October 17, 2016

Technical Director
Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, CT 06856-5116

Via email to director@fasb.org

Re: File Reference No. 2016-290

Dear Ms. Cosper,

We are pleased to comment on the Financial Accounting Standards Board’s (FASB or Board) Invitation to Comment – Agenda Consultation (ITC).

We appreciate the Board’s continued efforts to determine if there are major areas of financial reporting for which improvement might be warranted and should be added to the FASB’s Technical Agenda. We believe the FASB’s existing Technical Agenda, coupled with the matters identified in this ITC, provide a complete inventory of major financial reporting issues that warrant consideration by the Board to determine if improvements are needed at this time.

We urge the Board to continue to devote appropriate resources and consideration to the area of distinguishing liabilities from equity as we feel this is the most critical financial reporting issue impacting not only financial statement preparers, but also practitioners and financial statement users. The accounting for complex instruments for which liability vs. equity classification needs to be determined is not sufficiently addressed in existing GAAP. As a result, oftentimes financial statement preparers spend a significant amount of time navigating the maze of guidance only to find out that the conclusion was incorrect. This fact is supported by the sheer number of public company financial statement restatements in recent years caused by incorrect conclusions regarding classification of liability and equity instruments. In fact, in April 2016, Audit Analytics ® issued a report titled “2015 FINANCIAL RESTATEMENTS – A FIFTEEN YEAR COMPARISON” which listed debt, quasi-debt, warrants & equity (BCF), security issues as the number one cause for public company restatements since 2006.

We see the priority of the remaining issues identified in the ITC as follows (listed in order of priority):

- Reporting performance and cash flows
  - Cash flows
  - Income statement
  - Segment reporting
  - Other comprehensive income
- Pensions and other postretirement benefit plans
- Intangible assets (including research and development)

We believe that the cost and complexity related to accounting for intangible assets will be increased if internally generated intangible assets not currently capitalized are required to be capitalized. This will result because of the significant pace of change in the nature of some of these assets and the efforts required to assess the causes of the changes and the impacts on the value of the assets. If the Board does decide to undertake this issue as a result of feedback received from this ITC, we urge the Board to
focus its efforts on exploring guidance that would be solely applicable to public business entities (PBEs). Many non-PBEs would likely find the identification and accounting for such assets to be overly complex and taxing on often limited financial reporting resources with little value to financial stakeholders. This would not be inconsistent with the path the FASB has taken with the issuance of Private Company Council (PCC) alternatives in recent years.

Our responses to questions on Chapters 1-4, included in Appendix 1, provide a detailed discussion of our thoughts on the financial reporting issues identified by the Board in the ITC.

Please contact Scott G. Lehman at (630) 574-1605 or scott.lehman@crowehorwath.com should you have any questions.

Cordially,

Crowe Horwath LLP

Crowe Horwath LLP
Appendix 1

Chapter 1 – 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 do not believe the accounting for intangible assets (including research and development) is a major financial reporting issue that the FASB should consider for improvement. While we understand the concerns related to the financial reporting issues surrounding intangible assets as detailed in the ITC, we believe the complexities and costs surrounding the accounting and recognition of such assets to far exceed any benefits derived from their recognition. The two hurdles identified by the FASB in its Special Report from 2001\(^1\) which have historically impeded attempts to create accounting standards that would lead to capitalization of intangible assets are still very relevant today. Those being 1) the period of time cannot be determined between when research and development costs are being incurred and when those expenditures and efforts can be demonstrated to have probable future benefits and 2) the cost of research and development is not a reliable measure of the future economic benefit that research and development may generate.

Furthermore, as indicated in paragraph 1.19(d) of the ITC, there is a concern from some stakeholders that the significant difference between the book value and fair value of some entities’ equity is that some intangible assets are not recognized for financial reporting purposes which makes it difficult for investors in determining valuations for these entities. We understand this concern; however, we do not believe the overarching goal of financial reporting is to present information to investors solely to assist in determining valuations. Rather, as contained in the FASB’s Conceptual Framework\(^2\): “Financial accounting is not designed to measure directly the value of a business enterprise, but the information it provides may be helpful to those who wish to estimate its value.”

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.

