October 17, 2016

Ms. Susan M. Cosper
Technical Director
Financial Accounting Standards Board
401 Merritt 7
PO Box 5116
Norwalk, CT 06856-5116

File Reference No. 2016-290

Dear Ms. Cosper:

RSM US LLP is pleased to provide feedback on the Invitation to Comment, Agenda Consultation. We appreciate the opportunity to be involved with such an important initiative. Many middle-market companies struggle with the cost and complexities associated with financial reporting and we are fully supportive of efforts to simplify and improve existing guidance. While we believe improvements could be made in all of the areas specifically included in the Invitation to Comment and recognize the merits of holistic approaches, in the interests of time, we recommend the FASB primarily focus on targeted improvements to the specific areas deemed to be the highest priority. Please refer to the responses that follow for our insights on the specific questions raised in the Invitation to Comment.

Responses to Questions for Respondents

**Question 0.1:** Are there major financial reporting issues that are not considered in this ITC that should be addressed by the FASB before any of the issues discussed in the ITC are addressed? What are the considerations or criteria that you used to identify these issues? Please describe any of those issues and your perspective about how the FASB should resolve the issues.

We are not aware of other major financial reporting issues that are more pressing than the issues that are considered in the Invitation to Comment.

**Question 0.2:** What is your view about the priority of addressing the major financial reporting issues addressed in this ITC? In other words, is addressing one or more of the issues more critical than others? Please describe your assessment criteria and why you prioritized certain issues above others.

We believe the first priority should be to address the financial reporting issues associated with distinguishing liabilities from equity given the complexity of the relevant guidance, its focus on terms and form, the resulting frequency of restatements, and continued evolution of instruments issued in financing transactions. We believe the accounting for intangible assets should be prioritized second given inconsistencies inherent in existing guidance. As it relates to accounting for pensions and other postretirement benefit plans, while we agree that there are significant issues associated with existing guidance, given that such plans are
becoming much less prevalent, we would not place as high of a priority on addressing these issues. We also believe little priority should be placed on the Reporting Performance and Cash Flows portion of the Invitation to Comment as we are not aware of any extensive concerns or issues related to income statement presentation, segment reporting, or other comprehensive income. Additionally, while frequent errors are made by reporting entities in classifying cash flows, we believe the recent improvements will be helpful in addressing some of these issues.

Question 0.3: Is it necessary to resolve one or more of the issues before resolving others? In other words, is the resolution of any of the issues dependent upon the resolution of one or more other issues? Please identify any of the projects that should be completed before others and why.

As is indicated in the Invitation to Comment, overlap exists between the issues that makes it difficult to address individual issues in isolation. We believe however that if improvements in each area are primarily focused on targeted improvements (rather than a comprehensive reassessment of the guidance), these difficulties will be minimized. We do believe however that the subtopics within the Reporting Performance and Cash flows section of the Invitation to Comment should be addressed contemporaneously given their interdependence to one another.

Topic-Specific Questions for Respondents—Intangible Assets (including Research and Development)

Question 1.1: Is the accounting for intangible assets (including research and development) a major financial reporting issue that the FASB should consider for improvement? Please explain why.

We believe that the accounting for intangible assets is a major financial reporting issue that the FASB should consider for improvement. We are primarily concerned with certain of the inconsistencies in the guidance that we believe can be addressed without the costs exceeding the related benefits. In particular, we believe the differences in accounting for certain intangible assets acquired in a business combination versus an asset acquisition should be resolved.

Question 1.2: If yes, should the issue be addressed broadly for all intangible assets or should it first be addressed for a subset of intangibles (for example, research and development)? Please explain why.

