Feedback Summary on the 2021 Invitation to Comment, Agenda Consultation

1. The purpose of this feedback summary and the December 15, 2021 Board meeting is to summarize the feedback received on the Invitation to Comment, Agenda Consultation, which was issued for public comment on June 24, 2021, with comments due September 22, 2021. The Board is not expected to make decisions at the December 15, 2021 Board meeting. This feedback summary summarizes the feedback received from the comment letters received in response to this ITC and supplemental outreach performed by the staff and Board members with investors and advisory groups through October 2021. This feedback summary should be read in conjunction with the ITC.

2. This feedback summary is organized as follows:

(a) Project background
(b) General summary of feedback received
(c) Overall prioritization
(d) Chapter 1—Disaggregation of financial reporting information
(e) Chapter 2—Emerging areas in financial reporting
(f) Chapter 3—Reduction of unnecessary complexity in current GAAP
(g) Chapter 4—Improvements to FASB standard-setting processes
(h) Next steps.

Question for the Board

1. Does the Board have any observations or questions about the tentative planned next steps?

Project Background

3. In December 2020, FASB Chair Richard R. Jones announced at the American Institute of Certified Public Accountants (AICPA) Conference on U.S. Securities and Exchange Commission (SEC) and Public Company Accounting Oversight Board (PCAOB) Developments (2020 AICPA Conference) that the FASB would undertake an agenda consultation process in
2021 (the 2021 Agenda Consultation) to assist the Board in deciding where to focus its standard-setting efforts going forward.

4. The purpose of the ITC was to solicit broad stakeholder feedback about the future standard-setting agenda of the FASB. The feedback on the ITC is essential in ensuring that the FASB continues to allocate its finite resources to achievable standard-setting projects that fulfill its primary mission of improving financial accounting and reporting standards and addressing topics that are of the highest priority to its stakeholders.

5. Throughout the first half of 2021, the FASB staff and Board members met with more than 200 stakeholders, approximately one-third of which were investors or other financial statement users, to identify priority areas of improvement to financial reporting. In addition to investors, a cross-section of stakeholders participated in that preliminary outreach, including preparers, practitioners, and academics—from public companies, private companies, and not-for-profit entities (NFPs).

6. Stakeholder input sought in developing the ITC generally was within one of the following types of projects:

(a) Greater disaggregation and granularity of financial reporting information are needed, either on the face of financial statements or in the notes to financial statements, to provide investors with better, more useful information that will directly influence their decisions and behaviors (Chapter 1—Disaggregation of Financial Reporting Information).

(b) Emerging transactions need to be considered, such as in cases in which there is no specific topical authoritative accounting or disclosure guidance or the current accounting outcomes are not intuitive, to reduce diversity in practice and to retain the relevancy of the Codification (Chapter 2—Emerging Areas in Financial Reporting).

(c) Specific areas of existing generally accepted accounting principles (GAAP) need to be reevaluated to reduce unnecessary cost and complexity (Chapter 3—Reduction of Unnecessary Complexity in Current GAAP).

(d) Enhancements to, and education on, certain FASB standard-setting processes would help increase transparency and communication (Chapter 4—Improvements to FASB Standard-Setting Processes).

**General Summary of Feedback Received**

7. The comment period for the ITC ended on September 22, 2021. Five-hundred twenty-two responses were received on the ITC through the issuance of this feedback summary. Not all respondents addressed every question, and the level of detail of the feedback received by each respondent varied. Some focused on specific ITC questions or topical areas, while
others answered all questions and provided detailed feedback across a wide variety of areas. Specifically, 445 responses were received from a variety of stakeholders that focused solely on the accounting for digital assets, while 77 respondents addressed the ITC more broadly.

8. Question 1 asked respondents to describe what type of stakeholder they are, which is summarized below and throughout the feedback summary, where relevant. The following table provides information on the composition of the respondents by stakeholder type (listed in alphabetic order):

<table>
<thead>
<tr>
<th>Type of Stakeholder</th>
<th>Number of Respondents</th>
</tr>
</thead>
<tbody>
<tr>
<td>Academics</td>
<td>2</td>
</tr>
<tr>
<td>Individuals</td>
<td>2</td>
</tr>
<tr>
<td>Investors and Other Financial Statement Users</td>
<td>22</td>
</tr>
<tr>
<td>Others</td>
<td>3</td>
</tr>
<tr>
<td>Practitioners</td>
<td>15</td>
</tr>
<tr>
<td>Preparers†</td>
<td>16</td>
</tr>
<tr>
<td>Standard Setters</td>
<td>1</td>
</tr>
<tr>
<td>State CPA Societies</td>
<td>5</td>
</tr>
<tr>
<td>Trade Groups†</td>
<td>11</td>
</tr>
<tr>
<td><strong>Total Respondents</strong></td>
<td><strong>77</strong></td>
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</tbody>
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*This chart does not include the additional 445 responses from a variety of stakeholders that focused solely on the accounting for digital assets. Those respondents included academics, holders of digital assets, individuals, investors and other financial statement users, practitioners, and preparers.

†Preparers and trade groups represented the views of both private and public company preparers and practitioners, as well as a wide variety of industries including asset management, biopharmaceutical, banking, cryptocurrency, insurance, materials, real estate, software, telecommunications, and others.

9. In addition to comment letters, the staff conducted 5 investor outreach meetings with a total of 19 investors in response to the ITC. Their verbal feedback is incorporated throughout the feedback summary and those five meetings each have been included as investor respondents in the table above. The staff also met with members of the Investor Advisory Committee (IAC), the Financial Accounting Standards Advisory Council (FASAC), the Not-for-Profit Advisory Committee (NAC), and the Private Company Council (PCC). Additionally, the staff plans to meet with the Small Business Advisory Committee (SBAC) before the end of the year. When the staff refers to respondents throughout the remainder of this summary, that includes comment letters received as well as stakeholders that the staff spoke with through supplemental outreach.

10. Given the qualitative nature of the responses, metrics referenced throughout the document are approximate and are intended to illustrate the general themes among respondents, rather
than provide precise metrics. This feedback summary does not provide the staff’s analysis or conclusions on respondents’ comments.

11. Generally, feedback received in response to areas described in the ITC is consistent with feedback received during the development of the ITC. Overall, respondents commended the Board’s efforts to solicit feedback about its agenda and financial reporting areas, including the extensive outreach performed in the ITC’s development and the thoughtful discussions described in each chapter.

12. Additionally, respondents frequently provided the following general feedback:

(a) The objective of financial reporting (to provide useful information to investors and other users of financial reports) should be the Board’s focus; the Board should be transparent about how projects would benefit investors and other financial statement users in line with this objective.

(b) It is important that the Board continue to place emphasis on performing a thorough and transparent cost-benefit analysis.

(c) The Board needs to have the capacity to address emerging issues in a timely manner as they arise.

(d) The Board should focus on improving and maintaining the relevance of financial reporting and financial statements.

(e) Educational materials, such as FASB staff papers, are helpful for complex areas of GAAP, and the FASB should consider providing more of those in the future.

Overall Prioritization

Prioritization of Topics Described in the ITC

Question 2: Which topics in this ITC should be a top priority for the Board? Please explain your rationale, including the following:

a. Why there is a pervasive need to change GAAP (for example, what is the reason for the change)

b. How the Board should address this topic (that is, the potential project scope, objective, potential solutions, and the expected costs and benefits of those solutions)

c. What the urgency is of the Board completing a project on this topic (that is, how quickly the issues need to be addressed).

Question 3: Are there topics in this ITC that the Board should not address as part of its future standard-setting efforts? Please explain your rationale, such as there is no pervasive need to
change GAAP, the scope would not be identifiable, or the expected benefits of potential solutions would not justify the expected costs.

13. Almost all of the respondents commented on topics that they noted should be a top priority for the Board. About two-thirds of respondents provided feedback on topics they noted that the Board should not address (or consider as low priority) as part of its future standard-setting efforts. The feedback received on prioritization was consistent with feedback received during the ITC development. The following are some general observations:

(a) Investors and other financial statement users generally agreed that greater disaggregation of financial reporting information—in the income statement, in the statement of cash flows, or in the notes to financial statements—should be a top priority for the Board to help them better perform their analyses. Preparers cautioned that the Board should conduct a thorough and transparent cost-benefit analysis in this area because they receive minimal questions on disaggregation of financial reporting information and cash flows and, therefore, stated that their investors receive sufficient information.

(b) Almost all respondents across all stakeholder types agreed that adding a project that would permit or require companies to account for certain digital assets at fair value should be a top priority for the Board going forward.

(c) Beyond digital assets and disaggregation of financial reporting information, the most frequently cited top priority technical areas by respondents were environmental, social, and governance (ESG)-related transactions and disclosures, intangible assets (including software costs), recognition and measurement of government grants for business entities, and consolidation guidance.

(d) A majority of respondents supported the Board prioritizing the FASB standard-setting process improvements described in Chapter 4, particularly as it relates to Codification accessibility, interpretive process, and cost-benefit analysis. They expressed that enhancing those areas would greatly improve the FASB’s processes and provide greater transparency.

(e) The most frequently cited low priority technical areas by respondents were materiality consideration for disclosures, balance sheet classification of assets and liabilities, and financial key performance indicators (KPIs) or non-GAAP metrics.

14. The following chart provides an illustration of the areas that respondents identified as top priority, in order of most frequently identified to least frequently identified. The staff notes that these metrics include those respondents that stated that these areas should be the Board’s top priority in response to Question 2. However, as described throughout the remainder of the
feedback summary, there are many other respondents that said they would support the Board’s efforts in these areas if it was to take them on. Additionally, many respondents expressed that the Board should prioritize completion of several current agenda projects before addressing any new areas (see Question 5). Four-hundred forty-five respondents were solely focused on the Board prioritizing accounting for digital assets at fair value, with 309 of those respondents supporting the views expressed in a specific single comment letter response. Those responses are not included in the chart below.

15. The following chart provides a visual representation of the areas that respondents would not support the Board addressing or indicated should be low priority for the Board, in order of most frequently identified to least frequently identified:
16. The following chart provides a visual representation of the respondents’ overall views on the top and low priority areas side by side, in order of most frequently identified to least frequently identified:
17. Any solutions identified by respondents (Question 2(b)) are included in the relevant areas of the feedback summary below.

Top Priority Topics beyond Those Described in the ITC

Question 4: Are there any financial reporting topics beyond those in this ITC that should be a top priority for the Board to address? Please describe:

   a. The nature of the topic
   b. The reason for the change
   c. Whether the topic is specific to a subset of companies, such as public companies, private companies, or NFPs, or specific to a certain industry
   d. How the Board should address this topic (that is, the potential project scope, objective, potential solutions, and the expected costs and benefits of those solutions)
   e. What the urgency is of the Board completing a project on this topic (that is, how quickly the issues need to be addressed).

18. Approximately half of the total respondents identified one or more financial reporting topics beyond those described in the ITC that should be a top priority for the Board to address. In total, respondents described more than 50 additional topics for the Board to consider.

19. While many of the topics described were identified by a single respondent, there were topics that were mentioned more frequently, such as:

   (a) Equity method investments—The Board should consider allowing entities to elect the fair value option for equity method investments once the investment’s fair value becomes readily determinable, rather than allowing entities to elect the fair value option only when they initially acquire the equity method investment.

   (b) Disclosure review—The Board should reconsider certain disclosures that are costly and provide limited decision-useful information, including disclosures for derivatives, available-for-sale debt securities, fair value measurements, variable interest entities, and pensions.

   (c) Portfolio hedging for insurance contracts—The Board should expand the scope of the portfolio layer method to include insurance liabilities, including those with exposure to morbidity, mortality, and lapse risk.

   (d) Fair value option for commodities—The scope of the fair value option that is provided under Topic 825, Financial Instruments, should be expanded to include physical commodity inventories as well as executory contracts related to physical commodities (for example, storage, transportation, nonderivative purchase, or sale contracts) that are managed on a trading basis.
20. Additionally, most of the other areas described by the respondents generally fell under one of the following categories:

(a) Narrow-scope improvements to:
   
   (i) Financial instruments guidance

   (ii) Leases, revenue recognition, and credit losses (which are all current post-implementation review areas)

   (iii) Defined benefit pension and contribution plans.

(b) Improvements to reduce diversity in practice, such as the measurement and recognition of profits interests (including implied performance conditions).

(c) Improvements to increase decision usefulness and transparency of financial statements, such as enhanced disclosures, accounting for stock buybacks, or an overhaul to the presentation of primary financial statements.

(d) Post-implementation review of recently issued standards, such as Accounting Standards Updates No. 2016-01, Financial Instruments—Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Liabilities, and No. 2018-12, Financial Services—Insurance (Topic 944): Targeted Improvements to the Accounting for Long-Duration Contracts.

(e) Reduce the complexity of financial reporting for start-up and early-stage companies.

(f) Coordinate with the IASB for increased convergence and consistency across companies globally.

Prioritization of Projects on the FASB’s Current Technical Agenda

Question 5: The objective of this ITC and the related 2021 Agenda Consultation process is to ensure that the FASB continues to allocate its finite resources to standard-setting activities that fulfill its primary mission of improving financial accounting and reporting standards and that are of the highest priority to its stakeholders. Therefore, feedback on the prioritization of projects on the FASB’s technical agenda would be helpful. Do you have any feedback on the FASB’s technical agenda, including the following:

a. Which projects on the FASB’s agenda should the Board prioritize completing? Please explain.

b. Which projects, if any, should the Board deprioritize or consider removing from the agenda? Please explain.

c. Which projects, if any, need to be redefined to improve the objective and/or scope? Please explain.
21. Approximately two-thirds of respondents provided thoughts on prioritization of the FASB’s current technical agenda, including feedback on current projects that should be redefined to improve the objective and/or scope. The most frequently cited topics are summarized below.

22. Investors provided general feedback on the Board’s current technical agenda, including:

(a) There are not enough projects on the current technical agenda that are investor focused, but rather too many projects focused on simplification and reducing complexity. Those respondents urged the Board to remove projects from its agenda that do not benefit investors, as well as projects that either reduce transparency or benefit only a small number of preparers and auditors. Additionally, an investor respondent said that if projects will benefit investors, those projects could be better described to clearly explain how.

(b) Ask the members of the FASB’s IAC to rank all current projects and give explanatory commentary to provide the Board with an investor-focused basis for deciding which projects to deprioritize.

Current Recognition and Measurement Projects

23. The following were the most frequently cited projects related to the Board’s current recognition and measurement projects:

(a) Identifiable Intangible Assets and Subsequent Accounting for Goodwill was the most frequently cited project that stakeholders recommended the Board prioritize completing. Approximately 20 percent of total respondents urged the Board to prioritize completion of this project, while a few respondents urged the Board to either remove or redefine the project.

(b) Consolidation Reorganization and Targeted Improvements was cited by approximately 35 percent of respondents, with most of those respondents expressing that the current project should be (i) prioritized and redefined to explore a single, holistic model to account for consolidations, (ii) expanded to include additional targeted improvements to the variable interest entity (VIE) guidance, or (iii) removed. See Question 21 in this feedback summary for specific feedback on consolidation guidance.

