

EARLY IMPRESSIONS

FASBs' Accounting Standard Update (ASU-2025-07)

Derivatives and Hedging (Topic 815) and Revenue from Contracts with Customers (Topic 606)



1. FOREWORD

The financial reporting landscape continues to evolve as standard setters respond to the growing need for clarity, consistency, and relevance in a dynamic business environment. With the issuance of **ASU 2025-07: Derivatives Scope Refinements and Scope Clarification for Share-Based Noncash Consideration from a Customer in a Revenue Contract**, the Financial Accounting Standards Board (FASB) has taken another meaningful step toward reducing unnecessary complexity and aligning accounting outcomes with economic reality.

For many organizations, the broad application of derivative accounting to contracts linked to operational metrics has long been a source of confusion and volatility. Similarly, questions surrounding how to account for share-based payments received from customers have led to diversity in practice. On September 29, 2025, the FASB issued **ASU 2025-07** to directly address these challenges by narrowing the scope of derivative accounting, clarifying revenue recognition principles, and providing transition options that strike a balance between rigor and flexibility.

In this **Earlier Impressions** publication, we share our initial perspectives on the amendment: what has changed, why it matters, and what finance leaders should consider now. While the effective date may seem distant, early assessment and planning will be crucial, not only to ensure compliance but also to capitalize on the opportunities this change presents to streamline processes and improve communication with stakeholders.

We sincerely hope you find the enclosed publication informative. We will be happy to participate in any discussions required to clarify our views enclosed in the attached publication. We look forward to hearing from you.

Thank you.

Yours faithfully

For Uniqus Consultech Inc.



Sandip Khetan
Co-Founder, Global Head of
Accounting & Reporting Consulting

1. Foreword

2. Background

3. Key Highlights of Amendment in ASU

4. Effective date and transition

5. Uniqus Perspective of amendments in ASU

6. Appendix

2. BACKGROUND

In September 2025, the FASB issued ASU 2025-07, introducing targeted amendments to existing guidance on derivatives and share-based payments from customers. The update stems from ongoing stakeholder feedback that highlights complexities and inconsistencies in applying derivative accounting under ASC 815 and share-based payment guidance under ASC 606.

Specifically, stakeholders have faced challenges when contracts contain features linked to the operations or activities of one of the parties, such as research and development funding arrangements, litigation financing agreements, or bonds with interest payments based on environmental, social, and governance (ESG) metrics. These contracts often fell into a grey area of derivative accounting, creating uncertainty and sometimes resulting in reporting that did not fully reflect the underlying economics.

ASU 2025-07 aims to clarify the scope of derivative guidance, reduce operational complexity, and establish a framework that enables financial statements to reflect the economics of these arrangements more accurately.

Additionally, the ASU addresses practical issues in accounting for share-based payments received from customers, thereby aligning accounting outcomes with the economics of these transactions.

ASU 2025-07 addresses two main issues:

- 1. Refinements to the scope of derivative accounting under ASC 815**, to reduce over-application of derivative accounting to contracts whose underlying are tied to an entity's operations or non-market metrics.
- 2. Clarification of how to account for share-based noncash consideration received from customers** in revenue contracts under ASC 606, and when derivative or investment accounting (ASC 815 or ASC 321) should apply.

By providing clearer guidance, the FASB aims to enhance the consistency and decision usefulness of financial reporting, supporting both preparers and users of financial statements in understanding the impact of these contracts on an entity's financial position and performance.



3. KEY HIGHLIGHTS OF AMENDMENT IN ASU

Key Changes at a Glance:

Derivative Scope Refinements	Share-Based Noncash Consideration Clarification
A new scope exception for contracts whose underlying is based on operational metrics or activities specific to a party, rather than market-based measures.	Share-Based Noncash Consideration from the customer remains within ASC 606 until the right to receive it, is unconditional.
A reaffirmed predominance test when contracts have multiple underlying, ensuring the “driver” of fair value remains the deciding factor.	Initial measurement is at fair value at contract inception; subsequent changes (before becoming unconditional) do not affect revenue.
Requirement to reassess on contract modifications.	Transition asset/liability treatment clarified when timing differs between revenue recognition and share issuance.

