G&T Accounting & Finance Association Annual Conference

FASB Update

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June 25, 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

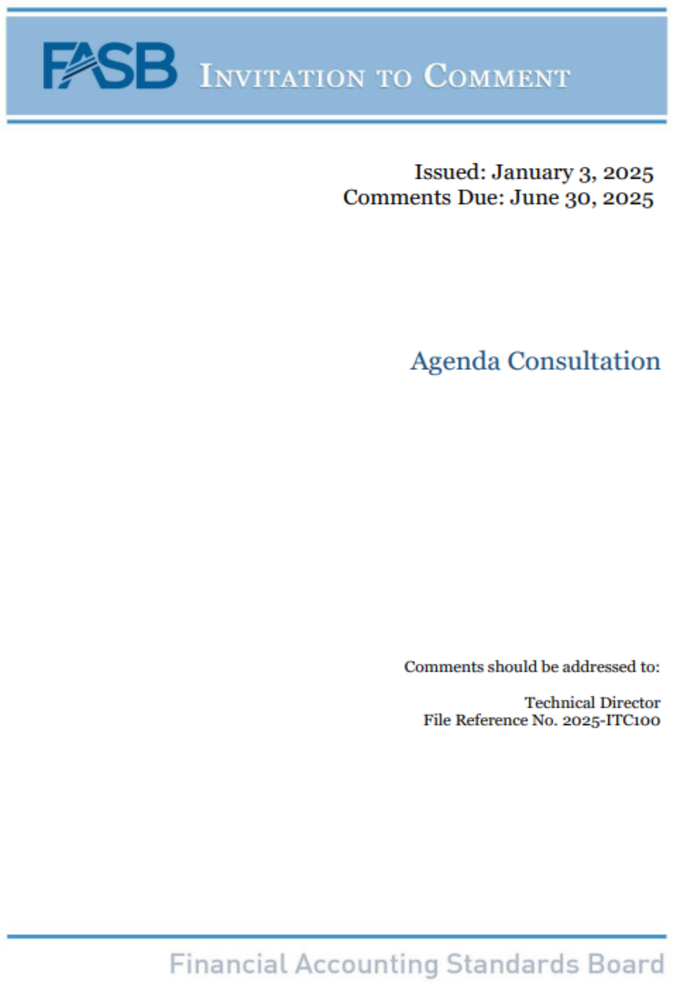
Agenda Consultation

Background

In June 2022, the FASB issued the 2021 *Agenda Consultation Report*, which summarized the robust feedback obtained during our 2021 agenda consultation project and how that feedback has influenced the Board's technical and research agendas and standard-setting process.

Since then, there has been significant progress on the top priorities identified by stakeholders.

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


FASB INVITATION TO COMMENT

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

Agenda Consultation

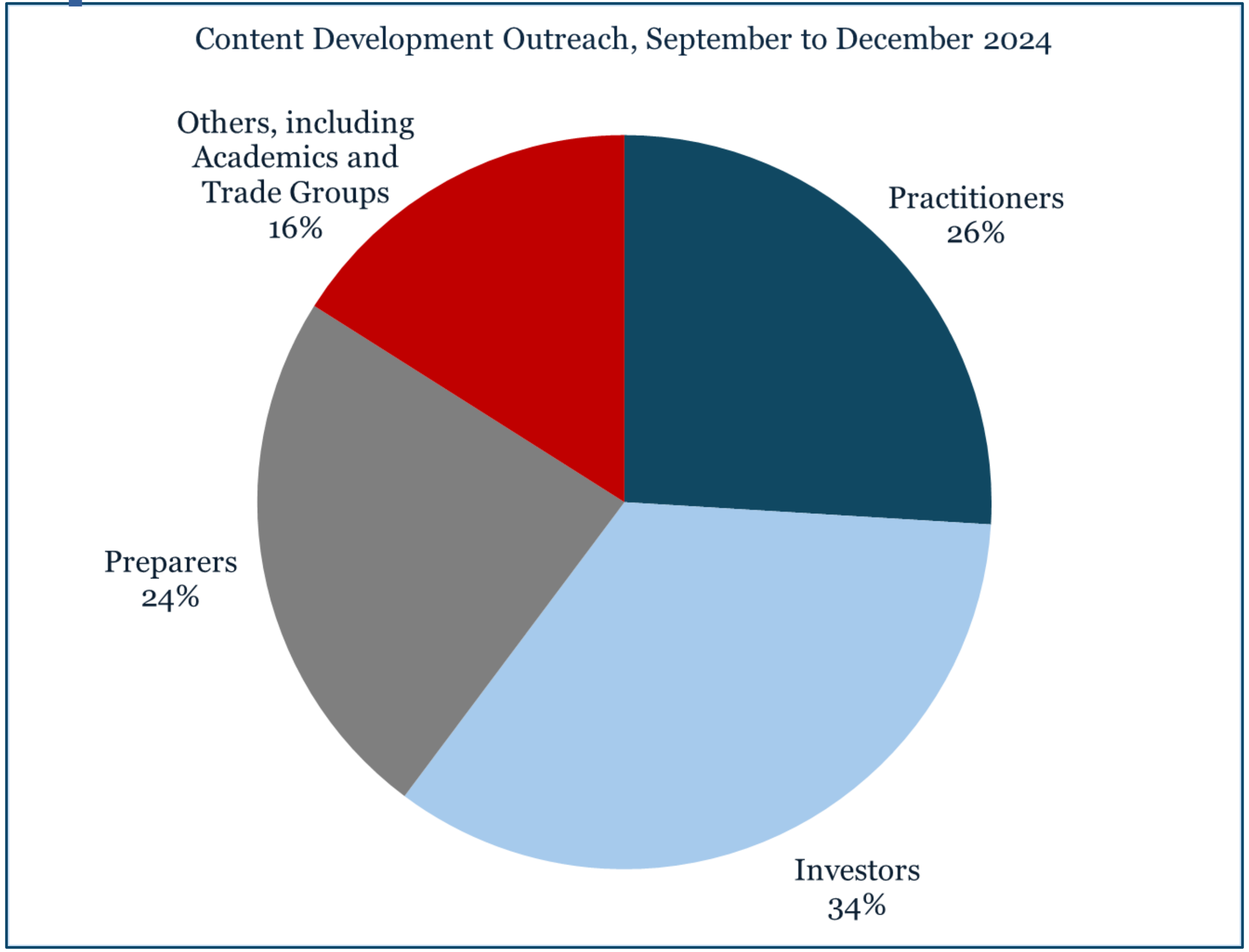
Comments should be addressed to:

