors with comparable or transparent results. Furthermore, investors expressed concern about interpreting any model that utilizes two different measurement objectives to arrive at the allowance for credit losses recognized on the balance sheet.

2012 Exposure Draft

As a result of the pervasive feedback from stakeholders about the three-bucket model, in July 2012, the Board decided to revisit some previous tentative decisions on the impairment project, primarily relating to the use of two different measurement objectives. In doing so, the Board developed the current expected credit loss (CECL) model that retained certain concepts from the previously proposed credit loss models that were sound, while at the same time avoiding other concepts that stakeholders considered complex, inoperable, or otherwise problematic. The Board exposed this single measurement objective model for public comment in December 2012 with the issuance of its proposed Accounting Standards Update, *Financial Instruments—Credit Losses (Subtopic 825-15)*.

The Board received significant input on the December 2012 proposed Update through comment letters and through direct outreach with numerous preparers, auditors, and investors. Since redeliberations began in July 2013, the Board received more than 360 comment letters. It also obtained feedback through investor meetings with more than 70 analysts and investors. In addition, the Board conducted 17 field visits with preparers (including multinational and domestic, financial and nonfinancial, and public and private institutions). The Board held various roundtables with preparers, investors, and regulators; and outreach was performed with 265 preparers, of which approximately 60 percent were small banks or credit unions. The Board considered this feedback during its redeliberations at public meetings held in 2013, 2014, 2015, and 2016. Topic 326, Financial Instruments—Credit Losses, is the result of those redeliberations.

Basis for the Board's CECL Decisions (Update 2016-13, June 2016)

The Board decisions in CECL are consistent with the decisions reached in Accounting Standards Update No. 2016-01, *Financial Instruments—Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities*. The amendments in Update 2016-01 require that equity securities be measured at fair value, with changes in fair value included in net income in the period of the change, except for investments in consolidated subsidiaries and those that qualify for the equity method of accounting. The Board placed weight on the fact that equity securities have no maturity and that the primary way to realize their total value (beyond periodic dividends) is through sale. Thus, an entity is not required to record credit losses from other changes in fair value for these instruments because value ultimately is realized through sale (that is, the entity will not realize value only by collection). The same measurement attribute applies to all trading securities since value is expected through sale, and any credit losses are reflected through changes in fair value recorded in earnings. For this reason, financial instruments classified as trading and equity securities do not require a separate credit loss model.

Financial assets recorded at amortized cost, including loans and debt securities classified as held-to-maturity, are recorded at their amortized cost basis because under the measurement approach in Update 2016-01, an entity represents that the total value of the financial asset is expected to be realized through collection of the amortized cost basis. For these assets, changes in fair value from non-credit-related factors do not affect the collection of the amortized cost basis. However, changes due to credit-related factors would affect collection of the amortized cost basis. Therefore, a credit loss measurement to reduce the carrying value of these assets to the amount expected to be collected reflects the value expected to be realized for these assets. The Board noted that measurement of those assets at the amount expected to be collected, which may be different from fair value, is necessary for these assets because collection of the amortized cost basis is the economic phenomena that this measurement attribute is intended to reflect. Additionally, in developing the CECL model, the Board considered feedback from investors that presentation of interest income separate from credit losses provides more relevant information. The Board concluded that the economics of lending are faithfully represented under this approach because entities manage loans on a collective basis where the interest income recognized on good loans over time offsets the credit losses of bad loans that are commonly frontloaded.

The Board acknowledged that available-for-sale debt securities are recorded at fair value with changes in fair value included in other comprehensive income because under the measurement approach in Update 2016-01, an entity represents that it may realize the total value of the securities either through collection or through sales of the securities. For these assets, a credit loss model is required to recognize in earnings any changes in fair

value due to credit-related factors because those losses are expected to be realized regardless of whether the entity will realize value through collection or through sale. However, the Board decided that an allowance for credit losses on available-for-sale debt securities should be limited by the amount that fair value is less than amortized cost because an entity can sell its investment at fair value to avoid realization of credit losses.