We believe this issue should be scoped to address the differences in accounting for intangible assets acquired in a business combination versus an asset acquisition as noted in our response to Question 1.1. If the issue is addressed in this targeted manner, we believe it would be possible to address these inconsistencies in a relatively short time frame. While we are aware of the significant inconsistencies in the treatment of internally-generated intangible assets as compared to acquired intangible assets as noted in the Invitation to Comment, we don’t believe resolving those inconsistences on a wholesale basis is a project that should be taken on at this time as the significant expected costs would likely outweigh the ultimate benefits.
**Question 1.3:** Which approach to addressing the issue is appropriate, considering the benefits and costs of each approach and why? If you recommend a recognition approach, please explain your view about (a) the threshold for recognizing the asset and (b) the measurement of the asset (cost or fair value). If you recommend a disclosure approach, please explain the disclosure objective and recommend what specific information should be disclosed. If you recommend an approach to adopt IAS 38, please explain any implementation concerns.

While not one of the alternatives outlined in the Invitation to Comment, consistent with our responses to the prior questions, we think targeted improvements should be made to the accounting treatment of intangible assets acquired in a business combination versus an asset acquisition. In particular, we believe the differences in the treatment of in-process research and development assets and assembled workforce in these situations should be resolved.

Of the alternatives outlined in the Invitation to Comment, we believe that Alternative C on additional disclosure of internally generated intangible items would be the most viable approach. We recommend that FASB perform further outreach with users regarding this Alternative and the types of disclosures users would find most useful. However, we believe that any disclosures ultimately required should be targeted rather than all-encompassing, as otherwise the costs may outweigh the benefits for the same reasons noted below in our discussion of Alternatives A, B and D.

We would not generally recommend applying any of the other approaches identified for the following reasons:

- **Alternatives A / B – Recognize Internally Generated Intangible Assets / Recognize Research and/or Development Costs** - While we acknowledge users would benefit from a better understanding of the value that a Company is generating from its research and development activities and other internally generated intangible assets, we are concerned about the costs that would be involved in both initially applying this approach and potentially updating either fair value each financial reporting period or testing for impairment, along with the level of subjectivity that would be involved. Furthermore, given the recent simplification efforts undertaken by the FASB and PCC in regard to the alternative for private companies to record fewer intangible assets acquired in a business combination separately from goodwill, it would seem this approach would result in standards going in the opposite direction and result in making the accounting guidance more complex.

- **Alternative D – Adopt IAS 38** – Given that IAS 38 includes such a high threshold for recognizing development assets, which often doesn’t result in significantly different accounting treatment compared to current US GAAP, and that the guidance is very subjective, we think the costs of adopting this guidance would exceed the limited benefits.
Question 1.4: Recognition of an intangible asset if a threshold is met and measurement of that asset at fair value would likely result in (a) a gain in the period in which the asset initially is recognized and (b) gains or losses in each period for the change in the fair value of the asset. How should those initial and subsequent gains and losses be presented in the income statement?

We would not recommend recognizing additional internally generated assets as noted in our response to Question 1.3.

Topic-Specific Questions for Respondents—Pensions and Other Postretirement Benefit Plans

Question 2.1: Is the accounting for pensions and other postretirement benefit plans a major financial reporting issue that the FASB should consider for improvement? Please explain why.

There are certain aspects of the accounting for pensions and other postretirement benefit plans, as noted in the Invitation to Comment, which represent a significant financial reporting issue that the FASB should consider for improvement. Specifically, we are concerned that the delayed recognition of changes in the projected benefit obligation or plan assets does not reflect the current period’s economic transactions and events.

Question 2.2: Would Alternative A (see paragraphs 2.15–2.16) and/or Alternative B (see paragraphs 2.17–2.19) improve the usefulness of financial information provided to users and be operable?

Alternative B would improve the usefulness of financial information provided to users and would simplify the accounting for pensions and other postretirement benefit plans by eliminating delayed recognition of amounts in other comprehensive income and the related amortization methods (in particular, the corridor approach). While current GAAP does permit an entity to elect either immediate recognition or delayed recognition of gains and losses from a change in the value of either the projected benefit obligation or the plan assets, our experience is that most plan sponsors elect to defer recognition of gains and losses into earnings. We believe that reporting events as they occur in the income statement has the strongest conceptual basis and produces the most relevant results.

Question 2.3: If you support Alternative A (convergence with IAS 19), would you recommend any modifications to IAS 19 or would you expect any implementation issues? Please explain why.