Technical Director
File Reference No. 2025-ITC100

Financial Accounting Standards Board

2025 ITC Content Development Outreach

- Sought input from a cross-section of over 200 stakeholders to begin the current agenda consultation process
- Includes outreach with numerous stakeholder groups and FASB advisory groups
- Priority topics identified by those stakeholders form the content included within the ITC



2025 ITC Content Development Outreach

Themes in the ITC

- Stakeholders commended the Board on its significant progress on the priorities identified in the 2021 Agenda Consultation and expressed their appreciation that the Board listened to stakeholders and took timely action on the identified priorities.
- Because of this significant progress, most stakeholders, including many investors, said that there is not a case to make major changes to GAAP at this time.
  - This feedback also was received from investors that requested the Board make significant improvements to GAAP as part of the 2021 Agenda Consultation process.
- Many of the topics that were suggested for standard-setting efforts focus on targeted improvements to GAAP with the objective to either:
  - Reduce unnecessary complexity
  - Enhance the decision usefulness of information provided to investors.

Agenda Consultation ITC Overview

Stakeholders identified topics for potential future standard setting in the following areas:

- Combination of entities (Chapter 1)
- Financial instruments (Chapter 2)
- Intangibles (Chapter 3)
- Other assets and liabilities (Chapter 4)
- Retirement and other employee benefits (Chapter 5)
- Income and expenses (Chapter 6)
- Presentation and disclosure of financial reporting information (Chapter 7)
- Current research agenda projects (Chapter 8)

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Next Steps

Comment period ends June 30, 2025

Board to consider comment letter feedback and make changes to the technical and research agendas.

Accounting for and Disclosure of Software Costs

Project Scope and Objective

Subtopic 350-40

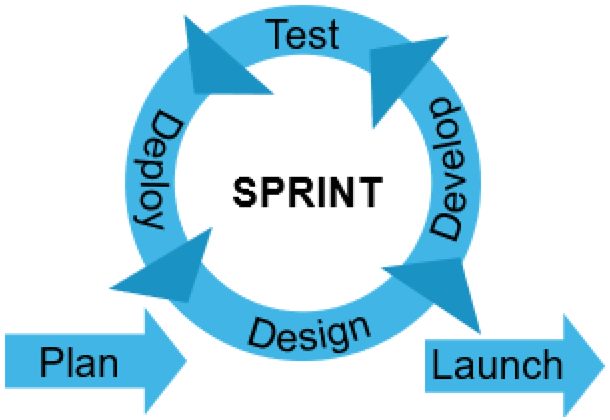
- Costs incurred to develop or purchase software that is **solely for entity's internal use**
- Costs incurred to develop a **hosting arrangement platform**
- Costs incurred by a customer to **implement a cloud computing arrangement**

Objective: To modernize the accounting for software costs

The Board decided not to make targeted improvements for recognition and measurement to Subtopic 985-20, Software—Costs of Software to be Sold, Leased, or Marketed

Evolution of Software

- Companies have historically developed software using the waterfall method, which often is described as a prescriptive, sequential, and formal process
- The agile method emerged to overcome challenges with the waterfall method



- The agile method focuses on incremental and iterative development that allows for software projects to adapt and respond to changes in requirements.
- Within the agile method, a software project is broken down into sprints that focus on a specific function or feature within the software project.
- This iterative environment makes the software project more manageable and allows for companies to quickly incorporate changes.

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Subtopic 350-40

Intangibles – Goodwill and Other – Internal-Use Software

	Preliminary Project Stage	Application Development Stage	Post-Implementation / Operation Stage
Accounting Treatment	Costs expensed as incurred	Costs capitalized	Costs expensed as incurred; begin asset amortization
Associated Activities	• Conceptual formulation of alternatives • Evaluation of alternatives • Determination of existence of needed technology • Final selection of alternatives	• Design of chosen path, including software configuration and software interfaces • Coding • Installation to hardware • Testing, including parallel processing phase	• Training • Application maintenance

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Starting Threshold for Capitalization

Current GAAP (Subtopic 350-40)

Capitalization begins when:

- Preliminary project stage is completed

- Management has authorized and committed to funding the software project
- It is probable that the project will be completed and the software will be used to perform the function intended (the probable-to complete threshold)

Redeliberation Decisions

As required under current GAAP, capitalization will begin when:

- Management has authorized and committed to funding the software project
- The probable-to-complete threshold has been met

Additionally, entities will have to consider whether significant development uncertainty exists by evaluating:

- Whether the software being developed has novel, unique, unproven functions and features, or technological innovations that have not been resolved through coding and testing
- Whether significant performance requirements have been identified and do not continue to be substantially revised

If significant development uncertainty exists, the probable-to-complete threshold is not considered to be met.

