

**Virtual Meeting via Zoom
Thursday, April 8, 2021
Agenda**

11:00–11:05 am
EST
(5 minutes)

Introductions and Opening Remarks
(Mr. Michael Morrow)

11:05 am–12:55
pm
(110 minutes)

FASB Agenda Consultation

- Outreach update and background – 11:05 –11:10 am (*5 minutes*) (FASB Staff)
- Topic 1—Financial Performance Reporting, including Non-GAAP Metrics – 11:10 – 11:35 am (*25 minutes*)
- Topic 2—Environmental, Social and Corporate Governance (ESG) Disclosures – 11:35 am – 12:00 pm (*25 minutes*)
- Topic 3—Presentation of Statement of Cash Flows – 12:00 – 12:25 pm (*25 minutes*)
- Topic 4—Other topics – 12:25 – 12:55 pm (*30 minutes*)

12:55–1:00 pm

Closing Remarks
(Mr. Michael Morrow)

1:00 pm

ADJOURNMENT

**AGENDA CONSULTATION
FINANCIAL ACCOUNTING STANDARDS ADVISORY COUNCIL
APRIL 8, 2021**

Objectives of the April Discussion

The objective of this lean-in session is to solicit Council members' views about various financial reporting areas to understand priority topics that the Board should address. During the discussion, the focus will be specifically on:

- (1) How Council members view the relative priority of various financial reporting areas.
- (2) For topics that Council members identified as high priority:
 - (a) The case for change
 - (b) The potential scope of changes or improvements and if there are feasible solutions
 - (c) The urgency of making changes or improvements (that is, is this a near-term or longer-term priority?).

Overview of the Materials

This distribution highlights Council members' survey results and provides additional materials on certain topics identified by Council members as a high priority for the Council's April 8 discussion along with discussion questions.

The materials include the following:

- (1) Pre-Meeting FASAC Survey Results
- (2) Discussion Topics and Questions
 - (a) Topic 1: Financial Performance Reporting, Including Non-GAAP Metrics (discussion questions on page 5)
 - (b) Topic 2: Environmental, Social, and Corporate Governance (ESG) Disclosures (discussion questions on page 7)
 - (c) Topic 3: Presentation of the Statement of Cash Flows (discussion questions on page 8)
 - (d) Topic 4: Other Topics (discussion questions on page 9).

Please reach out to Aarika Friend (afriend@fasb.org) or Alicia Posta (aaposta@fasb.org) with any questions.



A. Pre-Meeting FASAC Survey Results

In order to focus on the discussion at the upcoming session, the staff requested that Council members complete the pre-meeting survey. Council members were provided a brief description of 11 topics that were cited most frequently as highest priority by 2 or more of the key stakeholder or advisory groups that have participated in the preliminary outreach completed through March 15, 2021. The survey asked Council members to preliminarily identify (1) the top three topics of priority, (2) the bottom three topics of priority, and (3) any additional topics that are high priority.

The following table highlights the top three priority topics as indicated by the pre-meeting survey.

Top Priorities for Discussion at the April FASAC Meeting

Topic	All	Preparers	Users	Practitioners	Other
Business Combinations Disclosures					
Digital Assets	3rd			2nd*	3rd*
Distinguishing Liabilities from Equity				2nd*	
ESG Disclosures	2nd	3rd	1st*		2nd
Financial Performance Reporting Including Non-GAAP Metrics	1st	1st	1st*		1st
Income Tax Disclosures					
Internally Developed Intangible Assets					3rd*
Partially Owned Subsidiaries and Equity Method Investments				2nd*	
Presentation of the Statement of Cash Flows			3rd		
Recognition and Measurement of Government Grants				1st	
Transparent Framework for Board's Cost-Benefit Analysis		2nd			

*Denotes a tie.

The following table highlights the lowest priority topics as indicated by the pre-meeting survey.