(c) Distinguishing Liabilities from Equity Phase 2 was cited by approximately 35 percent of respondents, with approximately 14 percent of respondents identifying this project in its current scope and objective as a priority. However, there also were respondents that urged the Board to deprioritize, remove, or holistically redefine this project. See Question 23 in this feedback summary for specific feedback on distinguishing liabilities from equity.

(d) Improving the Accounting for Asset Acquisitions and Business Combinations (Phase 3 of the Definitions of a Business project) was cited by approximately 15 percent of
respondents as a top priority for the Board to complete. Over one-third of those respondents requested that the Board redefine the scope of the project to more fully align the accounting for asset acquisitions with the accounting for business combinations, such as addressing in-process research and development (IPR&D), which is one of the most pervasive differences.

(e) Fair Value Hedging—Portfolio Layer Method was cited by approximately 10 percent of respondents as a top priority for the Board to complete as soon as possible, and Codification Improvements—Hedge Accounting was identified as a top priority by approximately 5 percent of respondents.

(f) Leases (Topic 842)—Lease Modifications was cited by approximately seven percent of respondents as a top priority for the Board to complete, while a few respondents said that the Board should not pursue this project because the model is well understood and has been operationalized.

(g) Financial Instruments—Credit Losses (Topic 326)—Targeted Improvements to the Accounting for Troubled Debt Restructuring for Creditors was cited by approximately six percent of respondents as a top priority for the Board to complete.

24. There also were respondents that expressed support for the Board prioritizing the completion of projects that were finalized after the issuance of the ITC, including PCC Issue No. 2018-01, “Practical Expedient to Measure Grant-Date Fair Value of Equity-Classified Share-Based Awards,” which was finalized on October 23, 2021, with the issuance of Accounting Standards Update No. 2021-07, Compensation—Stock Compensations (Topic 718): Determining the Current Price of an Underlying Share for Equity-Classified Share-Based Awards, and Recognition and Measurement of Revenue Contracts with Customers under Topic 805, which was finalized on October 28, 2021, with the issuance of Accounting Standards Update No. 2021-08, Business Combinations (Topic 805): Accounting for Contract Assets and Contract Liabilities from Contracts with Customers.

Current Presentation and Disclosure Projects

25. The following were the most frequently cited projects related to the Board’s current presentation and disclosure projects:

(a) Disclosure Framework: Disclosure Review—Income Taxes was cited by approximately 10 percent of respondents as a project that should be deprioritized, removed, or redefined to better meet investor and financial statement users’ information needs. See Question 6 in this feedback summary for specific feedback on disaggregation of financial reporting information, including a breakdown of income taxes.
(b) Segment Reporting was cited by approximately six percent of respondents, with mixed feedback on whether the project should be prioritized, deprioritized, removed, or redefined. See Question 6 in this feedback summary for specific feedback on disaggregation of financial reporting information.

Current Framework Projects

26. Approximately six percent of respondents said that the Board should remove or redefine its Conceptual Framework projects because they will not result in significant improvements to financial reporting that will be beneficial to financial statement users. Respondents expressed that the Board’s time and resources are better directed toward making meaningful changes to authoritative guidance.

Current Post-Implementation Efforts

27. Several respondents encouraged the Board to prioritize its post-implementation efforts related to credit losses, leases, and revenue recognition. Specifically, one practitioner encouraged the Board to continue to devote adequate resources to monitor the implementation of these major standards to determine whether their objectives are being met and to identify areas of diversity in practice and implementation issues.

Current Research Projects

28. The following were the most frequently cited projects related to the Board’s current research projects:

(a) Accounting for Disclosure of Intangibles was the most frequently cited research project as one that the Board should prioritize, with approximately 20 percent of respondents identifying it as an area of top priority that warrants further research. Respondents frequently cited that reevaluating capitalization of software costs should be a top priority for the Board within this research project. See Questions 18 and 19 in this feedback summary for specific feedback on intangible assets, including software.

(b) Hedge Accounting—Phase 2 was cited by approximately 10 percent of respondents as a research project that the Board should add to its technical agenda. Respondents identified additional targeted improvements and simplifications to various areas in fair value, cash flow, and net investments hedging in order to align hedge accounting more closely with an entity’s risk management activities.

(c) Financial Performance Reporting: Financial Statements of NFP Entities was cited by approximately five percent of respondents, with all of those respondents acknowledging
that it would be challenging to develop universal guidance around reporting an intermediate measure of performance for NFPs because they are organized and operate in a variety of different ways, which would reduce the usefulness of that measure. While a few respondents noted that comparability and consistency is a challenge and would support research in that area, those respondents acknowledged that it would be difficult to develop guidance for one operating measure across all NFPs.

Chapter 1—Disaggregation of Financial Reporting Information

Overall Disaggregation

**Question 6:** Greater disaggregation and granularity of the types of financial reporting information described in Chapter 1 have been identified as decision useful to investors. The following insights would be helpful to the FASB when considering this area:

a. **Investors and other financial statement users**—Which, if any, of the areas described in Chapter 1 should be a top priority for the FASB to consider requiring greater disaggregation—on the income statement, the statement of cash flows, or the notes to financial statements? Would this information be most useful in the financial statements or in the notes to financial statements? How would this information be used to analyze a company and make capital allocation decisions?

29. Approximately two-thirds of the investors and other financial statement users that responded to the ITC provided feedback that greater granularity and disaggregation of financial reporting information should be the Board’s top priority, which is consistent with the feedback from investors during the ITC development. There also were many noninvestor respondents, including academics, practitioners, state CPA societies, and a trade group, that agreed that disaggregation should be a top Board priority.

30. Respondents described several detailed areas for greater disaggregation and agreed that the areas described in Chapter 1 of the ITC continue to be important. Overall, respondents are looking for meaningful insight into companies in two key ways. They are seeking to understand:

(a) The fixed versus variable and recurring versus nonrecurring nature of a company’s income and expenses to better forecast future operating results and cash flows

(b) The jurisdictions and geographic areas in which a company operates in order to determine future risks (such as those relating to earnings, legislation, income taxes, foreign currencies, and reputation).

31. The following were frequently cited financial reporting areas that investors said should be top priorities for the Board to consider requiring greater disaggregation and granularity on the face of financial statements or in the notes (listed in no particular order):
(a) **Breakdown of cost of sales (COS) and selling, general, and administrative (SG&A) expenses**—Investors noted that a majority of companies do not disclose sufficiently granular information about COS or SG&A expenses. Those respondents agreed that greater granularity and detail of those expense line items would assist investors in understanding a company’s cost structure. Specifically, some investors stated that labor costs should be disclosed in greater detail. See (b) below for additional discussion on human capital. One practitioner noted that because there currently is a lack of topical authoritative guidance on the types of costs that should be included in COS, calculating certain metrics related to COS and SG&A expenses across companies is difficult, which decreases comparability of financial reporting information.

(b) **Breakdown of human capital**—Investors requested that companies disclose a breakdown of their human capital and, at a minimum, disclose their total workforce costs in their financial statements. One investor suggested that components of total workforce cost should include a line-item breakdown of total employee compensation, such as salaries and wages, benefits, employer contributions, value of equity-based compensation, commissions and bonuses, perquisites, overtime, severance, retirement payments, and training and development expenses, as well as distinguish between costs for full time, part time, and contingent workers. This same investor respondent stated that requiring human capital disclosures could reduce information asymmetry and provide more decision-useful information for investors to assess human capital management performance. Some investor respondents commented that requiring a total workforce disclosure would not result in significant incremental costs to preparers because a company’s human resource department should have that information available.

(c) **Breakdown of operating results by regulatory jurisdictions**—Investors specifically stated that a breakdown of operating results by regulatory jurisdictions is needed to better understand geographical and jurisdictional risks. Similarly, one credit rating agency requested that it would be helpful if companies presented cash and short-term investment details on a regional or country-by-country level basis because that information is an important part of their analyses. One investor stated that geographic disclosures have always been of interest to investors, but the COVID-19 pandemic has highlighted their importance.

(d) **Breakdown of income tax information**—Investors, a trade group, and a state CPA society said that greater disaggregation of income taxes should be a top priority. Several of those respondents noted that the current income tax disclosures are not meaningful and do not provide sufficient decision-useful information. Those respondents requested that the Board consider requiring public entities to disclose income tax information on a
country-by-country level, consistent with information provided to the Internal Revenue Service (IRS). One investor explained that if the Board were to introduce country-by-country reporting (CbCR), it would enable investors to better assess global tax risks and opportunities, provide greater visibility of high-risk transactions, and ensure the relevancy of income tax reporting standards with changing investor expectations. Two respondents, including an investor and a trade group, provided a detailed list of disclosures that the Board should consider requiring on a country-by-country level, such as corporate income tax paid on a cash basis, corporate income tax accrued on profit/loss, reasons for any difference between corporate tax accrued on profit/loss and the tax due if the statutory tax rate is applied to profit/loss, significant tax incentives, profit/loss before tax, and total accumulated earnings. Conversely, one trade group representing preparers expressed concerns with requiring disaggregation of income taxes at this level and said that, given the complexity of the information, requiring tax disclosures on a country-by-country level could potentially be misleading to an investor’s analysis. Additionally, one preparer noted that providing additional tax detail could become quite complex and overly difficult for an average investor to interpret and that some detail such as cash taxes paid are not relevant indicators of a company’s exposure to tax risks and changes.

(e) **Defined subtotal for operating income**—Investors listed defining subtotals for operating income on the face of the income statement as a top priority for the Board to increase comparability across reporting periods and companies. Additionally, one academic noted the importance of addressing the presentation of subtotals in the income statement.

(f) **Recurring or nonrecurring income and expense items**—Investors stated that defining and designating whether income or expense items (such as restructuring costs) are recurring or nonrecurring would increase comparability across reporting periods and companies. One trade group supported adding a disclosure project to provide greater detail on how management distinguishes between recurring items and nonrecurring items. A practitioner recommended that the Board adopt a broader definition of nonrecurring items as compared with the SEC definition to provide more transparency for financial statement users.

(g) **Effects of business combinations pre- and post-acquisition**—Some investors and a state CPA society noted that business combinations, pre- and post-acquisition, is an area in which greater granularity and disaggregation is needed. One investor explained that it would be helpful to have the amount of organic growth versus growth by acquisitions for at least one year after the acquisition is completed to help investors understand the performance of the acquired business. Another investor requested enhanced disclosures on the financial and nonfinancial impact of mergers and acquisitions. Additionally, one
trade group representing private companies stated that additional disclosures related to business combinations (such as preacquisition book values) is not information that private companies would have readily available.

(h) Effect of climate change on financial statement line items—Investors agreed that current disclosures related to climate risks are inadequate. Investors stated that inadequate disclosures can lead to incorrect valuations of assets and a misallocation of investment capital. As a result, this lack of disclosure can impair an investor’s analysis and decision making. One investor recommended that the Board prioritize amending current GAAP disclosures described in the FASB Staff Educational Paper, Intersection of Environmental, Social, and Governance Matters with Financial Accounting Standards, to improve and enhance information disclosed on climate risk, which will help investors better evaluate potential return on investment and make more informed comparisons among investment opportunities. Another investor encouraged the Board to prioritize a project to explicitly require a company to disclose management’s assumptions and judgments made in assessing the effects of climate change on financial statements. Specifically, one investor requested that the Board require disclosure of items such as the magnitude of a company’s carbon footprint and the impact of carbon-owned assets on the operations, liquidity, and financial condition of the company.

(i) Types of research and development (R&D) expenditures—An investor noted that greater disclosures on R&D should be a top priority. One trade group representing preparers noted that requiring additional information about specific R&D projects could result in the disclosure of highly confidential information that is subject to competitive pressures.

32. One trade group recommended that the Board continue progressing on its current Segment Reporting project and monitoring the IASB’s Primary Financial Statement project before proceeding with any financial performance projects.

33. There were several noninvestor respondents, including practitioners, trade groups, academics, and state CPA societies, that supported the Board pursuing a project on disaggregation of financial reporting information. Several practitioners noted that the Board should continue its efforts to provide greater granularity and disaggregation of financial statements for users. For example, one practitioner recommended that the Board identify which financial reporting information is regularly reviewed by the chief operating decision maker (CODM) and holistically review how the management approach should be applied. Another practitioner suggested that some of the investor concerns about disaggregation could be addressed by enhancing comparability and consistency, such as providing clear guidance on what constitutes operating versus nonoperating income and expenditures or the types of
costs to be included in COS, and, therefore, gross margin. This practitioner expressed that if the Board clarified how certain types of transactions should be classified, that would allow investors to compare core operating performance more accurately across companies.

34. Additionally, several noninvestors commented generally on potential costs and complexity related to greater disaggregation and granularity of financial reporting information. A majority of those respondents, including preparers, said that requiring greater disaggregation of financial reporting information would be costly for preparers and that it would be unlikely that those costs would justify the benefits. For example, the costs associated with providing greater disaggregated information would include tracking, reporting, disclosing, and auditing the additional disaggregated information. Additionally, two preparers and a trade group noted that most of the additional information requested by their investors is already provided in their SEC filings (that is, Form 10-K and 10-Q), either in the notes to financial statements or management discussion and analysis. Conversely, one preparer agreed with investors that more granularity and disaggregation is needed for the aforementioned areas requested by investors, but also acknowledged the costs and challenges associated with providing those disclosures.

35. One state CPA society that acknowledged both investor needs and preparer costs recommended a principles-based approach rather than a rule-based approach to the disaggregation of performance information.

Question 6: Greater disaggregation and granularity of the types of financial reporting information described in Chapter 1 have been identified as decision useful to investors. The following insights would be helpful to the FASB when considering this area:

b. Preparers—What requests or questions does your company receive from analysts on the areas described within Chapter 1? Please explain any requests or questions your company has received?

36. Several preparers directly addressed whether their company receives analyst requests or inquiries on the financial reporting areas described in Chapter 1 of the ITC. A majority of those preparers noted that they typically receive minimal requests from analysts on access to greater disaggregation of financial reporting information. Of the inquiries that were received by preparers, analysts inquired about the following financial reporting areas:

(a) Breakdown of income tax information—Analysts have inquired about management perspectives on risks and modeling, effective tax rates, and tax benefit drivers.

(b) Breakdown of COS and SG&A expenses—Analysts have inquired about information surrounding COS and SG&A information, such as a breakdown of variable versus fixed expenses included in various operating expenses line items, drivers and variables that increase or decrease operating expense line items as a percentage of net revenue, and
marketing expense line items. However, one preparer noted that a breakdown of COS and SG&A expense is not typically requested.

(c) **Effects of business combinations**—Analysts have requested restated prior periods for material acquisitions and breakouts of how acquisitions are affecting results.

(d) **Operating results by regulatory jurisdictions**—Analysts often have requested operating results and risks by geography and jurisdiction, drivers of operating results, period-over-period variances, foreseeable regulatory implications, revenue and profitability breakdown by geography outside of the United States, operating impacts on future performance and trends, and international expansion efforts.