Not applicable. As noted in Question 2.2 we support Alternative B.

Question 2.4: Are there other approaches to consider for addressing the issue of delayed recognition in earnings? If so, please provide them in sufficient detail so that the FASB can consider your proposal(s). Please provide your rationale for why your proposal provides users of financial statements with more useful information.

As indicated above we would be supportive of Alternative B and do not have suggestions for other approaches to be considered.
Question 2.5: Is the current measurement of a defined benefit obligation appropriate? If not, what changes do you suggest and why (for example, what characteristics of plans are not adequately reflected in the current measurement of the benefit obligation)?

We are aware that there has been an increase in the use of hybrid plans, and agree that current GAAP could be improved by recognizing and addressing this evolution from traditional defined benefit plans. The current guidance which requires that plans, such as cash balance plans, be accounted for as defined benefit plans, effectively ignoring the elements which are similar to defined contribution plans, may not produce an appropriate measure of the defined benefit obligation.

Question 2.6: What approach (that is, targeted improvements or comprehensive reassessment) would you recommend and why?

We recommend targeted improvements only. We do not believe there is sufficient cause to support a comprehensive change to pension and other postretirement benefit plan accounting.

Question 2.7: Are there other issues for pension and other postretirement benefit plan accounting that should be considered for improvement?

We are not aware of any other issues which would warrant the Board’s consideration at this time.

Topic-Specific Questions for Respondents—Distinguishing Liabilities from Equity

Question 3.1: Is the accounting for distinguishing liabilities from equity a major financial reporting issue that the FASB should consider for improvement? Please explain why. In making your assessment, what criteria were used (for example, is the issue not sufficiently addressed in current GAAP, or is it addressed in a way that makes compliance costly or creates diversity in practice because the guidance is conceptually or economically flawed)?

Yes, we believe improvements related to distinguishing liabilities from equity are warranted and should be prioritized by the FASB. This belief is based on the complexity of the guidance and the frequent restatements that often result from inappropriate application of the guidance. Many public business entities and private companies require external assistance to arrive at the appropriate accounting conclusion for preferred stock, convertible instruments and equity-linked instruments in general. The accounting analysis for these instruments requires deep specialization due to the complexity of the guidance and the terms dependent nature of the outcome. Small companies tend to be disproportionately burdened by the complexities and costs associated with the accounting and valuation of these instruments as they are less established and struggle to attract investors without offering complex instruments containing a mixture of debt and equity features. Additionally, certain instruments are not adequately addressed in current GAAP, which results in divergence in practice. (An example of this is convertible instruments that may or will be settled through conversion into a variable number of shares based on a subsequent equity financing price). Such instruments tie in with the statement made in the Invitation to Comment that “The FASB also
will likely need to resolve how to distinguish between instruments used as currency to settle fixed amounts and those that are a necessary part of obtaining equity capital. For example, entities with common shares that can quickly and easily be sold for a known price could effectively use those instruments as currency”. Lastly, current GAAP is very form-based and terms-dependent which leads to drastically different accounting outcomes for instruments that are very similar.

**Question 3.2:** Is the issue of distinguishing between liabilities and equity a financial reporting issue that requires a holistic approach to resolve as opposed to targeted improvements? Please explain why.

Ideally the approach would be holistic however given the difficulties and delays associated with previous attempts at a holistic approach, targeted improvements would be preferable to a long drawn out attempt at a holistic approach.

**Question 3.3:** Are there other alternatives for simple instruments (shares, options, forwards) that the FASB should consider for resolving the issue of distinguishing between liabilities and equity? If so, please provide the alternatives in sufficient detail such that the FASB can consider your proposal(s). Please provide your rationale for why your proposal provides users of financial statements with more useful information.

