



# FASB issues ASU

## Derivative scope refinements

September 30, 2025



## **FASB adds a derivative scope exception and clarifies the guidance for share-based payment from a customer in a revenue contract.**

### Source and applicability

- ASU 2025-07, [Derivatives Scope Refinements and Scope Clarification for Share-Based Noncash Consideration from a Customer in a Revenue Contract](#).
- All entities.

### Fast facts, impacts, actions

ASU 2025-07 addresses two distinct accounting issues.

#### Derivatives scope refinement

The ASU refines the scope of Topic 815 (derivatives) by adding a scope exception from derivative accounting for contracts that (1) are not exchange traded and (2) have underlyings based on operations or activities specific to one of the parties to the contract. However, contracts based on certain underlyings would not qualify for the scope exception.

This new scope exception may affect the accounting for a contract in its entirety, such as research and development funding arrangements and litigation funding arrangements, and embedded features within a hybrid instrument, such as bonds in which interest payments may vary based on environmental-, social- and governance-linked metrics.

#### Scope clarification for share-based noncash consideration

The ASU also clarifies that the revenue guidance in Topic 606 applies initially to share-based noncash consideration received from a customer for the transfer of goods or services. The guidance in other Topics, including derivatives (Topic 815) and equity securities (Topic 321), is not applied unless and until the entity's right to receive or retain the share-based noncash consideration is unconditional under Topic 606.

#### Effective dates and transition

The ASU will become effective in interim and annual periods for fiscal years beginning after December 15, 2026 and may be applied either on a prospective or modified retrospective basis. Early adoption is permitted for financial statements that have not yet been issued (or made available for issuance).

## Background

ASU 2025-07 was issued to address concerns related to:

- the application of derivative accounting to contracts with features based on the operations or activities of one of the parties to the contract; and
- the diversity in accounting for share-based noncash consideration from customers in exchange for goods or services.

To address these concerns, the ASU refines the scope of Topic 815 by creating a new scope exception from derivative accounting and clarifies how to account for share-based noncash consideration from a customer in exchange for goods or services. The amendments are expected to (1) reduce the cost and complexity of evaluating whether contracts with features based on the operations or activities of one of the parties to the contract are derivatives, (2) better portray the economics of those contracts in the financial statements and (3) reduce diversity in practice resulting from the broad application of the current guidance and changing business environment.

## Derivatives scope refinement

ASU 2025-07 adds a scope exception from derivative accounting for non-exchange traded contracts with underlyings based on operations or activities specific to one of the parties to the contract. For example, an underlying could be based on the occurrence or nonoccurrence of an event specific to the operations or activities of one of the parties to the contract (such as obtaining regulatory approval, achieving a product development milestone). 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.

However, the new scope exception does not apply to the following:

- underlyings that are based on a market rate, market price or market index;
- underlyings that are based on 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 that are subject to paragraph 815-10-15-74(a) and Subtopic 815-40;
- call and put options on debt instruments that are subject to the clearly and closely related analysis in paragraphs 815-15-25-41 to 25-43.

For purposes of applying the scope exception, the term 'party to the contract' includes the parent, subsidiaries, and other entities consolidated by the parent for both the consolidated financial statements of the parent and stand-alone financial statements of the individual entities within the consolidated group.

### Example

Entity A and Entity B enter into a research and development funding arrangement. Entity A receives \$50 million in funding from Entity B to support the development and commercialization of a drug. Entity A agrees to pay Entity B (1) \$20 million upon regulatory approval of the drug and (2) \$80 million when gross profit related to the drug exceeds \$500 million.

The arrangement includes two underlyings: (1) occurrence of regulatory approval and (2) achievement of an earnings measure (gross profit related to the drug exceeding \$500 million).

Both underlyings qualify for the non-exchange traded scope exception because they relate to the drug that Entity A is developing as part of its operations. In addition, the underlyings are not based on a market rate, market price or market index; the underlyings are not based on the price or performance (including default) of a financial asset or financial liability of either Entity A or Entity B; the arrangement

is not a contract involving an entity's own equity (subject to paragraph 815-10-15-74(a) and Subtopic 815-40); and the arrangement does not involve call or put options.



The ASU addresses concerns raised by stakeholders about the application of the definition of a derivative (and related scope exceptions) for (1) certain emerging transactions, such as bonds in which interest payments may vary based on environmental, social and governance-linked metrics, and (2) certain longstanding transactions, such as research and development funding arrangements and litigation funding arrangements. If these features and contracts were previously accounted for as derivatives and now qualify for the scope exception, entities will need to reassess their accounting.

## Scope clarification for share-based noncash consideration

The ASU clarifies how an entity applies the revenue guidance in Topic 606 to share-based noncash consideration (e.g. shares, share options or other equity instruments) received from a customer in exchange for goods or services. Similarly, the Topic 606 noncash consideration guidance applies if the contract is in the scope of Subtopic 610-20, meaning it is a contract with share-based noncash consideration from a counterparty in exchange for nonfinancial assets or in-substance nonfinancial assets.