(e) **R&D expenditures**—Analysts have inquired about technology and investment strategies and priorities and the magnitude of cash flow that goes toward capital expenditures, such as largest areas of spend.

37. Additionally, one trade group representing private company practitioners and two trade groups representing financial institutions noted that their members have not received requests or questions from investors or other financial statement users seeking additional detail or granularity of disclosures. The trade group representing private company practitioners stated that the Board should utilize the *Private Company Decision-Making Framework: A Guide for Evaluating Financial Accounting and Reporting for Private Companies (PCDMF)* to evaluate any potential new disclosure requirements. That group commented that users of financial statements for private companies typically have direct access to management and disaggregated data upon request. When the staff met with the PCC in September 2021, several user PCC members countered that feedback by explaining that receiving information in financial statements is more efficient and effective than having to ask management for information, although greater access to management does help to mitigate user concerns when information is not provided in financial statements.

**Presentation of the Statement of Cash Flows**

*Question 7: Investors and other financial statement users*—What cash flow information, if any, required for your analysis is missing in a statement of cash flows prepared using the indirect method? How would this information influence your decisions and behavior? Please explain.

38. About half of the investors that responded to the ITC provided feedback on the decision usefulness of the information presented in a statement of cash flows prepared using the indirect method. Overall, investors support a need for both greater disaggregation and transparency of a company’s cash flows to better understand and analyze a company’s
operating results. A majority of investors indicated that the indirect method limits their analyses and decision-making capabilities across companies.

39. One investor placed emphasis on cash collected from customers as an important decision-making metric for investors, which is not a metric currently required under the indirect method. One credit rating agency requested that the Board consider adding a supplemental disclosure that would require companies to separately disaggregate the types of cash interest paid by debt refinancing, financing fees, and non-debt-related interest. This disclosure would assist investors in calculating certain metrics such as funds from operations. Also, this same respondent indicated that there is a need for greater consistency of the presentation of noncash add-back items and deductions on the face of the cash flow statement. Another investor also requested supplemental disclosure that would indicate taxes paid related to gains on the statement of cash flows.

40. A few investors indicated that the use of the indirect method is not intuitive and does not provide decision-useful information, and some investors specifically asked the Board to require companies to use the direct method to prepare their statement of cash flows. Those investors noted that the direct method should be required because there is (a) a greater need for transparency and detail of the operating section and (b) the direct method serves as a useful analysis tool. Those investors note that requiring the direct method would result in better decision-making information such as cash collected from customers, cash paid to employees, cash paid to suppliers, interest and dividends received, interest paid, and income taxes paid. Additionally, two investors emphasized the importance of the direct method as a business tool for their analyses. One investor noted that the additional information provided by the direct method allows the finance staff to create a forecast of the company that its executives can easily understand, while another investor noted that the direct method assists users in analyzing the liquidity of a company.

41. One investor recommended that the Board completely overhaul the presentation of financial statements. That investor recommended that the Board reapproach the income statement as a statement of comprehensive income that meshes with the statement of cash flows prepared using the direct method, as the FASB has contemplated in the past.

42. A few noninvestor respondents, consisting of practitioners, preparers, and state society groups, provided feedback that they understand how a user’s analysis of the statement of cash flows may be limited under the use of the indirect method. While some respondents agreed that the Board should focus on addressing investor concerns related to the statement of cash flows, others noted that the Board must carefully consider both investor needs and preparer costs in requiring further disaggregation of the statement of cash flows. Respondents in this area also noted the importance of the Board’s ongoing outreach efforts with investors.
and other financial statement users before adding this type of project to the agenda. One standard setter recommended that the Board consider a broader research project on the statement of cash flows to identify further issues and meet the information needs of users. Additionally, one practitioner suggested that the Board could enhance the indirect method and meet users’ information needs by requiring additional cash-flow-related disclosures, such as cash from customers, the cash flow impact of significant transactions, and key judgments or estimates and classification decisions supporting development of the cash flows statement.

43. A majority of preparers, alongside trade groups and state CPA societies, noted the potential complexity and associated costs with requiring the direct method. Overall, companies with complex operations and structures would see increased costs associated with the presentation of the statement of cash flows prepared using the direct method. One financial institution preparer continues to support the additional flexibility to use either the direct or indirect method to prepare a statement of cash flows. Specifically, users in certain industries that rely on a variety of different metrics find the statement of cash flows to be less relevant as compared with users of other industries. Another financial institution preparer agreed that there is no net benefit to changing the statement of cash flow requirements, as described in the basis for conclusions in FASB Statement No. 95, Statement of Cash Flows. Therefore, both of those preparers support the Board continuing to provide additional flexibility in how the information in the statement of cash flows is presented because the costs to alter current systems, processes, and controls for requiring the direct method would be significant.

44. Conversely, two investors stated that the Board should reconsider its previous cost-benefit analysis on whether to require the direct method for all preparers. This updated assessment should include advances in reporting technology that could possibly lessen the costs associated with preparing a statement of cash flows using the direct method.

**Question 8: Preparers—What requests or questions, if any, does your company receive from analysts on cash flow information? Please explain.**

45. A few preparers provided feedback on what cash flow information requests their company receives from analysts. Three preparers stated that additional details requested by analysts are minimal and that the frequency of those inquiries is relatively low. Of the inquiries that were received, one preparer explained that past requests related to key drivers of variability across periods, such as accounts receivable fluctuations, working capital changes, and nonrecurring items. Another preparer noted that it has received questions on the clarification of the nature and definition of certain cash flows or noncash flow activities, the purchase and sale of certain assets, and intended use of cash by management. Separately, two trade groups stated that it is relatively rare for their members to receive inquiries or requests related to additional information on the statement of cash flows.
Chapter 2—Emerging Areas in Financial Reporting

Definition of a Derivative

Question 9: What challenges, if any, are there in applying the guidance on the definition of a derivative and the related derivative scope exceptions in Subtopic 815-10? Please explain the challenges and whether and how they could be addressed through standard setting.

46. Approximately one-third of respondents across various stakeholder types provided feedback on the definition of a derivative and the related derivative scope exceptions in Subtopic 815-10, Derivatives and Hedging—Overall. Almost all of those respondents acknowledged that derivative accounting is one of the most challenging areas of the Codification. However, respondents were mixed on (a) whether the challenges could and should be addressed through standard setting or (b) if the current guidance is appropriate and the complexity is necessary because financial instruments are inherently complex.

47. Approximately 10 percent of respondents, including practitioners, preparers, trade groups, and state CPA societies, explicitly said that targeted improvements to this area should be a top priority. A majority of those respondents noted that often the definition of a derivative is too broad, so it would be beneficial for the Board to focus on certain aspects of the definition. Additionally, there were numerous other respondents that did not identify the definition of a derivative as their highest priority but acknowledged that reevaluating that area would be beneficial and would support the Board’s efforts related to the definition of a derivative. On the other hand, a few respondents, including a practitioner and preparers, said that the derivative guidance is long standing and does not present immediate, widespread concerns, as compared with other top priority areas.

48. The most frequently cited challenge by respondents in applying the definition of a derivative and related derivative scope exceptions was evaluating ESG-related provisions within financial instruments, such as bonds in which the interest payments vary based on sustainability-linked metrics. One example that was provided by a practitioner was a bond feature that allows an issuer to pay less interest to its bondholders if it achieves certain diversity goals in the composition of its workforce or governing body. That practitioner said that measuring the fair value of such features when required to be recognized as a derivative could be challenging and could add to the burden of financial reporting, without necessarily providing decision-useful information for investors. Therefore, most of these respondents stated that this was an area in which the Board could make a significant improvement. These respondents suggested that the Board create a new derivative scope exception for ESG features that are embedded within financial instruments. The staff notes that many respondents provided similar commentary to Question 9 on the definition of a derivative as
they did for Question 13 on ESG-related transactions specifically because of the cross-cutting issue of sustainability-linked financial instruments.

49. Additionally, several respondents highlighted other challenges in applying the definition of a derivative and other derivative guidance, including, but not limited to, the following:

   (a) **The “double-double” test**—The “double-double” test for evaluating whether embedded interest rate derivative features are considered clearly and closely related to the host contract within paragraph 815-15-25-26(b) is onerous and not consistently applied among companies and practitioners. Respondents suggested that the Board reconsider the existing model for evaluating embedded derivatives in which the only underlying is an interest rate or interest rate index.

   (b) **Derivative contract modifications**—Existing GAAP is unclear about whether or when the modification of a derivative contract should be evaluated as a new instrument or as a continuation of the existing contract. For example, respondents explained that it is common to extend the terms of an existing derivative and blend its fixed rate with the fixed rate of an at-market interest rate derivative for the extended term (referred to in practice as “blend and extend” modifications), typically in a transaction that results in no exchange of cash and no change to the fair value of the derivative contract after the modification. Respondents suggested that the Board revisit what circumstances should require the reassessment of a derivative and the nature of that analysis.

   (c) **Derivative scope exceptions for contracts that are nonexchange traded**—Certain aspects of the guidance on the scope exceptions for contracts that are nonexchange traded (such as contracts that have an underlying with a settlement based on climatic, geological or other physical variable, price or value of a nonfinancial asset, or specified volumes of revenue) are challenging, and result in inconsistent application. Those respondents said that they commonly received questions on this guidance because contracts frequently have provisions that could be broadly interpreted to meet the scope exception. Respondents suggested that the Board clarify these derivative scope exceptions to reduce diversity in practice.

50. Examples cited by respondents that often are captured by the definition of a derivative that—in their opinion—were not originally intended to be accounted for as derivative instruments include guarantees of nonfinancial items, research and development funding arrangements primarily in the pharmaceutical industry in which contract payoff is based on the occurrence or nonoccurrence of an event (such as Food and Drug Administration approval), and litigation funding arrangements in which contract payoff is based on monetary compensation received as a result of litigation.
51. One trade group suggested that instead of changes to the guidance, the Board should develop educational materials, such as a Q&A document, that includes common instruments evaluated in accordance with Subtopic 815-10 to help stakeholders identify when an instrument is or is not within the scope of Subtopic 815-10. One state CPA society suggested that the Board ask users (a) under which circumstances derivative accounting is preferred, especially with respect to embedded derivatives and (b) whether they prefer features, such as sustainability-linked features embedded in a bond, to be treated as embedded derivatives that require separate accounting or that are accounted for as part of the host contract as a single instrument.

**Digital Assets**

52. Overall, the topic of digital assets was the most frequently identified top priority amongst the 77 respondents that addressed the ITC broadly, with more than half of those respondents identifying the topic as a top priority. Outside of the 77 respondents, 136 respondents solely provided feedback on digital assets and urged the Board to address the accounting for digital assets. Additionally, 309 respondents specifically provided support for 1 preparer respondent letter that recommends accounting for digital assets at fair value. For purposes of Questions 10–12, the staff has compiled a qualitative summary of incremental and substantive feedback received from all respondents, including the 77 respondents that addressed the ITC broadly and the 445 respondents that solely provided feedback on digital assets.

*Question 10: Investors—How significant are holdings in digital assets, such as crypto assets, in the companies you analyze? What type of financial reporting information about holdings in digital assets do you use in your analysis of a company? How does that information influence your decisions and behaviors? If there is other financial reporting information about digital assets that would be decision useful, what is that information and why is it decision useful?*

53. While several investors and other financial statement users noted that digital asset holdings currently are not significant for most companies that they analyze, almost all investors commented that digital assets, such as crypto assets, are a growing asset class that is likely to see a future rise in significance (see Question 12 for further discussion on feedback received related to an identifiable and sufficiently pervasive need to improve the accounting for digital assets). Of the investors that stated how they use financial reporting information from holdings in digital assets in their analyses, a majority noted that there is a current lack of information provided by companies related to their digital asset holdings and that, generally, accounting for digital assets as an intangible under Topic 350, Intangibles—Goodwill and Other, typically does not appropriately reflect the economics or the nature of how a company is using digital assets. This lack of information specifically relates to areas such as the
disclosure of the amounts of digital assets held, current fair value, and corresponding historical cost. Because that information is not readily available, investors cited that areas of their analyses, such as calculating net cash or debt positions, are affected. One investor noted that because investors and financial statement users cannot readily obtain the aforementioned information, information asymmetry is created in the public markets between investors and preparers.

54. Of the additional 445 respondents that solely provided feedback on digital assets, 136 respondents, which included holders of digital assets, investors in companies that have digital asset holdings, practitioners and preparers specializing in digital asset-related services, and other digital asset-affiliated trade groups, indicated that there is a current lack of specific topical authoritative guidance for this area. One global investment institution stated that as a user of both financial statements and third-party reports associated with digital asset holdings, there is a greater need to access readily available financial information for digital assets, such as the fair value. For example, because third parties and companies do not provide or disclose consistent information for digital assets, valuing those assets (or the companies that hold them) is challenging for investors and financial statement users. This same respondent noted that the current accounting guidance for digital assets, or lack thereof, impairs the overall transparency and comparability of financial reporting information.

**Question 11: Preparers and practitioners—Does your company (or companies that you are involved with) hold significant digital assets, such as crypto assets? What is the purpose of those holdings?**

55. A majority of preparers noted that while they do not hold significant digital assets, they are currently planning on entering into future digital asset areas or services such as crypto custody and execution, digitized deposits, investment in digital assets, fund tokenization, and tokenized bonds issuance. Specifically, two financial institution preparers noted that while they currently do not hold significant digital assets, they are planning to implement certain initiatives in anticipation of the future rise of digital asset holdings, such as forming digital asset working groups and offering financial products with a crypto-asset linked valuation and fee-based crypto-related service offerings. Another financial institution preparer noted that in the short term, it is planning to hold cryptocurrencies for both trading purposes and derivative transactions referencing cryptocurrencies, while in the long term it is planning on entering digital asset areas or services, such as digitized deposits.

56. Some preparers stated that they hold significant digital assets or provide services to companies that hold significant digital assets. Many of the 445 respondents that solely commented on digital assets stated they hold significant digital assets. One preparer respondent purchased a significant amount of bitcoin and set an overall corporate strategy of
acquiring bitcoin as a long-term holding. That preparer respondent said that the current accounting for digital assets is a reason why companies are unable to acquire and hold digital assets; because—in their opinion—it provides a contradictory view of a company’s business operations to investors. Additionally, another preparer stated that it currently evaluates private companies that have material digital asset holdings, such as crypto assets, for potential investment or acquisitions.

57. A majority of practitioners noted that they have not seen significant digital assets amongst clients but do expect an increasing number of clients to hold or transact in digital assets, especially crypto assets, in the near future. Practitioners noted that crypto assets are one of the many digital assets that have become increasingly popular in recent years. For example, one practitioner respondent stated that it has seen an increased interest in its client base regarding the potential uses of crypto assets, particularly in accepting cryptocurrency as a form of payment and holding an amount of the assets for transaction settlement. Another practitioner noted that it has worked with clients, such as investment companies and mining businesses, that invest in crypto assets or provide software technology platforms and services for crypto assets. Additionally, one practitioner noted an anticipated rise in crypto asset technology, media, and telecom companies that have shown a targeted interest for nonfungible tokens (NFTs). However, one practitioner that stated that its clients have significant digital asset holdings noted an increase in services related to the investment, propriety trading, lending, fulfilling customer orders, or accepting customers’ payments for their goods or services in digital assets such as bitcoin. One practitioner noted that of its clients that do have significant holdings in digital assets, they transact in similar services, such as investment and lending.