As noted in our response to Question 1.1, we do not see an immediate need for a major project by the Board; however, if the FASB decides to proceed with a project to address financial reporting issues surrounding intangible assets, we would suggest focusing first on a subset of intangibles such as research and development costs as indicated in paragraph 1.41 of the ITC, as these costs have historically been a topic of debate amongst stakeholders for many years.

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.

Although, as expressed in our response to Question 1.1, we do not see the benefits outweighing the costs and complexities that would be involved in changing or expanding the current reporting model, below are our comments related to each alternative presented.

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\(^1\) Business and Financial Reporting Challenges from the New Economy

\(^2\) FASB Concepts Statement No. 1 - Objectives of Financial Reporting by Business Enterprises (As Amended)
Alternative A – Recognize Internally Generated Intangible Assets and B – Recognize Research and/or Development Costs

Paragraph 1.5 in the ITC presents the reasons the FASB used to support its 1974 decision that research and development costs should be expensed as incurred. Consistent with our response to Question 1.1 of the ITC, we believe these same reasons create difficulties for preparers in assessing the fair value of internally generated intangible assets along with creating significant inconsistencies in practice among different reporting entities.

- Future economic resource. At the time most research and development costs are incurred the future benefits are at best uncertain, and there is no indication that an economic resource is created.
- Measurability. Even if future benefits from a particular research and development project may be foreseen, they generally cannot be measured with a reasonable degree of certainty.
- Correlation. There is normally little, if any, direct relationship between the amount of current research and development expenditures and the amount of resultant future benefits to the entity.
- Matching. Because there is a lack of discernible future benefits at the time that the costs are incurred, the immediate recognition principle for expenses should apply.

We considered if there was a threshold for recognition that would be operational related to intangible assets. We believe that capitalization of an internally generated intangible not currently recognized under GAAP would require a high threshold of recognition. The high threshold of recognition would be needed because of the uncertainty of the future benefits at the time costs are incurred. We considered if a concept similar to capitalization once “technological feasibility” is achieved in ASC 985-20 would be operational. In considering this question, we noted that the future benefits of many of the internally generated intangible assets noted in paragraph 1.6 of the ITC are not measurable with a high degree of reliability because their value is based on performance after the development period has ended.

We also considered how an internally generated intangible asset might be measured (cost or fair value). Currently, the internally generated intangible assets are typically measured only when a business combination occurs. At that point, they are measured at fair value and either amortized over the estimated life or considered to have an indefinite life and not amortized. Impairment considerations are required using different models for finite and indefinite lived assets. It appears that some stakeholders would prefer a fair value approach to valuing these assets because they note that the difference between the book value and fair value of some entities’ equity is due to internally generated intangible assets not being recorded. In order to fully meet these stakeholders concerns, internally generated intangible assets would need to be fairly valued on a recurring basis. We believe this process would significantly increase the cost and complexity of financial reporting. With respect to measurement at cost, we also believe that there would be additional cost and complexity because of the tracking that would be required to identify costs related to the internally generated intangible assets. We also believe that there would likely be significant diversity in practice on applying guidance related to the capitalization of internally generated intangible assets.

Alternative C – Disclose Internally Generated Items

Regarding the suggestion to expand required disclosures. Research and development costs are already required to be disclosed in accordance with Topic 730. We believe that expanding disclosure such as disclosing historical research and development at cost would not provide significant insight into the fair value determination as these costs may not be a relevant or reliable measure of the benefit a company will receive from those expenditures. Tracking and allocating these costs would be time consuming and difficult for preparers and given the lack of benefit, we do not see that the expanded disclosure alternative would address stakeholder concerns.

Alternative D – Adopt IAS 38

IAS 38 requires an entity to recognize an intangible asset, whether purchased or self-created (at cost) if, and only if (a) it is probable that the future economic benefits that are attributable to the asset will flow to the entity; and (b) the cost of the asset can be measured reliably. We agree with stakeholders as mentioned in paragraph 1.18 of the invitation to comment that there is a high threshold for recognition of development under IAS 38, and given the subjectivity of the determination of amounts to capitalize, that the outcomes under both GAAP and IFRS may not be significantly different. Finally, the added complexity placed upon preparers in determining amounts of research and development costs to capitalize significantly outweigh any benefit achieved in applying this approach.
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?