As an alternative to requiring all equity instruments that are not perpetual to be accounted for as liabilities, consideration could be given to instituting a temporary equity classification for redeemable securities similar to the SEC guidance currently incorporated in ASC 480-10-S99 as a targeted improvement. This presentation would make it evident to the users of the financial statements that this equity is not permanent. Given that it would be less drastic of a change from current GAAP than requiring liability treatment, it may be possible to make this change in a more expedited manner. We also are of the opinion that current GAAP could be improved by instituting the subsequent measurement provisions contained within ASC 480-10-S99 for redeemable stock issued by all entities (not just Public Business Entities). As it relates to the alternatives specifically mentioned in the Invitation to Comment, while we recognize that Alternative A would be simple to apply, we believe Alternative B would be preferable. It is our opinion that equity classification should generally be extended to perpetual equity instruments that are convertible into a substantially fixed number of nonredeemable shares.

As it relates to equity-linked or indexed instruments that are not in the form of a share, we would prefer an approach similar to Alternative B. We do not believe it would be useful to the users of the financial statements for instruments that will be settled in shares and that expose the holder to the risks and rewards of a shareholder to be accounted for as liabilities and continuously adjusted to fair value. (This is based on the belief that fair value remeasurements of these instruments can introduce significant volatility to the financial statements and many financial statement users have little interest in non-cash gains and losses, particularly when those gains and losses relate to the issuer’s own stock). We acknowledge that Alternative B maintains complexities associated with evaluating whether the entity can control share settlement and the nature of the return but believe targeted improvements could be made to the existing guidance in ASC 815-40 in that regard. We would encourage the Board to focus on making the guidance related to the determination of
whether an instrument is indexed to the entity’s own stock less terms-based and more principles based. For example, rather than focusing on terms, the focus could be on whether changes in the fair value of the instrument in question would be expected to be primarily correlated with changes in the value of the underlying shares.

**Question 3.4:** Are there other alternatives for addressing the financial reporting issues with conversion options in complex instruments that the FASB should consider? If so, please provide sufficient detail such that the FASB can consider your proposal(s). Please provide your rationale for why your proposal provides the users of financial statements with more useful information.

We believe that extensive outreach should be performed with financial statement users to determine what they believe to be most beneficial. For example, consistency (achieved either by requiring all or no conversion options to be bifurcated) may be more beneficial to the users of the financial statements than the multiple outcomes that exist with current GAAP. Alternative B would certainly reduce complexity and cost and is an attractive alternative if it does not sacrifice the needs of the financial statement users.

**Question 3.5:** Considering the alternatives described for simple instruments, which alternative provides more useful information to the users of financial statements and why?

We would defer to the users of financial statements in responding to this question.

**Question 3.6:** Considering the alternatives described for complex instruments, which alternative provides more useful information to users of financial statements and why?

We would defer to the users of financial statements in responding to this question.

**Question 3.7:** Which provides more useful information to the user of financial statements: remeasuring liability classified instruments at fair value or at intrinsic value? Please provide the rationale for your choice.

While we would defer to the users of financial statements as to which of the two measurement approaches they would find more useful, it seems that remeasuring at intrinsic value would generally be easier and less costly. Decisions would need to be made about how to address contingent options (i.e. similar to current guidance in ASC 470-20, would one wait until the contingency lapses to recognize the intrinsic value?)

**Question 3.8:** Are there instances in which the remeasurement of liability-classified instruments at each reporting period is not useful? If so, which instances and why?

We believe remeasurement is most useful for instruments such as redeemable securities, whereby it would be appropriate to accrete the carrying amount of the security up to the amount at which it could be redeemed, to the earliest redemption date. Remeasurement to fair value can cause significant volatility to the income statement that can be distracting to the users of the financial statements. It is not uncommon for fair value remeasurement amounts to dwarf revenue and expenses from operations similar to the situation described in Paragraph 52 of the memo prepared for the September 30, 2016 Private Company Council meeting related to the *Potential Private Company Alternative for Accounting for...*
Financial Instruments with Down Round Features issue. As indicated above, we believe that many financial statement users have little interest in non-cash gains and losses, particularly when they relate to the issuer’s own stock.

Topic-Specific Questions for Respondents—Income Statement

Question 4.1: Is income statement presentation a major financial reporting issue that the FASB should consider for improvement? Please explain why. In making your assessment, what criteria were used? Is there a need for the income statement to be categorized/standardized?

