



October 14, 2016

Technical Director  
Financial Accounting Standards Board  
401 Merritt 7, PO Box 5116  
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*Via email to: director@fasb.org*

RE: Invitation to Comment  
*Agenda Consultation*  
File Reference No. 2016-290

Dear Technical Director:

The Accounting and Auditing Standards Interest Group of the New Jersey Society of Certified Public Accountants (NJCPA) appreciates this opportunity to comment on the proposed accounting standard update. The NJCPA represents nearly 15,000 certified public accountants and prospective CPAs. The comments herein represent those of some of the individuals of our Accounting and Auditing Standards Interest Group only and do not necessarily reflect the views of all members of the NJCPA. The Accounting and Auditing Standards Interest Group is mainly comprised of CPAs in public practice serving predominantly non-public companies.

We thank you for this opportunity to comment regarding the agenda and future projects of the Financial Accounting Standards Board (the "Board"). We recognize how difficult it is addressing the major financial reporting issues the Board is considering adding to its agenda and appreciate the ability to provide our feedback on and our recommendation of the priority of those issues. Our responses to the following specific questions are derived from individuals representing both auditors and accountants in industry.

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

We believe the priority of the major financial reporting issues discussed should be prioritized as follows: Distinguishing Liabilities from Equity, Intangible Assets, Income Statement Structure (*Reporting performance and cash flows*), Statement of Cash Flows (*Reporting performance and cash flows*), Segment reporting (*Reporting performance and cash flows*), Other comprehensive income (*Reporting performance and cash flows*) and Pensions and other postretirement benefit plans. Our view is based on the complexity, consistency and perceived benefit any changes or improvements would have to all stakeholders of an entity. For example, in Distinguishing



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Liabilities from Equity, currently the framework for determining these items is based on complex legacy literature that allows an entity to structure an instrument for a desired result and improvements here would have the greatest impact in creating a more streamlined recording process and greater consistency of different instruments. Whereas we believe that updates to Other Comprehensive income and Pensions would have the least impact to various stakeholders.

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

We believe that many of the issues discussed in the ITC become interdependent on the resolution of each item discussed. Specifically, some of the potential alternatives discussed for the Cash Flow (i.e. alternative C for classification categories that states “structured to focus foremost on a line-by-line interrelationship with the income statement”) would have a direct dependency on the decisions the Board could make on the Income Statement presentation. Only once the Income Statement presentation is decided upon would there be a complete picture of how to derive decisions on the Cash Flow. We believe that the priority we indicated in **question 0.2** accounts for any potential interdependencies of each issue.

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

While we agree that intangible assets are a major financial reporting concern, we do not support any significant changes in this area. We recognize that there can be substantial inconsistencies in the accounting for intangible assets (i.e. purchased intangible assets versus internally developed intangible assets), however, we believe that any attempt to recognize internally generated intangible assets would create further complexities, inconsistencies and costs. As the Board discussed, there are significant considerations that would not be easily addressed in the areas of recognition and measurement as well as the possibility of introducing a great deal of subjectivity in determining when and how to record each intangible asset. We do not believe an improvement in the accounting for internally generated intangible assets (including research and development) would produce enough significant benefits to outweigh the costs and additional issues that would arise from such a fundamental shift in the accounting for intangible assets.

**Question 1.3:** *Which approach to addressing the issue is appropriate, considering the benefits and costs of each approach and why? If you recommend a recognition approach, please explain your view about (a) the threshold for recognizing the asset and (b) the measurement of the asset (cost or fair value). If you recommend a disclosure approach, please explain the disclosure objective and recommend what specific information should be disclosed. If you recommend an approach to adopt IAS 38, please explain any implementation concerns.*



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We do not support any of the alternatives discussed for internally generated intangible assets. With each alternative discussed the greater question is when the intangible should be recognized and how should it be (re)measured. If a change in accounting in this area was made we would need an extensive clarification on the definition of what can be capitalized and a well-defined assessment phase that should be performed to determine a potential asset future benefit. Should those items be achieved we then must consider how to value that asset. Using cost would depend on when the asset was recognized. If the asset was recognized too soon or too late the cost on the balance sheet would not be representative of any future benefit that is to be derived. Further certain intangible assets such as customer lists may not have an attributable cost at all. Once a cost is recorded then consideration would need to be given to how and when to amortize and test that asset to impairment. The other option would be to mark the asset to fair value, but this would be a subjective figure based on an entity's internal workings with little external references that could support such valuation.