If there was a requirement established to recognize intangible assets at fair value, we suggest that the presentation in the income statement be consistent with the current requirements in ASC 350-30-45. This would result in changes in the value of the intangible assets being included within continuing operations as deemed appropriate by each reporting entity. We also believe that disclosure should be required to explain the components of the change in the recorded amount of intangible assets. Furthermore, if the fair value approach is used, we suggest the Board consider if the changes in fair value should be presented as a component of other comprehensive income.

Chapter 2 - 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.

We believe the accounting for pensions and other postretirement benefit plans is a financial reporting issue that the FASB should consider for improvement but would not consider it a major financial reporting issue. While we are supportive of the FASB’s continued efforts to improve the accounting related to defined benefit pension and other postretirement benefit plans, we find that some of the alternatives presented in the ITC do not appear to be significant improvements to existing guidance in this area.

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? 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.

With respect to the financial reporting issue of delayed recognition in earnings, we do not believe the alternatives presented have a clear victor. In our experience, the vast majority of sponsors apply methods that defer recognition into earnings. The ITC also acknowledges that “most plan sponsors elect to smooth those gains and losses” and of those few sponsors that do elect immediate recognition “most of those entities then report non-GAAP measures eliminating the effects of immediate recognition from their reported results.” We believe that a requirement to immediately recognize all measured changes in the income statement (Alternative B) would only exponentially increase the extent of non-GAAP disclosures in this area and likely result in continued confusion. Further, without a requirement to remeasure the plan assets and liabilities at each period, the intended effect of such a requirement would be muted. Remeasurement of plan assets and liabilities each period would result in incremental cost to preparers and should be a consideration of the Board in evaluating such an alternative.

Alternatively, the IAS 19 approach would on the surface appear more attractive, however it recognizes amounts in other comprehensive income without recycling such amounts to earnings. We do not see the IFRS alternative as an incremental improvement. The FASB has debated recycling in prior projects and has maintained the concept. Without significant feedback to the contrary (considering the other comprehensive income discussions in the ITC), we do not see a compelling reason to change existing GAAP on this topic.
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.

We are not aware of other approaches that would be considered significant improvements that should be considered when addressing delayed recognition in earnings.

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 believe that there are some issues related to the current measurement of a defined benefit obligation that could be implemented to allow for incremental improvements. Specifically, many of the items mentioned in the ITC (discount rates, hybrid plans, and sponsor/plan convergence) would all appear to be incremental targeted improvements that warrant some attention. Other incremental improvements could be explored, such as how the sponsor should develop the expected rate of return. For example, guidance related to how sponsors should consider and disclose historical performance of the plan assets over time. The historical rate of return could be developed based on an arithmetic mean or a geometric mean. Many entities disclose historical returns on an arithmetic basis, but in recent years the SEC has, at times, requested entities to present and consider both alternatives.

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

We believe a targeted improvements approach would be the appropriate path. Generally, we believe that items of measurement differences are the hardest for users to understand and adjust for and thus should be addressed through targeted improvements. We believe that many of the deferred expense recognition items can be adjusted for (and are in practice by certain entities and users) to allow for comparability. Other adjustments for deferred recognition might be facilitated through incremental presentation and disclosure requirements.

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

We support the FASB’s continued efforts on the disclosure framework project to improve the effectiveness of disclosures in the area of pension and other post retirement plans.

Chapter 3—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)?

We believe the accounting for distinguishing liabilities from equity is a major financial reporting issue that the FASB should consider for improvement. As mentioned previously, errors in the accounting for instruments that involve distinguishing liabilities from equity has been a leading cause for public company restatements for many years. As noted in the ITC, and we agree, the existing distinguishing liabilities from equity literature is very path dependent and complexities exist in interpreting and applying those standards to an ever changing set of facts and circumstances. We support the Board’s attempts to improve current guidance, but would encourage a focus on improved navigation and education paired with a focus on targeted improvements to address complexity.

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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.

We believe that distinguishing between liabilities and equity is a financial reporting issue that requires targeted improvements coupled with education. Generally, it appears that any holistic alternative is an academic exercise with positives and negatives to existing stakeholders. We do not support certain holistic approaches that have been presented in the ITC and debated in the past on a conceptual level and feel that they would result in very significant changes and costs with limited incremental benefit. For these reasons, we find that current GAAP with targeted improvements, such as those identified in the Board’s Liabilities & Equity – Targeted Improvements Project, to be the most viable approach.

Question 3.3: Are there other alternatives for simple instruments 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.