58. Other respondents, including trade groups, state CPA societies, and a standard setter, provided feedback on companies’ current digital asset holdings. Similar to a majority of preparer and practitioner respondents, a majority of trade group respondents stated that they do not see current significant digital asset holdings throughout their client base. Instead, many respondents noted that they have started to see a rise in in such holdings in cryptocurrencies and other block-chain-related assets, with client-related initiatives in place to address such expected rises. Specifically, one state CPA society noted that both the market capitalization and volume of transactions involving digital assets have increased significantly since the Board undertook its last agenda consultation in 2016. Another trade group representing financial institutions stated that digital assets, such as cryptocurrency, have significantly increased in popularity with companies and retail investors entering the market and many financial institutions and fintech companies creating new digital asset offerings.
**Question 12: If the Board were to pursue a project on digital assets, which improvements are most important, what types of digital assets should be included within the scope, and should this guidance apply to other nonfinancial assets?**

59. Overall, the vast majority of respondents that identified digital assets as a top priority expressed that the most important improvement would be to allow companies to account for their digital asset holdings at fair value. The following paragraphs describe various suggestions from respondents on project scope and improvements that are most important related to recognition and measurement and disclosure, as well as specific feedback related to the pervasiveness of digital assets.

60. A majority of respondents across all stakeholder groups, including the 445 respondents that solely commented on digital assets, provided specific feedback on the pervasive need for specific topical authoritative recognition, measurement, and disclosure guidance related to digital assets in order to provide relevant and faithfully representative information about a company’s digital asset holdings. The following reasons were frequently cited across all stakeholder groups as reasons why the Board should prioritize a project on digital assets:

(a) **Applying the current accounting guidance misrepresents the economic substance**—The current accounting guidance under Topic 350 does not properly reflect the economic substance of digital assets, including crypto asset holdings such as bitcoin. For example, subsequent increases in the market price of a crypto asset are not reflected in its reported carrying value on an entity’s balance sheet because impairment charges cannot be reversed once recorded. That creates a greater disconnect between the reported carrying value and the fair value of digital asset holdings. To address that disconnect, companies with material holdings of digital assets provide non-GAAP disclosures to assist investors in understanding their digital asset holdings. Some preparers that hold significant amounts of digital assets noted that although they provide non-GAAP disclosures that include both the historical cost of their holdings and the corresponding current fair value measurement, those disclosures fail on their own to provide an economic reality of a company’s financial condition. One preparer that operates a digital financial services and lending platform said that it incurs a unique cost in accumulating the detail necessary to track the combination cost basis and fair value data for thousands of transactions each day, as well as to track and assess each of those transactions for impairment or gain or loss on disposal. That respondent specifically said that tracking impairments is onerous from both a preparer perspective and an auditing perspective with questionable benefits to financial statement users.

(b) **Consumer value and means of payment**—Varying consumer products and services related to digital assets, such as lending and borrowing activities, insurance and payment processing, and other digital-asset-related services, are expanding at an increasing pace.
(c) **Global adoption of digital assets**—The pace of global adoption of digital assets is rapidly increasing, with large global businesses (many of which are U.S.-based SEC filers) increasing their involvement in and exposure to digital assets, as well as state and local governments across the United States and governments across the world. Internationally, dozens of countries are now considering or introducing legislation promoting the use of digital assets, and in some cases countries are even considering certain digital assets as a form of legal tender.

(d) **Rapidly growing list of marketing participants**—There is a rise in varying groups of market participants that have invested in and are currently holding digital assets on their balance sheets. An increase of participants is causing various publicly traded companies and U.S. Fortune 500 companies to explore, develop, and implement digital assets and blockchain technology at an increasing pace. One respondent cited recent statistics as presented to the SEC Strategic Hub for Innovation and Financial Technology to demonstrate the pervasiveness and rise of digital assets. For example, the respondent cited that 33 percent of U.S. institutional investors are invested in digital assets today, while 69 percent of U.S. institutional investors note that digital assets should be part of an investment portfolio going forward. Additionally, multiple respondents commented that active and liquid markets exist for many digital assets that provide observable inputs for fair value measurement of the digital assets.

61. Respondents provided detailed feedback on scoping if the Board were to pursue a project on accounting for digital assets. A majority of respondents favored a narrow scope, while a few respondents noted that the Board should broadly consider all digital assets. Additionally, some respondents recommended a phased approach to establishing a project scope.

62. The most frequently cited suggestion for scoping was to model the scope after the definition of crypto assets included in the [AICPA Practice Aid, Accounting for and Auditing of Digital Assets](https://www.aicpa.org/content/dam/aicpa/members/technical/audit-and-attestation/auditing-guidance-and-resources/practice-aid-digital-assets.pdf). Other narrow-scope suggestions included digital assets that are traded in active markets or those with a readily determinable fair value that do not otherwise qualify as a financial asset. One trade group suggested that the Board focus on digital assets and receivables and payables when delivery of digital assets is required, as well as on sales and other dispositions of digital assets.

63. Separately, some respondents recommended that the Board pursue a two-phased scoping approach to a digital asset project, which would start with a narrow scope to provide more immediate guidance and then consider a broader scope. For example, a practitioner recommended that the objective of an initial phase should be to prioritize requiring fair value measurement for certain digital assets with a readily determinable fair value, as defined in Subtopic 321-10, Investments—Equity Securities—Overall. Another practitioner agreed with
a similar phased approach, but stated that for the first phase, the Board should use the
definition of a crypto asset as defined by the AICPA Practice Aid on accounting for and
auditing digital assets.

64. Other respondents recommended that the Board set the scope broad to address all digital
asset holdings. Overall, most respondents that favored a broad scope supported a project to
address all types of digital assets such as, but not limited to, crypto assets, stablecoins, NFTs,
and central bank digital currencies. One respondent that supported a broad scope project for
all types of digital assets noted that a broad scope should address accounting for digital assets
alone and should not apply to other nonfinancial assets.

65. Respondents provided additional feedback on potential measurement guidance for digital
assets. Respondents agreed that if the Board were to pursue a project on digital assets, it
should either permit or require a fair value measurement of digital assets to best reflect the
economics associated with digital asset holdings for which an active market exists. One
practitioner said that implementing fair value would not be costly for preparers because
preparers with significant digital asset holdings are already (a) providing non-GAAP
disclosures that include the fair value of their digital asset holdings and (b) tracking the fair
value of their digital assets to record current impairment losses. The following considerations
were noted across a wide variety of stakeholder groups:

(a) **Fair value option**—A vast majority of respondents noted that the Board should allow for
a fair value option. Respondents noted that if a market exists for a digital asset, such as
crypto assets, and the fair value is readily determinable, then the digital asset should be
measured using fair value as defined by Topic 820, Fair Value Measurement. If the fair
value is not readily determinable, then the existing intangible asset accounting model
could continue to be applied. Allowing entities to elect a fair value option would help to
address the needs of most users and preparers without introducing unnecessary costs
and complexity in practice.

(b) **Fair value requirement**—Other respondents favored a fair value requirement instead of
a fair value option. Respondents noted that optionality could lead to a lack of comparability
and diversity in practice, which could disadvantage financial statement users. Of the 445
respondents that solely provided feedback on digital assets, 309 respondents expressed
support for a single response from a preparer that has significant bitcoin holdings. That
respondent specifically requested that digital assets be measured at their fair value at the
end of each reporting period to the extent that such fair value is readily determinable, with
unrealized gains and losses reported in an entity’s income statement as other income
(loss). The respondent also acknowledged that it may be difficult to establish whether a
readily determinable fair value exists for all current digital assets in the market, specifically
those digital assets that are less established. Therefore, the respondent recommended that the Board further expand the fair value hierarchy in Topic 820 to assist preparers in distinguishing which digital assets should qualify for fair value accounting. However, if a readily determinable value is not attainable for a specific digital asset, the respondent supported the continued application of the existing intangible asset accounting model.

66. Respondents provided other suggestions on recognition, measurement, and disclosure of digital assets, including:

(a) The Board should leverage existing recognition and disclosure models, such as those used for cash and cash equivalents, foreign currencies, or financial instruments for digital assets, so that guidance can be created in a cost-effective and timely manner.

(b) If the Board pursues a fair value option, the Board should consider providing an exception to the baseline cost measurement approach for crypto assets that allows companies to recognize recoveries to the extent that they do not exceed prior losses.

(c) Digital assets that do not have readily determinable fair values should be carried at cost, with adjustments for observable price changes in identical investment transactions as well as impairment similar to the measurement alternative under Topic 321, Investments—Equity Securities.

(d) Require various disclosures, such as the purpose of an entity’s digital asset holdings and the type and amount of digital assets held (including the accounting treatment and presentation when those holdings are material and the economic uses of the crypto assets as well as the fair value by category of economic use).

67. Respondents also provided other general feedback and suggestions, such as:

(a) The Board should perform additional outreach to understand the cost and complexity of identifying the principal market for a crypto asset measured at fair value.

(b) Clarify the scope of Topic 940, Financial Services—Brokers and Dealers, to include unregistered broker-dealers in digital assets to provide more relevant and understandable financial statements, while also enhancing comparability across companies that are broker-dealers in liquid and actively traded assets.

(c) The Board should collaborate with the IASB to address recognition, classification, and measurement issues to ensure consistency and convergence.
ESG-Related Transactions

**Question 13: Are there common ESG-related transactions in which there is a lack of clarity or a need to improve the associated accounting requirements? Please describe the specific transactions and why standard setting is needed.**

68. More than half of all respondents provided feedback on ESG-related transactions and disclosures. As described above under Question 9, numerous respondents urged the Board to reevaluate the definition of a derivative and the related derivative scope exceptions to address ESG-linked financial instruments. Additionally, as described under Question 6, many respondents provided feedback on how the Board should consider ESG-related disclosures related to the breakdown of human capital and the effect of climate change on financial statement line items. Therefore, the staff has not repeated this commentary under Question 13, but rather has summarized other ESG-related transactions that were described by respondents.

69. Beyond ESG-linked financial instruments as described in Question 9 in this feedback summary, respondents described other common ESG-related transactions in which there is a lack of clarity and standard setting is needed to address the diversity in practice. Frequently referenced common ESG-related transactions include:

(a) **Renewable energy credits (RECs), emission allowances, and carbon offsets**—Respondents said that because GAAP does not specifically refer to those environmental-related transactions or provide examples, there is diversity in practice and therefore inconsistency in reporting those transactions across companies. Respondents explained that because there is a lack of clarity, analyzing those transactions requires a significant amount of time and judgment. For example, there is diversity in practice on whether those transactions should be accounted for as inventory or finite-lived intangible assets when purchased.

(b) **Renewable energy tax credit investments**—Respondents said that the application of the Hypothetical Liquidation at Book Value or “HLBV” method by tax credit investors does not appropriately reflect the economics of these arrangements and is costly and complex. One suggestion was to allow proportional amortization for all tax credit equity investments to better reflect the economics of the arrangements. After the issuance of the ITC, the Board added Emerging Issues Task Force (EITF) Issue No. 21-A, “Accounting for Investments in Tax Credit Structures Using the Proportional Amortization Method,” to the EITF’s agenda to consider whether the proportional amortization method should be expanded to investments in tax credits beyond low-income housing tax credit investments.

70. Several respondents encouraged the Board to first perform outreach with financial statement users to understand what accounting and disclosures would be informative for these
transactions, as well as coordinate with the SEC on ESG-related disclosures in general. Respondents acknowledged that while these transactions may be limited at this time, the ESG landscape is continually evolving and the transactions may increase significantly in the future. Therefore, many respondents urged the Board to monitor the ESG landscape and reserve capacity to address significant issues as they arise. Additionally, a practitioner encouraged the Board to coordinate with the IASB and other national standard setters in this area to maximize the efficiency and effectiveness of the project.

**Financial KPIs or Non-GAAP Metrics**

**Question 14: Are there common financial KPIs or metrics—either widely applicable to all companies or industry specific—that would provide decision-useful information if they were defined by the FASB? Please explain.**

71. Over half of the respondents across all stakeholder types provided feedback on financial KPIs, and the feedback was very mixed on whether the topic should be a top priority for the Board or not addressed at all. While almost all preparers responded that the Board should not attempt to define common financial KPIs, responses by other stakeholder groups, including investors and other financial statement users, varied. Overall, respondents that said that the Board should not address financial KPIs outnumbered those that identified the area as a top priority.

72. Respondents frequently identified earnings before interest, taxes, and depreciation (EBITDA) and free cash flows (FCF) as financial KPIs commonly used across many industries. However, a trade group that represents financial institutions noted that EBITDA and FCF are generally not used by its member firms and that efficiency ratios and measures of return on equity are typically more relevant.

73. Related to industry-specific metrics, one trade group representing real estate investment trusts said that funds from operations (FFO) is a common metric for its industry. However, that respondent that said that it has significant experience defining FFO advised the Board not to attempt to define industry-specific KPIs or metrics because those metrics are generally designed to reflect the industry’s underlying economics and defining a specific industry metric requires a complete understanding of the economics of the industry.

74. Respondents that identified financial KPIs as a top priority cited the following reasons:

(a) Standard GAAP definitions would provide transparency, consistency, and comparability across time periods and companies, which could reduce users’ time and effort in analyzing a company. Although a company will likely provide adjusted metrics to tell its story, standard definitions would provide a known and common starting point. One respondent
noted that even if companies still provide their own non-GAAP metrics, the quality of the information provided across companies would be improved.

(b) Although there may be complexity in defining certain elements, such as which types of interest to include in EBITDA, there are widely accepted definitions used in practice today, which the Board could leverage.

75. Respondents that said that the Board should not address financial KPIs in GAAP cited the following reasons:

(a) Standardizing metrics with a restrictive definition would reduce the metrics’ usefulness. Several respondents explained that management develops financial KPIs and metrics to measure how effectively the business is achieving its objectives and, therefore, are often company specific because they are tailored to a company’s specific business and goals. A consistent theme among respondents was that financial KPIs and non-GAAP metrics should be derived from management’s view of the business. If the Board were to define how companies should disclose metrics, it may be different from how management views the financial results of the business, which would reduce the usefulness of the metric and potentially devalue the usefulness of the information provided.

(b) It would be difficult to develop standardized definitions for all companies because performance measures are different among industries, companies within a single industry, or even companies in different stages of the business life cycle (for example, companies that are early in their life cycle may have different performance measures as compared with more well-established companies).

(c) Many companies would present an adjusted version to reflect the information they want to convey to their financial statement users, which they said would eliminate any benefit of including a standardized metric. Standardizing requirements for certain KPIs would create additional burdens on preparers and introduce further complexity because preparers would continue to report their company-specific metrics based on management’s view of the business.