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Other Redeliberations Decisions

Presentation

No changes to current presentation requirements

Disclosure

- Current disclosure requirements in other GAAP (PP&E, notes to financial statements, risks and uncertainties, and research and development) should continue to be considered, with a clarification that the PP&E disclosures are required for all capitalized internal-use software costs, regardless of how those costs are classified in the balance sheet
- Certain intangible asset disclosures in Subtopic 350-30 will be limited to the costs of software to be sold, leased, or marketed (Subtopic 985-20)
- No additional disclosures would be required

Website Development Costs

Website development cost recognition guidance (Subtopic 350-50) will be superseded; certain aspects will be incorporated into the software guidance

Transition

The amendments permit an entity to apply the guidance using a prospective approach, a retrospective approach, or an alternative approach.

Prospective Approach

- Apply to software costs for new and in-process projects that are incurred on or after the effective date

Retrospective Approach

- Recast comparative periods and recognize a cumulative-effect adjustment to the opening balance of retained earnings as of the beginning of the first period presented

Alternative Approach

- Prospective approach to new and in-process projects for which capitalization has not begun as of the adoption date
- Recognize a cumulative-effect adjustment to the opening balance of retained earnings as of the adoption date to reverse previously capitalized amounts for in-process projects that no longer meet the probable-to-complete threshold under the new guidance

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Effective Date

- The amendments will be effective for all entities for annual reporting periods beginning after December 15, 2027, and interim reporting periods within those annual reporting periods.
- Early adoption is permitted for both interim and annual financial statements.
  - If an entity adopts the amendments in an interim period, the entity is required to adopt them as of the beginning of the annual reporting period that includes that interim period.

Next Steps

Final Accounting Standards Update expected Fall 2025

Accounting for Environmental Credit Programs

Overview

Purpose

- Improve the financial accounting for and disclosure of
  - Environmental credits
  - Environmental credit obligations

Who Would be Affected

- Would apply to all entities
- Would affect entities that
  - Buy/receive transferable environmental credits
  - Generate environmental credits

Proposed Accounting Standards Update

- Issued for comment (December 2024)

Scope

Environmental Credit

- An enforceable right represented to prevent, control, reduce, or remove emissions or other pollution that is separately transferable in an exchange transaction. May be represented by a variety of forms, including credits, certificates, allowances, and offsets.
- Can be acquired, granted as part of a regulatory compliance program, internally generated, or received in a nonreciprocal transfer.

Environmental Credit Obligation (ECOs)

- An enforceable obligation resulting from regulatory compliance programs represented to prevent, control, reduce, or remove emissions or other pollution that may be or are required to be settled with environmental credits.

Within Scope

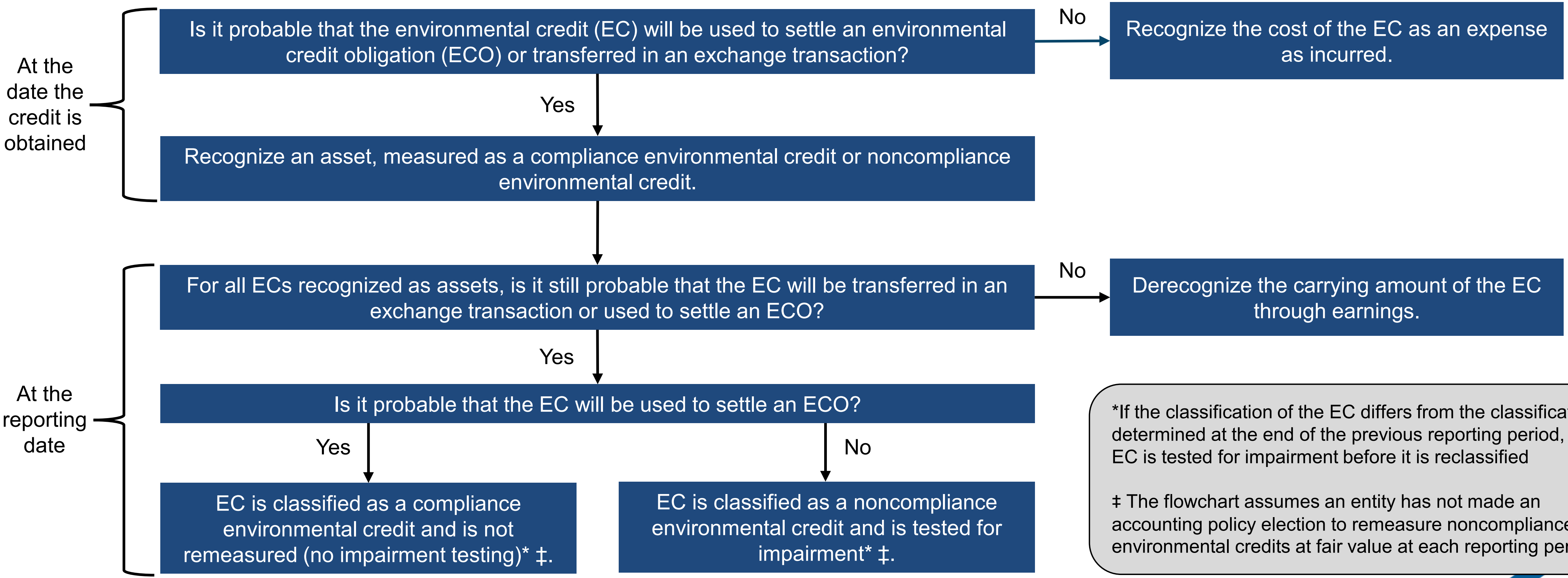
- Carbon offsets (carbon credits)
- Renewable energy certificates (RECs)
- Renewable identification numbers (RINs)
- Cap-and-trade allowances
- Baseline program allowances
- Corporate average fuel economy credits (CAFE)
- Environmental credits received from partnerships or other equity structures that generate credits