Lowest Priorities for Discussion at the April FASAC Meeting

Topic	All	Preparers	Users	Practitioners	Other
Business Combinations Disclosures					X
Digital Assets					
Distinguishing Liabilities from Equity	X	X	X		
ESG Disclosures				X	
Financial Performance Reporting Including Non-GAAP Metrics				X	
Income Tax Disclosures					
Internally Developed Intangible Assets			X*		
Partially Owned Subsidiaries and Equity Method Investments			X*		X
Presentation of the Statement of Cash Flows		X			
Recognition and Measurement of Government Grants	X	X	X		
Transparent Framework for Board's Cost-Benefit Analysis	X		X*	X	X

*Denotes a tie.

The pre-meeting survey responses were analyzed to develop a focused agenda because it would not be feasible to discuss each of the 11 topics in depth during the 2-hour session. The following topics were selected for focused discussion at the April lean-in session on the basis of the pre-meeting survey results:

- (1) **Financial Performance Reporting, Including Non-GAAP Metrics (Topic 1)** and **ESG Disclosures (Topic 2)** were selected because those topics were identified as top priorities by both preparer and investor/financial statement user Council members in the pre-meeting survey.
- (2) **Presentation of the Statement of Cash Flows (Topic 3)** was selected because the topic was identified as high priority by investor/financial statement user Council members and low priority by preparer Council members.

Additional background information and discussion questions on each of those topics is

included in the following section.

The pre-meeting survey results also indicated that both Digital Assets and Transparent Framework for Board's Cost-Benefit Analysis are a high priority for many Council members. Those topics have not been included as an area of focus for the April FASAC lean-in session for the following reasons:

- (1) Digital Assets**—The Council discussed the accounting for digital assets as part of a broader dialogue on the accounting for nonfinancial assets in its March 2021 meeting. The FASB staff continues to monitor activities surrounding digital assets, including cryptocurrency.
- (2) Transparent Framework for Board's Cost-Benefit Analysis**—A central aspect of the Board's standard-setting process relates to evaluating costs and benefits of changes in accounting and financial reporting standards. In the coming year, the FASB is considering ways to further enhance those processes—to drive additional consistency in the processes supporting the evaluation of costs/benefits and to evaluate existing tools. Therefore, the staff plans to have a fulsome discussion with Council members about the Board's cost-benefit analysis at a Council meeting in the near future as part of those efforts.

The FASB staff plans to distribute a follow-up questionnaire after the Council meeting, which will give Council members an opportunity to evaluate their preliminary feedback on the basis of the discussion at the April lean-in session. The discussion at the April lean-in session and the post-meeting follow-up questionnaire will help shape the public agenda consultation Invitation to Comment.

B. Discussion Topics and Questions

Topic 1—Financial Performance Reporting, Including Non-GAAP Metrics

Background

Investors cited a need for greater disaggregation of certain income statement line items, either on the face of the financial statements or through disclosure in the notes to the financial statements. For example, greater insight into a line item, such as selling, general, and administrative (SG&A) expense or cost of sales (COS), would allow an investor to better understand an entity's cost structure and future cash outflows, and additional information about labor cost expenses would help an investor understand an entity's expenditures for wages and salaries. Several investors also were interested in a requirement for a defined subtotal for operating income and understanding whether income and expense items (such as restructuring costs) were considered recurring or nonrecurring. The Board has current projects on its research and technical agendas

related to financial performance reporting for for-profit entities. These projects have been put on hold pending decisions on the Board's [segment reporting project](#) and the International Accounting Standards Board's (IASB) proposal related to its [primary financial statements project](#).

Additionally, investors observed that because there are no parameters around certain non-GAAP financial metrics or key performance indicators (KPIs), such as earnings before interest, taxes, depreciation, and amortization (EBITDA), (1) those metrics often are not comparable across companies and reporting periods and (2) it can be difficult to discern what is included in a specific metric. One suggestion was that the Board define certain prevalent financial metrics, such as EBITDA, and standardize various financial metrics within the audited financial statements to allow for comparability across companies and reporting periods.

Some stakeholders expressed concern that if IASB proposal related to its primary financial statements project were finalized, it has the potential to create significant inconsistency in the financial statement presentation between GAAP and IFRS Standards. Many academic and investor stakeholders emphasized the importance of GAAP and IFRS Standards remaining largely converged on financial statement presentation.