(d) Non-GAAP metrics are adequately governed by the SEC to promote transparency and consistency in public company disclosures. Companies are required to reconcile non-GAAP metrics to the corresponding GAAP numbers, so those amounts generally are transparent today.

76. Two investors suggested that instead of defining financial KPIs across all companies or a series of industry-specific metrics, the Board should focus on developing guidance to require companies to present their own financial KPIs and value drivers. Those investors explained that although management is in the best position to identify the value drivers of its business
so it can manage those value drivers to maximize shareholder returns, it does not share the value drivers with its financial statement users. These investors expressed that it would be helpful if companies were required to disclose such drivers of value in their financial statements.

77. Several respondents noted that if the Board were to require greater disaggregation as described in Chapter 1 of the ITC, it may be unnecessary to define financial KPIs because investors would have more insight into specific income and expense line items to calculate metrics on their own. One practitioner stated that the Board should address disaggregation of financial reporting information as described in Chapter 1 before it considers a project pertaining to financial KPIs and encouraged the Board to coordinate the development of financial KPIs with the development of disaggregated financial performance information and ESG-reporting standards.

**Question 15: If the FASB were to define certain financial KPIs or metrics, should all companies be required to provide those metrics or should providing those metrics be optional?**

78. Most respondents that provided feedback on financial KPIs expressed that any financial KPIs or metrics defined by the Board should be optional. Those respondents expressed that it should be optional because they either did not support the Board defining common financial KPIs and/or, in their view, a standardized metric across all companies would not provide decision-useful information. One practitioner noted that requiring a company to disclose such metrics would make companies disclose information that lacks decision usefulness.

79. On the other hand, there were several respondents, mostly investors, that felt strongly that if the Board defines certain financial KPIs or metrics, all companies should be required to provide them to preserve comparability across companies and time periods. One practitioner said that they should be required—as long as the Board defined a limited number of metrics—to ensure comparability.

**Recognition and Measurement of Government Grants for Business Entities**

80. Approximately 40 percent of respondents provided feedback on recognition and measurement of government grants for business entities. Overall, just under 20 percent of respondents identified the area as a top priority for the Board, while less than 10 percent of respondents expressed that, in their view, it does not warrant further consideration by the Board at this time. Overall, the respondents that prioritized the area expressed that the COVID-19 pandemic highlighted the need for this guidance and that the need continues to exist. Several respondents noted that the lack of specific authoritative accounting guidance for the recognition and measurement of government grants has led to significant diversity in practice. Respondents
stated that this diversity in practice has led to application that does not properly reflect the impacts or economic substance of government grants and other government assistance programs. Therefore, those respondents expressed that reducing diversity in practice would increase both relevancy and representational faithful ness of financial information provided to investors and other financial statements users.

81. For example, one respondent noted that companies accounted for government grants received as part of the Paycheck Protection Program (PPP) by analogizing to the guidance in IAS 20, Accounting for Government Grants and Disclosure of Government Assistance, Subtopic 958-605, Not-for-Profit Entities—Revenue Recognition, or Topic 470, Debt. One practitioner noted further diversity in practice where companies have applied Topic 450, Contingencies, to government grants. In those cases, specific topical authoritative accounting guidance could have led to more consistency and comparability in practice.

82. Those respondents that did not support a project cited that there is no pervasive need to provide guidance because companies are able to apply other guidance by analogy.

Question 16: If the Board were to pursue a project on the recognition and measurement of government grants, should the FASB leverage an existing grant or contribution model (such as the models in IAS 20 or Subtopic 958-605) or develop a new model? If you prefer leveraging an existing model, which would be most appropriate and why? If the FASB were to develop a new model, what should the model be?

83. Approximately one quarter of total respondents, across a variety of stakeholders, provided feedback on—if the Board were to pursue a project on the recognition and measurement of government grants—whether the Board should (a) leverage an existing model or (b) develop a new model.

84. Approximately three quarters of respondents that provided feedback on this area, including investors and other financial statement users, practitioners, preparers, and state CPA societies, preferred that the Board leverage the model in IAS 20, while a handful of practitioners and trade groups suggested that the Board could leverage either the IAS 20 model or the Subtopic 958-605 model. There were no respondents that noted that the Board should create a new model for the recognition and measurement of government grants for business entities, and a preparer noted that the costs incurred to create a new model would outweigh any potential benefits since practical models already exist.

85. Of the respondents that supported leveraging the IAS 20 model as a starting point, the following specific benefits of leveraging that guidance were described, in addition to the overall benefit of reducing diversity in practice:

(a) **Reduction of cost and process inefficiencies of implementing new guidance**—Several practitioners and preparers noted that leveraging the IAS 20 model would reduce
the cost and process inefficiencies of implementing new guidance because many companies have already been applying the IAS 20 model by analogy when determining the recognition and measurement for their government grants. Additionally, one preparer stated that many public business entities that receive government assistance through non-income-tax grants do so through international subsidiaries that are likely already applying IAS 20 to the accounting for such grants, so leveraging the IAS 20 model would be beneficial from a consistency standpoint.

(b) **Convergence of GAAP and IFRS Standards**—Several respondents, including practitioners, a preparer, and an investor, noted the need for greater convergence of GAAP and IFRS Standards across for-profit companies and that leveraging IAS 20 as a starting point would be a step toward greater convergence.

(c) **Improved information usefulness**—One practitioner observed that the principles in IAS 20 generally provide relevant and representationally faithful information.

86. One practitioner stated that if the Board were to leverage the current IAS 20 model, the model should (a) require similar requirements as those in IAS 20 and (b) align the recognition and measurement of government grants across for-profit and not-for-profit entities to improve comparability of financial reporting for similar transactions, regardless of the industry or the financial status of the reporting entity. In addition, this same practitioner, along with another practitioner, stated that if the Board were to leverage the IAS 20 model, it should require a singular presentation model as opposed to both the capital and income presentation models under IAS 20. Those respondents noted that one singular presentation model would help to promote greater consistency and comparability across companies. Conversely, one preparer that also supported the IAS 20 model stated that the Board should instead allow companies to establish their own policy for presenting grant income and require that the policy be disclosed and consistently applied.

87. However, one practitioner that supported convergence in this area acknowledged that leveraging the IAS 20 model could result in differences in accounting for government grants between not-for-profit and for-profit business entities.

88. Five respondents, consisting of trade groups and practitioners, did not have a preference on which existing model should be leveraged. One practitioner stated that the COVID-19 pandemic highlighted the need for an authoritative accounting model and that the Board could use either model as a starting point; however, that does not need to be a top priority area at this time because companies are able to apply those areas of guidance by analogy. While this same practitioner noted that it does not have a preference for which model the Board leverages, it did note that a majority of its for-profit clients elect to apply the IAS 20 model.
Additionally, two trade groups stated that the FASB should utilize elements from both the IAS 20 model and the Subtopic 958-605 model as a basis for a new standard.

**Question 17: The FASB has encountered challenges in identifying a project scope that can be sufficiently described for government grants. If the Board were to pursue a project on the recognition and measurement of government grants, what types of government grants should be included within the scope and why (for example, narrow or broad scope)?**

89. Approximately 30 percent of total respondents across a variety of stakeholders provided feedback on the potential scope—if the Board were to pursue a project on the recognition and measurement of government grants. Approximately 40 percent of those respondents stated that the scope should be kept narrow, while a few respondents—a practitioner, a preparer, and an investor—noted that the scope should be kept broad. Additionally, a few respondents, including practitioners and a trade group, stated that the Board should leverage existing scope guidance in either IAS 20 or Subtopic 958-605, while a few other respondents, including practitioners and a state CPA society, recommended that the Board pursue a phased or incremental approach to scope, with a first phase that would have a narrow scope to provide more immediate guidance and a second phase that would explore whether to expand the narrow guidance to a broader scope of transactions.

90. A majority of the respondents that favored a narrow scope stated that developing a scope that would address all forms of government assistance transactions would be impractical and could create unintended consequences. Rather, the Board should set a narrow scope that would address specific challenges that stakeholders currently encounter. Consistent with feedback received during the development of the ITC, some respondents suggested that the Board provide guidance for a specific subset of transactions so that the Board could provide incremental improvements and simplifications where practicable. Of the respondents that stated that a narrow scope would be most practical, the following suggestions for scope were described:

(a) Limit the scope to nonreciprocal transactions in which a government entity transfers assets to (or extinguishes liabilities owed by) the reporting entity without receiving any assets or direct services from the reporting entity.

(b) Limit the scope to arrangements in which the government provides nonreciprocal direct cash payments.

(c) Exclude any arrangements subject to Topic 740, Income Taxes, and government incentives or credits provided through income taxes.

(d) Exclude routine types of government assistance broadly available to all eligible participants per law, regulation, and common practice when paying for transaction taxes, such as sales
tax exemptions, payroll tax holidays, property tax abatements, and similar routine types of
government tax or fee exemptions.

(e) Include specific language that would allow for analogies if it is unclear whether a particular
form of government assistance is in the scope.

91. Some of the respondents that favored a broader scope stated that any recognition and
measurement guidance for government grants should be able to address all forms of
government grants or assistance. One practitioner noted that creating partial models for
different types of government grants would not be beneficial because for-profit entities would
continue to apply different models to forms of government assistance not addressed within an
established scope. Therefore, a narrow-scope project would add additional diversity in
practice and only lead to more confusion in practice.

92. The majority of respondents that noted that the scope should be kept similar to the scope of
IAS 20 or Subtopic 958-605 stated that this would be the most practical direction for the Board
to take and also the most helpful for business entities. One practitioner noted that a scope
similar to IAS 20 would allow business entities to differentiate between government assistance
within the scope of Topic 740 versus government assistance within the scope of guidance in
IAS 20 or another model. Additionally, this respondent noted that a scope similar to the
guidance in IAS 20 would align most closely with the scope of the guidance in Accounting
Standards Update No. 2021-10, Government Assistance (Topic 832): Disclosures by
Business Entities about Government Assistance.

93. A few respondents recommended either a phased or incremental approach for standard
setting in this area so that a standard could be achieved in a timely manner. All of those
respondents favored a phased approach with an initial phase that would address a narrow
scope and a second phase that would address a broader scope. Examples of suggestions
under the first phase of a phased approach include:

(a) The first phase only should address government grants (direct benefits provided from the
government to the reporting entity in the form of cash, financial instruments, or
nonmonetary assets) and exclude other forms of government assistance (indirect
economic benefits that may result from broader government activities, such as improved
general trading conditions or providing infrastructure in development areas).

(b) The first phase should address a narrow scope that only would include cash grants and
forgivable loans, and a second phase should address an expanded and broader scope
that would cover areas such as tax abatements and other forms of governmental
assistance.
Intangible Assets, Including Software

Question 18: The FASB has encountered challenges in identifying a project scope that can be sufficiently described for intangible assets. If the Board were to pursue a project on intangible assets, what types of intangible assets should be included within the scope and why? Within that scope, should a project on intangible assets be primarily focused on improvements to recognition and measurement or to disclosure?

94. Approximately 50 percent of respondents across all stakeholder types provided feedback on intangible assets. Approximately half of those respondents identified intangible assets as a top priority and a few identified the area as one that the Board should not address at this time, while the remaining respondents did not specifically identify intangible assets as top or low priority. While many respondents acknowledged that for many companies there can be a significant difference between the book value and market capitalization, respondents were mixed about whether that gap needs to be reduced and/or whether reducing the gap is consistent with the objective of financial reporting. Overall, respondents expressed that the Board should perform research to better understand the information needs of users as it relates to intangibles, while also considering the costs and challenges that preparers will incur in preparing such information.

95. Additionally, there were numerous respondents that provided specific feedback on software separate from their views on a broader intangible asset project, which has been summarized under Question 19.

96. Some respondents suggested that the Board consider prioritizing an intangible asset project focused on recognition and measurement. The following considerations were identified by respondents if the Board were to pursue such a project:

(a) **Internally developed versus acquired intangible assets**—Numerous respondents suggested that the Board align the guidance for internally developed R&D and IPR&D acquired through an asset acquisition and a business combination. For example, one investor said that R&D should be accounted for consistently, regardless if it was internally generated or acquired. A standard setter noted that any work that the Board undertakes on intangible assets should result in greater comparability between companies that grow organically and companies that do so through business acquisitions.

(b) **Focus on R&D as a first step**—An investor recommended that the Board add a project targeting the accounting for development costs that are incurred with the specific objective of creating a product that will generate future revenues. Several other respondents echoed similar comments that the Board should look to R&D as a first step as part of a recognition and measurement project on intangibles. One investor that focuses on calculating companies’ economic value added (EVA) said that it would be ideal if
companies could capitalize all internally generated R&D if it meets certain criteria. One practitioner said that the Board should consider developing guidance that would capitalize post-research development costs that meet criteria similar to those in IAS 38, *Intangible Assets*, and/or Subtopic 350-40, Intangibles—Goodwill and Other—Internal-Use Software, while another practitioner discouraged the Board from aligning to the IAS 38 model because it does not result in capitalization of many costs. That practitioner instead suggested a rebuttable presumption that all incurred development costs should be capitalized for identified projects. There were several other respondents that supported the Board focusing on further alignment with IFRS Standards in this area.

(c) **All internally generated intangible assets**—A preparer stated that developing a framework that could be applied to all internally generated intangible assets would be most beneficial. This preparer noted that it is unclear why software should have a different accounting model than other intangible assets that arise from R&D. An investor said that given the significance of intangibles to the valuation of public companies and that companies generate much of their value through them, internally developed intangible assets should be recognized and measured no differently than investments in plant and equipment or financial assets.

(d) **The complexity of accounting for acquired intangible assets at fair value**—A preparer stated that there is significant time spent, along with complexity and judgment, in determining appropriate valuation inputs when measuring intangibles at fair value upon acquisition. A practitioner expressed that the fair value assigned to many individually identified intangible assets in a business combination often does not provide significant incremental value and supported expanding the PCC accounting alternative that allows for certain intangible assets to be subsumed into goodwill.

(e) **Recovering previous impairment losses**—A practitioner recommended that the Board undertake a project to require recognizing recoveries of previously recognized intangible impairment losses.

97. One investor said that the Board should develop recognition and measurement of a company’s intangible assets, but that the Board should start by requiring qualitative and quantitative disclosures on intangible assets (such the amount of revenues generated each year from new products being introduced, related to historical dollars spent on R&D), which would enable investors to see how long it takes R&D efforts to produce revenues.

98. Conversely, several respondents noted that significant changes to the guidance for recognition and measurement of intangible assets would be challenging and that it is not worthwhile for the Board to prioritize such a project at this time. For example, several respondents, including preparers, practitioners, and trade groups, said that recognizing more internally developed
intangible assets on the balance sheet could add more cost to the system than benefit and that evaluating rules for capitalization, amortization, and impairment would be challenging and costly. Another practitioner said that capitalization requirements may not necessarily reflect the company’s actual progress in its R&D activities and that disclosures about a company’s R&D efforts would provide users with a clearer understanding of those activities. This practitioner also stated that recognizing internally developed intangibles would require an impairment model for such capitalized assets, which would likely add significant cost. One investor suggested that the Board require disclosure of the fair value of intangible assets, which would provide additional information to users about how management assesses the valuation of its own assets, yet not require an impairment test.