We believe the two alternatives presented address the most compelling alternatives for simple instruments. A third alternative could include consideration of incorporation of elements of the SEC guidance on mezzanine equity. We observe that the simple model assumes that practice agrees on whether substance or form governs what is a redemption option versus a conversion option. However, we are aware that this analysis can be challenging, and if this approach is pursued, we believe that incremental guidance would be an important step in addressing complexity.

Additionally, we observe that the simplified approaches appear to not allow for the continuation of the ASC 480-10-65-1 indefinite deferral Statement No. 150 for private companies. This could perhaps cause some private companies to reclassify certain instruments to liabilities that are presently classified as equity. As an alternative, if the indefinite deferral was maintained for certain circumstances, additional alternatives under the simple model might need to be developed. For example, the indefinite deferral might be modified to be a scope exception for private companies under the simplified approaches which is consistent with the Board’s September 16, 2015 tentative decision on the Liabilities & Equity – Targeted Improvements Project.

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 are not aware of further alternatives that the FASB should consider.

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 believe Alternative B presents the most useful information to users of the financial statements. Particularly because obligations to transfer cash or assets are viewed very differently than obligations to transfer shares by most financial statement users. We find that a dividing line based upon that theory to be the most relevant information to utilize in establishing a principle for distinguishing between liabilities and equity.
Question 3.6: Considering the alternatives described for complex instruments, which alternative provides more useful information to users of financial statements and why?

We believe Alternative B would provide the most useful information. Generally we find that users of financial statements are less influenced by non-cash (i.e. delivery of shares) expense items that relate to a bifurcated embedded feature. Accordingly, Alternative A based on our experience would not be relevant to many financial statement users. Alternative B would appear to go a long way to reducing the number of bifurcated items and reducing the complexity of the analysis, however we are concerned with potentially problematic results. For example, conversion options that are indexed to a completely unrelated underlying or contain significant leverage would appear to not require bifurcation in such a model as long as they are not separately exercisable.

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.

We find financial statement users, such as lenders, are often times most interested in intrinsic value as it is a proxy for the amount at which the instrument will settle. However, since intrinsic value does not capture the impacts of all features of a particular instrument, it provides an oversimplified measurement value in some circumstances. For example, an instrument’s features may adjust upon the occurrence of a contingency which has the potential to impact the instrument’s fair value. In such circumstances, fair value may be a more useful measurement basis to understand the potential for future cash outflows and the probability of the occurrence, particularly if combined with disclosure of the value without that feature. For these reasons, the usefulness of either measurement method is dependent upon the features of an instrument and needs of the financial statement user.

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?

As noted in our response to Question 3.7, the remeasurement of certain instruments, such as those that are based upon a contingency, may not provide useful information if the instrument is remeasured at intrinsic value each period as opposed to fair value.

Chapter 4 - Reporting Performance and Cash Flows (including income statement, segment reporting, other comprehensive income, and statement of cash flows)

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?

Income statement presentation should be considered for improvement as part of a holistic project in conjunction with the statement of cash flows. Although we believe other topics in the ITC should have a higher priority, increased comparability and disaggregation of income statement line items could lead to more decision useful reporting of an entity’s performance. As discussed in the ITC, the absence of structure in the income statement and aggregation of performance information limits the decision-usefulness of the income statement and has driven the increased use of non-GAAP performance measures.
Question 4.2: How should the components of net income be categorized, if at all? 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?

The components of net income could be reviewed as part of a holistic project with the statement of cash flows. Harmonizing the structure of these two performance statements could be helpful for users to understand the interaction between the two statements, and understand the nature of an entity’s operating performance. Providing an operating activities category in the income statement is essential to this. If an operating activities category is developed with a subtotal displayed for operating income, we believe the FASB should describe, not define, this category in order to allow for management to determine its composition through an accounting policy (i.e. Alternative A). In determining how operating activities should be defined, the Board should provide a description that would allow for application across a multitude of entities consistent with recent principles-based accounting standards issued by the Board.

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 defining operating activities in a consistent manner for all types of reporting entities could be cumbersome and inflexible. Such definitions may be difficult for some entities to apply because an entity’s operations may not encompass all types of transactions within established definitions. In addition, there would likely be situations where entities have operations that do not fit within established definitions. However, providing descriptions of operating activities would be more useful and provide greater flexibility in application.