Topic 1 Discussion Questions

Many Council members, including both preparers and investors/other financial statement users, identified Financial Performance Reporting, Including Non-GAAP Metrics as high priority in the pre-meeting survey.

Investors/Other Financial Statement Users

- (1) What improvements to financial performance reporting are needed?
 - (a) Greater disaggregation of certain income statement line items, such as SG&A Expense or COS
 - (b) Information about nonrecurring items included in the income statement
 - (c) The standardization of certain financial KPIs, such as EBITDA, in the GAAP financial statements
 - (d) Other
- (2) How would you use the additional information in your analysis?

Preparers/Practitioners

- (3) Would it be feasible to make these types of improvements?

(4) Do you have this type of information available, and, if not, what challenges would you have in preparing this information? Would this information be auditable?

All Council Members

(5) If the FASB standardized certain financial KPIs, such as EBITDA, to be included in GAAP financial statements, should that information be mandatory or optional to provide?

(6) What is the urgency of making improvements within GAAP to Financial Performance Reporting, Including Non-GAAP Metrics?

Topic 2—Environmental, Social, and Corporate Governance (ESG) Disclosures

Background

Stakeholders suggested that the Board consider requiring ESG-related disclosures, which are a growing area of focus for a wide range of interested parties including investors, credit-rating agencies, lenders, preparers, regulators, and policy makers. ESG reporting includes a broad spectrum of quantitative and qualitative information. Interested parties seek to understand the effects of relevant ESG matters on an entity's business strategy, cash flows, financial position, and financial performance. In other cases, parties seek that information from a public policy perspective or to influence corporate behavior.

Several ESG disclosures were suggested by investors, including climate change risk disclosures, the disclosure of carbon content in a company's assets, and disclosures regarding an entity's human capital expenses. Investors noted that there is not adequate information currently being disclosed on how climate risk factors into impairment analysis, fair value calculations, and the estimate of expected credit losses.

While ESG matters cover a broad range of topics well beyond the topics covered by financial accounting and reporting standards, the FASB staff observes that many current accounting standards require an entity to consider changes in its business and operating environment when those changes have a material direct or indirect effect on the financial statements and notes thereto. That is often the case in areas of accounting that require management judgment and estimation. Additional information is included in a recent FASB Staff [Educational Paper](#), *Intersection of Environmental, Social, and Governance Matters with Financial Accounting Standards*. The FASB staff developed the educational paper to provide investors and other interested parties with an overview of the intersection of ESG matters with financial accounting standards. The paper also provides examples of how an entity may consider the effects of certain material ESG matters when applying current accounting standards, similar to how an entity considers other changes in its business and operating environment that have a material direct or indirect effect on the

financial statements.

On March 4, 2021, the U.S. Securities and Exchange Commission (SEC) [announced](#) the creation of a Climate and ESG Task Force to identify any material gaps or misstatements in issuers' disclosure of climate risks under existing rules. On March 15, 2021, Acting SEC Chair Lee made a public statement requesting public input from investors, registrants, and other market participants on climate change disclosures. There also has been continued international interest in this area, including being identified as a recent [area of strategic focus](#) for the IFRS Foundation Trustees.

Topic 2 Discussion Questions

Many Council members, including both preparers and investors/other financial statement users, identified ESG Disclosures as high priority in the pre-meeting survey. Given the purpose of the Council's April discussion, suggestions on ESG Disclosures that are of most interest to the FASB staff are those that are within the context of financial accounting and reporting and have a direct link to specific financial statement line items.

Investors/Other Financial Statement Users

- (1) What type of financial accounting and reporting information related to ESG disclosures do you use (or would like to have) in your analysis of a company? How do you (or would you) use that information in your capital allocation decisions?
- (2) Would it be more helpful to have further disaggregation of certain ESG-related line items on the balance sheet or income statement, broad ESG policy disclosures, or a combination of both?

Preparers/Practitioners

- (3) What improvements (if any) are needed within the financial statements to communicate the effects of relevant ESG matters on an entity's business strategy, cash flows, financial position, and financial performance?
- (4) Is that information readily available?
- (5) Do your company's analysts or Board of Directors ask questions about certain ESG information related to financial accounting and reporting?

