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# FASB Amends Guidance on Derivatives Scope Refinements and Provides Scope Clarification for Share-Based Noncash Consideration From a Customer in a Revenue Contract

## Overview

On September 29, 2025, the FASB issued [ASU 2025-07](#),<sup>1</sup> which (1) refines the scope of the guidance on derivatives in ASC 815<sup>2</sup> (Issue 1) and (2) clarifies the guidance on share-based payments from a customer in ASC 606 (Issue 2). The ASU is intended to address concerns about the application of derivative accounting to contracts that have features based on the operations or activities of one of the parties to the contract and to reduce diversity in the accounting for share-based payments in revenue contracts.

## Background

ASU 2025-07 was issued on the basis of feedback received from stakeholders on the 2021 Invitation to Comment, *Agenda Consultation*. Citing the “broad and evolving application” of the definition of a derivative, some stakeholders noted the difficulties associated with applying that definition as well as the derivative scope exceptions to certain transactions, including those involving (1) financial instruments linked to environmental, social, and governance

<sup>1</sup> FASB Accounting Standards Update (ASU) No. 2025-07, *Derivatives and Hedging (Topic 815) and Revenue From Contracts With Customers (Topic 606): Derivatives Scope Refinements and Scope Clarification for Share-Based Noncash Consideration From a Customer in a Revenue Contract*.

<sup>2</sup> For titles of FASB Accounting Standards Codification (ASC or “Codification”) references, see Deloitte’s “[Titles of Topics and Subtopics in the FASB Accounting Standards Codification](#).”

matters and (2) other operations-specific activities, such as R&D funding arrangements and litigation funding arrangements.

In addition, there has been uncertainty in the accounting for share-based payments from customers under ASC 606, prompting the need for clarification. Specifically, stakeholders have questioned which guidance an entity should apply to recognize share-based payments that are received from a customer as consideration in exchange for the transfer of goods or services.

## Main Provisions of ASU 2025-07

### Issue 1: Derivatives Scope Refinement for Contracts With Specific Underlyings

The ASU adds a new scope exception in ASC 815-10-15-59(e) for certain contracts that are not traded on an exchange and have “[a]n underlying that is based on operations or activities specific to one of the parties to the contract.” Contracts that may qualify for this exception include those in which the underlying is linked to the “occurrence or nonoccurrence of an event,” such as achieving specified financial operating results or ESG metrics, obtaining regulatory approval, or reaching specified product development milestones. In addition, the scope exception may apply to certain R&D funding arrangements as well as certain litigation funding arrangements.

The term “parties to the contract” as used in ASC 815-10-15-59(e) is not limited to the legal entity that entered into the contract. As discussed in paragraph BC32 of ASU 2025-07, the “Board decided that the scope exception should capture not only the activities of the legal entity that is the party to the contract but also the activities of the parent, subsidiaries, and other entities consolidated by the parent for the purposes of both consolidated financial statements and the standalone financial statements of individual entities within the consolidated group.” This broader interpretation of the term “parties to the contract” should be applied only in the context of the scope exception in ASC 815-10-15-59(e) and should not be applied by analogy in other areas of GAAP.

Further, when evaluating a contract to determine whether it meets this scope exception, an entity does not need to consider whether the outcome is within its control. For example, in a litigation funding arrangement, the outcome of a legal case is typically dependent upon decisions made by a judge or jury and therefore is not within the entity’s control. However, this should not affect an entity’s assessment of the contract under this scope exception.

Case A of Example 14A in ASC 815-10-55-143B and 55-143C below is reproduced from the ASU.

ASC 815-10
<b>Pending Content (Transition Guidance: ASC 815-10-65-8)</b>
<b>Case A: Research and Development Funding Arrangement — Underlyings Based on the Occurrence of Regulatory Approval and Achieving an Earnings Target</b>
<b>55-143B</b> Entity A and Entity B enter into a research and development funding arrangement. Under the arrangement, Entity B provides funding of \$50 million so that Entity A may develop and commercialize a drug compound. The arrangement has no clawback feature. Upon regulatory approval of the drug, Entity A pays \$20 million to Entity B. Once the drug is commercialized, Entity A pays an additional \$80 million to Entity B when gross profit related to the drug exceeds \$500 million.