1. Foreword

2. Background

3. Key Highlights of Amendment in ASU

4. Effective date and transition

5. Uniquis Perspective of amendments in ASU

6. Appendix

a. Derivative Scope Refinements

Main Provision

ASC 815-10-15-59 provides certain scope exceptions from Topic 815 for contracts that are not traded on an exchange. The ASU introduces a new scope exception under ASC 815-10-15-59(e) for contracts whose underlying is based on the operations or activities of one of the parties involved.

Examples of such contracts include those tied to the occurrence or nonoccurrence of specific events, such as:

- Contracts tied to achieving specific financial results, such as reaching USD 10 million in annual sales.
- Contracts linked to ESG goals, like reducing carbon emissions by 20% in a year
- Agreements that require regulatory approvals, such as FDA approval for a new drug
- Product development milestones, for example, completing a prototype by a set date.

Application Guidance or Implementation matters

- The exception may also extend to specific research and development (R&D) funding arrangements (such as funding a startup's drug research), and litigation financing agreements (such as financing a legal case in return for a share of any settlement).
- **Exclusions: What the Scope Exception Does Not Cover**

This scope exception does not apply to the following types of contracts:

1 Market-based underlying: Contracts where the outcome depends on a market rate, market price, or market index do **not** qualify for scope exception.
Example: A contract tied to the S&P 500 index, or the Secured Overnight Financing Rate (SOFR) would **not** qualify.

2 Financial asset or liability underlying: Contracts where the outcome depends on the price, performance, or default of a financial asset or liability held by one of the parties do **not** qualify for scope exception.
Example: A contract linked to the interest earned on a bank loan portfolio or whether a borrower defaults on a loan would **not** qualify.

3 Contracts involving the entity's own stock: Contracts that involve the company's own equity and are already covered under specific ASC guidance (ASC 815-10-15-74(a) and Subtopic 815-40) do **not** qualify for scope exception.
Stock options issued to employees would not be covered by this exception.

4 Call or put options on debt instruments: Contracts that give the right to buy or sell debt instruments and are already governed by certain ASC rules (815-15-25-41 through 25-43) do not qualify for the scope exception.
Example: A call option to buy a corporate bond at a fixed price would **not** be included.

These exclusions to scope exceptions help clarify that the exception is focused on contracts tied to specific operational or activity-based events, rather than market-based or financial instrument-based outcomes.

- **Clarification on "Parties to the Contract":** The Board has clarified in Basis for Conclusion that the term "parties to the contract" is not limited to the legal entity that signs the contract. The exception applies to the activities of the legal entity as well as those of its parent, subsidiaries, and other entities consolidated by the parent. This guidance is relevant for both consolidated financial statements and the standalone statements of individual entities within the consolidated group.

1. Foreword

2. Background

**3. Key Highlights of
Amendment in ASU**

4. Effective date and
transition

5. Uniquis Perspective of
amendments in ASU

6. Appendix

1. Foreword
2. Background

3. Key Highlights of Amendment in ASU

4. Effective date and transition
5. Uniquis Perspective of amendments in ASU
6. Appendix

Example



Product development

Company A, a subsidiary of Parent Co., enters a contract with an external party that is tied to achieving a product development milestone. Company A is the contracting party under the agreement. Under the Board's clarification, when evaluating whether the contract qualifies for the scope exception, the assessment includes not only Company A's activities but also those of Parent Co. and other consolidated subsidiaries. For instance, if Parent Co. provides key resources, guidance, or approvals that influence the milestone, these activities are considered part of the contracting party's operations for purposes of applying the scope exception.



Litigation Funding

Subsidiary Z signs an agreement to fund a legal case. Activities of the parent company that provide resources or strategic guidance are included in determining whether the contract qualifies for the scope exception.

The Board emphasized that this broader interpretation is **specific to this scope exception** and should not be applied elsewhere in GAAP.



Contracts Outside the Entity's Control

When determining whether a contract qualifies for this scope exception, an entity **does not need to consider whether it can control the outcome**. For example, in a litigation funding arrangement, the result of a legal case usually depends on decisions made by a judge or jury, which are outside the entity's control. Nevertheless, this lack of control does not change how the contract is evaluated under the scope exception.



Contracts with Multiple underlying

In cases wherein a contract or arrangement include multiple underlying, each with different eligibility for the scope exception, an entity must assess its **predominant characteristics** in accordance with ASC 815-10-15-60. If the underlying, when considered together, are closely correlated with components that do not qualify for the scope exception, the contract as a whole will not be eligible for the exception.