Stakeholders provided extensive feedback on whether the credit loss measurement for performing assets should differ from the credit loss measurement for assets that exhibited credit deterioration. Some stakeholders stated that the credit losses that an entity anticipated at acquisition or origination should be recorded in a pattern similar to the recognition of the related revenue (that is, interest income) on the basis that this compensates the entity for undertaking this risk. Those individuals often support a proportionate or time-based approach to recording credit losses or noted that no credit losses should be recorded until credit deterioration has occurred. Others stated that instruments measured using an amortized cost measurement attribute should be reflected in the balance sheet at each reporting date at an amount that reflects the present value of cash flows expected to be collected, discounted at the original effective interest rate. They noted that for instruments measured at amortized cost, it is potentially misleading to investors to allow the balance sheet to reflect an amount greater than the amount expected to be collected.

The Board observed that expected credit losses could be recorded up-front, over time, or when the loss is realized, but the amount of credit loss reported in the income statement over the life of the asset is ultimately the same. Given the multitude of factors that affect pricing, it is impractical (if not impossible) to reliably isolate and measure the portion of the credit spread intended to compensate a lender for undertaking the credit risk from the portion of the credit spread that results from these other factors (particularly because credit losses rarely emerge in a linear fashion and, therefore, the portion of the credit spread compensating the lender for undertaking the credit risk may change over time). As a result, the Board concluded that it is impractical to report credit losses ratably over time by linking recognition with the compensation paid to the lender (interest) for undertaking that risk.

The Board considered retaining an initial recognition threshold (such as probable) for recording credit losses but concluded that the model for recording credit losses should not be based on a notion of “incurred” losses because it would interfere with the timely measurement of changes in expected credit losses and the reporting of credit losses since credit losses can be expected before they are probable (as that term is used in Topic 450, Contingencies) of occurring (or have occurred). Similarly, an entity should not automatically conclude that there are no expected credit losses simply because all of the amounts due have been received to date. The Board concluded that it is misleading to

investors to allow the balance sheet to reflect an amount greater than the amount expected to be collected for instruments measured using amortized cost. The Board also concluded that at each reporting date, the net amortized cost balance in an entity's balance sheet should reflect the amount expected to be collected.

The Board acknowledged that any approach to estimating the collectibility of financial assets is subjective. CECL permits entities to estimate expected credit losses using various methods because, in the Board's view, entities manage credit risk differently and should have flexibility to best report their expectations, recognizing that different methods may result in a range of acceptable outcomes. Because entities may have different levels of sophistication, the Board did not prescribe one type of methodology for measuring expected credit losses for financial assets measured at amortized cost. Different parties using different methodologies do not make a particular estimate unreasonable. While the range of reasonable outcomes is not unlimited, the Board concluded that it is rare that there will only be one acceptable choice in estimating credit losses. Estimates of credit losses may not precisely predict actual future events and, therefore, subsequent events may not be indicative of the reasonableness of those estimates.

Subsequent Activities

Transition Resource Group and Other FASB Staff Implementation Materials

The Board created a Transition Resource Group (TRG) to assist with potential issues arising from the implementation of CECL. The TRG monitored and supported implementation efforts by discussing several issues submitted by stakeholders between April 2016 and January 2019. Implementation issues were summarized in a detailed memorandum and discussed by TRG members at a public meeting. A playback of TRG meetings and memorandums are available to stakeholders on the Board's website.

Additionally, following the issuance of CECL, the FASB staff received questions on acceptable, practical methods to measure expected credit losses. Specifically, questions were about (1) whether the weighted-average remaining maturity (WARM) method was appropriate for smaller, less complex pools of assets and (2) using historical loss experience and reasonable and supportable forecasts to estimate expected credit losses. In response, FASB Staff Q&A—Topic 326, No.1[1] was issued in January 2019 and FASB Staff Q&A—Topic 326, No. 2[2] was issued in July 2019 to support ongoing implementation efforts by practice.