Not Addressed by This Project

- Tax credits (including renewable clean energy tax credits)
- Additional payments made for “carbon neutral” activities where no credit is transferred (e.g., paying more for a carbon neutral flight)
- Investments in partnerships or other equity structures that generate credits
- Environmental, social, and governance (ESG) (sustainability) reporting

Asset Recognition and Measurement

- The following diagram illustrates the proposed requirements for environmental credits (adapted from paragraph 818-20-55-1 in the proposed ASU):

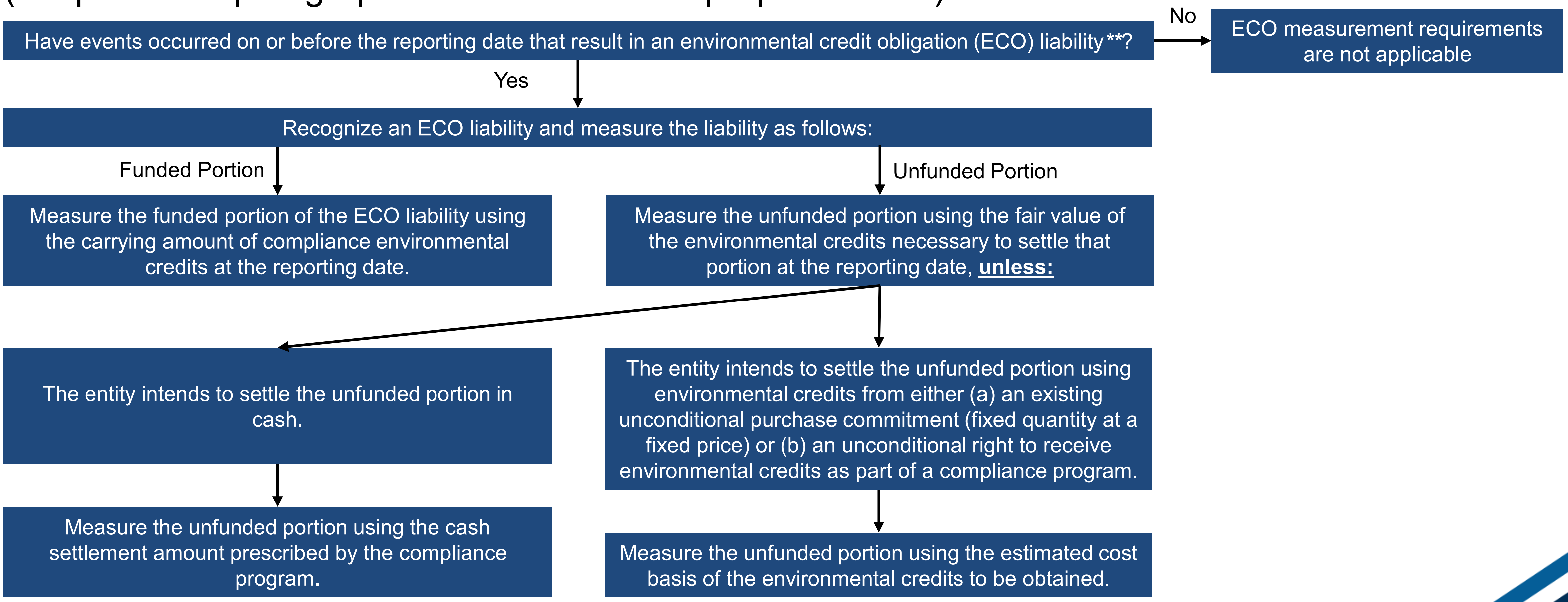


*If the classification of the EC differs from the classification determined at the end of the previous reporting period, the EC is tested for impairment before it is reclassified

‡ The flowchart assumes an entity has not made an accounting policy election to remeasure noncompliance environmental credits at fair value at each reporting period

Liability Recognition and Measurement

- The following diagram illustrates the proposed requirements for environmental credit obligations (adapted from paragraph 818-30-55-1 in the proposed ASU):



** There are separate requirements for compliance programs that obligate an entity to remit a fixed number of environmental credits because the entity exists as of a specified assessment date (and not based on the entity's activities or events).