All Council Members

- (6) Should a potential project on ESG be broader than disclosures?
- (7) What is the importance of having converged ESG disclosures with IFRS Standards?
- (8) What is the urgency of completing a project on ESG Disclosures?

Topic 3—Presentation of the Statement of Cash Flows

Background

Several investors suggested that the Board holistically re-evaluate the presentation of the statement of cash flows and consider requiring the direct method cash flow statement to improve the decision usefulness of the statement. Those investors stated that the existing indirect method is not intuitive and does not provide decision-useful information. For example, some investors noted that the most decision-useful cash flow components, such as cash collected from customers, are only available in a direct method cash flow statement, which companies rarely choose to provide. Other investors observed that there is variability in how the indirect method is presented across companies and industries, which makes comparability and analysis more difficult. On the other hand, the Board has historically received feedback that companies do not have the information readily available or the systems in place to prepare a direct method cash flow statement.

The Council discussed the direct method cash flow statement at its March 2015 meeting. Overall, on the basis of the breakout leaders' reports, Council members:

- (1) Expressed support for future FASB efforts on disaggregation of certain line items on the cash flows statement (some preferably by segment) to increase comparability
- (2) Suggested that the FASB forgo future efforts on:
 - (a) Redesigning the statement of cash flows because it is not the most pressing issue
 - (b) Requiring the direct method for all entities.

Topic 3 Discussion Questions

Investor/financial statement user Council members identified Presentation of the Statement of Cash Flows as a high priority, while preparer Council members identified the topic as a low priority. The FASB staff would like to understand the reasons for the disparity in priorities and whether there may be a compromise between cash flow information that investors/other financial statement users use to directly influence their decisions and information that preparers have readily available.

Investors/Other Financial Statement Users

- (1) Why did investor/other financial statement user Council members identify Presentation of the Statement of Cash Flows as a high priority? What information is needed about cash flows that is not currently provided? How would this information be used to influence your decisions?

Preparers/Practitioners

- (2) Why did preparer Council members identify Presentation of Statement of Cash Flows as a lowest priority?
- (3) Would it be feasible to make those types of improvements requested by investors/other financial statement user?
- (4) Do you have this type of information available, and, if not, what challenges would you have in obtaining and preparing the information?

All Council Members

- (5) What is the urgency of making improvements within GAAP on the Presentation of the Statement of Cash Flows?

Topic 4—Other Topics

Background

The meeting agenda includes an open session to discuss any other topics that Council members strongly feel should be high priority for the FASB's agenda, beyond Topics 1–3.

Topic 4 Discussion Questions

All Council Members

- (1) Aside from Topics 1–3, are there any other topics that you think the Board should focus on that fall under one of the three cases for change described below?
 - (a) To provide investors with better, more useful information that will directly influence their decisions and behavior.
 - (b) To remove unnecessary cost and complexity from the system.
 - (c) To maintain and improve the *FASB Accounting Standards Codification*[®].

Practitioners

- (2) Practitioner Council members identified Recognition and Measurement of Government Grants for Business Entities, Distinguishing Liabilities from Equity, and Partially Owned Subsidiaries and Equity Method Investments as high priority, while other Council members identified those topics as low priority.
 - (a) Why were these topics identified as high priority by practitioner Council members?
 - (b) What should be the scope of a potential project for these topics?
 - (c) What is the urgency of completing a project on these topics?

Attachment 3 FASAC Lean-In Session



2021 Agenda Consultation Invitation to Comment

Alicia Posta, Assistant Director

Aarika Friend, Supervising Project Manager

Steven Whitman, Postgraduate Technical Assistant

April 8, 2021

The views expressed in this presentation are those of the presenter.
Official positions of the FASB are reached only after extensive due process and deliberations

Agenda Consultation—Timeline



Outreach Details and Metrics

Performed outreach with more than 150 FASB stakeholders to date

- All FASB Advisory Groups*
- 4 External Investor groups with approximately 50 total investors
- 1 External Private Company Stakeholder Group
- 1 External Preparer Group
- 2 External Groups with a Mix of Preparers/Practitioners