[1] FASB Staff Q&A—Topic 326, No. 1, *Whether the Weighted-Average Remaining Maturity Method Is an Acceptable Method to Estimate Expected Credit Losses*

[2] FASB Staff Q&A—Topic 326, No. 2, *Developing an Estimate of Expected Credit Losses on Financial Assets*

2019 and 2021 Roundtables

In January 2019, the FASB hosted a public roundtable meeting to gather views on (1) a proposal submitted to consider an alternative approach to presenting expected credit losses on the income statement and (2) whether gross writeoffs and gross recoveries should be presented in the credit quality disclosures. Participants represented a variety of stakeholders from 23 different organizations, including 4 large financial institutions, 4 mid-sized financial institutions (representing those who submitted the alternative proposal), 3 small financial institutions, 4 investment firms/investor associations, 3 audit firms, and 5 regulatory agencies.

In May 2021, the FASB hosted a public roundtable to discuss issues and concerns with (1) the accounting for purchased financial assets with credit deterioration (PCD) and non-PCD assets and (2) the accounting for troubled debt restructurings (TDRs) by creditors. Participants represented a variety of stakeholders from 30 different organizations, including 4 analysts (buy-side and sell-side), 13 banks, 2 insurers, 5 prudential regulators, and 6 accounting firms.

Standard Setting

On the basis of feedback provided through the TRG, public roundtables, and other outreach with stakeholders, the Board has undertaken several standard-setting projects to improve or clarify the CECL guidance. Those include:

1. Accounting Standards Update No. 2019-11, *Codification Improvements to Topic 326, Financial Instruments—Credit Losses.* The amendments in Update 2019-11 represented clarifications, error corrections, or improvements to the guidance in Topic 326.
2. Accounting Standards Update No. 2022-02, *Financial Instruments—Credit Losses (Topic 326): Troubled Debt Restructurings and Vintage Disclosures.* The amendments in Update 2022-02 eliminated the TDR designation of a loan modification and the related accounting guidance in Subtopic 310-40, Receivables—Troubled Debt Restructurings by Creditors. Additionally, public business entities are required to include current-period gross writeoffs by year of origination with their vintage disclosures.[3]
3. Accounting Standards Update No. 2025-05, *Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses for Accounts Receivable and Contract Assets*. The amendments in Update 2025-05 provide (a) all entities with a practical expedient and (b) entities other than public business entities with an accounting

[3] Gross writeoff information must be included in the vintage disclosures required for public business entities in accordance with paragraph 326-20-50-6, which requires that an entity disclose the amortized cost basis of financing receivables by credit quality indicator and class of financing receivable by year of origination.

policy election when applying the guidance in CECL to current accounts receivable and current contract assets arising from transactions accounted for under Topic 606, Revenue from Contracts with Customers.

4. Proposed Accounting Standards Update, *Financial Instruments—Credit Losses (Topic 326): Purchased Financial Assets*. The amendments in a final Update, expected during the second half of 2025, will expand the gross-up approach acquisition accounting model to purchased loans. Purchased loans are acquired loans, excluding credit cards, deemed seasoned[4] by the acquirer. Under current GAAP, only PCD assets are eligible to use the gross-up approach upon acquisition.

Section 2: Expected Costs and Expected Benefits

The following summarizes how the FASB considered the expected costs and expected benefits and concluded that the benefits of more timely measurement of expected credit losses justify the costs. Although the Board's due process procedures are designed to gather information about costs and benefits, the analysis is unavoidably more qualitative than quantitative.

Expected Benefits for Investors

On the basis of extensive due process and significant input received from investors and preparers, the Board concluded that CECL will provide investors with more decision-useful information about the credit risk inherent in financial assets and the change in expected credit losses occurring during the period. The Board developed the amendments in CECL to provide investors with relevant information. The Board expected the updated guidance to accomplish the following:

1. Result in an earlier measurement of credit losses
2. Result in greater transparency about the extent of expected credit losses on financial assets held at the reporting date
3. Improve an investor's ability to understand the realizability of assets held at each reporting period
4. Improve an investor's ability to understand changes in expected credit losses that have taken place during the period
5. Improve an investor's ability to understand purchased financial assets with credit deterioration by enhancing the comparability of the reporting with that of originated