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Disclosures

	Environmental Credits (ECs)	Environmental Credit Obligations (ECOs)
Interim and annual	• Information about significant EC holdings (description, carrying amount, classification) • Current and noncurrent portions of compliance ECs and noncompliance ECs • Cash paid for ECs • Revenues and gains/losses from sales of ECs • Expenses for ECs not initially recognized (or subsequently derecognized) • Impairment expense • Applicable fair value disclosures in Topic 820 for noncompliance ECs	• Information about significant ECO liabilities (description, carrying amount) • Current and noncurrent amounts of the funded and unfunded portions of ECO liabilities • Expenses related to ECO liabilities • Amortization expense, if applicable • Applicable fair value disclosures in Topic 820 for the unfunded portion of ECO liabilities measured at fair value
Annual	• Qualitative information about how an entity obtains and uses ECs, significant estimates and judgments, and methods used in applying the EC accounting requirements.	• Qualitative information about the regulatory compliance programs the entity is subject to • Significant estimates and judgments • How the unfunded portion of an ECO liability is measured

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Transition

- Cumulative-effect adjustment to the opening balance of retained earnings (or other appropriate components of equity or net assets in the balance sheet) as of the beginning of the annual reporting period of adoption. At the date of initial application, the entity would:
  - Recognize an environmental credit (EC) asset if it is probable that the entity will use the EC to settle an environmental credit obligation or transfer the EC to another party in an exchange transaction
  - Measure ECs recognized as assets as follows:
    - <u>Compliance credit</u>: carrying amount existing at the date of initial application
    - <u>Noncompliance credit</u>: lower of the entity's carrying amount of the ECs existing at the date of initial application and the fair value of the ECs at the date of initial application
    - <u>Eligible class of noncompliance credits measured at fair value</u>: fair value at the date of initial application
  - Continue to include the cost of ECs capitalized as part of another asset before the date of initial application as part of the carrying amount of that other asset
  - Recognize and measure environmental credit obligation liabilities by applying the proposed amendments at the date of initial application
  - Apply the amendments to Topic 805, Business Combinations, prospectively to transactions occurring after the date of initial application.

Next Steps

Comment period ended on April 15th, 2025

Evaluate and analyze comment letter feedback

Board redeliberation expected to begin in Q3 2025

Accounting for Government Grants

Scope

Definition of a Government Grant

- Transfer of a monetary or tangible nonmonetary asset, other than an exchange transaction, from a government to a **business entity** (including forgivable loans when recognition criteria are met).

Scope Exclusions

- Exchange transactions within the scope of Topic 606, Revenue from Contracts with Customers, and Subtopic 610-20, Other Income—Gains and Losses from the Derecognition of Nonfinancial Assets
- Transactions within the scope of Topic 740, Income Taxes
- The benefit of below-market interest rate loans
- Government guarantees

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Scope Examples

Within Scope	Out of Scope
• A transfer of cash to fund future expenditures or reimburse expenditures already incurred (for example, capital expenditures, wages, training and other employee-related costs, R&D, or other operating expenses) • A transfer of a tangible nonmonetary asset such as a capital asset (for example, a building, land, or equipment) • A forgivable loan when recognition criteria are met (for example, PPP loan) • A refundable tax credit (for example, employee retention credit) that is not within the scope of Topic 740.	• An intangible asset or service • A reduction of an entity's liabilities (for example, a sales, property, or other tax abatement) • Government participation in the ownership of an entity • Contributions to business entities from nongovernmental sources within the scope of Subtopic 958-605 on not-for-profit entities—revenue recognition

Initial Recognition

A government grant should be initially recognized when it is *probable* that:

(1) The entity will comply with the conditions attached to the grant
(2) The grant will be received.

Two types of government grants:

- Grant related to an asset: A government grant in which the primary condition is for an entity to purchase, construct, or otherwise acquire a long-term asset, including the direct grant of a tangible nonmonetary asset. Other conditions also may be attached, such as restricting the type or location of the asset, the periods during which the asset is to be acquired or held, or restrictions on the disposal of the asset.
- Grant related to income: A government grant other than a grant related to an asset.

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A Grant Related to an Asset – Cost Accumulation Approach

Recognition and Measurement	Presentation
• Recognize the grant in determining the carrying amount of the asset. • No separate subsequent recognition of grant proceeds in earnings. • Initially measure a government grant of tangible nonmonetary asset at cost, if any, to the business entity.	• Present on the balance sheet as: ▪ An adjustment to carrying amount of the related asset. ▪ The cost basis of the asset that reflects the grant proceeds is used to determine depreciation or other subsequent accounting for the asset.

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A Grant Related to an Asset – Deferred Income Approach

Recognition and Measurement

- Recognize on the balance sheet as deferred income.
- Recognize in earnings on a systematic and rational basis over the periods in which the entity recognizes as expenses the related costs for which the government grant is intended to compensate.
- Initially measure a government grant of a tangible nonmonetary asset at fair value.

Presentation

- Present on the balance sheet as:
  - Deferred income liability
- Present in earnings either:
  - Separately, under a general heading such as other income
  - Deduct from reporting the related expense.

A Grant Related to Income

Recognition and Measurement	Presentation
• Recognize in earnings on a systematic and rational basis over the periods in which the entity recognizes as expenses the related costs for which the grant is intended to compensate.	• Present in earnings either: ▪ Separately, under a general heading such as other income ▪ Deduct from reporting the related expense.

Statement of Cash Flows and Business Combinations

Statement of Cash Flows

- Follow Topic 230—Statement of Cash Flows

Business Combinations

- The Board decided to provide specific guidance about whether and how to recognize and measure grant-related liabilities in a business combination.

