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Submitted electronically via director@fasb.org

Financial Accounting Standards Board
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Technical Director:

**Re: AcSB Response to the FASB's Agenda Consultation – File Reference No. 2021-004
Invitation to Comment**

This letter is the response of the Canadian Accounting Standards Board (AcSB) to the Financial Accounting Standard Board's (FASB) Invitation to Comment (ITC), "Agenda Consultation," issued in June 2021.

Our views

We welcome the opportunity to respond to the FASB's ITC regarding its future agenda priorities. This consultation, along with other outreach activities conducted by the FASB, demonstrates its commitment to considering stakeholder views when setting its agenda, and to transparency and accountability.

We note that the list of proposed projects in this ITC is quite extensive. This is reflective of the rate at which the global business and economic landscape is changing. Accounting standard setters are tasked with staying abreast of market changes and responding to stakeholder needs in a timely manner. We commend the FASB for continuing to make meaningful progress on its priorities addressing stakeholder needs, particularly amid the Covid-19 pandemic.

Our response will focus on the issues which are, in our opinion, the most significant global financial reporting issues. We will recommend solutions that will seek to narrow differences in financial reporting outcomes regardless of the accounting framework used. More comparable financial reporting outcomes will help to facilitate efficient capital markets, increase investor confidence, and potentially reduce the cost of capital.

Investing is international

Investing is an international activity. Therefore, investors around the world face the challenge of working with multiple accounting frameworks. We understand, based on discussions with our User Advisory Committee¹, that investors:

- rely on financial statements and other reporting documents when making investment decisions; and
- expend a significant amount of effort comparing the financial statements of entities who report using different accounting frameworks and that these comparisons are often complex, making investment decisions difficult.

Many Canadian entities are dual listed on the Canadian and U.S. stock exchanges. If a dual listed entity is classified as a Foreign Private Issuer², they are permitted by the SEC (and in most cases by the Canadian Securities Regulators) to prepare their financial statements in accordance with IFRS as issued by the IASB or U.S. GAAP. For entities that have the choice on which framework to apply, there are often challenges and tension involved in making that choice.

In light of investor needs both within and outside the U.S., we agree with the FASB for seeking the views of other standard setters, including the IASB, on projects of mutual interest. From that perspective, we commend the FASB for monitoring feedback received on the IASB's Request for Information, Third Agenda Consultation, and intersections received on this ITC.

In this letter we will highlight some projects that we think the FASB should consider, which will help to narrow differences in global financial reporting outcomes. We also recommend that for any changes considered to standards that currently result in similar financial reporting outcomes, the FASB work with the IASB and other standard setters to retain that alignment, when appropriate.

Priority of addressing financial reporting issues

Based on feedback we received from Canadian stakeholders, we gave the following two criteria the highest weight when assessing the priority level of financial reporting issues:

1. The importance of the matter to investors
2. Whether there is any deficiency in the way companies report the type of transaction or activity in financial reports

Both of these criteria must be met in order for us to consider the financial reporting issue a high priority. We also considered several other criteria when determining which financial reporting projects we think the FASB should add to its work plan. These criteria include the types of companies that the matter is likely to affect, how pervasive the matter is likely to be for companies, the potential project's interaction with other projects on the work plan, the complexity and feasibility of the potential project and its solutions, and the capacity of the Board and its stakeholders to make timely progress on the potential project.

¹ The Accounting Standards Board (AcSB) established a User Advisory Committee in October 2004 to increase financial statement user participation in the accounting standard-setting process. The purpose of the Committee is to assist the AcSB in understanding how users, including investors and investment professionals, credit granters in financial institutions, equity and credit analysts, and rating agencies, use financial information.

² <https://www.sec.gov/divisions/corpfin/internatl/foreign-private-issuers-overview.shtml>

Our recommendations

Environmental Social and Governance (ESG) Related Accounting and Disclosures

ESG reporting has been an area of growing focus for global standard setters and stakeholders in recent years. Investors place a high degree of importance on ESG matters since they can have a material effect on an entity's financial performance. Accordingly, appropriate accounting treatment and disclosure of ESG matters will help support stakeholder decision-making. When considering financial reporting standards, an entity needs to consider both the direct and indirect effects of ESG matters. For example, an entity would need to consider how an ESG matter directly affects an amount reported and disclosed in the financial statements, such as compensation expense, or indirectly through such means as reputational risk from an environmental contamination.

