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Should 'Basis for Conclusions' be Part of Accounting Standards? Experts

Differ (07/30/2025)

Should 'Basis for Conclusions' be Part of Accounting Standards? Experts Differ

By Denise Lugo, Checkpoint News

The National Association of Real Estate Investment Trusts (Nareit) is pushing for a significant change in accounting standards, urging the Financial Accounting Standards Board (FASB) to embed the crucial "Basis for Conclusions" directly into the Accounting Standards Codification (ASC) to foster greater clarity and consistency in financial reporting.

The "Basis for Conclusions" section, usually found at the end of new Accounting Standards Updates, explains the reasoning and decision-making process behind the FASB's rules. Although it's not part of the official rulebook, this section is extremely useful for people who prepare and audit financial statements. It provides the context and justification for the rules, which helps ensure accurate and consistent application of accounting standards, especially in complex or uncertain areas.

"Having the basis for conclusions—and what we've heard our members say—leads to better financial reporting because you can understand what the problem in financial reporting was that FASB was trying to address when they reach a final decision in amending or establishing US GAAP," stated Christopher Drula, Nareit's Senior Vice President of Financial Standards, on July 29, 2025.

Currently, financial statement preparers frequently rely on interpretive guidance provided by their external audit firms. While this guidance is essential, the decentralized nature of these interpretations can contribute to application disparities and inconsistencies across entities and audit engagements. Nareit contends that direct inclusion of the Basis for Conclusions in the ASC

would standardize this foundational interpretive layer, mitigating subjective interpretations and fostering greater comparability in financial reporting.

Drula further explained, "When the FASB issues a new standard and includes the basis for conclusions, it's helpful to have the basis for conclusions because you can understand why the FASB made the decisions they did. It can be a cumbersome process to try to track down each of the standards as they're issued, whereas if they included it in the codification it would be all in one place."

This proposal prompts critical consideration of its potential impact across the accounting and auditing profession. For auditors and audit firms, the implications span from changes in audit methodologies and the exercise of professional judgment to potential shifts in the scope of interpretive guidance provided. Concurrently, for investors, regulators, and other financial statement users, the central question revolves around how this change might enhance the decision-usefulness and comparability of financial information, as well as streamline regulatory oversight.

Would Overwhelm Practitioners?

The topic has surfaced at the FASB over the years, posed also by others after Generally Accepted Accounting Principles (GAAP) were codified online. The issue also surfaced in the board's 2021 agenda consultation, with some similar suggestions. However, there were and still are significant counterarguments. A primary concern among critics is the sheer volume of material: the 'Basis for Conclusions' often significantly exceeds the length of the codified guidance itself.

Scott Ehrlich, President of Mind the GAAP, LLC, voiced a key reservation: "Incorporating the Basis for Conclusions directly into the Codification risks overwhelming practitioners with an expanded body of guidance to navigate for specific technical accounting questions." Furthermore, the "Basis" frequently contains extensive deliberative material, including perspectives the FASB explored and ultimately discarded. "Including such non-authoritative content alongside the core guidance could hinder efficiency rather than enhance clarity," he said on July 29.

Moreover, it's recognized that integrating the Basis for Conclusions would likely not negate the ongoing demand for interpretive materials from major accounting firms. These firm-specific resources frequently address post-implementation practice issues and provide practical worked examples—a valuable layer of guidance that complements, rather than duplicates, the content of the Basis for Conclusions.

Ehrlich further suggested that the proposal might be addressing symptoms of a deeper issue: "The underlying challenge may be that the authoritative language within the Codification itself sometimes lacks optimal clarity or precision, or is overly technical. While improving readability is

crucial, I am skeptical that integrating the Basis for Conclusions, with its comprehensive historical context, would directly resolve these fundamental concerns regarding the core guidance's directness."

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