



University of Toronto: PAC Conference 2024

Forward Looking Estimates and Valuation Problems in Accounting

A FAB Board Member Perspective

June 21, 2024

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

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Recent Accounting Standards Updates (ASUs)

ASUs Issued During 2023 and 2024

Update	Title (some titles abbreviated for length)	Effective Date for Calendar Year-end Public Companies
Update 2023-01	Leases (Topic 842): Common Control Arrangements	2024* (only part of the Update applies to public business entities)
Update 2023-02	Accounting for Investments in Tax Credit Structures Using the Proportional Amortization Method	2024*
Update 2023-03	Amendments to SEC Paragraphs Pursuant to SAB No. 120, SEC Staff Announcement, and SAB Topic 6.B, ASR 280 (SEC Update)	N/A (SEC Guidance Update in Codification)
Update 2023-04	Amendments to SEC Paragraphs Pursuant to SAB No. 121 (SEC Update)	N/A (SEC Guidance Update in Codification)
Update 2023-05	Joint Venture Formations (Subtopic 805-60): Recognition and Initial Measurement	Effective for JVs formed on or after 1/1/25 (public or private)
Update 2023-06	Disclosure Improvements: Codification Amendments in Response to the SEC's Disclosure Update and Simplification Initiative	Upon SEC removal of applicable requirements in Reg S-X or Reg S-K
Update 2023-07	Segment Reporting (Topic 280): Improvements to Reportable Segment Disclosures	2024 (interim periods beginning in 2025)
Update 2023-08	Intangibles—Goodwill and Other—Crypto Assets (Subtopic 350-60): Accounting for and Disclosure of Crypto Assets	2025*
Update 2023-09	Income Taxes (Topic 740): Improvements to Income Tax Disclosures	2025
Update 2024-01	Compensation—Stock Compensation (Topic 718): Scope Application of Profits Interest and Similar Awards	2025*
Update 2024-02	Codification Improvements—Amendments to Remove References to the Concepts Statements	2025

* including interim periods within the years noted

Select ASUs and Topics: Valuation Issues

- Crypto
- Held to Maturity Securities
- Conceptual Framework: Measurement

Technical Agenda Projects

Technical Agenda

RECOGNITION & MEASUREMENT PROJECTS	Next Milestone	Expected Date
Accounting for and Disclosure of Software Costs	Board deliberations	Ongoing
Accounting for Environmental Credit Programs	Board deliberations	Ongoing
Accounting for Government Grants	Board deliberations	Ongoing
Codification Improvements (next phase)	Board deliberations	Ongoing
Financial Instruments—Credit Losses (Topic 326)—Purchased Financial Assets	Board redeliberations	Ongoing
Induced Conversions of Convertible Debt Instruments	Final ASU	3Q 2024
Topic 815—Derivatives Scope Refinements	Exposure Draft	3Q 2024
Topic 815—Hedge Accounting Improvements	Exposure Draft	3Q 2024
PRESENTATION & DISCLOSURE PROJECTS	Next Milestone	Expected Date
Disaggregation—Income Statement Expenses	Board redeliberations	Ongoing
Interim Reporting—Narrow-Scope Improvements	Exposure Draft	3Q 2024
Statement of Cash Flows Targeted Improvements	Board deliberations	Ongoing
EMERGING ISSUES TASK FORCE PROJECTS		
Determining the Accounting Acquirer		

Select Technical Agenda Projects: Valuation Issues

- Accounting for and Disclosure of Software Costs
- Accounting for Government Grants
- Accounting for Environmental Credit Programs
- Purchased Financial Assets

Accounting for and Disclosure of Software Costs

Objective

- Update the accounting for software costs and enhance transparency about an entity's software costs

Background and Activities

- Project added to the technical agenda in June 2022
- Scope includes recognition, measurement, presentation, and disclosure of costs to internally develop or acquire software
- Several potential recognition and measurement models initially considered
- Board has decided to pursue targeted improvements to the internal-use model and explore potential improvements to disclosures
 - Decision driven by investor feedback that investors are not looking for significant increase in capitalization and would benefit from additional transparency about software spend

Next Steps

- Complete additional research and outreach on disclosures
- Exposure Draft expected in Q3 2024

Accounting for Government Grants

Objective

- Create recognition, measurement, and presentation requirements for business entities that receive government grants

Background and Activities

- Board issued disclosures related to government grants in 2021 – scope based on applying government grant accounting by analogy
- Invitation to Comment issued in June 2022 to solicit feedback on incorporating IAS 20 into GAAP
- Board decided to leverage IAS 20 with limited changes – most notably, scope and certain other revisions (e.g., probable rather than reasonably assured)
- Board decided scope includes transfers of monetary and tangible nonmonetary assets from a government to a business entity, including forgivable loans
 - Scope excludes (1) exchange transactions, (2) items accounted for under Topic 740, Income Taxes (3) below-market interest rate loans and (4) government guarantees