We acknowledge that it might be operationally difficult to differentiate whether an ESG matter has a direct or indirect impact on the financial statements due to the broad nature of ESG matters. Therefore, we think that the FASB should undertake a project to better understand the interconnection between financial and non-financial reporting of ESG matters such as climate related risks. It is imperative that the work of financial reporting standard setters and sustainability reporting standard setters are not done in silos. As such, we think the FASB should continue to play a role in international discussions on sustainability reporting.

One area in which we have received feedback relates to the need for guidance on pollutant pricing mechanisms. These types of schemes are becoming more prevalent globally, and in the absence of specific guidance, financial reporting outcomes could lack consistency and comparability.

Intangible Assets

The FASB should consider updates required to the standard on intangible assets to provide information about unrecognized internally generated intangible assets. This topic is important because intangible assets, such as big data, customer relationships, brand, efficient business processes, or the dynamic capability of a workforce, are an important part of how businesses create value and generate future profits and cash flow.

As a first step, the FASB should consider adding a research project to its work plan with the objective of analyzing various options to enhance the relevance of the information provided on an entity's intangible assets within the financial statements. The FASB should conduct a research project in an expedient manner to prevent delaying work on a standard setting project that addresses stakeholder concerns.

A standard setting project could involve a comprehensive review that focuses on the recognition and measurement requirements of some or all internally generated intangible assets, including those that would be recognized if they were acquired separately or through a business combination. The FASB could also consider a smaller scale project to provide users with decision relevant information pertaining to an entity's unrecognized internally generated intangible assets. For example, the FASB could require enhanced disclosure or disaggregation of information about an entity's value creation activities. We think that any work the FASB undertakes on intangible assets should include an assessment of the conditions for capitalization as this would help contribute to greater comparability between companies that grow organically and companies that do so through business acquisitions.

We also acknowledge that an important interconnection exists between ESG matters noted above and intangible assets, so the FASB should consider how these projects could overlap when determining its workplan.

Presentation of the Statement of Cash Flows

Users have noted on many occasions that the statement of cash flows is non-predictive at helping users understand total free cash flow of an entity, which is crucial when making investment decisions. More detailed information about certain line items within the statement of cash flows would help users gain a better understanding of amounts related to maintaining the core operations, such as working capital, and amounts relating to growth spend. Additionally, there should be greater consistency in the presentation of cash flow items within the operating and financing sections. These changes would improve the predictive value of the information that users require in making informed economic decisions.

We recognize there might be additional issues with the statement of cash flows that we have not identified above. As such, while dealing with the issues raised above in the short term, we think the FASB could also consider a broader research project to identify further issues that would help meet the information needs of users of the financial statements.

Digital Assets

The growth of the crypto-asset ecosystem is rapidly increasing. Technological developments to improve the blockchain infrastructure and decentralized finance opportunities have enhanced the appeal of crypto-assets as a long-term investment. As a result, participation in crypto-asset activities has expanded from primarily retail investors to institutional investors, including publicly traded entities. Furthermore, the regulatory environment continues to develop and provide greater clarity over crypto-asset activities.

We have reservations about the appropriateness of the measurement model within Topic 350, Intangibles- Goodwill and Other in achieving fair presentation for holdings of cryptocurrencies. In our view, the fair value performance of a cryptocurrency is important to ensure a user's understanding of the entity's financial position and profit or loss.

We think that there is a need to robustly address the GAAP requirements applicable to crypto-assets. However, since the crypto ecosystem is rapidly evolving, our recommendation is a phased approach, beginning with amendments or clarifications to existing GAAP requirements, before a holistic standard can be developed.

The FASB should consider the research findings from work being done around the world on accounting for crypto-assets. For example, feedback received on the European Financial Reporting Advisory Group's Discussion Paper on the Accounting for Crypto-Assets (Liabilities) can help the FASB better understand the crypto-asset landscape, accounting issues and potential accounting solutions both nationally and globally.