Response: In comparison to some of the other issues addressed in the Invitation to Comment, we do not view income statement presentation as a major financial reporting issue.

Question 4.2: How should the components of net income be categorized, if at all? Operating, financing, investing? If the FASB were to develop an operating activities category and display a subtotal for operating income, how should the category be defined or described? Define what is operating income or define what is not?

We believe that it would make sense to have the components of net income mirror the components in the Statement of Cash Flows. In defining what constitutes operating activities, we believe a description with examples of what is or is not operating income would be more beneficial than a definition.

Question 4.3: Could an operating activity category be defined or described consistently and effectively for all types of reporting entities (for example, entities involved in financial services, investing, banking, and financing)?

We believe it would be challenging but possible to come up with a definition or description that could be applied consistently for all types of entities.

Question 4.4: How should the FASB evaluate the benefits of a standardized definition versus a management determination of an entity’s operating activities?

We believe the evaluation should be based on the approach that best meets the needs of the users of the financial statements. If the users are primarily interested in being able to make comparisons from entity to entity, a management determination approach would not facilitate such a comparison.

Question 4.5: Which, if any, of the three alternatives described for combining or separating items provides more useful information to users of financial statements, and why?

We believe that Alternative A (redefining the GAAP definition for infrequency of occurrence to apply a more conventional understanding of this term and displaying the effects of infrequently occurring transactions and events separately from other performance components) would provide useful information. We believe as it relates to Alternative B, the impact of remeasurement transactions and events can largely be determined from the
financial statement and footnote disclosure requirements in existing GAAP. Balance would need to be struck with an alternative like C to avoid information overload.

**Question 4.6:** Are there other alternatives for presenting lines within the income statement that the FASB should consider?

We are not aware of other alternatives that should be considered.

**Topic-Specific Questions for Respondents—Segment Reporting**

**Question 4.7:** Is segment disclosure a major financial reporting issue that the FASB should consider for improvement? In making your assessment, what criteria were used?

We do not believe that segment reporting is a major financial reporting issue as evidenced by the results of the Financial Accounting Foundation post implementation review of FASB Statement No. 131, for which the conclusion was reached that the standard generally achieves its purpose.

**Question 4.8:** Considering the three alternatives described for improving aspects of the Topic 280 disclosure requirements, which, if any, alternative provides more useful information to the users of financial statements and why?

Given that we are not aware of significant issues associated with segment reporting, we defer to the users of financial statements in determining the alternative that would provide more useful information.

**Question 4.9:** Would the described improvements to (a) reexamine the aggregation and (b) apply the segment standard from a governance perspective provide more useful information to users of financial statements and why?

We do not see a strong need to reexamine the aggregation criteria. If the segment standard was applied from a governance perspective, we believe it would likely take away useful information in that we would expect the governing body to be reviewing information at a significantly more aggregated level than the chief operating decision maker.

**Question 4.10:** Are there other alternatives for improving segment reporting that the FASB should consider? If so, please provide them in detail to help the FASB in considering your proposal(s). Please provide your rationale for why your proposal provides users of financial statements with more useful information.

We are not aware of other alternatives that should be considered.
Topic-Specific Questions for Respondents—Other Comprehensive Income

**Question 4.11:** Is the presentation of other comprehensive income a major financial reporting issue that the FASB should consider for improvement? In making your assessment, what criteria were used?

While we generally agree with the concerns summarized in the Invitation to Comment, we do not view this as a major financial reporting issue as it does not create undue complexity and there is high visibility of the components of other comprehensive income.

**Question 4.12:** Considering the two alternatives described for minimizing the use of reclassification adjustments, which alternative provides more useful information to the users of financial statements and why?

We defer to the users of financial statements as to the alternative that provides more useful information.

**Question 4.13:** Do the described improvements to (a) remove the option for presenting comprehensive income over two statements and (b) emphasize other earnings per share measures improve the relevance of the performance information included in other comprehensive income?