[4] The proposed amendments include seasoning guidance that is designed to segment acquired loans on the basis of the nature of the transfer. An acquired loan must be accounted for like an origination when the acquirer has involvement with the origination prior to completion of the transfer. An acquired loan that was originated more than 90 days prior to acquisition, where the acquirer had no involvement, is a seasoned loan. All loans acquired through a business combination that is accounted for using the acquisition method in accordance with Subtopic 805-20, Business Combinations, Identifiable Assets and Liabilities, and Any Noncontrolling Interest, are deemed seasoned.

assets, while also reducing the cost and complexity of accounting for those assets
6. Provide greater transparency to the investor in assessing the credit quality indicators of a financial asset portfolio and changes in composition of the financial asset portfolio over time.

Expected Costs for Preparers

The objective of CECL is to provide investors with more decision-useful information about the expected credit losses on financial assets and other commitments to extend credit held by a reporting entity at each reporting date. The combined effect of delayed recognition until credit losses were probable and diversity in application of the "probable" threshold resulted in a misalignment between accounting standards and the market's perception of credit risk as evidenced by a significant disparity in market value as compared with book value of creditors, which was most evident in stressed economic environments. As a result, investors supported an approach for the allowance for credit losses based on management's expectations of credit losses over the contractual life of the financial assets (considering the effect of prepayments) with an explanation of inputs and assumptions and changes in those inputs and assumptions from the prior reporting period. Also, recognizing the subjective nature of estimating credit losses, investors supported additional disclosures that would facilitate investors' assessment of management's initial credit loss estimate for newly originated loans as well as subsequent changes to those estimates.

The Board recognized that such an approach may require significant effort for many entities to gather the necessary data and prepare, review, audit, and examine financial statements. The Board sought to minimize the cost of implementing the credit loss guidance and its complexity by developing an approach that:

1. Permits an entity to utilize its current internal credit-risk management approaches and systems as a framework for applying the new measurement objective
2. Does not include multiple measurement objectives that would have required different measures of credit losses depending on whether credit deterioration for financial assets has occurred for assets measured on an amortized cost basis
3. Does not prescribe specific estimation methods to be used in any specific circumstance but, rather, allows an entity to apply judgment to develop estimation methods that are appropriate, practical, and consistent with the principles of the guidance
4. Does not change the guidance for writing off uncollectible assets
5. Does not change interest income reporting for originated loans on the basis of feedback received that preparers manage and investors seek separate reporting of credit risk and interest income separately
6. Requires an entity to consider forward-looking information rather than limit

consideration to current and past events, at the date of the statement of financial position

7. Allows an entity to revert to historical loss information, with a straight line or immediate reversion both being acceptable methods if the expected contractual term of financial assets goes beyond periods for which reasonable and supportable forecasts can be obtained
8. Makes targeted improvements to the impairment of available-for-sale debt securities, which was supported by both investors and preparers
9. Provides transition relief for a prospective transition approach for assets for which the guidance in previous GAAP (Subtopic 310-30, Receivables—Loans and Debt Securities Acquired with Deteriorated Credit Quality) had been applied and for assets for which an other-than-temporary impairment had been recognized before the effective date.

Some stakeholders were also of the view that CECL imposed an economic cost on preparers because recording the full estimate of expected losses may inhibit lending, particularly to less creditworthy borrowers or during an economically stressed environment. However, the Board concluded that the guidance in CECL does not change the economics of lending. In other words, the same loss ultimately will be recorded, regardless of the accounting requirements. CECL is measurement guidance—not recognition guidance—and the recognition event occurs when the financial asset is initially recorded. Recording expected credit loss then becomes a matter of timing; the ultimate amount realized on a financial asset never changes.

Discussion Questions

Question 1 (All): What are your observations and insights on the history of the FASB's Credit Losses project?

Question 2 (Investors): Do you believe that CECL achieved the expected benefits for investors? Do you have additional observations to share on how and what information on credit losses is being used (or not being used)?

Question 3 (Preparers/Practitioners): Do you have additional observations to share on initial and ongoing application costs to comply with CECL? If so, please describe the nature of those costs (for example, systems, processes, and applying certain areas of guidance).