**Pending Content (Transition Guidance: ASC 815-10-65-8)**

**55-143C** The arrangement contains 2 underlyings: the occurrence of regulatory approval and an earnings measure (gross profit related to the drug exceeding \$500 million). Because the occurrence of regulatory approval and gross profit relate to the drug that Entity A is developing, both of the underlyings are based on the operations or activities of Entity A. Whether the occurrence of regulatory approval is within the control of Entity A does not impact the conclusion that the underlying qualifies for the scope exception. Neither underlying is based on a market rate, market price, market index, or the price or performance (including default) of a financial asset or financial liability of one of the parties to the contract as described in paragraph 815-10-15-59(e)(1) and (e)(2). Also, the exclusions related to contracts involving an entity's own equity or call options and put options on debt instruments as described in paragraph 815-10-15-59(e)(3) and (e)(4) do not apply. Therefore, those two underlyings each qualify for the scope exception in paragraph 815-10-15-59(e).

Under the ASU, an entity that is evaluating a contract to determine whether it meets the scope exception should remain vigilant in identifying underlyings that are based on market rates, market prices, market indexes, or the "price or performance (including default) of a financial asset or financial liability of one of the parties to the contract." Underlyings that have these characteristics are not eligible for the scope exception. In addition, contracts that involve either (1) an entity's own equity<sup>3</sup> or (2) call or put options on debt instruments<sup>4</sup> also do not qualify for the scope exception.

There may be instances in which a contract or arrangement has multiple underlyings with different eligibilities for the scope exception (e.g., one underlying that is based on a market index and one underlying that is based on an EBITDA target). If a contract or arrangement has multiple underlyings, an entity will need to perform a predominant characteristics assessment in accordance with ASC 815-10-15-60. If the underlyings, in combination, are highly correlated with the behavior of the components that do not qualify for the scope exception, the contract does not qualify for the scope exception.

After the initial assessment of a contract or arrangement is complete, entities should continue to monitor for any modifications that may affect the applicability of the scope exception or new agreements related to the original agreement. For example, in cases of R&D or litigation funding arrangements, entities may sell, via a forward contract, their rights to receive future payments under the funding arrangement. We believe that the sale of these rights might not qualify for the scope exception since the payments are based on the performance of a financial asset of one of the parties to the contract (i.e., the rights to receive future payments under the original funding arrangement).

Case I of Example 14A in ASC 815-10-55-143P and 55-143Q below is reproduced from the ASU and exemplifies an arrangement that does not qualify for the scope exception.

<sup>3</sup> Contracts involving an entity's own equity are subject to ASC 815-40.

<sup>4</sup> Call options and put options on debt instruments are subject to ASC 815-15-25-41 through 25-43.

**Pending Content (Transition Guidance: ASC 815-10-65-8)****Case I: Variable Payment Arrangement — Underlying Based on Stock Price Differential**

**55-143P** Entity A acquires Entity B (which does not meet the definition of a business) in exchange for two million shares of Entity A's common stock. As part of the acquisition agreement, Entity A agrees to pay cash to the sellers of Entity B if the quoted market price of Entity A's common stock is less than \$100 on the 1-year anniversary of the acquisition date. Specifically, if the quoted market price of Entity A's common stock is less than \$100 on the 1-year anniversary of the acquisition date, the total amount paid in cash to the sellers of Entity B is equal to \$100 minus Entity A's common stock price on the 1-year anniversary of the acquisition date multiplied by 2 million shares.

**55-143Q** The arrangement contains 1 underlying: the common stock price differential (\$100 less Entity A's common stock price at the 1-year anniversary of the acquisition date). The underlying is based on a market price as described in paragraph 815-10-15-59(e)(1). Therefore, the underlying does not qualify for the scope exception in paragraph 815-10-15-59(e).

## **Issue 2: Scope Clarification for Share-Based Payments From a Customer in a Revenue Contract**

ASU 2025-07 clarifies that when an entity has a right to receive a share-based payment from its customer in exchange for the transfer of goods or services, the share-based payment should be accounted for as noncash consideration within the scope of ASC 606. That is, the ASU specifies that the guidance in ASC 815 or ASC 321 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. ASC 606-10-45-4 states that a “right to consideration is unconditional if only the passage of time is required before payment of that consideration is due.”