Identified more than **40 topics** of potential improvements to financial reporting

- Approximately 15 topics were mentioned by two or more groups

April 8th Lean-in Session

■ Pre-Meeting Survey

- Council members were provided a list of 11 topics that were identified as high priority by two or more stakeholder groups
- Council members were asked to complete a pre-meeting survey on:
 - Highest topics of priority
 - Lowest topics of priority
 - Any high priority topics that are missing

■ Purpose

- To have an in-depth discussion on several high priority topics
- To listen to Council members about potential solutions, usefulness of information, and urgency of the topics

List of Topics Included in FASAC Pre-Survey

- Business Combinations Disclosures
- Digital Assets
- Distinguishing Liabilities From Equity
- Environmental, Social and Corporate Governance (ESG) Disclosures
- Financial Performance Reporting including non-GAAP metrics
- Income Tax Disclosures
- Internally Developed Intangible Assets (including Software)
- Partially-owned Subsidiaries and Equity Method Investments
- Recognition and Measurement of Government Grants for Business Entities
- Transparent Framework for Board's Cost-Benefit Analysis

Note: Some frequently mentioned projects (such as Segments and Supplier Finance Programs) were not included because they are already being actively deliberated as part of the FASB's Technical Agenda.

Pre-Meeting Survey—High Priority

Topic	All	Preparers	Users	Practitioners	Other
Business Combinations Disclosures					
Digital Assets	3rd			2nd*	3rd*
Distinguishing Liabilities from Equity				2nd*	
ESG Disclosures	2nd	3rd	1st*		2nd
Financial Performance Reporting Including Non-GAAP Metrics	1st	1st	1st*		1st
Income Tax Disclosures					
Internally Developed Intangible Assets					3rd*
Partially Owned Subsidiaries and Equity Method Investments				2nd*	
Presentation of the Statement of Cash Flows			3rd		
Recognition and Measurement of Government Grants				1st	
Transparent Framework for Board's Cost-Benefit Analysis		2nd			

*Denotes a tie.

Pre-Meeting Survey—Low Priority

Topic	All	Preparers	Users	Practitioners	Other
Business Combinations Disclosures					X
Digital Assets					
Distinguishing Liabilities from Equity	X	X	X		
ESG Disclosures				X	
Financial Performance Reporting Including Non-GAAP Metrics				X	
Income Tax Disclosures					
Internally Developed Intangible Assets			X*		
Partially Owned Subsidiaries and Equity Method Investments			X*		X
Presentation of the Statement of Cash Flows		X			
Recognition and Measurement of Government Grants	X	X	X		
Transparent Framework for Board's Cost-Benefit Analysis	X		X*	X	X

*Denotes a tie.

Discussion Topics for April 8th

- Based on pre-meeting survey feedback, 3 topics were selected for more in-depth discussion at the April Lean-in Session:
 - High priority by both preparer and investor/user Council members:
 - Topic 1—Financial Performance Reporting, including Non-GAAP Metrics
 - Topic 2—Environmental, Social and Corporate Governance (ESG) Disclosures
 - High priority by investor/user Council members and low priority by preparer Council members:
 - Topic 3—Presentation of Statement of Cash Flows
 - Other high-priority topics:
 - Digital Assets
 - Transparent Framework for Board’s Cost-Benefit Analysis

Appendix–FASB Agenda Criteria

FASB's Agenda Criteria

1

There is an identifiable and sufficiently pervasive need to improve GAAP.

2

There are technically feasible solutions, and the perceived benefits of those solutions are likely to justify the expected costs of change.

3

The issue has an identifiable scope.

Decisions about whether a project meets the agenda criteria is a matter of judgment, made by FASB members, based on research and analysis performed by the FASB staff.

Identifiable and Sufficiently Pervasive Need to Improve GAAP (Criterion #1)

There are three primary reasons for change:

A

To provide investors* with better, more useful information that will directly influence their decisions and behavior.

B

To remove unnecessary cost and complexity from the system.

C

To maintain and improve the Codification.