Disclosures

- The **nature** of the government grant and the **related accounting policy** used to account for the government grant.
- The **line items and amounts** on the balance sheet and income statement that are affected by the government grant
  - For a grant related to an asset that is accounted for using a cost-accumulation approach, the line items on the balance sheet and income statement that are affected by the grant (and related amounts) would be disclosed only in the period in which the government grant is recognized on the balance sheet
- **Significant terms and conditions**, including commitments and contingencies.
- **Fair value** of a tangible nonmonetary asset received is disclosed when the grant is recognized on the balance sheet

Transition

- A business entity could elect to apply the proposed amendments either:
  - Prospectively to government grants that either are not completed as of the effective date or are entered into after the effective date
  - Retrospectively to all government grants

Prospective Application

- No prior-period results would be restated. There would be no cumulative effect adjustment.
- A completed government grant is a grant for which all the proceeds have been recognized before the effective date.

Retrospective Application

- Record a cumulative-effect adjustment to the opening balance of retained earnings at the beginning of the earliest period presented.

Interim Reporting—Narrow Scope Improvements

History of the Project

The Board added the project to the Technical Agenda in 2014.

The Board initially undertook the project in connection with the Disclosure Framework project, with the intent to improve the effectiveness of disclosures in interim financial statements.

Issued an Exposure Draft on November 1, 2021. Respondents expressed concerns about the proposed amendments.

Objective

Stakeholder Feedback

Topic 270 is challenging and difficult to navigate

Project Objective

Improve Topic 270 by providing clarity on what disclosures are required at interim periods and improve the navigability of the topic by organizing interim disclosures into a tabular format

Scope Clarifications

Clarifies that Topic 270 applies to *interim financial statements and notes in accordance with GAAP*

- **Defines full set of financial statements as:**

Financial statements that show the financial position at the end of the period and the earnings, comprehensive income (in one statement or two separate but consecutive statements), cash flows, and investments by and distributions to owners for the period.

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Executive Summary

Proposed Update is forthcoming and will include the following:

Disclosure Principle

Principle would require entities to disclose events and changes since the end of the last annual reporting period that have a material impact on the entity.

Form and content of interim financial statements

Clarified the form and content requirements for SEC registrants and non-SEC registrants

Comprehensive list of interim disclosures required by GAAP

Board focused on identifying interim disclosures currently required under US GAAP.

Intent is to provide clarity about the current requirements, not to evaluate whether to expand or reduce interim disclosures.

Clarify applicability of Topic 270

Topic 270 applies to all entities that provide interim financial statements and notes in accordance with GAAP.

Form and Content

Proposed ASU

SEC Registrants

Rules 210.10-01 and 210.8-03

Non-SEC Registrants

	Full Statements	Condensed Statements
Full Notes	Full notes with full set of financial statements	Full notes with condensed financial statements (in ED)
Limited Notes	Limited notes with full financial statements	Limited notes with condensed financial statements (in ED)

Condensed Financial Statements as defined in the ED =

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Disclosures

Topic 270 has been amended to include:

1. Disclosures required by Topic 270
2. Disclosures required by other Topics
3. Disclosure Principle

Disclosures Required by Topic 270

Improvements made to the requirements:

Provided clarification on the scope of the disclosures listed or referenced in Topic 270	Ensuring the language used makes it clear it is an interim requirement	Organized Topic 270 through the utilization of a tabular format	Removed duplicative information in Topic 270

- If a disclosure describes a specific event, and is not included in the list in Topic 270, and the event occurs (and is material) in an interim reporting period, the disclosure principle should be used as the basis for determining any related disclosure requirements

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Disclosures Required by Other Topics

- Use tabular format to organize all the disclosures that meet interim requirements
- The following types of disclosures were included in the list of interim disclosure requirements*:

Disclosures that are currently specifically referenced in Topic 270 at the Topic, Subtopic, or paragraph level

Disclosures that include the term interim, disclosures that are under a heading within the Codification that clearly indicates that the disclosures are required in interim periods, and disclosures that are explicitly required in interim periods by other paragraphs.

*For disclosures in which the frequency is unclear, FASB documentation was leveraged to determine if the disclosure was an interim requirement

Disclosure Principle

Principle leverages prior SEC language from 210.10-01, which was removed in 2018

- Leveraging the SEC literature would mitigate the risk of a change in financial reporting requirements and unintended consequences for SEC registrants

Include disclosures on the face of the financial statements or in accompanying footnotes to ensure the statements and notes are not misleading

Allows for the omission of duplicative disclosures

Require entities to disclose events and changes since the end of the last annual reporting period that have a material impact on the entity

Next Steps

Proposed Accounting Standards Update issued in Q4 2024

Comment Period ended on March 31st, 2025.

Financial Key Performance Indicators for Business Entities

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Research Objective and Scope

- Research Objective
  - To explore the pervasiveness of perceived issues related to Financial KPIs and whether technically feasible solutions exist.
- What is a Financial KPI (for purposes[1] of the FASB staff's research)
  - Any financial measure that is calculated or derived from the financial statements and/or underlying accounting records that is not presented in the GAAP financial statements.
  - Do not include:
    - Financial statement performance measures, totals, or subtotals
    - Nonfinancial KPIs.

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

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Examples

Financial KPIs		Financial Statement Performance Measures, Totals, and Subtotals	Nonfinancial KPIs
• Return on assets (ROA) • Return on equity (ROE) • Current ratio • Debt-to-equity ratio (D/E) • Adjusted revenue • Adjusted gross profit • Adjusted gross margin • Adjusted EBT • Adjusted net income • Adjusted EPS • Adjusted profit margin • FCF, or adjusted FCF • Organic sales growth, or adjusted organic sales growth	• EBIT, or adjusted EBIT • EBITDA, or adjusted EBITDA • EBITDAR, or adjusted EBITDAR • EBITDAX, or adjusted EBITDAX • FFO, or adjusted FFO • Refining margin • Return on invested capital (ROIC)	• Revenue • Gross profit • Gross margin • Pre-tax income (EBT) • Net income • EPS • Profit margin • Operating cash flows (OCF)	• Churn • Same-store sales • Number of subscribers

Perceived Issues

- Increase in the use of Financial KPIs

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

Financial data services also calculate and provide Financial KPIs to their clients.