99. There were several respondents that suggested that the Board consider prioritizing an intangible asset project focused on disclosure improvements. One practitioner noted that although, in its view, the Board should not prioritize a project at this time to address the recognition and measurement of intangible assets, it stated that enhanced disclosures could improve the relevance of financial statements to users and that the Board should prioritize requiring qualitative disclosures of a company’s predominant creators of enterprise value and how those assets create value for the company. Another practitioner agreed that it may be worthwhile for the Board to consider what information investors would find useful about a company’s effort to develop or maintain its intangible assets. There were several other respondents that provided similar feedback that encouraged the Board to perform outreach with financial statement users and focus a project on providing relevant disclosures to address that feedback. Additionally, another practitioner recommended that the FASB and the IASB work together to develop a common framework for disclosures of material unrecognized intangible assets.

100. However, there also were several respondents, including preparers and practitioners, that did not support additional intangible disclosures. Generally, those respondents said that the additional intangible disclosures described in Chapter 2 of the ITC would not provide relevant information that would result in a meaningful benefit to users and that qualitative disclosures would likely result in boilerplate information.

**Question 19: What challenges, if any, exist in applying the capitalization thresholds in Subtopics 350-40 and 985-20? What improvements, if any, could be made to the software capitalization guidance to overcome those challenges? Should there continue to be a capitalization threshold when accounting for software depending on whether it is for internal use or whether it is to be sold, leased, or otherwise marketed? Please explain.**

101. Over one-third of respondents across all stakeholder types provided feedback on accounting for software. Approximately half of those respondents identified accounting for software as a top priority. There were no respondents that indicated that they would not support the Board addressing this area.
102. To provide context for their feedback, many respondents explained shifting paradigms in the software industry:

(a) There has been a shift in how companies develop software from the traditional “waterfall” method to the “agile” development method, which has made the current guidance on software challenging to apply. Previously, software development was performed linearly, but the agile development method is more iterative and cross-functional, which means that various modules of development can occur simultaneously. Therefore, the various phases of development are not as distinct and measurable as they were when the current guidance was originally written. Under current guidance, each of the development modules must be assessed separately, which requires significant oversight and tracking and often results in minimal capitalized development costs. For example, one preparer explained that employees may be working on multiple stages of a software development project at the same time making it difficult to identify which project stage their development activities relate to and subsequently, whether the costs should be expensed or capitalized.

(b) The software industry has transitioned from developing on-premise software to creating cloud-based software-as-a-service (SaaS) solutions.

103. Overall, respondents consistently expressed the following:

(a) The increased prevalence of software costs across companies and a shift in how companies develop software from the traditional “waterfall” method to the “agile” development method have created a pervasive need for the Board to update the accounting for software costs. Respondents encouraged the Board to better align the accounting with how software is developed because the current guidance is outdated and lacks relevance given the evolution of the software industry.

(b) There should be no difference in how a company accounts for software developed for internal use and how a company accounts for software developed to be sold, leased, or otherwise marketed. That distinction in accounting guidance is not useful and creates unnecessary complexity. Respondents generally agreed that the distinction is no longer relevant considering the evolution of the software industry and that there should be one principle and capitalization threshold for all software costs regardless of whether the software is internally used or to be sold, leased, or otherwise marketed. For example, one state CPA society provided an example that differences exist today in accounting for a company developing software that will be used for hosting services in a SaaS-type arrangement versus another company that is developing similar software that will be sold via an on-premise license. Respondents generally expressed that the Board should develop a modernized capitalization threshold based on how software is developed today.
that would apply to all software costs and replace the guidance in Subtopic 350-40 and Subtopic 985-20, Software—Costs of Software to Be Sold, Leased, or Marketed.

104. Respondents cited numerous challenges with the guidance in Subtopic 350-40 and/or Subtopic 985-20, including:

(a) **Significant judgment is required**—Evaluating the guidance on whether technological feasibility has been reached, which stage of development a company is in for internal-use software, which costs are eligible for capitalization, and whether the software is intended for internal or external use require significant judgment and is challenging to apply and audit. It can be especially challenging to apply the recognition criteria when there are a large number of projects being developed within a company.

(b) **Different capitalization thresholds between Subtopic 350-40 and Subtopic 985-20**—The differences in capitalization thresholds between Subtopic 350-40 and Subtopic 985-20 lead to different development costs if the software is delivered via the cloud or on premise, despite the fact that the research and development process may be similar for both software products. That has led to incomparability in financial statements amongst software companies. For example, one preparer explained that companies primarily developing and providing on-premise licensed products (and thus subject to Subtopic 985-20) will reflect greater expenses in the current period, while those primarily developing and providing cloud-based products (and thus subject to Subtopic 350-40) will reflect greater capitalized assets and reduced expenses in the current period because of the disparity in capitalization thresholds.

(c) **Accounting for upgrades and enhancements under Subtopic 350-40**—The definition of upgrades and enhancements as “modifications to enable the software to perform tasks that it was previously incapable of performing” in Subtopic 350-40 creates operational costs and burdens in a cloud-based software environment in which upgrades and enhancements are frequently released to customers because frequent upgrades and enhancements need to be separately tracked and assessed for capitalization. In contrast, Subtopic 985-20 requires a company to assess the enhancements against the concept of reaching technological feasibility, which will typically result in less cost capitalization. One practitioner noted that for many companies, the split between capitalization and expense in these cases may be less useful to users because it takes more effort to find all the components of the software development costs between the balance sheet and the income statement.

(d) **Lack of specific guidance for hybrid-cloud solutions**—There is no specific guidance for companies to account for hybrid-cloud solutions where on-premise licensed software is enhanced with cloud-based capabilities. In those arrangements, a company must
track which software costs should be accounted for under Subtopic 985-20 and which should be accounted for under Subtopic 350-40. That results in inconsistent capitalization even among an integrated and interdependent software.

105. Respondents provided various suggestions for the Board to consider in improving the accounting for software costs:

(a) Adopt the guidance in Subtopic 985-20 for all revenue-generating software costs.

(b) Adopt the guidance in Subtopic 350-40 for all software costs.

(c) Permit companies to apply a policy election to expense all revenue-generating software development costs (including upgrade and enhancement costs) as incurred. However, there were a few respondents that specifically said that this suggestion would not provide useful information and could exacerbate concerns about the difference between book value and market capitalization for companies with significant intangible assets.

(d) Consider software costs as part of a holistic project on the accounting for intangible assets.

(e) Develop implementation guidance with examples of how to apply the current guidance in Subtopic 350-40 and Subtopic 985-20 when the costs are incurred in an iterative or agile development environment.

Chapter 3—Reduction of Unnecessary Complexity in Current GAAP

Balance Sheet Classification

**Question 20: Should the Board prioritize a potential project on current and noncurrent classification of assets and/or liabilities in a classified balance sheet? If yes, what should be the scope? Please explain.**

106. Approximately one-third of total respondents across a variety of stakeholders provided feedback on whether the Board should pursue a project on current and noncurrent classification of assets and/or liabilities in a classified balance sheet. Approximately 80 percent of those respondents noted that the Board should not prioritize a project on the current and noncurrent classification of assets and/or liabilities. Respondents that said that the Board should not prioritize this project cited one or more of the following reasons:

(a) Such a project would not provide sufficient benefit to financial statement users, and there is not an identifiable and sufficiently pervasive need to improve GAAP in this area.

(b) Although there could be potential benefits to making targeted improvements, there are other financial reporting areas described in the ITC that the Board should prioritize first.
(c) The Board adequately explored targeted improvement initiatives before removing the Simplifying the Balance Sheet Classification of Debt project from its agenda in 2021.

(d) Although balance sheet classification guidance is complex, it is necessary complexity and should not undergo further changes. Current GAAP requirements have an underlying principle that is based on the Master Glossary definition of current liabilities. The Board’s attempt to address debt classification was inconsistent with the general principle on the classification of liabilities.

(e) In practice, instances of challenges in classifying assets as current or noncurrent assets are rare. Of the issues that were noted, respondents addressed the complexity of guidance in Topic 470.

107. One practitioner supported the addition of a project on the current and noncurrent classification of debt to reduce complexity in applying the current guidance and improve comparability for users. Specifically, this preparer recommended that it would be supportive of the Board creating an overarching principle for debt classification to be based on when an item is contractually due as of the balance sheet date. The practitioner noted that this overarching principle would more appropriately reflect the conditions that exist as of the balance sheet date.

108. A few respondents noted other considerations for the Board, beyond whether to add a project on the current and noncurrent classification of assets and/or liabilities. One practitioner stated that the information on when assets are expected to be realized or when liabilities are contractually due would be better provided through disclosure to reduce complexities associated with balance sheet classification. Two other practitioners recommended that the Board monitor the completion of the IASB’s current project on classification of debt for alignment and convergence purposes with IFRS Standards.

109. Additionally, a few trade groups suggested targeted improvements for the Board’s consideration. Two trade groups representing financial institutions stated that they would support an overall targeted project, but, in their view, the Board should not prioritize such a project. One of those respondents specifically said that targeted improvements are needed for the classification of instruments that are contingently redeemable, on a short-term basis, as a function of factors outside the control of either party. Additionally, a trade group representing private company practitioners said that there are no significant issues with application of existing guidance related to balance sheet classifications but suggested that the Board consider modifying the guidance when debt agreements include material adverse changes (MAC) and subjective acceleration clauses (SAC) to align the guidance with how those clauses work in practice.
Consolidation

Question 21: Should the Board prioritize a potential project to simplify the consolidation guidance in Topic 810? Please explain why or why not. If yes, should the approach focus on targeted improvements or a holistic review of Topic 810?

110. Approximately 35 percent of respondents across all stakeholder groups provided feedback on whether the Board should prioritize a project to simplify the guidance in Topic 810, Consolidation. A majority of those respondents commented that a project on consolidation should be prioritized, but instead of pursuing the existing Consolidation Reorganization and Targeted Improvements project, the Board should either redefine the project to explore a single, holistic model to account for consolidations or expand the project to include additional targeted improvements. There were also a handful of respondents that said that the current project should be deprioritized or removed. However, there were a few respondents that supported the Board prioritizing completion of the current project.

111. Approximately one-third of respondents that provided feedback on consolidation expressed that the Board should not pursue a project to simplify the guidance in Topic 810 but should remove the current reorganization project from its agenda. Those respondents cited several reasons, including:

(a) **Necessary complexity of current guidance**—Given the complexity of some arrangements in practice, the complexity in this area of guidance is necessary and warranted.

(b) **Increased costs and complexity and unintended consequences**—The cost and complexity of overhauling the current models would not justify the benefits. Ultimately, a rewrite of the guidance would require significant implementation effort for preparers, including evaluating and updating documentation and processes, which could be costly and time consuming.

112. Approximately one-third of respondents that provided feedback on consolidation said the Board should redefine the current project and pursue a holistic review of the consolidation guidance for the following reasons:

(a) **Current complexity and cost of existing models**—The current consolidation models, such as the VIE model, are complex and difficult to apply. Respondents noted that determining the appropriate framework for assessing whether a company has a controlling financial interest is the most significant area of complexity for preparers and should be addressed through a holistic review and creation of a new model.

(b) **Potential cost and complexity of targeted improvements**—Targeted improvements that only address certain areas or add on to the existing guidance in Topic 810 could
create significant costs to organizations and benefit only those that are knowledgeable in Topic 810. One respondent noted that even though a holistic revision of Topic 810 could result in significant current transition costs, a new model could result in an overall cost reduction for preparers in the long term.

113. Those respondents that favored a holistic approach suggested that the Board should create an entirely new, singular model that is more understandable and applies to all entities, including NFPs. Several respondents noted that the Board should leverage IFRS 10, Consolidated Financial Statements, and completely replace the voting interest entity and VIE models. Of the respondents that favored the development of a new single model, many respondents provided recommendations for the Board to consider. One practitioner stated that the Board should implement a more principles-based approach focused on the concept of control. Additionally, another practitioner stated that the new model should allow for industry-specific consolidation exceptions, permit subsidiaries to have different accounting policies, and provide more implementation guidance and examples to address issues such as the treatment of potential voting rights and consideration of decision-maker fees. Separately, regarding consolidation of NFPs, one trade group specifically said that a new model should apply to all entities, including NFPs, and one practitioner said that the Board should consider adding a project to improve the consolidation guidance for NFPs in Subtopic 954-810, Health Care Entities—Consolidation, and in Subtopic 958-810, Not-for-Profit Entities—Consolidation.

114. The remaining one-third of respondents that provided feedback on consolidation said that the Board should simplify the consolidation guidance through various targeted improvements, in addition to reorganizing Topic 810. Those respondents described various areas that the Board should improve, including:

(a) **Align definitions**—The Board should clarify how overlapping definitions apply to the voting interest entity and the VIE models (for example, kick-out rights, participating rights, and protective rights).

(b) **Simplification of VIE scope exceptions**—Some respondents noted that simplifying existing VIE scope exceptions could reduce preparer costs and complexity in specifically determining and documenting whether an arrangement is within the VIE model. One trade group representing public company preparers stated that expanding the business scope exception or clearly scoping out certain arrangements from the VIE model would be helpful. For example, one preparer suggested that the Board expand the VIE scope exceptions to reduce preparer costs. This preparer recommended that the Board add back an updated version of the development-stage entity scope exception that was eliminated by the amendments in Accounting Standards Update No. 2014-10, Development Stage Entities (Topic 915): Elimination of Certain Financial Reporting Requirements, Including
an Amendment to Variable Interest Entities Guidance in Topic 810, Consolidation, as well as that the Board consider scoping out arrangements that are immaterial to the reporting party or arrangements in which the reporting party has little to no power or influence.

(c) **Reduction or elimination of unnecessary VIE disclosures**—The Board should evaluate whether the benefits of current disclosures justify the costs of providing them and perform outreach to identify VIE-related disclosure requirements that do not provide users with benefits or are costly and complex for preparers to obtain.

(d) **Greater clarification on primary beneficiary evaluation**—One trade group representing public company preparers stated that arrangements involving greater judgment, such as arrangements in which traditional elements of control do not indicate control, require more guidance and clarification to determine the primary beneficiary. Therefore, this respondent stated that there is a need for more illustrative examples and implementation guidance, including those with industry-specific facts and circumstances, to help reduce both the complexity and diversity of VIE guidance in this area.

115. Additionally, some respondents provided other suggestions on how the Board could move forward in this area. For example, one respondent stated that the Board should develop nonauthoritative educational materials to address complex VIE concepts and improve stakeholder understanding. As another example, two practitioners and a trade group recommended that the Board hold joint outreach sessions with investors and preparers to discuss what information related to Topic 810 is most helpful for investors and which disclosures are most challenging for preparers.