Example

Company M enters into a contract that includes two performance measures:

1. A market index, such as the S&P 500.
2. An operational target, such as achieving USD 50 million in annual EBITDA.

While the EBITDA target might qualify for the scope exception, the market index does **not**. The company must evaluate the contract's **predominant characteristics**. If the behaviour of the EBITDA target is closely correlated with the market index—for instance, EBITDA tends to rise or fall directly with the index—the contract as a whole would **not** qualify for the scope exception, because the non-qualifying component dominates the overall outcome.

On the other hand, if EBITDA target is **not closely correlated** with the market index—its performance depends mainly on Company M's operations and decisions—assuming annual EBITDA represents contract's **predominant characteristics** the contract as a whole

qualifies for the scope exception. The non-qualifying market index component does not dominate or significantly influence the outcome, allowing the operational target to determine the contract's eligibility.

Predominant characteristics assessment is clarified in basis of conclusion as a **correlation assessment**. When a contract or embedded feature is linked to multiple variables, a **correlation assessment** helps determine which variable the contract is **most closely tied to**. This “predominant characteristics” test decides whether the instrument qualifies for a **derivative scope exception** or should be accounted for as a derivative.

Example: A hybrid instrument pays a fixed return plus a variable amount linked to both the company's stock price and a commodity price. The stock component qualifies for a scope exception, while the commodity component does not. The entity assesses which variable primarily drives the instrument's value. If the stock drives the value, the instrument may qualify for the exception; if the commodity drives it, it would be treated as a derivative.

1. Foreword

2. Background

3. Key Highlights of Amendment in ASU

4. Effective date and transition

5. Uniquis Perspective of amendments in ASU

6. Appendix

- **Ongoing Monitoring and Modifications:** After a contract or arrangement is initially assessed, entities should **continue monitoring** for any changes or modifications that could affect whether the scope exception still applies. This includes new agreements related to the original contract.

Example

Consider an R&D funding arrangement where a company provides financing to a startup in exchange for future payments tied to the project's success. If the company later **sells its rights to receive those future payments through a forward contract**, this new agreement may **not** qualify for the scope exception. This is because the payments under the forward contract are now based on a financial asset (the rights to receive future payments) rather than the original operational milestone or event.

Entities should evaluate these modifications carefully, as changes in the nature of the contract or the introduction of financial rights could affect whether the scope exception continues to apply.



Implementing the new scope exception may present several challenges:

- **Assessing Operational vs. Market-Based underlying:** Determining whether a contract's underlying is truly operational or event-driven, rather than market-based, can be complex, especially for contracts with multiple underlying
- To overcome this complexity, entities should perform a detailed predominant characteristics assessment and document the rationale. Consider quantitative and qualitative correlations between underlying to ensure consistent application.
- **Evaluating Activities of Parent and Consolidated Entities:** Including the activities of parent companies or consolidated subsidiaries can increase complexity, particularly in large corporate groups with multiple levels of consolidation.
- To overcome this complexity, entities should develop clear internal guidelines and a checklist to identify relevant activities, approvals, or resources contributed by parent and consolidated entities. Collaboration between accounting, operational, and legal teams can ensure completeness.

- **Ongoing Monitoring of Modifications and Related Agreements:** Contracts may be modified, or new arrangements may arise that affect scope exception eligibility, such as selling rights to future payments.
 - To overcome this complexity, entities should establish a monitoring framework to track contract changes and assess the impact on scope exception qualification on a regular basis. Use internal systems or workflow tools to flag significant modifications.
- **Judgment in Complex Scenarios:** Judgments are required for multiple underlying, correlation assessments, and contracts with outcomes outside the entity's control.
 - To overcome this complexity, entities should maintain robust documentation of all judgments and assumptions. Engage technical accounting experts to review complex cases and ensure consistency across the organization.

In our view by combining clear policies, structured assessments, and ongoing monitoring, entities can implement the guidance effectively while minimizing ambiguity and ensuring compliance.

1. Foreword

2. Background

3. Key Highlights of Amendment in ASU

4. Effective date and transition

5. Uniquis Perspective of amendments in ASU

6. Appendix

b. Share-Based Noncash Consideration Clarification

Main Provision

The amendment in ASU clarifies that when an entity is entitled to receive a share-based payment from a customer in exchange for transferring goods or services, such payment should be accounted for as **noncash consideration under ASC 606**. Specifically, the ASU establishes that guidance under **ASC 815** (Derivatives) or **ASC 321** (Investments) does not apply to share-based payments from a customer unless and until the entity's right to receive or retain the share-based noncash consideration is unconditional in accordance with ASC 606.