Under the noncash consideration guidance in Topic 606, a share-based payment is measured at fair value at contract inception to determine the transaction price. When the fair value of noncash consideration varies due to the form of the consideration (e.g. changes in the price per share of an equity instrument), the transaction price is not adjusted. When the fair value of noncash consideration varies for reasons other than the form of consideration (e.g. change in the number of equity instruments to be issued due to performance), the change is reflected in the transaction price and is subject to the guidance on constraining variable consideration.

Other guidance (e.g. derivatives, equity securities) does not apply unless and until the entity's right to receive or retain the share-based noncash consideration is unconditional under Topic 606. Under Topic 606, a right to consideration is unconditional if only the passage of time is required before that payment is due. When evaluating whether a right is unconditional, an entity only considers the contract terms that relate to its performance obligations or a specific outcome of its performance.


### Example

An entity enters into a one-year contract with a customer to sell Product A in exchange for \$1 per unit delivered. If the entity delivers 1,000 units during the contract term, the customer promises a bonus in the form of 100 warrants in the customer's common stock.

The entity applies Topic 606 to the contract, including the noncash consideration and variable consideration guidance, to estimate and allocate the bonus of warrants. If the entity believes the most likely outcome is meeting the volume threshold of 1,000 units delivered, and therefore being entitled to the bonus, it allocates the variable consideration to each unit at the contract inception fair value, and recognizes a contract asset and revenue as the performance obligations are satisfied if it is not probable that a significant revenue reversal will occur. Guidance in other Topics (e.g. Topic 815 or Topic 321) applies when the entity delivers the 1,000th unit because the entity then has an unconditional right to receive the warrants.

Topic 606 (or Subtopic 610-20) notes that the impairment guidance in Subtopic 326-20 applies to a contract asset. Subtopic 326-20 only addresses credit loss risk; it does not address impairment risk associated with the value of the noncash consideration to be received. Example 31A in the ASU indicates

that an entity receiving share-based noncash consideration assesses the related contract asset for impairment. However, the Board noted in BC69 that fair value adjustments related to the form of the consideration to be received are not made prior to the application of other Topics (e.g. Topic 815 or Topic 321) and did not provide any guidance on how an impairment model would be applied.



If a contract asset is recognized because an entity's right to receive or retain share-based noncash consideration is not unconditional under Topic 606, it is unclear what type of impairment model should be applied to the risks associated with the form of the noncash consideration (e.g. decreases in fair value) before the other guidance applies, such as the guidance on derivatives or equity securities. As a result, there may be diversity in practice.

## Effective dates and transition

Effective dates	All Entities
Annual periods – Fiscal years beginning after	December 15, 2026
Interim periods – In fiscal years beginning after	December 15, 2026
Early adoption permitted?	<ul style="list-style-type: none"> <li>Yes, in interim or annual periods for financial statements that have not yet been issued or made available for issuance.</li> <li>If adopted in an interim period, apply the guidance as of the beginning of the annual period that includes that interim period.</li> <li>Entities must simultaneously adopt the guidance for both issues in the ASU (derivative scope refinement and scope clarification for share-based noncash consideration).</li> </ul>
Transition methods	<p>The transition method may be based on either of the following:</p> <ul style="list-style-type: none"> <li>Prospective basis to new contracts entered into on or after the date of adoption.<sup>1</sup></li> <li>Modified retrospective basis through a cumulative-effect adjustment to the opening balance of retained earnings (or other equity components or net assets) for contracts existing as of the beginning of the annual period of adoption.<sup>2</sup></li> </ul> <p>An entity may elect different transition methods for derivatives scope refinement and scope clarification for share-based noncash consideration.</p>

### Notes:

1. If the prospective method is applied for the scope clarification of share-based noncash consideration 'new contracts' include modified contracts accounted for as separate contracts under paragraph 606-10-25-12.
2. If the modified retrospective method is applied for the derivatives scope exception an entity may:

- elect the fair value option on an instrument-by-instrument basis for contracts that previously were accounted for as derivatives but are not upon adoption if the instrument is in the scope of Subtopic 825-10; and
- revoke a previously elected fair value option for contracts that contain embedded derivatives that would have otherwise been bifurcated if the fair value option was not elected but would no longer be bifurcated upon adoption.

## Disclosure

The following transition disclosures are required in both the interim and annual period in which the ASU is adopted.

Transition method	Disclosure
Prospective	<ul style="list-style-type: none"> <li>• Nature and reason for the change in accounting principle</li> </ul>
Modified retrospective	<ul style="list-style-type: none"> <li>• Nature and reason for the change in accounting principle</li> <li>• Cumulative effect of the change on retained earnings (or other equity components or net assets) as of the beginning of the reporting period for which the guidance is applied</li> <li>• Description of the financial statement line items affected by the adjustment (required only for derivatives scope refinement)</li> </ul>

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