Next Steps

- Board deliberations ongoing – remaining topics include disclosures
- Exposure draft expected in Q3 2024

Accounting for Environmental Credit Programs

Objectives

- Improve the accounting and disclosure requirements for (1) participants in compliance and voluntary programs that result in the creation of environmental credits and (2) nongovernmental creators of environmental credits

Background and Activities

- Added to the technical agenda in May 2022 based on feedback from agenda consultation
- Board decisions
 - Definitions for (1) environmental credit and (2) environmental credit obligation (ECO)
 - Asset
 - Recognize an environmental credit when it is probable that the credit will be used to settle an ECO or be sold; costs of other environmental credits will be generally recognized as an expense
 - If probable of settling ECO, measure at cost (no impairment testing)
 - If not, measure at cost and test for impairment
 - Board is exploring fair value option for subset of these environmental credits
 - Liability
 - Entity would determine how much they would owe if the compliance period ended on balance sheet date
 - Funded portion of an ECO liability should be measured at the carrying amount of compliance environmental credits
 - Unfunded portion of an ECO liability should be measured at fair value

Next Steps

- Remaining issues to discuss include disclosures and final scope of fair value option
- Exposure draft expected in 3Q 2024

Purchased Financial Assets

Objective

- Address the accounting for acquired financial assets within the scope of ASU 2016-13, Measurement of Credit Losses on Financial Instruments (Topic 326) (CECL)

Background and Activities

- Project added to the agenda as part of CECL post-implementation review
- Proposed ASU issued in June 2023 – would expand the scope of the purchased credit deteriorated (PCD) accounting model to all purchased financial assets
 - Under PCD model (currently applied to assets that have experienced a more-than-insignificant deterioration in credit quality since origination), an entity records allowance and offsetting entry to amortized cost basis – commonly referred to as the gross-up approach
 - Non-PCD assets have amortized cost basis equal to the purchase price and credit loss expense recognized in the income statement
- Investors continue to support the proposal and feedback from financial institutions was mixed
- Board decided to move forward with finalizing proposal and addressing operability issues raised by stakeholders

Next Steps

- Board redeliberations ongoing

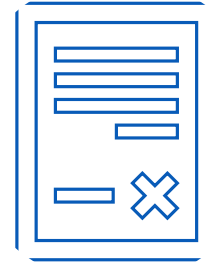
Research Agenda Projects

Research Agenda



Accounting for and Disclosure of Intangibles

Consider potential ways to improve the accounting for and disclosure of intangibles, including internally developed intangibles, and research and development



Definition of a Derivative

Consider potential refinements to the scope of Topic 815, Derivatives and Hedging



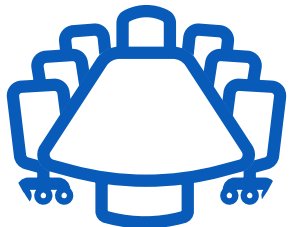
Accounting for Commodities

Explore accounting for and disclosure of commodities



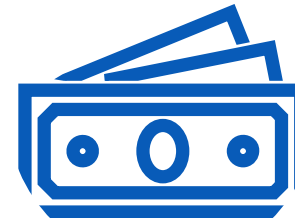
Financial Key Performance Indicators for Business Entities

Explore standardizing the definitions of financial key performance indicators



Consolidation for Business Entities

Explore whether a single consolidation model could be developed for business entities



Statement of Cash Flows

Explore improvements to the statement of cash flows to provide additional decision-useful information

Select Research Agenda Projects: Valuation Issues

- Accounting for and Disclosure of Intangibles
- Consolidation for Business Entities

*Ongoing FASB
research projects*

Intangibles

Pending further staff
research and Board
deliberations



Project was added to the research agenda in December 2021



ITC respondents highlighted intangibles as an area of focus - project moved from research to technical agenda



June 2022 board members provided suggestions on and observations about the focus and prioritization for continued research efforts, including research and development



The staff is conducting research and outreach. The Board will consider adding the project to its Technical Agenda at a future Board meeting.

*Ongoing FASB
research projects*

Consolidation of business entities

Pending further staff
research and Board
deliberations



A project was added to the research agenda in April 2022



Stakeholder feedback indicates current consolidation guidance is overly complex and difficult to apply



This research project will explore whether a single consolidation model could be developed for business entities



The staff is conducting research and outreach. The Board will consider adding the project to its Technical Agenda at a future Board meeting

Questions?