As noted in ASC 606-10-45-4, a right to consideration is considered unconditional if only the passage of time remains before payment is due. In other words, once any performance-related conditions are met, the entity's right to receive the share-based noncash consideration from the customer becomes unconditional (except for the passage of time), and the entity should then account for it under the relevant GAAP guidance."

The ASU further clarifies that:

1. The **estimated fair value** of a share-based payment at contract inception should be included in the transaction price.
2. **Subsequent changes in fair value**, as determined under other Codification topics, should **not** be accounted for until the right to consideration is unconditional and should not be included in the transaction price and recognized as revenue.

Application Guidance

- **Accounting for Share-Based Customer Payments - Timing and Measurement:**
Any **timing difference** between when an entity delivers goods or services and when its right to receive or retain the share-based payment becomes unconditional should be recognized as a **contract asset or liability**. The share-based payment is initially measured at its **estimated fair value at contract inception**, consistent with guidance on noncash consideration. Once the right to payment is no longer contingent on the entity's future performance, it becomes subject to **other GAAP guidance** (e.g., ASC 321 or ASC 815). At that stage, the entity should apply the relevant guidance for **subsequent measures**, which may lead to the recognition of an **immediate gain or loss**.

Illustrative Example:

On February 1, 2025, **Company A** enters into a contract with **Customer B**, a publicly listed company, to supply **200 units of specialized equipment**. The contract specifies that 120 units will be delivered on April 30, 2025, and the remaining 80 units on July 31, 2025. Each unit is considered a **separate performance obligation**, satisfied upon delivery.

- Under the contract, Customer B agrees to provide 50 of its common shares to Company A once all 200 units are delivered. Following ASU 2025-07, Company A determines the fair value of the shares at contract inception. At that time, the shares are valued at USD 20 each, setting the transaction price at USD 1,000 (50 shares × USD 20 per share).
- During the contract period, the share price increases to USD 28 per share. In accordance with the ASU, Company A does not adjust the transaction price or recognize changes in fair value until the right to receive the shares becomes unconditional.
 - On April 30, 2025, Company A delivers 120 units and recognizes USD 600 of revenue and a contract asset based on the estimated fair value of the shares at contract inception.
 - On July 31, 2025, the remaining 80 units are delivered, and Company A recognizes USD 400 of revenue and a contract asset, bringing the total to USD 1,000.
- Once all performance obligations are satisfied, Company A's right to the 50 shares is considered unconditional, since only the passage of time remains before settlement. At this point, the contract asset of USD 1,000 is derecognized, and the shares are accounted for under ASC 321. Given the increase in fair value to USD 28 per share, Company A records a USD 400 gain (50 shares × (USD 28 – USD 20)) on July 31, 2025.

1. Foreword

2. Background

3. Key Highlights of
Amendment in ASU

4. Effective date and
transition

5. Uniquis Perspective of
amendments in ASU

6. Appendix

1

April 30, 2025 – Delivery of first 120 units

Revenue and contract asset recognition (50 shares × USD 20 allocated proportionally to 120 units):

Dr. Contract Asset 600

Cr. Revenue (or allocation within transaction price) 600

(The USD 600 represents 120/200 units × USD 1,000 transaction price of 50 shares.)

2

July 31, 2025 – Delivery of remaining 80 units

Proportional contract asset for share-based consideration:

Dr. Contract Asset 400

Cr. Revenue (or allocation within transaction price) 400

(Total contract asset now USD 1,000, representing full 50 shares.)

3

July 31, 2025 – Right to shares becomes unconditional

Derecognize contract asset and record equity investment under ASC 321:

Dr. Equity Investments (ASC 321) 1,400

Cr. Contract Asset 1,000

Cr. Gain on Equity Investment 400

1. Foreword

2. Background

**3. Key Highlights of
Amendment in ASU**4. Effective date and
transition5. Uniquis Perspective of
amendments in ASU

6. Appendix

**Contract Assets and Impairment of Noncash Consideration**

Contract assets arising from rights to noncash consideration (such as shares) may be exposed to impairment risks beyond credit loss or counterparty non-performance. For instance, if an entity has the right to receive shares upon delivering goods, it records a contract asset at the fair value of those shares at contract inception as it fulfils its performance obligation.