We believe that if the option to present comprehensive income over two statements is removed and earnings per share measures are extended to other comprehensive income, there would not be sufficient justification to maintain an other comprehensive income classification given there is not a strong conceptual basis for it. Additionally if these “improvements” are instituted, other comprehensive income would only be distinguished by its label on the statement of comprehensive income. These components could easily be carved out in an income statement or footnote disclosures rather than maintaining the label of other comprehensive income.

**Question 4.14:** Are there other alternatives for improving the relevance of other comprehensive income that the FASB should consider? If so, please describe them in detail to help the FASB in considering your proposal(s). Please provide your rationale for why your proposal provides users of financial statements with more useful information.

We are not aware of other alternatives that should be considered.
Topic-Specific Questions for Respondents—Cash Flow Statement

**Question 4.15:** Is the presentation of cash flows a major financial reporting issue that the FASB should consider for improvement? In making your assessment, what criteria were used?

We believe the recently issued ASU 2016-15, *Classification of Certain Cash Receipts and Cash Payments* as well as the proposed ASU on restricted cash will be beneficial in addressing diversity in how certain transactions are presented in practice today. We are not aware of major financial reporting issues related to the presentation of cash flows but in the event investors and other financial statement users are seeking additional information, we would encourage the FASB to balance cost and operational challenges while meeting the needs of financial statement users.

**Question 4.16:** Do you recommend that the FASB retain or reconsider the three-category structure and the definitions of operating, investing, and financing activities within the statement of cash flows?

As indicated in our response to the preceding question, we are not aware of significant concerns with the current structure and would suggest retaining it.

**Question 4.17:** What specific cash flows should be disaggregated in the future that are not being disaggregated today and is that disaggregation feasible?

We would defer to the users of financial statements to make the determination of what, if any, additional disaggregation is warranted, with subsequent outreach to determine if desired disaggregation is feasible.

**Question 4.18:** What specific cash payments and receipts are in need of additional classification guidance?

We are not aware of any at this time.

**Question 4.19:** How should the cash flow statement be categorized, if at all? Considering the three alternatives that would reconsider the current structure of the cash flow statement, which, if any, alternative provides more useful information to users of financial statements and why? How should the FASB define or describe those categories?

As indicated in preceding responses, we believe that the current structure is adequate. In the event the FASB moves forward with reconsidering the current structure, we are concerned that Alternative B may be a step in the wrong direction based on the feedback from the users of financial statements seeking additional comparability and standardization.

**Question 4.20:** How should the FASB evaluate the benefits of a standardized structure versus a management determination to classification of cash flows?

We would suggest evaluating which alternative best meets the needs of the users of financial statements and makes sense in light of any decisions made to other financial statements.
Question 4.21: If you prioritize a standardized structure and recommend an operating activities category, how should the Board evaluate the benefits of aligning the description or definition of that category across the income and cash flow statements?

It seems that if the decision is made to have an operating activities category on the income and cash flow statements, it would be imperative to align the descriptions or definition.

Question 4.22: Are there other alternatives for improving the cash flow statement that the FASB should consider? If so, please describe in detail to help the FASB.

While not an alternative for improvement, we would suggest maintaining the indirect method for the statement of cash flows given that the significant cost to reporting entities if it was discontinued does not in our view justify the benefit.

Question 4.23: What type of project or projects do you recommend that the FASB prioritize to improve the reporting of performance and cash flow information? If you recommend multiple projects or different combinations, please explain the recommended sequencing of those projects.

We believe that if the decision is made to proceed with projects to improve both the reporting of performance and cash flows, it would be beneficial to address both contemporaneously.

Question 4.24: What issues and solutions should be addressed within those projects? Please consider the priority of pursuing the issues and solutions.

We are not aware of any significant issues that need to be addressed.

We appreciate this opportunity to provide feedback on the Invitation to Comment and would be pleased to respond to any questions the Board or its staff may have concerning our comments. Please direct any questions to Rick Day at 563.888.4017 or Faye Miller at 410.246.9194.

Sincerely,

RSM US LLP