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

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

Potential Approaches: Approach 1

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

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

Potential Incremental Disclosures

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

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Potential Approaches: Approach 2

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

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

Potential Incremental Disclosures

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

Next Steps

Solicit Additional Feedback	- ITC on Financial KPIs issued on November 14, 2024 - Comment period ended on April 30, 2025.

Topic 815—Derivative Scope Refinements

Topic 815—Derivatives Scope Refinements

- **Project Objectives**
  - Refine the scope of derivative accounting through the expansion of scope exceptions.
  - Address existing diversity in practice in accounting for noncash consideration received from a customer in a revenue contract.
- **Stakeholder Feedback**
  - A frequently cited challenge was the broad interpretation of the definition for derivatives and the complexity of applying scope exceptions.
  - Accounting for certain contracts as derivatives may not provide decision-useful information because the contracts relate to the performance of one of the parties to the contract.
- **Current Guidance**
  - Entities must evaluate whether a contract (or an embedded feature) meets the accounting definition of a derivative. If so, entities must evaluate whether any of the derivative scope exceptions apply.
  - Derivatives are measured at fair value. Contracts that qualify for a Topic 815 scope exception are accounted for under other GAAP.

Issue 1: Derivatives Scope Refinements

Amendments

- Add a derivative scope exception for contracts with underlyings based on the operations or activities specific to one of the parties to the contract. However, this scope exception does not apply to:
  - Underlyings based on a market rate, market price, or market index (including those in paragraph 815-10-15-88(a) through (f)) or the price or performance (including default) of a financial asset or financial liability of one of the parties to the contract.
  - Contracts involving an entity’s own equity and call and put options on debt.

Issue 2: Scope Clarification for Share-Based Noncash Consideration from a Customer in a Revenue Contract

Amendments

- Clarify that share-based noncash consideration from a customer that is consideration for the transfer of goods or services in a revenue contract is subject to Topic 606, Revenue from Contracts with Customers, until an entity has an unconditional right to receive or retain the share-based noncash consideration, other than by the passage of time or by conditions that are unrelated to the entity's performance obligations (or a specific outcome of the entity's performance) under Topic 606.

Transition, Effective Date, and Early Adoption

Transition	Effective Date	Early Adoption
• **Issue 1**: Require adoption on a prospective basis with an option to apply on a modified retrospective basis. • **Issue 2**: Allow adoption either on a modified retrospective basis or on a prospective basis.	• Require adoption of the amendments for annual reporting periods beginning after December 15, 2026, for all entities.	• Permit Early Adoption

Final ASU expected 3Q 2025

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Topic 815—Hedge Accounting Improvements

Hedge Accounting Improvements

Update 2017-12

- Stakeholders asked the Board to clarify certain aspects of the amendments in Update 2017-12:
  - Considerations related to the change in hedged risk guidance (Issue 2)
  - Issues stemming from the contractually specified component model for hedges of forecasted nonfinancial transactions (Issue 3)
  - Recognition mismatch for dual hedges (Issue 5)

2019 Proposed Update

- Stakeholders indicated that the amendments in the 2019 proposed Update would not sufficiently resolve certain issues stemming from Update 2017-12

LIBOR Cessation

- LIBOR cessation created issues:
  - the shared risk assessment for cash flow hedges of pools of loans due to the variety of rates and variations of rates stemming from reference rate reform (Issue 1)
  - the automatic failure of the net written option test due to the mismatch between SOFR Term instruments and SOFR-OIS derivatives (Issue 4)

Current Project

- The current project will address 5 discrete issues stemming from both Update 2017-12 and LIBOR cessation. The team is drafting a final ASU.

Issue 1: Similar Risk Assessment for Cash Flow Hedges

Issue 2: Hedging Forecasted Interest Payments on Choose-Your-Rate Debt Instruments

Issue 3: Cash Flow Hedges of Nonfinancial Forecasted Transactions

Issue 4: Net Written Options as Hedging Instruments

Issue 5: Foreign-Currency-Denominated Debt Instrument as Hedging Instrument and Hedged Item (Dual Hedge)

Issue 1: Similar Risk Assessment for Cash Flow Hedges

Issue Identified with Current GAAP

- Stakeholders view the “shared risk” exposure requirement to aggregate a group of individual forecasted transactions in a cash flow hedge as being overly restrictive, especially in a post LIBOR environment.

Final ASU Amendments

- The amendments will expand the hedged risks permitted to be aggregated in a group of individual forecasted transactions in a cash flow hedge by changing the requirement to designate a group of individual forecasted transactions from having a *shared risk* exposure to having a *similar risk* exposure.
- A group of individual forecasted transactions would be considered to have a similar risk exposure if the derivative used as the hedging instrument is highly effective against each risk in the group.