Further, ASU 2025-07 clarifies that (1) the estimated fair value of a share-based payment as of contract inception should be included in the transaction price and (2) any changes in the fair value, as determined under other Codification topics,<sup>5</sup> 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.

Under the ASU, timing differences between (1) when an entity performs by transferring goods or services to a customer and (2) when the entity’s right to receive or retain the share-based payment from a customer becomes unconditional should be accounted for as a contract asset or liability. In a manner consistent with the guidance on noncash consideration, the share-based payment should be initially measured at the estimated fair value at contract inception. Once the entity’s right to receive and retain the share-based payment is no longer contingent on the entity’s future performance under the contract, the share-based payment would be subject to other GAAP (e.g., ASC 321 or ASC 815), and the entity should look to that other GAAP for subsequent measurement guidance, which might result in the recognition of an immediate gain or loss.

<sup>5</sup> Paragraph BC69 of ASU 2025-07 states the following regarding subsequent measurement of a contract asset: “Paragraph BC40 of [ASU 2016-12] addresses the subsequent accounting under other Topics for changes in fair value of noncash consideration after contract inception. That paragraph states that if the guidance in other Topics related to the form of the noncash consideration requires that asset to be measured at fair value, an entity should recognize a gain or loss (outside of revenue) upon receipt of the asset if the fair value of the noncash consideration has increased or decreased since contract inception. That paragraph further explains that for situations in which an entity performs by transferring goods or services to a customer before the customer pays the noncash consideration or before payment of the noncash consideration is due, the entity is required to present the noncash consideration as a contract asset, excluding any amounts presented as a receivable and assess the contract asset or receivable for impairment.”

## Example

Entity X enters into a revenue contract on January 1, 20X1, with Customer Y, a publicly traded company, to transfer 100 widgets; 50 widgets will be delivered on June 30, 20X1, and the remaining 50 widgets will be delivered on September 30, 20X1. Entity X determines that delivery of each widget is a performance obligation that is satisfied at a point in time. Under the contract, Y promises to transfer 100 shares of its common stock to X upon the delivery of all 100 widgets. In accordance with ASU 2025-07, X measures the fair value of the share-based payment (noncash consideration) at contract inception. The fair value of Y's shares on January 1, 20X1, is \$10 per share, so X determines the transaction price for the contract with the customer to be \$1,000 ( $\$10 \times 100$  shares).

Between January 1, 20X1, and September 30, 20X1, the fair value of Y's shares increases to \$15 per share. Under the ASU, X does not account for the change in fair value (i.e., changes in the fair value of X's right to receive Y's shares upon satisfaction of its performance obligations are not reflected in X's interim financial statements until its right to receive or retain the shares is unconditional).

On June 30, 20X1, X delivers 50 widgets to Y and recognizes revenue and a contract asset of \$500.

On September 30, 20X1, X delivers the remaining 50 widgets to Y and recognizes revenue and a contract asset of \$500.

After all 100 widgets are delivered, X determines that its right to receive 100 shares of stock is considered unconditional since only the passage of time is required before payment is due. Therefore, X derecognizes the contract asset of \$1,000 and applies the guidance in ASC 321 to the share-based payment. This is likely to result in the recognition of a gain of \$500 on September 30, 20X1, under ASC 321 because of the increase in the fair value of Y's shares between January 1, 20X1, and September 30, 20X1.



### Connecting the Dots

Note that in the above example, the accounting treatment would be different if the shares had been received in exchange for cash rather than in exchange for the sale of goods. For example, assume that on January 1, 20X1, Entity X had instead entered into a physically settled forward contract to purchase 100 shares of Customer Y's common stock for \$10 per share on September 30, 20X1 (i.e., payment for the shares is in cash rather than in \$1,000 worth of widgets). Unlike the right to receive shares in connection with a contract with a customer within the scope of ASC 606, a contract to acquire equity shares on a future date for a fixed price that must be physically settled would have been recognized at fair value under ASC 815 regardless of whether the forward contract meets the definition of a derivative; as a result, the forward contract would be marked to fair value at each reporting period before settling on September 30, 20X1.