While subsequent changes in share price do not affect the transaction price or revenue recognized as clarified by ASU 2025-07, the recorded contract asset must be tested for impairment (ASC 606-10-55-250C). Importantly, impairment losses are presented separately and do not reduce revenue.

Example: A supplier agrees to receive 1,000 shares of a customer as payment for delivering machinery. At contract inception, the shares are valued at USD 10 each (USD 10,000). Revenue is recognized based on this value when the machinery is delivered. If the share price later falls to USD 6, the contract asset is impaired to USD 6,000, and the USD 4,000 loss is recognized separately from revenue

Entities should apply a consistent impairment model for such contract assets and disclose material impacts appropriately.

4. EFFECTIVE DATE AND TRANSITION

1 Applicability

The amendment in ASU is applicable to all entities.

2 Effective Date

- ASU 2025-07 is effective for fiscal years beginning after December 15, 2026, including interim periods within those years.
- **Early adoption:**
 - Early adoption is permitted in any interim or annual period for which financial statements have not yet been issued or made available for issuance.
 - If adopted in an interim period, the guidance must be applied from the beginning of the fiscal year that includes that interim period.
 - Entities that decide to early adopt the amendment in ASU must apply both guidance i.e., guidance on derivatives scope refinements and the guidance on share-based noncash consideration concurrently.

3 Transition Provisions

Transition Methods

Entities may adopt ASU 2025-07 either:

1. **Prospectively** – applying the guidance to new contracts entered into in annual periods (and interim periods) beginning on or after the adoption date. For share-based noncash consideration, this includes contract modifications treated as separate contracts under ASC 606-10-25-12.

Example: Company B enters a new contract in 2026 that includes a feature based on its own operations, which under previous guidance might have been accounted for as a derivative. By adopting ASU 2025-07 prospectively, Company B applies the new scope refinements only to this new contract. Any existing contracts entered before adoption are not affected and continue to follow the prior guidance.

2. **Modified Retrospectively** – applying the guidance to all affected existing contracts as of the start of the annual period of adoption, with any cumulative effect recognized as an adjustment to opening retained earnings.

Example: Company C has an existing contract entered in 2024 with a feature that previously required derivative accounting. By adopting ASU 2025-07 on a modified retrospective basis, Company C **reassesses all affected contracts as of the start of 2026**. If derivative accounting is no longer required for the existing contract, the company adjusts the opening balance of retained earnings to reflect the cumulative effect, and the contract is accounted for under the revised guidance going forward.

Transition Flexibility

Entities may choose different adoption methods for each part of ASU 2025-07—prospective for derivatives scope refinements and modified retrospective for share-based noncash consideration, or vice versa.

1. Foreword

2. Background

3. Key Highlights of
Amendment in ASU

4. Effective date and
transition

5. Uniquis Perspective of
amendments in ASU

6. Appendix

Under the **modified retrospective approach**, entities have a one-time, instrument-by-instrument option regarding the **fair value election**:

1. **For contracts that no longer qualify for derivative accounting** after adoption, an entity can choose to apply the fair value option under ASC 825.
2. **For contracts where the fair value option was previously elected** for embedded derivatives that would otherwise require bifurcation, an entity can choose to **revoke that election** if the embedded derivative no longer needs to be separated.

Decisions to elect or revoke the fair value option must be reflected in the **opening balance sheet** at the start of the year of adoption. For contracts where the fair value option is not applied, the entity will continue to account for them under the applicable US GAAP guidance.

Example

- **Revoking the fair value election:**
Company A holds a debt instrument with an embedded derivative tied to its own operations. Under old guidance, this derivative was bifurcated, and the company elected to measure the instrument at fair value. After ASU 2025-07, the embedded feature no longer requires bifurcation. Company A may now revoke the fair value election and account for the debt at amortized cost instead.
- **Electing the fair value option:**
Company B has a contract previously treated entirely as a derivative. After the scope refinement under ASU 2025-07, the contract no longer qualifies as a derivative. Company B can now choose to apply the **fair value option**, measuring the contract at fair value from the adoption date onward.

Disclosure requirements

For each transition method, entities must disclose the nature and reason for the change in accounting principle. For **modified retrospective adoption**, they must also disclose the cumulative effect on retained earnings and identify the financial statement line items affected.