**Question 22: What challenges, if any, exist in accounting for debt modifications in accordance with the guidance in Subtopic 470-50, Debt—Modifications and Extinguishments? Please explain the challenges and how they could be overcome through standard setting.**

116. Approximately one-third of respondents provided feedback on the accounting for debt modifications, with most providing feedback related to the 10 percent cash flow test. Overall, approximately five percent of total respondents identified debt modifications as a top priority, while another five percent of total respondents described the area as a low priority or an area that the Board should not address. Other respondents described challenges, or the lack thereof, of the current guidance, as well as suggestions to improve the guidance if the Board were to add this topic to its agenda, without providing specific recommendations on prioritization. Generally, most respondents that provided feedback were supportive of narrow-scope improvements to particularly challenging aspects of the guidance, but that there were more pressing issues that the Board should address first.

117. Respondents made observations about the current debt modifications guidance, including:
(a) The primary challenge in this area is stakeholders being unaware of the guidance and misunderstanding when it should be applied to a transaction; however, the guidance itself is clear and operable and the 10 percent cash flow test provides a bright line that is easily understood and not subject to judgment.

(b) The guidance is well understood and generally results in modification accounting for most modified instruments, while identifying changes that are so significant that extinguishment accounting is appropriate. Although the 10 percent cash flow test is arbitrary, bright-line threshold yields greater comparability and consistency than would a list of indicative factors.

(c) The guidance on determining whether a third-party intermediary is an agent or a principal in accordance with paragraph 470-50-55-7 is ambiguous.

(d) There is a lack of guidance for a modification or an exchange of a convertible debt instrument with an embedded conversion that is separately accounted for as a derivative under Topic 815, Derivatives and Hedging, or as an equity component because, for example, the convertible debt instrument is issued at a substantial premium under Subtopic 470-20, Debt—Debt with Conversion and Other Options.

(e) When refinancing activities involve debt arrangements that are widely held (for example, syndicated loans, publicly issued or privately placed debt securities, including those that may be held by affiliated entities, such as the separate lending and asset management of a particular financial institution), determining whether and to what extent there is continuing involvement of a particular creditor can be burdensome.

(f) When a borrower repays its old debt instrument with the proceeds of a new debt instrument and some lenders that were party to the old debt instrument also participate as lenders on the new debt instrument, there is diversity in practice on which guidance is applicable and whether debt has been extinguished.

(g) The troubled debt restructuring (TDR) accounting model in Subtopic 470-60, Debt—Troubled Debt Restructurings by Debtors, does not faithfully reflect the economics of debt and does not provide a significant benefit to users of financial statements. The two-tier analysis model applied to account for changes made to debt in Subtopic 470-50 and Subtopic 470-60 present several application challenges in practice, yet typically does not result in the recognition of a gain or loss.

118. Respondents offered numerous suggestions to improve the guidance, such as:

(a) **Add an alternative to account for debt modifications as an extinguishment of a liability**—Add an accounting alternative that would allow companies to account for debt modifications as an extinguishment of a liability. While one trade group representing
private company practitioners and a practitioner suggested that it should be a private company alternative researched by the PCC, a few other respondents noted that such an accounting alternative would be beneficial for all companies and would remove the complexities that currently exist in the substantially different test. Respondents commented that an accounting alternative would simplify GAAP without creating significant costs for investors or having a significant impact on comparability of financial statements.

(b) **Add qualitative guidance**—Add qualitative guidance that would preclude a company from having to perform a quantitative assessment for every modification but retain the 10 percent bright-line test because companies have already operationalized this guidance.

(c) **Create a new single model**—Change from the two-tier analysis model currently required by Subtopics 470-60 and 470-50 to a single-tier analysis model for all changes made to debt that result in the recognition of a gain when the undiscounted projected cash flows under the changed debt are less than the carrying amount of the debt (including any accrued and unpaid interest). Account for all other changes to the debt prospectively by using a revised effective interest rate to recognize interest cost over the term of the changed debt (that is, no gain or loss would be recognized when the undiscounted projected cash flows are equal to or greater than the carrying amount of the debt).

(d) **Remove the TDR model and account for all amendments under Subtopic 470-50 with expanded disclosures**—Remove the TDR model and retain a single accounting model for all debt amendments under Subtopic 470-50. Expand disclosure requirements for companies restructuring debt due to financial difficulties to provide relevant information to users while reducing the existing complexity associated with this accounting model.

(e) **Provide implementation guidance and additional educational materials**—Provide additional implementation guidance and examples around some of the more judgmental aspects, for example, when applying the 10 percent cash flow test, and continue to educate stakeholders in this area by providing additional educational materials, such as publishing additional FASB Staff Educational Papers. Additionally, incorporate the examples in the FASB Staff Educational Paper, *Topic 470 (Debt): Borrower’s Accounting for Debt Modifications*, into Subtopics 470-60 and 470-50 (as applicable) to illustrate application of the guidance in those topics, including how to apply the 10 percent cash flow test when debt is prepayable and when debt is not prepayable.

**Distinguishing Liabilities from Equity**

*Question 23: Stakeholders noted many challenges in applying the liabilities and equity guidance, but they had mixed views on how the Board should improve the accounting for*
financial instruments with characteristics of equity. The Distinguishing Liabilities from Equity Phase 2 project is intended to align the two existing indexation models in Topic 480 and Subtopic 815-40. Should the Board continue pursuing this project in its current scope and objective, or does the Board need to reevaluate this project? Please explain why or why not and if the project scope and objective need to be reevaluated, what should the approach be?

119. Approximately one-third of respondents provided feedback on whether the current scope and objective of the Distinguishing Liabilities from Equity Phase 2 project needs to be reevaluated. Overall, the feedback provided was mixed on whether the Board should continue with the current project scope and objective. Many respondents that provided feedback in this area said that the objective of any project on liabilities and equity should be simplification.

120. Approximately half of respondents that provided feedback on liabilities and equity identified this project in its current scope and objective as a priority. Those respondents acknowledged the pervasiveness of current practice issues and agreed that the objective of the project could result in significant simplification of the guidance. In addition, there were a few other respondents that did not identify the project as a top priority but did express support for the Board continuing to pursue the project considering that distinguishing liabilities from equity (a) continues to be a leading area of restatement because of the complexity associated with applying the current guidance and (b) often requires the assistance of specialists to ensure its appropriate application.

121. About 20 percent of respondents that provided feedback on liabilities and equity supported expanding the scope of the project to take a more holistic view at the current model for distinguishing liabilities from equity. A trade group representing private company practitioners suggested that the Board reevaluate if the current project scope and objective would result in a meaningful simplification or if a more comprehensive review would be more beneficial to users.

122. Respondents provided suggestions for the Board to consider in pursuing a project in this area, whether within the current project’s scope and objective or an expanded, more holistic project, including:

(a) **Indexation principle**—Respondents provided many suggestions related to an indexation principle, such as develop an indexation principle that incorporates both qualitative and quantitative considerations, develop an indexation principle that does not require a quantitative analysis, develop an indexation principle that focuses on whether a financial instrument is predominantly indexed to the issuers’ own stock, and entirely remove the concept of indexation from the guidance.

(b) **Disregard certain features**—Respondents provided a wide range of feedback related to allowing companies to disregard certain features in their evaluation of the guidance. A
practitioner said that the Board should allow an entity to disregard remote settlement features for purposes of determining the classification of a contract in an entity’s own equity under Section 815-40-25 and disregard remote contingent obligations in evaluating the guidance in Topic 480, Distinguishing Liabilities from Equity. Another practitioner said that the Board should consider a “more-likely-than-not” threshold to prevent features that are not “more likely than not” to affect the settlement amount from affecting the classification of an instrument. This same practitioner said that the Board should consider a threshold for determining the effect of events or features that could adjust settlement amounts and/or require net cash settlement on the accounting for equity-linked instruments or features so that the classification of an instrument is determined by the economic substance of the transaction rather than the form.

(c) **Expected nature of settlement**—Classification of instruments should be aligned to the expected nature of settlement (shares versus cash and other assets), as opposed to whether the entity is in control of settlement of shares.

(d) **Mezzanine equity**—The Board should incorporate, and expand on, a concept similar to the SEC’s guidance on mezzanine presentation of redeemable equity into GAAP to relieve some of the pressure inherent in distinguishing liabilities from equity.

(e) **Clarify the scope of Topic 480**—Clarify the scope of Topic 480 to address whether legal form debt instruments that contain features similar to those found in equity-linked instruments, such as a debt instrument that is settleable in a liability-classified, equity-linked instrument such as warrants, represent obligations to repurchase the issuer’s equity shares by transferring assets and should accordingly be evaluated under Topic 480.

123. Approximately 10 percent of respondents that provided feedback on liabilities and equity indicated that the area should not be a Board priority and that there are other, more pressing issues for the Board to consider. A trade group representing financial institutions noted that GAAP is sufficiently clear, and practice has developed on how to analyze complex instruments. Several respondents expressed skepticism that the Board would be able to find a solution in this area in which the benefits would justify the costs.

**Materiality Considerations for Disclosures**

**Question 24:** How helpful would it be in evaluating disclosure materiality if the materiality guidance in paragraph 105-10-05-6 that “the provisions of the Codification need not be applied to immaterial items” was repeated in the Disclosure Section of each Codification Subtopic? Please explain.

124. Approximately 40 percent of total respondents across a variety of stakeholder types provided feedback on whether it would be helpful for the Board to repeat the guidance in paragraph
105-10-05-6 that “the provisions of the Codification need not be applied to immaterial items” in the Disclosure Section of each Codification Subtopic to assist in evaluating disclosure materiality. Approximately 80 percent of those respondents noted that it would not be helpful for their evaluation if each Disclosure Section in the Codification repeated the materiality guidance in paragraph 105-10-05-6. While some of those respondents stated that they would not object if such a project on materiality consideration for disclosures was added, a majority of those respondents agreed that the Board should not use its resources or time to address this area. Respondents cited the following reasons for why a project to amend the Disclosure Section of the Codification would not be helpful:

(a) The concept of materiality is implicit and, therefore, already embedded throughout all areas of GAAP. The concept of materiality is interpreted as an overarching principle when assessing GAAP or SEC disclosures and does not need to be stated in each Section of the Codification. Specifically, the guidance in paragraph 105-10-05-6 already is interpreted to relate to all provisions of the Codification.

(b) There are minimal to no perceived benefits to financial statement users if such guidance was explicitly added to each Disclosure Section of the Codification. Some respondents noted that if the materiality guidance were added to each Disclosure Section of the Codification, there is a possible risk that material information may be omitted. Specifically, one investor respondent noted that no amendments should be made that have the potential to reduce transparency for investors.

125. Some of the respondents that noted that the repetition would not be helpful in evaluating disclosure materiality guidance also provided additional feedback for the Board to consider. One trade group respondent stated that the Board should instead focus on reducing disclosure requirements that provide minimal value to users of financial statements to overall reduce unnecessary cost and complexity for preparers. Therefore, this respondent recommended that the Board survey investors and users of financial statements on certain Disclosure Topics to determine if reductions of required disclosures are needed. Additionally, one practitioner noted that it would be more beneficial for the Board to provide a framework for preparers that would assist in determining whether a disclosure, or its omission, is material to financial statements. This respondent recommended that when creating this framework, the Board should leverage the existing discussion on materiality and relevance in the Conceptual Framework.

126. A preparer expressed that the Board should prioritize adding the materiality reference to each Disclosure Section, as well as a project to provide specific quantitative parameters or guidance used to determine materiality, such as percentage of total assets, revenues, or net income. That respondent frequently receives questions on how its disclosures are assessed for materiality from both internal auditors and external auditors. While there were no other
respondents that identified adding this guidance to each Disclosure Section as a top priority, a few respondents noted that repeating the materiality guidance could be helpful to evaluate disclosure materiality guidance or they did not provide specific feedback on the perceived usefulness.

Chapter 4—Improvements to FASB Standard-Setting Processes

Question 25: Which, if any, of the FASB processes described in Chapter 4 of this ITC could be improved? Please explain your rationale for each, including the following:

a. Why that process needs improvement
b. How the FASB should improve that process
c. What the urgency is of that process improvement.

127. Approximately half of respondents across a variety of stakeholder types provided feedback on improvements to FASB standard-setting processes. Overall, respondents were supportive of the Board exploring improvements to certain processes. Many noted that most of the improvements described below are nonurgent and should be prioritized after the technical areas identified as top priority, with the exception of a few respondents that said that improving the Board’s cost-benefit analysis framework should be addressed as soon as possible. There were very few respondents that said that they would not support improving certain FASB standard-setting processes at least to some extent. Overall, respondents generally supported the FASB’s continual work to improve its processes on an ongoing basis when it has the opportunity to do so. Additionally, some respondents said that specific projects did not need to be added to address those areas, such as a cost-benefit analysis framework, but that suggested improvements could start to be incorporated throughout various internal initiatives on a go-forward basis, such as utilizing innovative ways to perform outreach to better understand costs and benefits and thoroughly explaining the Board’s cost-benefit analysis in its basis for conclusions to increase transparency.

128. Respondents provided feedback on the four specific areas described in Chapter 4—Codification accessibility, cost-benefit analysis framework, interpretive process, and transition requirements; respondents also provided suggested improvements for other process areas. Out of the four specific areas, Codification accessibility was identified most frequently as a top priority, with interpretive process and cost-benefit analysis framework close behind as second and third, respectively. Respondents identified transition requirements as a top priority least frequently among the four areas.
Codification Accessibility

129. Approximately 20 percent of total respondents identified improving Codification accessibility as a top priority. Overall, those respondents agreed with the feedback described in the ITC that the Codification can be challenging to navigate and that nonauthoritative guidance is important in applying and interpreting GAAP and accordingly should be incorporated into the Codification. Respondents provided the following general suggestions for the FASB to consider in improving overall Codification accessibility:

(a) **Incorporation of nonauthoritative guidance**—Respondents suggested that a variety of nonauthoritative guidance should be incorporated into the Codification, including the Board’s basis for conclusions, Board meeting materials and minutes, FASB Staff Educational Papers, published staff inquiries, Transition Resource Group meeting minutes, EITF materials and minutes including interpretations of GAAP (if the Board utilizes the EITF to provide such interpretations), answers to technical inquiries, and other relevant publications. A majority of respondents said that incorporating the Board’s basis for conclusions would improve the understandability and application of GAAP. A practitioner stated that additional FASB materials such as meeting minutes, FASB Q&As, and Transition Resource Group Meeting materials, should not be included in the Codification because those items are not subject to the same due process as the Board’s basis for conclusions. Instead, this respondent supported access to those materials through a single, archived repository. Respondents suggested that if an initiative to incorporate nonauthoritative guidance is pursued, the FASB should add a section to each Codification Topic with a distinct numbering scheme to capture nonauthoritative information with links or cross-references. One practitioner respondent specifically suggested that the Board’s basis for conclusions be separated throughout each Subtopic, with a periodic process to update outdated bases for conclusions.

(b) **Cost of annual Codification subscription**—Some respondents noted that the annual Codification subscription for the professional view is costly and recommended that either the basic view features be expanded or the subscription fee for the professional view be reduced. One practitioner recommended that the Board provide the professional view to all users free of charge since the professional view is more useful but that use is restrictive due to cost.