Issue 2: Hedging Forecasted Interest Payments on Choose-Your-Rate Debt Instruments

Issue Identified with Current GAAP:

- CYR debt instruments permit a borrower to change the interest rate index and interest rate tenor (reset frequency) upon which interest is accrued.
- Stakeholders noted that a lack of clear parameters for hedging forecasted interest payments, as well as forecasted issuances and replacements of choose-your-rate debt, have led to diversity in practice.

Final ASU Amendments:

- The amendments in this update provide an elective model to facilitate the application of cash flow hedge accounting to forecasted interest payments on CYR debt instruments.
- Specific parameters are provided for changing the interest rate index and interest rate tenor designated as hedged without discontinuing hedge accounting in forecasted issuances and subsequent replacements of CYR debt instruments.

Issue 3: Cash Flow Hedges of Nonfinancial Forecasted Transactions

Issue Identified with Current GAAP

- Stakeholders noted difficulties in applying the contractually specified component model for nonfinancial forecasted transactions, specifically for spot market transactions.

Final ASU Amendments

- The amendments expand hedge accounting for forecasted purchases and sales of nonfinancial assets by permitting entities to designate variable price components of the forecasted purchase or sale of a nonfinancial asset that met the clearly-and-closely related criteria within the normal purchases and normal sales scope exception.
- The amendments also clarify that entities may designate a variable price component in a contract that is accounted for as a derivative as the hedged risk if changes in that variable price component do not cause changes in the fair value of the derivative and all other hedge criteria are satisfied.

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Issue 4: Net Written Options as Hedging Instruments

Issue Identified with Current GAAP:

- Interest rate swaps with mirror-image options must pass the net written option test to be eligible for hedge accounting.
- Stakeholders noted that the net written option test has prevented those hedging relationships from applying hedge accounting because of differences in the loan and swap markets that exist after the cessation of LIBOR.

Final ASU Amendments:

- The requirement to apply the net written option test is eliminated for compound derivatives composed of a swap and a written option designated as the hedging instrument in a cash flow or fair value hedge of interest rate risk.

Issue 5: Foreign-Currency-Denominated Debt Instrument as Hedging Instrument and Hedged Item (Dual Hedge)

Issue Identified with Current GAAP:

- Update 2017-12 created a presentation mismatch when a foreign-currency-denominated debt instrument is both designated as the hedging instrument in a net investment hedge and designated as the hedged item in a fair value hedge of interest rate risk (dual hedge).

Final ASU Amendments

- The amendments eliminate the presentation mismatch created by Update 2017-12 and enable entities that utilize dual hedging strategies to reflect the economic offset of changes attributable to both interest rate risk and foreign exchange risk.

Effective Dates and Transition

Effective Date

- Effective Dates for Public Business Entities:
  - Annual reporting periods beginning after December 15, 2026
  - Interim periods within those annual reporting periods
- Effective Dates for Entities other than Public Business Entities:
  - Annual reporting periods beginning after December 15, 2027
  - Interim periods within those annual reporting periods

Transition

- Entities may elect to adopt the amendments in this Update for hedging relationships existing as of the date of adoption
- Upon adoption, entities are permitted to modify certain critical terms of certain existing hedging relationships without dedesignating the hedge
- Guidance must be applied prospectively

Early Adoption

- Permitted on any date on or after the issuance of this Update

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Statement of Cash Flows

Project Background

Project Objective: To make targeted improvements to the statement of cash flows to provide investors with decision-useful information. The project will explore (1) reorganizing and disaggregating the statement of cash flows for financial institutions to improve the decision usefulness of that statement and (2) developing a disclosure about an entity's cash interest received.

June 2021 ITC

- Investors/users generally agreed greater disaggregation of financial performance reporting should be a Board priority, including the statement of cash flows

June 2022

- Statement of Cash Flows added to the Research Agenda

Q3 2022-Q3 2023

- Investor survey, staff research and stakeholder outreach with efforts focused on
  - Disaggregation of certain line items
  - Supplementary disclosures consistent with direct method
  - Targeted improvements for financial institutions

November 2023

- Board adds a targeted improvements project to its technical agenda
- General SOCFs project was retained on the research agenda

FASB FINANCIAL ACCOUNTING STANDARDS BOARD

Project Status

- At the November 8, 2023 Board meeting, the Board added a project to its technical agenda related to targeted improvements of the statement of cash flows. The Board decided that the scope of the project is to (1) develop a disclosure about an entity's cash interest received and (2) reorganize and disaggregate the statement of cash flows for financial institutions to improve the decision-usefulness of that statement.
- The FASB chair also retained a project about the statement of cash flows on the Board's research agenda to explore further potential improvements.

Potential Improvements

Disclosure of Cash Interest Received

- This improvement would require a disclosure of cash interest received on the cash flow statement similar to the current disclosure that is required for cash interest paid. Broadly, this would be a new single-number disclosure presented at the bottom of the cash flow statement.

Reorganized Statement of Cash Flows for Financial Institutions

- This improvement would require that a financial institution expand its statement of cash flows to include additional line items that are core to its operations and to reclassify certain cash flow activities from investing and financing to operating. The revised statement also would include a subtotal within the operating section for net interest income related adjustments.

Next Steps

- The staff will perform research and outreach to determine the entities in scope of the cash interest received disclosure and the rearranged statement of cash flows.
- For the rearranged statement of cash flows, the staff will explore potential approaches (for example, industry specific guidance with revised definition of the investing and financing sections or adaption of IFRS guidance). Additionally, the staff will consider the applicability of this improvement to financing subsidiaries of nonfinancial institutions and insurance entities.

FASB Research Agenda (as of June 17, 2025)

- 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