Rate Regulated Activities

The IASB is currently reviewing feedback received on its January 2021 Exposure Draft on Regulatory Assets and Regulatory Liabilities. Canadian entities subject to the IASB's proposed accounting model are accounting for regulatory assets and liabilities in one of the following ways:

- Applying the IASB's interim standard, IFRS 14 *Regulatory Deferral Accounts*

- Applying IFRS standards without IFRS 14 (no recognition of regulatory balances)
- Reporting under U.S. GAAP.

Of those that report under U.S. GAAP, some will continue to do so, and other entities will transition to IFRS. This highlights the interconnected energy markets as there are also many Canadian entities with U.S. operations that need to consider the impact on the preparation of their consolidated financial statements.

The AcSB is generally supportive of the IASB's proposed accounting model and thinks it will increase the usefulness, understandability, and comparability of an entity's financial statements because the financial information provided represents a more complete picture of the entity's financial performance and position.

We recommend that the FASB monitor the outcome of this project and consider any learning from the IASB's project to update ASC 980 *Regulated Operations*. For example, users we consulted on the IASB's project noted that the extensive disclosures were helpful as they provide all the information users require in one location rather than spread out within different filings.

Transition Requirements

We support the FASB's proposal to standardize and simplify the language used to describe transition requirements for the adoption of a change to GAAP. Transition requirements can be quite complex and are often applied inconsistently. We think that standardizing the language used to describe transition requirements will increase efficiency in the overall standard setting process and will help entities adopt changes in a timely manner. We also commend the FASB for its efforts to date to ease entities with transition, such as longer transition periods and staggered effective dates.

Financial KPIs and Non-GAAP Metrics

Management-determined performance measures are becoming increasingly prevalent, and users are placing more reliance on such measures because they provide information about an entity's financial performance. In developing our [Framework for Reporting Performance Measures](#), financial statement users provided feedback that they are primarily concerned with transparency and consistency in the reporting of non-GAAP metrics. However, standardizing the definition of non-GAAP metrics, such as EBITDA and free cash flow, may prove to be a difficult task. There are many variations in the definition and calculation of EBITDA and free cash flow, and introducing restrictive definitions might lead to less useful information.

Without restricting the definition of certain financial KPIs and non-GAAP metrics through authoritative guidance, we think that the FASB could provide non-authoritative guidance on some of the key aspects users are looking for in an entity's reporting of non-GAAP measures. Non-authoritative guidance can come in many forms, including published literature, Q&A sessions, and webinars. In developing guidance, the FASB should look to work done by other standard setters, including the IASB. The FASB could also release industry specific guidance since user needs are not always the same in every industry. We think the FASB can play a key role around financial KPI's and non-GAAP metrics and we commend the FASB for considering a project on this topic.

We would be pleased to elaborate on our comments in more detail if you require. If so, please contact me or alternatively, Katharine Christopoulos, Associate Director, Accounting Standards at +1 416 204-3270 (email kchristopoulos@acsbcanada.ca) or Jamie Goodman, Principal, Accounting Standards at +1 416 204-3294 (email jgoodman@acsbcanada.ca).

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Yours truly,



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About the Canadian Accounting Standards Board

We are an independent body with the legal authority to establish accounting standards for use by all Canadian publicly accountable enterprises, private enterprises, not-for-profit organizations and pension plans in the private sector. We are comprised of a full-time Chair and volunteer members from a variety of backgrounds, including financial statement users, preparers, auditors and academics; a full-time staff complement supports our work.

Our standards

We have adopted IFRS® Standards as issued by the IASB for publicly accountable enterprises. Canadian securities legislation permits the use of U.S. GAAP in place of IFRS Standards in certain circumstances. We support a shared goal among global standard setters of high-quality accounting standards that result in comparable financial reporting outcomes regardless of the GAAP framework applied.

We developed separate sets of accounting standards for private enterprises, not-for-profit organizations and pension plans. Pension plans are required to use the applicable set of standards. Private enterprises and not-for-profit organizations can elect to apply either the set of standards developed for them, or IFRS Standards as applied by publicly accountable enterprises.