(c) **Technological enhancements**—One state CPA society suggested that the Board implement a technology project to create more efficient search functions in the Codification. Additionally, one practitioner respondent suggested that the Board develop a free app to allow users to view content in a more user-friendly context.
(d) **Reorganization of the Codification**—One state CPA society recommended that the Codification be reorganized so that the information on a single accounting Topic is not spread out throughout initial and subsequent accounting. This would enable users to find information in one designated area instead of visiting various Subsections. Additionally, one practitioner suggested linking the paragraphs in the Codification to relevant illustrative examples, instead of including those examples in a separate Subsection. Another practitioner and a trade group suggested that the presentation of the Codification should be consistent with Big Four guides (so that the Codification can be read sequentially) and topical indexes should be added for areas in which guidance is dispersed throughout the Codification. For example, two respondents stated that the guidance for financial instruments should be listed in a single Topic instead of dispersed throughout multiple Topics, including Topic 470, Topic 480, Subtopic 815-40, Derivatives and Hedging—Contracts in Entity’s Own Equity, and Topic 825.

**Cost-Benefit Analysis Framework**

130. Approximately 15 percent of total respondents, including a large preparer group, identified developing a more transparent and thorough cost-benefit analysis framework as a top priority. Overall, those respondents acknowledged that the cost-benefit analysis framework is a key aspect to standard setting and is a top priority in terms of FASB standard-setting processes. Respondents provided the following suggested improvements for the FASB to consider:

(a) **Thoroughly consider the costs and benefits to all stakeholders**—Investors and other financial statement users expressed concerns with how the current framework incorporates investor feedback and commented that the Board should more thoroughly consider costs and benefits to investors. Additionally, a practitioner stated that a cost-benefit analysis framework should not only consider the direct costs of preparation, but also the indirect costs such as lack of convergence of GAAP and IFRS Standards. Another practitioner noted that separating cost-benefit considerations for preparers and practitioners would promote both transparency and provide stakeholders with more information on how the Board incorporates this feedback into the framework. Furthermore, another practitioner recommended that the views of relevant standard setters and regulators should be incorporated in the Board’s consideration of costs, benefits, and operability of standard-setting proposals.

(b) **Incorporate a quantitative assessment of costs**—A more quantitative assessment of a standard’s economic impact is needed to better assess preparer costs. One preparer noted that this analysis should include estimates of work hours needed, employees to be hired, software implementation costs, and data collection efforts. A practitioner that
acknowledged the challenges of conducting a quantitative cost analysis recommended that the Board leverage academic research to adopt more quantitative analyses of costs into the process.

(c) **Provide greater transparency of the cost-benefit analysis**—Many respondents noted that greater transparency for the cost-benefit analysis is needed to better understand how the Board weighs both preparer costs and investor benefits. A trade group recommended that the Board publish a comprehensive cost-benefit analysis in exposure documents. This respondent noted that publishing that analysis could enhance transparency and provide stakeholders with an opportunity to provide feedback during the comment period process.

(d) **Facilitate earlier and more frequent joint outreach with users and preparers**—Many respondents recommended that the Board facilitate more joint calls and discussions with both preparers and users. Respondents noted that this would enable preparers to better understand the needs of users and promote greater cooperation for solutions. Additionally, a practitioner recommended that the Board implement a more robust stakeholder outreach methodology to increase the diversity of the type of stakeholder involved in the outreach process. Specifically, this respondent recommended establishing a desired stakeholder sample size, which could be scalable depending on the scope of the project.

(e) **Perform more extensive field testing**—A preparer recommended that the Board perform more extensive field testing to ensure system readiness before implementing a new standard. Companies could incur greater incremental costs that could have been prevented or mitigated with more extensive, prior testing.

*Interpretive Process*

131. Approximately 16 percent of total respondents identified establishing an interpretive process as a top priority. Overall, those respondents agreed with feedback described in the ITC that the Board should establish a timelier interpretive process that would not require Codification amendments. Respondents provided the following suggestions for the FASB to consider in establishing an interpretive process:

(a) **Public interpretative process**—If an interpretive process is developed to provide timely interpretations of GAAP, this process should be public to provide greater access to the technical analyses and related judgments. Additionally, a trade group emphasized that interpretations should be published in writing to promote consistent application of the standard. Specifically, one practitioner noted that this process should include a structured process for the intake of questions, formal procedures for internal review and approval,
publicly available written guidance that is linked to the related guidance in the Codification, transparent explanation of the Board’s basis for its interpretation, and a description of transition provisions (including a discussion of how Topic 250, Accounting Changes and Error Corrections, would be applied to any accounting changes resulting from the interpretive guidance).

(b) **EITF as an interpretation committee**—Many respondents strongly encouraged the Board to utilize the EITF as an interpretation committee, similar to how the IFRS Interpretations Committee (Interpretations Committee) operates. In 2009, the EITF transitioned from an independent body into an organization addressing issues delegated by the Board. The EITF’s reliance on the standard-setting process is seen by many respondents as a hinderance to the EITF’s ability to provide timely interpretations. Respondents across all stakeholder groups recommended that reestablishing the EITF as an interpretation committee would allow for timely interpretations and consistent application of guidance. Some respondents noted that the EITF, not the Board, should have the ability to determine what items are added to the EITF agenda, similar to the Interpretations Committee’s process. However, one trade group that supported this process change overall said that the consensus conclusions reached on an issue by the EITF should be approved by the Board or the FASB staff. Additionally, one practitioner suggested that if the Board has concerns about making EITF interpretations publicly available without undergoing the Board’s due process, the interpretations would still be useful if they were deemed nonauthoritative guidance.

(c) **Publish technical inquiry responses**—Some respondents favored a public and more transparent process for responding to technical inquiries. One practitioner noted concerns because of the lack of transparency in the technical inquiry process and because inconsistencies in responses could cause diversity in practice in the application of guidance. To address those concerns, one trade group specifically recommended that the technical inquiry process be expanded to include published questions and answers.

**Transition Requirements**

132. Approximately four percent of respondents identified simplifying transition requirements as a top priority. Overall, those respondents agreed with the feedback described in the ITC on the complexity and difficulty in applying transition requirements and that standardization of this guidance would be helpful. However, two practitioners specifically stated that significant efforts should not be put forth to standardize the transition requirement language—one of those respondents explained that complexity is inherent in the standard-setting process and
that it is likely impractical to standardize transition requirements. Respondents provided the following suggestions for the FASB to consider in simplifying transition requirements:

(a) **Ensure standardized and consistent terminology**—Respondents recommended that the Board develop more consistent methods and standardized language for applying transition requirements throughout all standards. Respondents noted that current transition terminology requirements are applied inconsistently and result in additional complexity and costs in practice. For example, a trade group and a practitioner stated that the term *modified retrospective* is used throughout different standards, such as in Topic 606, Revenue from Contracts with Customers, and in Topic 842, Leases, to describe different transition methodologies. Therefore, respondents agreed that standardizing the terminology could improve both understandability and adoption of certain standards. Specifically, one practitioner recommended that consistent language be used to address both public business entity effective dates and nonpublic business entity effective dates, early adoption provisions, and annual and interim reporting requirements.

(b) **Perform stakeholder outreach**—One practitioner suggested that the Board perform outreach to better understand stakeholder views on the adoption of and transition to new major standards. That respondent suggested outreach to gain an understanding about what did and did not work well related to the methods of adoption from those that have recently adopted major standards, which could lead to a more uniform approach for transition requirements as new standards are introduced.

(c) **Provide illustrations to reduce complexity**—One practitioner recommended that the Board should continue to provide illustrations to assist stakeholders in understanding the transition guidance. This stakeholder noted that illustrations are needed, especially for transition guidance that is inherently complex.

(d) **Require full retrospective transition for all periods presented**—One stated that the most decision-useful information to investors would be to require full retrospective transition for all periods presented.

**Other**

133. Respondents also provided feedback for process improvements beyond those described in the ITC, including:

(a) **Longer comment periods**—A state CPA society recommend that the Board extend the number of days in a comment period and that comment periods shorter than 45 days make it difficult to analyze and propose recommendations.
(b) **Nonpublic comment letters**—A preparer suggested that public companies do not tend to participate in the comment process because it is done through a public platform. To encourage more participation from public companies, the Board should introduce a platform in which companies can respond in a nonpublic manner.

(c) **Issue more frequent educational materials and implementation guidance**—A practitioner stated that the recent efforts undertaken by the Board to produce educational materials and Q&A documents for recent major standards and COVID-19-related accounting matters greatly assisted preparers in their understanding and application of the accounting guidance. This practitioner recommended that the Board adopt a similar process as that of the Governmental Accounting Standards Board (GASB) by increasing the frequency in which implementation guides are produced to assist preparers through complex accounting standards.

(d) **Early identification of emerging issues and research**—A practitioner recommended that the Board address emerging accounting issues that have the potential to become pervasive in the future. That respondent expressed that the Board should not wait until after the emerging accounting issue has become pervasive to address it and that if an emerging issue is identified early, the Board could address the issue before it has a significant impact on the quality of financial reporting. Therefore, that practitioner suggested that the Board reconsider whether an identifiable and sufficiently pervasive need to improve GAAP should continue to be evaluated as part of Board’s agenda criteria.

(e) **Public Board meeting materials**—Several respondents recommended that all Board meeting materials, including Board memos, should be made publicly available. Those respondents noted that having public access to such materials would provide greater transparency and assist stakeholders in understanding and following the Board’s decision and rationale during a Board meeting and applying accounting guidance in practice.

(f) **Greater transparency during the agenda prioritization process**—A practitioner recommended that the Board provide more transparency to stakeholders that have submitted agenda requests. For example, more information should be communicated to stakeholders such as an expected timeline for key steps in the process, as well as any changes and/or delays to the process.

(g) **Comprehensive strategic review**—An investor recommended that the Financial Accounting Foundation (FAF) and the FASB undertake a comprehensive strategic review to reflect upon the past and provide overall goals and a plan for the next five years. That respondent said that without a strategic plan, the Board will not be able to revise its standard-setting agenda and other initiatives to reflect a global leadership position about the priorities and interests of investors in furthering the quality of corporate reporting.
Next Steps

134. The staff has tentatively planned for the following next steps:

(a) In the first quarter of 2022, the staff will present the Board with analyses and recommendations on areas that were overall identified as highest priority with a focus on investor priorities. In the second quarter of 2022, the staff will present the Board with analyses and recommendations for agenda decisions on all other areas of feedback. The staff will analyze each area using the Board’s agenda decision criteria based on feedback received from ITC respondents (and other sources of outreach that have recently been performed by the staff). Said differently, the Board will be asked to decide which topics it wants to add to the technical agenda and which topics it does not think warrant further consideration in the near future, as well as how the Board may want to redefine or remove related current projects on the basis of the ITC feedback. That may include a series of meetings, both led by the Agenda Consultation team as well as other relevant project teams.

(b) Throughout the first half of 2022, for current projects that are not captured by the above agenda decisions described in (a) above, the respective project team will analyze the feedback received on those projects in response to Question 5 of the ITC and present recommendations to the Board based on the feedback received. Additionally, the staff will work toward improving FASB processes as described in Chapter 4 of the ITC and those highlighted by the ITC respondents. For example, a focus on transparent and thorough cost-benefit analysis and performing outreach in innovative ways will continue to be important throughout all aspects of every project.
(c) By the end of June 2022, the staff will issue a summary of how the feedback received was considered by the Board, including a description of changes that it made to the technical agenda and how that directly links to the feedback received.
Board Meeting Handout  
Reference Rate Reform  
December 15, 2021

**Meeting Purpose**

1. The purpose of this Board meeting will be to provide direction to the staff on the path forward for the Reference Rate Reform—Fair Value Hedging project. In addition, the Board will assess whether to add a project to the technical agenda related to deferring the sunset date of Topic 848, Reference Rate Reform.

2. If the Board decides to add the additional project to its technical agenda, the staff will:
   (a) Ask the Board for permission to proceed with drafting a proposed Accounting Standards Update for vote by written ballot
   (b) Discuss with the Board the comment letter period of that proposed Update.

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**Reference Rate Reform—Fair Value Hedging Project**

1) Does the Board prefer Alternative A or Alternative B as the path forward for this project?

**Reference Rate Reform—Sunset Date Deferral Project**

2) Does the Board want to add a project to the technical agenda to defer the sunset date of the guidance in Topic 848?

3) Which alternative does the Board prefer in order to defer the sunset date of Topic 848?

4) If the Board prefers Alternative A, what date does the Board propose?

5) Does the Board agree with a prospective transition and immediate effective date?

6) Has the Board received sufficient information and analyses to make an informed decision on the expected costs of the changes? If not, what other information or analysis is needed?

7) Does the Board authorize the staff to proceed to draft a proposed Accounting Standards Update for vote by written ballot?
8) What comment period does the Board select for the amendments in the proposed Update?

Current Reference Rate Reform Project—Fair Value Hedging

3. Under current generally accepted accounting principles (GAAP), for an interest rate to be eligible as the hedged risk in a fair value hedge, it must qualify as a benchmark interest rate. Paragraph 815-20-25-6A contains the specific reference rates that qualify as benchmark interest rates for financial instruments denominated in USD.

4. The Board currently has a project on its agenda to develop a principle for identifying interest rates eligible to be designated as the hedged risk in fair value hedges both within and outside the United States.

5. The staff will provide an update to the Board on developments in reference rate reform and the current status of the project to obtain direction from the Board on next steps. The Board will be asked to consider the following alternatives:

(a) Alternative A: Supersede the Master Glossary term benchmark interest rate and require that at hedge inception to be the hedged risk in a fair value hedge a reference rate must be:
   (i) Contractually specified in the hedging instrument
   (ii) An interest rate relevant to the reporting entity as part of an established risk management strategy.

(b) Alternative B: Move this project from the technical agenda to the research agenda as part of the Hedge Accounting—Phase 2 project to observe additional market development.

Reference Rate Reform—Sunset Date Deferral

3. To facilitate the market-wide reference rate reform initiative, the Board issued the amendments in Accounting Standards Update No. 2020-04, Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting, to provide temporary, optional relief to certain contract modification guidance and hedge accounting requirements. The relief in Topic 848 is intended to facilitate the effects on financial reporting for the transition period during which entities replace the use of interbank offered rates (IBORs) that are expected to be discontinued and replaced with alternative reference rates.

4. Topic 848 was not intended to permanently change the accounting guidance but, rather, addresses the issue of high volumes of modifications. For that reason, the Board decided that
the period of relief would end on December 31, 2022, one year after the then-expected cessation date of the London Interbank Offered Rate (LIBOR). However, on March 5, 2021, the expected cessation date of major tenors of USD LIBOR was postponed to June 30, 2023, which is after the current sunset date of Topic 848.

5. The Board will be asked to add a project to the technical agenda and consider the following alternatives for deferring the sunset date of Topic 848:

   (a) Alternative A: Date certain deferral

   (b) Alternative B: Principle approach to deferral

   (c) Alternative C: Indefinite suspension of sunset date.

Transition

6. The prospective transition method has been identified by the staff as the only appropriate transition method for the proposed amendments, and the only alternative for the effective date of the amendments should be immediately upon issuance of a final Accounting Standards Update.