- 1. Foreword
- 2. Background
- 3. Key Highlights of Amendment in ASU
- 4. Effective date and transition**
- 5. Uniquis Perspective of amendments in ASU
- 6. Appendix

5. UNIQUE PERSPECTIVE OF AMENDMENTS IN ASU

We see this as:

A win for preparers:

Reduced need to apply complex fair value models to internal metrics not reflective of market exposure.

A win for investors:

More decision-useful financial statements that emphasize economics over form.

Reduce diversity:

The diversity in practice resulting from the broad application of the current guidance and changing business environment will be reduced.

A challenge for transition:

Entities will need to carefully assess existing contracts and embedded features to determine whether scope exceptions apply and evaluate the strategic implications of electing the fair value option.

1. Foreword
2. Background
3. Key Highlights of Amendment in ASU
4. Effective date and transition

5. Unique Perspective of amendments in ASU

6. Appendix

Companies' Action Points

01

Inventory of contracts - Identify arrangements with operational or milestone-based underlying and assess whether they qualify for the new exception

02

Evaluate revenue contracts - Determine how share-based consideration is currently treated and whether timing or valuation differences may arise.

03

Plan for transition - Consider the adoption method (modified retrospective vs. retrospective) and whether the fair value option election offers advantages.

04

Engage stakeholders - Communicate with auditors, investors, and audit committees early to explain potential impacts.

05

Strengthen processes - Build controls around reassessment triggers for modifications and contract amendments.

Looking Ahead

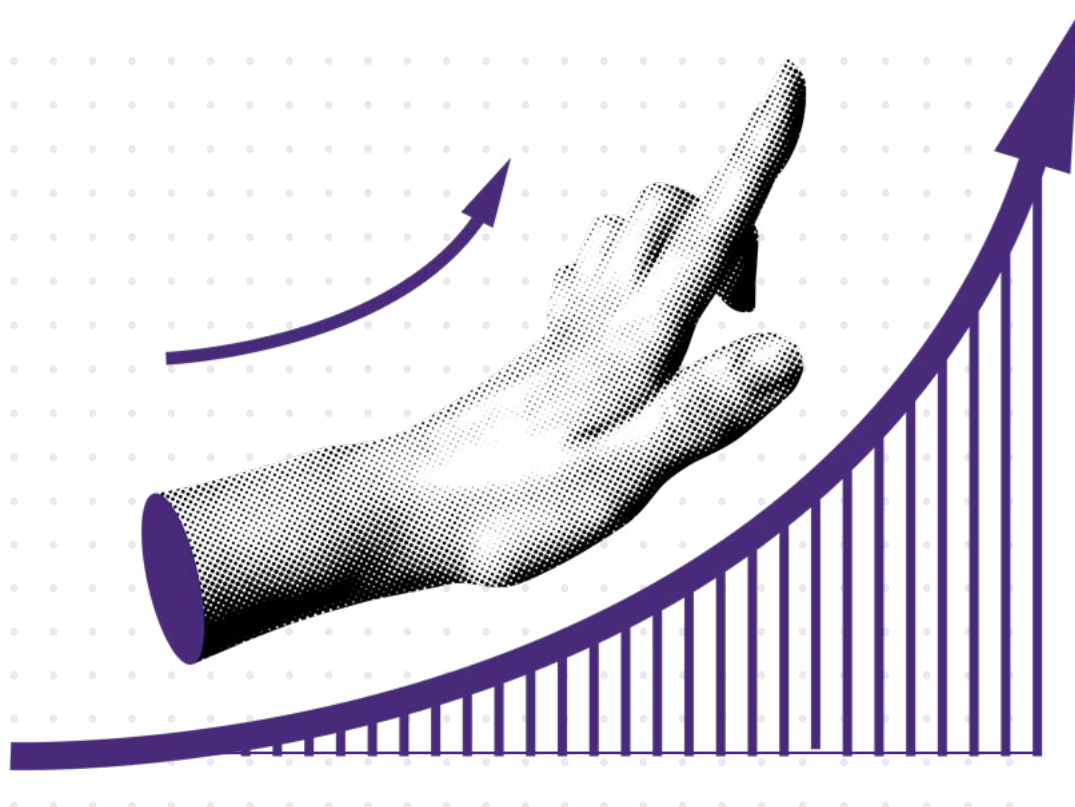
The ASU may reduce accounting complexity, but it also raises the bar for judgment and governance. Preparers must establish robust frameworks to assess underlying, apply the predominance test, and monitor modifications. This standard should foster financial reporting that better mirrors economic substance — a core goal of accounting standard-setting.