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

As previously mentioned, we would recommend an approach that would allow management to determine an entity’s operating activities based on a description of what constitutes an operating activity and the entity’s own circumstances. We are not in favor of a standardized definition. There should naturally be some room for management’s judgment in setting accounting policies and we believe descriptions would provide appropriate guidance to financial statement preparers, practitioners, and financial statement users in reporting and understanding an entity’s operating activities.

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 Alternative B provides useful information to financial statement users because disaggregation of infrequently occurring transactions and remeasurement gains or losses will enable users to better understand items that affect an entity’s recurring performance. We find that these items are often considered in management’s view of financial performance and certain non-GAAP performance metrics. We recommend Alternative B because it also incorporates separate presentation of the items identified in Alternative A. Furthermore, Alternative C could be costly for some entities to implement.

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

We have no further suggestions at this time.
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 believe segment reporting is a financial reporting issue that should be targeted for improvement, but it should be placed at a lower priority level than some of the other reporting issues identified in the ITC. We believe it is an area for targeted improvement because, as noted in the ITC, certain information useful to users is not included in the current list of required disclosures in Topic 280. In addition, the aggregation criteria could be revisited to determine if any standardization can be introduced into the aggregation analysis. Our lower prioritization of segment reporting than other reporting issues identified in the ITC is based in part on the results of the FASB’s post implementation review (PIR) of Statement No. 131, which noted Statement No.131 is effective. Although we acknowledge this result, the matters noted in the ITC suggest further improvements may warrant consideration by the Board.

**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?

We believe Alternative C would provide the most useful information to users of financial statements. Similar information described in Alternatives A and B appears to be included in the proposed Alternative C, but Alternative C has additional benefits to financial statement users because the information proposed in Alternative C is organized in a way that is familiar to investors (i.e. in a format that substantially mirrors the income statement and balance sheet) and provides greater transparency into the relationship between segment information and the financial statements. Moreover, the structure of Alternative C appears to be more conducive to data aggregation and analysis when compared to Alternatives A and B.

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

We believe the described improvements to reexamine the aggregation criteria would provide more useful information to investors. While we acknowledge the PIR on Statement No. 131 concluded that it is effective, we believe many struggle in particular with how to apply the phrase “economically similar,” and additional standard setting in this area may help clarify how this statement should be applied. We agree with the statement in the ITC that applying the segment standard from a governance perspective would provide less useful information to investors. The “management-approach” is a long-standing conceptual underpinning of segment disclosures. As noted in the ITC, one of the perceived issues with the current segment disclosures as well as the aggregation criteria is that investors are not receiving all decision useful information that could be available to them, and changing segment disclosures to a governance approach would not appear to resolve such stakeholder concerns.

**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.

In the event the FASB pursues a proposal similar to Alternative C, we encourage the FASB to consider whether certain additional segment information should be required (e.g. gross margin, operating cash flows, etc.) if reviewed by the CODM, similar to Alternative A and B. Alternative C, as presented in paragraph 4.33 of the ITC, and in the examples provided, appears to exclude certain metrics that the ITC identifies as of unique significance to investors and other financial statement users.

**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?

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?
Although we recognize there are conceptual issues underlying the reporting of other comprehensive income, we do not view this as a major financial reporting issue. The criteria we used to make this judgment was primarily based on the standard setting that resulted in the issuance of ASU 2013-02. Due process was undertaken, and the due process resulted in a standard that included two of the items noted as issues in the ITC (i.e. the two statement approach and reclassification adjustments), but we believe the standard is operational as currently written. We believe it would be more meaningful to address the underlying conceptual issues presented in the ITC rather than to provide incremental improvements to the reporting 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 do not view reclassification adjustments as problematic given the issuance of ASU 2013-02 and the due process undertaken by the Board in developing that standard. However, we generally favor the analysis proposed under Alternative B as it appears to provide a more meaningful long-term outcome. Specifically, Alternative B allows for tailoring conclusions for the other comprehensive income implications of future standard setting based on the objective and conceptual basis of the standard to be improved.

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 do not believe the described improvements significantly improve the relevance of other comprehensive income in the context of performance. Other comprehensive income is not widely recognized as a performance measure, nor is it widely used to adjust expectations of performance. As a result, limited benefit would be obtained from further presentation improvements.

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.

At this time, we do not have any further suggestions for improving the relevance of other comprehensive income as it relates to reporting performance.

