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members commented on current issues and activities.

Mar. 31, 2023



The Financial Accounting Standards Advisory Council ([FASAC](#)) held its quarterly meeting on Tuesday, March 7, 2023. The FASB chair provided highlights on FASB activities, and the SEC and PCAOB staff members commented on current issues and activities. Council members discussed the following topics.

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and certain variable consideration provisions in revenue arrangements.

Council members were generally supportive of providing scope exceptions for these types of arrangements or clarifying the current definition of a derivative. Other Council members noted that, although adding scope exceptions could provide a short-term solution, a more holistic approach may be more beneficial for preparers when determining whether an arrangement should be accounted for as a derivative.

Some investors and other allocators of capital (collectively “investors”) noted that the accounting for certain arrangements as a derivative does not always result in decision-useful information given the various factors (including internal activities, performance, and the level of uncertainty) and judgment involved in determining the fair value. Those investors indicated that qualitative information about those arrangements typically results in greater decision-useful information than quantifying a fair value for those arrangements. Some Council members, including preparers and practitioners, noted that the complexity of applying derivative accounting to these arrangements has deterred companies from entering into these types of transactions.

Changing Business Practices and Emerging Accounting Issues: Council members identified and discussed emerging accounting issues, changing or new business practices and trends in the current environment, and whether there are any emerging accounting issues that may require future standard-setting improvements by the Board. The topics that generated the most discussion among Council members include the following:

Statement of Cash Flows: Council members highlighted some of the complexities related to the statement of cash flows, including the use of non-GAAP cash flow measures, consistency in application, ambiguity and judgment in the classification

of certain transactions, and suggestions to change the required classification of

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point for investors when evaluating various measures. Council members who are investors suggested that the Board consider the evolution in investors' use of financial information in developing standard definitions for certain key financial performance indicators.

Inflation and Foreign Currency Exchange Rates: Council members provided observations about the different exchange rates that are available (government official rates or other rates, such as blue-chip rates) and suggested that the Board consider providing guidance on when using a foreign currency exchange rate other than the official exchange rate might be appropriate. Council members also noted the financial reporting implications associated with changes in the interest rate and how certain expenses of a company such as pension and hedging transactions are affected by inflation and changes in interest rates.

Supply Chain Financing and Agreements: Some investors noted that changes in finance payables related to supply chain financing arrangements are generally classified as operating activities on the statement of cash flows and indicated that classifying those changes in finance payables as a financing activity would provide more decision-useful information. In addition, given the large number of uncertainties and various procurement terms associated with many supply chain agreements, preparers noted that there are questions associated with determining the appropriate accounting for the agreements (which may include prepaid assets, receivables, inventory, or other aspects) within existing GAAP and associated disclosures (when the transactions are material).

Research and Development (R&D) Costs: Some Council members noted the inconsistency in the accounting treatment for in-process R&D based on the structure of a transaction (whether internally developed or acquired). Those members suggested that the Board consider revisiting the accounting to increase consistency

among the requirements for internally developed R&D, in-process R&D acquired in

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advertising costs, including the absorption of advertising costs and associated disclosure requirements.

Other topics discussed by Council members included the accounting for software costs and the prevalence of continued investments and changes in technology for customer products and services, discontinued operations, fair value disclosures required for Level 3 measurements, and accounting for revenue arrangements that involve multiple parties. Council members provided comments on some of the challenges encountered by preparers in applying GAAP within these topics, potential suggestions for improvements, and the benefit to investors.

FASB Interpretive Process and Role of the EITF: Council members discussed the current and historical role of the EITF and identified potential areas to improve to the current interpretive process. Council members expressed overall support for the interpretive process and observed that (a) there is a market need for interpretative guidance and (b) the transparency of the interpretive process is beneficial. Council members expressed their views about the types of issues that the EITF should address (such as clarifying what parts of GAAP apply to certain transactions or resolving narrow areas where there is diversity), suggested that the EITF leverage more working groups with subject matter and industry experts, and stated that the interpretive process should provide reasonable transition and effective dates for interpretative guidance.

Select FASB Projects: The FASB technical director provided an update on select FASB projects, including projects that are expected to result in the issuance of Exposure Drafts and final Accounting Standard Updates in the first half of 2023.

FASAC meeting recaps are provided for those interested in following the activities of the FASAC. More details on the FASAC's input on the FASB's projects can be found at [fasb.org](https://www.fasb.org).

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