To further support consistent application, the update includes **illustrative examples** offering clear implementation guidance on the amendments. The illustrative examples are summarized in the Appendix section of this publication.

- 1. Foreword
- 2. Background
- 3. Key Highlights of Amendment in ASU
- 4. Effective date and transition

5. Unique Perspective of amendments in ASU

- 6. Appendix



6. APPENDIX

The ASU also introduces new illustrative examples as part of the implementation guidance. These examples are designed to help entities apply the amended requirements in practice and better understand how the scope exception operates. Set out below are some of the case studies, adapted from the guidance, to demonstrate the application of the amendments in common scenarios.

- 1. Foreword
- 2. Background
- 3. Key Highlights of Amendment in ASU
- 4. Effective date and transition
- 5. Uniquis Perspective of amendments in ASU

6. Appendix

Case Study 1: Research and Development Funding Arrangement— underlying Based on the Occurrence of Regulatory Approval and Achieving an Earnings Target

Fact Pattern: Entity A receives USD 50 million in funding from Entity B to develop and commercialize a new drug. If the drug is approved, Entity A pays USD 20 million back to Entity B. Once commercialized, Entity A will pay an additional USD 80 million if the gross profits from the drug exceed USD 500 million.

Does Contract qualify for scope exception in ASC 815-10-15-59(e)?

The arrangement hinges on two factors: regulatory approval and achieving a profit threshold. Both are tied to Entity A's own activities rather than market-based measures or financial instruments. As a result, these features fall within the scope exception in ASC 815-10-15-59(e).

(Source: Case A of Example 14A in ASC 815-10-55-143B and 55-143C)

Case Study 2: Sustainability-Linked Bond—Embedded Feature Tied to Greenhouse Gas Reduction Target

Fact Pattern: On July 1, 2024, Entity A issues a five-year fixed-rate bond. If Parent Company fails to achieve a specified consolidated greenhouse gas emissions reduction target by June 30, 2026, the bond's interest rate increases by 0.25% for the remaining term.

Does Contract qualify for scope exception in ASC 815-10-15-59(e)?

The bond contains a hybrid feature requiring evaluation for bifurcation. The underlying—failure to meet the emissions target—is an activity specific to one of the parties (Parent Company) and is not based on a market rate, index, or financial asset or liability of either party. As a result, this underlying qualifies for the scope exception under ASC 815-10-15-59(e).

(Source: Case C of Example 14A in ASC 815-10-55-143F)

Case Study 3: Litigation Funding Arrangement—Underlying Tied to Successful Litigation Outcome

Fact Pattern: Entity A, pursuing patent infringement damages, enters into a funding arrangement with Entity B, which provides USD 1 million to support the litigation. If the litigation is successful, Entity A will pay Entity B 50% of the settlement.

Does Contract qualify for scope exception in ASC 815-10-15-59(e)?

The arrangement contains an underlying—the occurrence of a successful litigation outcome—which is specific to Entity A's operations and is not based on a market rate, index, or financial asset or liability of either party. Accordingly, this underlying qualifies for the scope exception under ASC 815-10-15-59(e).

(Source: Case D of Example 14A in ASC 815-10-55-143G and 55-143H)

Case Study 4: Commodities-Based Arrangement—Underlying Tied to Market Price of Gold

Fact Pattern: Entity A, which trades gold as part of its operations, enters into a contract with Entity B to receive an upfront payment in exchange for a specified percentage of any increase in the market price of gold.

Does Contract qualify for scope exception in ASC 815-10-15-59(e)?

The arrangement contains an underlying—the market price of gold—which is based on a market price and therefore does not qualify for the ASC 815-10-15-59(e) scope exception.

(Source: Case F of Example 14A in ASC 815-10-55-143K)

Case Study 5: Variable Payment Arrangement—Underlying Tied to Regulatory Approval

Fact Pattern: Entity A, a pharmaceutical company, acquires Entity B, a biotech start-up, and enters into a variable payment arrangement to pay an additional USD 2 million to the sellers upon regulatory approval of a drug developed by Entity B.

Does Contract qualify for scope exception in ASC 815-10-15-59(e)?

The arrangement contains an underlying—the occurrence of regulatory approval—which is specific to Entity B's operations and not based on a market rate, index, or financial asset or liability of either party. Accordingly, this underlying qualifies for the ASC 815-10-15-59(e) scope exception.

