



Topic 815—Derivatives Scope Refinements

FASB | IASB Education Meeting

October 11, 2024

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Topic 815–Derivatives Scope Refinements

■ Project Objectives

- Refine the scope of derivative accounting.
- Address existing diversity in practice in accounting for a share-based payment received from a customer in a revenue contract.

■ Stakeholder Feedback

- Accounting for certain contracts with entity-specific payment provisions as a derivative may not provide decision-useful information.
- There is a lack of clarity about the guidance that an entity should apply to recognize share-based payments (such as warrants or shares) received from a customer in a revenue contract.

■ Current Guidance

- Entities must evaluate whether a contract meets the definition of a derivative. If so, entities must then evaluate whether the contract qualifies for any of the derivative scope exceptions.
- If a contract is accounted for as a derivative, it is measured at fair value.

■ Next Step

- The [Exposure Draft](#) was issued on July 23, 2024. Comment letters are due on October 21, 2024.

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New scope exception for contracts with underlyings based on the operations or activities that are specific to one of the parties to the contract.

Proposed derivative scope exception:

815-10-15-59 Contracts that are not exchange-traded are not subject to the requirements of this Subtopic if the underlying on which the settlement is based is any one of the following:

- e. A variable that is based on operations or activities specific to one of the parties to the contract. For example, this scope exception applies to contracts with underlyings based on the following:
 1. The financial statement metrics of one of the parties to the contract. The financial statement metrics include metrics derived from amounts presented in financial statements and components of amounts included in financial statements (for example, earnings before interest, taxes, depreciation, and amortization; net income; expenses; or total equity of one of the parties to the contract).
 2. The occurrence or nonoccurrence of an event specific to the operations or activities of one of the parties to the contract (for example, obtaining regulatory approval, achieving a product development milestone, or achieving a greenhouse gas emissions target).

When evaluating whether operations or activities are specific to one of the parties to the contract, an entity does not need to consider whether the outcome is within its control. This scope exception does not apply to variables 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. For purposes of applying the scope exception in this paragraph, the term *party to the contract* refers to any entity within a consolidated group. (See Example 14A [paragraphs 815-10-55-143A through 55-143E].)

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Amend the predominant characteristics assessment by replacing the correlation assessment with a fair value assessment.

- A contract with multiple underlyings (under which some underlyings qualify for a scope exception and some do not) is evaluated based on the predominant characteristics of the contract (or embedded feature) to determine whether the contract as a whole (or embedded feature) is a derivative.
- The proposed guidance would require that an entity assess which underlying is expected to have the largest expected effect on changes in the fair value of the contract (or embedded feature).

Scope clarification for an entity that receives a share-based payment from a customer in a revenue contract.

- An entity (the grantee who is the provider of goods or services) would first apply the guidance in Topic 606, Revenue from Contracts with Customers, to a contract with share-based payment that is consideration for the transfer of goods or services. Under Topic 606, the share-based payment should be recognized as an asset when the entity's right to receive or retain the share-based payment is no longer contingent on the satisfaction of a performance obligation.
- An entity that receives a share-based payment from a customer in a revenue contract would not apply the guidance in Topic 815, Derivatives and Hedging, and Topic 321, Investments—Equity Securities, unless and until the share-based payment is recognized as an asset under Topic 606.