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?

The presentation of the statement of cash flows is a major financial reporting issue that the FASB should consider for improvement. While we acknowledge the FASB’s recent improvement efforts in this area with the issuance of ASU 2016-15, the underlying conceptual issues of Topic 230 identified in the ITC remain. As noted in the ITC, the current classifications are not intuitive and result in classification errors. We believe errors in financial reporting is a criteria that should be heavily weighted in a prioritization analysis because errors in financial reporting provides strong evidence that guidance should be improved.

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?

We believe the FASB should reconsider the three-category structure as well as the definitions of operating, investing, and financing activities within the statement of cash flows. We believe maintaining the current three-category structure will perpetuate a need to continually revise Topic 230. As noted in the Board’s due process preceding the issuance of ASU 2016-15, the FASB staff’s research indicated that there was diversity in practice with respect to the classification of certain cash receipts and payments.
The staff’s research also indicated that the primary reasons for the diversity in classification is the result of lack of specific accounting guidance and inconsistent application of the existing principles within Topic 230. As the business environment continues to evolve, there will necessarily be an evolution in types of cash receipts and payments that will need to be addressed by Topic 230. Absent a change in reporting framework, the FASB staff will likely continue to field questions with respect to appropriate classification under Topic 230 for new types of cash receipts and payments, which may require the need for continued standard setting. We believe reconsidering the three-category structure as discussed above may serve to alleviate such circumstances in the future.

If the FASB Maintains the Current Three-Category Structure and Definitions:

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 do not have any additional suggestions of specific cash flows that should be disaggregated if the FASB maintains its current three-category structure and definition.

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

For the reasons noted in our response to Question 4.16, we encourage the FASB to reconsider its three-category structure.

If the FASB Reconsiders the Current Three-Category Structure and Definitions:

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?

We believe the cash flow statement should be categorized to promote comparability both between periods for a single entity and between multiple entities. We believe Alternative A provides the best balance of information to investors because it provides an approach that is uncluttered and organizes cash flow items by activity, which is an important portion of the information communicated to investors for the purpose of assessing prospects for future cash flows. Alternative B risks lack of comparability (see Question 4.20 below for additional discussion). Alternative C provides additional linkage between the statement of cash flows and the income statement; however, we have concerns that such an approach may serve to clutter the primary financial statements, and cash flows stemming from disparate activities might be combined into a single line item presentation thereby decreasing the usefulness of the information to investors when assessing future cash flows.

We encourage the FASB to describe rather than define the cash flow categories as we have concerns that defining cash flows categories may not provide flexibility across a wide range of different types of entities or industries. For example, we believe a valid approach might be to describe operating cash flows as those cash flows that directly result from revenue generating activities. Financing cash flows might be described as those cash flows that arise from transactions that impact an entity’s capital structure.

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

We believe a management approach would create significant comparability issues between entities, which is an undesirable outcome for basic financial statements. As noted in Concept Statement No. 8, “[t]he usefulness of financial information is enhanced if it is comparable [emphasis added], verifiable, timely, and understandable.” Should the FASB determine to proceed with a management approach to cash flow presentation, we encourage the FASB to consider whether such presentation should be provided in the footnotes in the context of segment disclosure rather than in the basic financial statements.

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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?

We encourage the FASB to consider increasing the ability of users to understand the relationships between financial statements. Should the FASB adopt an operating category in the income statement, we support aligning the description of that category across the income statement and cash flow statement. We believe the Board should evaluate whether aligning the description or definition of the category across the income statement and statement of cash flows enhances comparability both between periods for a single entity and between entities. To the extent the Board concludes alignment would enhance comparability, we believe this is a significant benefit that should be weighed in the standard setting process.

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 in considering your proposal(s). Please provide your rationale for why your proposal provides users of financial statements with more useful information.

We have no additional alternative to suggest at this time.

Topic Specific Questions for Respondents—Paths Forward

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 encourage the FASB to consider a holistic project that addresses the income statement and statement of cash flows. See further discussion at Questions 4.1 and 4.2 above.

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

We recommend the FASB prioritize categorization, primarily operating versus non-operating in the income statement and statement of cash flows because, as noted above, we believe a holistic project addressing the income statement and statement of cash flows will provide a meaningful improvement in comparability between periods for a single entity and between entities as well as for understanding the relationships between financial statements.