(Source: Case G of Example 14A in ASC 815-10-55-143L and 55-143M)

1. Foreword
2. Background
3. Key Highlights of Amendment in ASU
4. Effective date and transition
5. Uniquis Perspective of amendments in ASU

6. Appendix

Case Study 6: Variable Payment Arrangement—Underlying Based on Stock Price Differential

Fact Pattern: Entity A acquires Entity B in exchange for two million shares of its common stock and agrees to pay cash if the stock price is below USD 100 on the 1-year anniversary.

Does Contract qualify for scope exception in ASC 815-10-15-59(e)?

The arrangement contains an underlying—the stock price differential—which is based on a market price and therefore does not qualify for the ASC 815-10-15-59(e) scope exception.

(Source: Case I of Example 14A in ASC 815-10-55-143P and 55-143Q)

Case Study 7: Credit Default Swap Arrangement—Underlying Tied to Reference Entity Default

Fact Pattern: Entity A holds a debt instrument issued by Entity C and enters into a credit default swap with Entity B to obtain credit protection. Under the arrangement, Entity A pays periodic premiums, and Entity B pays cash if the reference entity defaults.

Does Contract qualify for scope exception in ASC 815-10-15-59(e)?

The arrangement contains an underlying—the occurrence of a default—which is based on the performance of a financial asset held by Entity A and therefore does not qualify for the ASC 815-10-15-59(e) scope exception.

(Source: Case J of Example 14A in ASC 815-10-55-143R and 55-143S)

1. Foreword
2. Background
3. Key Highlights of Amendment in ASU
4. Effective date and transition
5. Uniquis Perspective of amendments in ASU

6. Appendix

Case Study 8: Share-Based Noncash Consideration under ASC 606

Fact Pattern: On January 1, 20X7, an entity enters into a contract to sell 5,000 units of Product A at USD 100 per unit, with a performance bonus of 100 warrants valued at USD 100,000 if all units are delivered within two years. Each unit is a performance obligation satisfied at a point in time. The total transaction price of USD 600,000 (including the warrants) is allocated evenly, resulting in USD 120 per unit.

- **20X7:** The entity delivers 3,000 units.
- **20X8:** The remaining 2,000 units are delivered.

How do entity record share based non cash consideration?

- **20X7:** The entity delivers 3,000 units, recognizing USD 360,000 revenue, collecting USD 300,000 cash, and recording a USD 60,000 contract asset for the warrants.
- **20X8:** The remaining 2,000 units are delivered, recognizing USD 240,000 revenue, collecting USD 200,000 cash, and recording a USD 40,000 contract asset.
- The entity does not reflect any changes in the fair value of the 100 warrants in the transaction price. However, the entity assesses the related contract asset for impairment.
- When all 5,000 units have been delivered, the entity concludes that its right to receive or retain the 100 warrants is unconditional. At that point, the contract asset is derecognized, and the entity applies the guidance in other Topics to account for the 100 warrants.

(Source: Example 31A in ASC 606-10-55-250B and 55-250D)

1. Foreword
2. Background
3. Key Highlights of Amendment in ASU
4. Effective date and transition
5. Uniquis Perspective of amendments in ASU

6. Appendix

For more information on the proposed Accounting Standard Update, see the [press release](#) on the FASB's website.

A TEAM THAT YOU CAN TRUST TO DELIVER



Sandip Khetan

Co-Founder, Global Head of
Accounting & Reporting Consulting

sandip.khetan@uniquis.com



Arda Kaya

Partner, Accounting & Reporting
Consulting

ardakaya@uniquis.com



Ashish Gupta

Partner, Accounting & Reporting
Consulting

ashishgupta@uniquis.com



Avinash Ramkumar

Partner, Accounting & Reporting
Consulting

avinash@uniquis.com



Sagar Lakhani

Partner, Accounting & Reporting
Consulting

sagarlakhani@uniquis.com



Sharad Chaudhry

Partner, Accounting & Reporting
Consulting

schaudhry@uniquis.com



Shashikant Shenoy

Partner, Accounting & Reporting
Consulting

sshenoy@uniquis.com



Shahrukh Kapadia

Associate Partner, Accounting
& Reporting Consulting

shahrukhkapadia@uniquis.com



Puneet Chowdhary

Director, Accounting &
Reporting Consulting

puneetchowdhary@uniquis.com

To know more about us, please
visit us at www.uniquis.com

or follow us on