We believe all of these concerns would further contribute to inconsistencies across entities compounding the lack of comparability between entities and, therefore, we do not support a fundamental change in accounting for intangible assets.

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

Yes, distinguishing liabilities from equity is a major financial reporting issue and should be a top priority to be addressed. We agree with the observations that the Board discussed, primarily the complexities and inconsistencies in the current guidance. We believe that improvements here would help promote the consistent application and comparability of these instruments as well as reduce the ability to structure certain instruments to achieve specific financial results.

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

We believe that a holistic approach to improve the current guidance is required. While we feel that certain targeted improvements may in the short term provide some clarity and relief. In the long term, however, a targeted approach may further increase the complexity of application and present new issues as the targeted improvements interact with existing guidance. Therefore, we believe a holistic approach is best to address current and future concerns.



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**Question 4.2:** *How should the components of net income be categorized, if at all? If the FASB were to develop an operating activities category and display a subtotal for operating income, how should the category be defined or described?*

We do not believe that the income statement should be bifurcated into operating versus non-operating income. Describing or defining operating or non-operating income is a complex question that is not easily achieved when viewed across many different entities and industries. Operating activities for one entity may be considered non-operating for another entity within the same industry based on each entity's individual business practices. We believe such an undertaking would create additional complexities and confusion in the financial reporting of an entity and therefore believe the costs of such an approach would exceed any potential benefit to be gained.

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

We do not believe that a standard definition or description could be consistent and effective for all types of reporting entities. The Board had noted previous projects and papers that attempted to achieve such a result with little success and we do not think this should be revisited again.

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

A standardized definition of operating activity would provide greater benefit than that of management determination. While management may understand their business best, if left to management to determine, it would create significant diversity in practice as each entity attempts to define and classify common practices sustained by all entities. This would then create substantial comparability issues for the stakeholders and potential stakeholders of every entity.

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

We do not believe any of the alternatives described would provide useful information to the users of financial statements and would actually create confusion and greater diversity in practice. Specifically, Alternative A described redefining infrequency of occurrence, however, the principles of infrequency of occurrence and unusual nature were included in ASU2015-01 *Income Statement—Extraordinary and Unusual Items (Subtopic 225-20)* which simplified the income statement by eliminating the requirement to separately classify, present and disclose extraordinary events and transactions. We believe the current requirements are sufficiently robust and should not be revisited.



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

Segment reporting primarily impacts public companies and has minimal impact for non-public companies, therefore we do not believe that this should be considered a major financial reporting issue. However, some members within our group suggest that expanded disclosures should be considered for large public companies (i.e. assets or revenues greater than \$100,000,000) which could provide decision useful information to stakeholders of entities that size.

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

We do not believe other comprehensive income to be a major financial reporting issue and should be a low priority topic to be considered for improvement. Further with the issuance of ASU2016-01 *Financial Instruments—Overall (Subtopic 825-10) Recognition and Measurement of Financial Assets and Financial Liabilities* all equity investments will be measured at fair value with changes in the fair value recognized through net income, therefore substantially reducing the number of items currently impacting other comprehensive income.

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

Yes, we believe that the presentation of cash flows should be considered for improvement. We noted that not all activity is treated consistently across all organizations, for example the purchase and sale of a building for Not for Profit entities is different than in other industries, and targeted improvements and additional guidance for the classification of various cash flows (with detailed examples) would provide sufficient improvement to provide greater consistency and decision useful information for the users of the financial statements.

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

We recommend that the current three-category structure be retained. We believe that additional guidance and targeted improvements would provide sufficient clarity and consistency of cash flows across different entities and industries.



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

A standardized structure of cash flows would provide greater benefit than that of management determination. While management may understand their business, related cash flows and how those cash flows are used best, if left to management to determine, would create significant diversity in the presentation of the cash flow statement as each entity attempts to classify cash flows related to common practices that are sustained by all entities. This would then create substantial comparability issues for the stakeholders and potential stakeholders of every entity.

Thank you for the opportunity to comment.

Very truly yours,

*Elizabeth B. Harper*

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