## Interaction Between the Guidance Amended by ASU 2025-07 and Impairment of Contract Assets

Contract assets need to be assessed for impairment, as noted in ASC 606-10-45-3, which states, in part, that an "entity shall assess a contract asset for credit losses in accordance with Subtopic 326-20 on financial instruments measured at amortized cost." This requirement is reiterated in Example 31 of ASC 606 — specifically, ASC 606-10-55-250 states, in part, that "the entity assesses any related contract asset or receivable for impairment." Although the explicit reference to ASC 326-20 in ASC 606-10-45-3 clearly indicates that contract assets need to be assessed for credit losses, contract assets that will be settled by the transfer of noncash consideration (as in the example above) might be subject to impairment risks other than credit loss (or counterparty nonperformance risk). An entity that records contract assets related to a right of the entity to noncash consideration that is dependent on something other than the passage of time will need to apply judgment when assessing these contract assets for impairment.

ASU 2025-07 clarifies that an entity's right to receive a share-based noncash payment from a customer is accounted for under ASC 606 unless and until the entity's right to receive or retain the share-based noncash consideration is unconditional under ASC 606. If an entity has a right to receive share-based noncash consideration (e.g., shares) in a contract with a customer but such right is conditional and based on the entity's performance under the contract (e.g., delivering a quantity of goods), the entity may record a contract asset (on the basis of the fair value of the share-based noncash payment at contract inception) when or as the entity satisfies its performance obligation. If the value of the noncash consideration changes as a result of the form of the consideration (e.g., a decline in the share price since contract inception), the transaction price (and the initial measurement of any contract asset recorded when or as the entity satisfies its performance obligation) is not adjusted. However, as noted in ASC 606-10-55-250C, the contract asset recorded in these instances would need to be assessed for impairment. Regardless of any impairment assessment, the revenue recognized should be based on the fair value of the asset at contract inception; any impairment losses would be recognized separately from the revenue recognized (i.e., revenue would not be reduced as a result of any impairment losses).

Entities will need to carefully evaluate what impairment model is appropriate for contract assets when impairment could result from changes in conditions other than counterparty credit or nonperformance risk. The impairment model selected should be applied consistently to similar facts and circumstances, and appropriate disclosure should be provided if material.

## Effective Date and Transition

### Effective Date

ASU 2025-07 is effective for annual reporting periods beginning after December 15, 2026, including interim reporting periods within those annual reporting periods. Early adoption of the standard is permitted in an interim or annual reporting period for which financial statements have not been issued or made available for issuance. If an entity elects to early adopt the standard in an interim period, the entity must apply the standard as of the beginning of the fiscal year that includes the interim period. Further, an entity that elects to early adopt the ASU is required to early adopt the guidance for both Issue 1 and Issue 2 in the standard.

### Transition

Entities may apply the new guidance prospectively to new contracts entered into during annual and interim reporting periods after the date of adoption. Alternatively, entities may apply the guidance on a modified retrospective basis through a cumulative-effect adjustment to the opening balance of retained earnings as of the beginning of the annual reporting period of adoption for contracts existing as of the beginning of the annual reporting period of adoption.

With regard to the derivative scope exception, ASC 815-10-65-8(d) (added by the ASU) specifies that if an entity (1) applies the new guidance on a modified retrospective basis and (2) has contracts or embedded features that were accounted for as derivatives but now qualify for the new scope exception, the entity has an option as of the beginning of the annual reporting period of adoption to “elect to apply the fair value option on an instrument-by-instrument basis and measure the contract in its entirety at fair value with changes in fair value recognized in earnings if that instrument is within the scope of paragraph 825-10-15-4.” In addition, ASC 815-10-65-8(d) specifies that “[f]or financial liabilities, an entity shall present separately in accumulated other comprehensive income the portion of the total change in the fair value of the liability that results from a change in the instrument-specific credit risk.” It further notes that “[i]f an entity had previously elected the fair value option for contracts that contained embedded derivatives that otherwise would have been bifurcated but are no longer required to be bifurcated” under the new scope exception, it may elect as of the beginning

of the annual reporting period of adoption to revoke the fair value option on an instrument-by-instrument basis and measure the contract in accordance with other GAAP. The effects of electing or revoking the fair value option in accordance with the new ASU should be reported as a cumulative-effect adjustment directly to the opening balance of retained earnings as of the beginning of the annual reporting period of adoption.

Under either transition model, entities must disclose the nature of and reason for the change in accounting principle. If an entity applies the amendments on a modified retrospective basis, disclosure of the cumulative effect of the change to retained earnings and a description of the financial statement line items affected are also required.

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