



October 17, 2016

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Re: File reference number 2016-290

Dear Ms. Cospers:

Grant Thornton LLP appreciates the opportunity to comment on the FASB's August 2016 Invitation to Comment, *Agenda Consultation*. We support the Board's efforts to solicit and consider feedback from all stakeholders to identify major financial reporting topics in need of improvement and assign the appropriate prioritization of those topics.

Responses to Selected Invitation to Comment (ITC) Questions

General Questions

Question 0.1: Are there major financial reporting issues that are not considered in this ITC that should be addressed by the FASB before any of the issues discussed in the ITC are addressed? What are the considerations or criteria that you used to identify the issues? Please describe any of those issues and your perspective about how the FASB should resolve the issues.

Segment reporting

The Board proposes and considers improvements to segment reporting within its broader topic of "reporting performance and cash flows" discussed in Chapter 4 of this ITC. We recommend that the Board segregate and prioritize segment reporting ahead of the other topics discussed within this chapter due to the extent of questions that continue to arise in practice in this area. Under the current approach to segment disclosures, there is an inherent subjectivity that leads to a lack of consistency and clarity in financial statement disclosures.

Equity method of accounting

In addition to taking a look at segment reporting, we suggest that the Board consider adding a project to its agenda to simplify and improve the application of the equity method of accounting. The current guidance is often difficult to apply requiring adjustments to differences in accounting basis that develop over time. Overall, we supported the Board's recent project to simplify the transition to the equity method of accounting included in ASU 2016-07; however, as noted in our comment letter to that proposal, the issuance of that guidance creates inconsistencies in the reporting of investments in joint ventures depending on how the joint venture initially measures assets and liabilities contributed by investors. More broadly, we suggest that the Board consider the overall conceptual basis for the equity method of accounting. In our opinion, the application of equity method accounting should be limited to joint ventures under joint control with all other investments in equity securities subject to the guidance in ASC Topic 321. We believe that an equity investment in an entity that is subject to joint control by one or more other joint venturers provides a stronger conceptual basis for the equity method of accounting than an equity investment that provides the investor with significant influence over the investee.

Other comprehensive income

Also within Chapter 4 of this ITC, the Board proposes and considers limited improvements to other comprehensive income (OCI). The proposals and discussion in Chapter 4 are limited to alternatives for minimizing the use of reclassification adjustments and improvements to the presentation of OCI. Again, we suggest that the Board segregate and prioritize this topic for improvements. We believe the proposed improvements outlined in this ITC would be beneficial; however, we recommend that the Board consider assessing the conceptual basis for, and potentially the elimination of OCI. In our opinion, the use of OCI has added significant complexity to accounting without conceptual basis. Many stakeholders have urged the Board to develop a conceptual framework for items within OCI as documented in Basis for Conclusions of ASU 2011-05, *Presentation of Comprehensive Income*.

When FASB Statement 52, *Foreign Currency Translation*, was issued, there seemed to be justification for not showing the effects of foreign currency translation in the income statement. However, over the years, additional items were also required to be presented in OCI without the same level of justification, including gains and losses associated with both (a) pension or other postretirement benefits and (b) prior service costs and credits.

While ongoing standard setting has resulted in more items being subject to subsequent measurement at fair value in the balance sheet, the same cannot be said for the income statement. In our view, if subsequent measurement of an item is at fair value, then we support the parallel adjustment to line items within net earnings.

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 suggest the following priority for addressing major financial reporting issues:

1. Segment reporting
2. Equity method of accounting
3. OCI
4. Distinguishing liabilities from equity
5. Reporting performance (other than segments and OCI, identified above)
6. Pensions and other postretirement benefit plans

We recommend the Board consider improvements to segment reporting first due to the extent of questions that arise today with respect to this guidance (we expand on this in Questions 4.7 and 4.8).

Next, we suggest that the Board consider addressing the use of the equity method of accounting as we think this project could have a significant impact on financial reporting through targeted changes limiting its use.

We then suggest the Board consider improvements to OCI due to the potential consequential implications on other topical areas, especially if the Board were to conclude that the best way to improve the guidance on OCI is through its elimination.

We suggest that the Board next prioritize a project to distinguish liabilities from equity as this remains a difficult area for preparers given the complex and many rules under current guidance (we expand on this in Questions 3.1-3.8). We also note that many preparers struggle with determining liability or equity classification in areas beyond Topic 480, *Distinguishing Liabilities from Equity* and Topic 815-40, *Derivatives and Hedging—Contracts in Entity's Own Equity*, such as in Topic 505-50, *Equity—Equity-Based Payments to Non-Employees*, and Topic 718, *Compensation—Stock Compensation*.

Finally, we suggest that the Board consider the other areas identified in its “Reporting Performance and Cash Flows” chapter followed by improvements in pensions and other postretirement benefit plans (addressed in Questions 2.1-2.6).

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 suggest looking at improvements to OCI before certain other items on the suggested priority list because of the potential consequential impacts on other areas of the guidance; but further sequencing because of interdependencies does not appear necessary.

Chapter 1—Intangible Assets

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.

The ITC effectively articulates that there are inconsistencies among ASC Topics in which intangible assets can be recognized, when recognition is appropriate, and at what amount.

That said, after revisiting the history of previous standard setting and research performed over the years on intangible assets, we do not recommend that the Board add a broad project to its agenda to further address the topic because we do not believe the benefits would outweigh the costs. We do not view the alternatives proposed with respect to measurement to be improvements that will address the issues and concerns raised by stakeholders. Further, we believe that the question of fair value versus historical cost is secondary to the need to craft an overarching framework for intangible asset accounting.

We do however support the FASB's project to revisit the accounting differences that currently exist between asset and business acquisitions and disposals. We see this as a more pressing issue given the Board's recent standard-setting activity surrounding the definition of a business that likely would result in more transactions being accounted for as asset acquisitions. A common example is highlighted in the ITC, accounting for R&D in an asset acquisition versus a business combination. The accounting is vastly different depending upon if the acquirer concludes that it is an asset acquisition or a business combination, significantly impacting comparability. We believe that the Board could reduce complexity by conforming the accounting for intangible assets regardless of whether the asset was acquired on its own or as part of a business combination.

Should the Board decide to add a general project to address the accounting for intangible assets to its agenda, we have included our thoughts on Questions 1.3 and 1.4 below.

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.

Out of the three alternatives suggested, we recommend a disclosure approach. Under this approach, we suggest setting the disclosure objective to align with feedback obtained from financial statement users about which disclosures would provide the most useful information (perhaps information that users look for in MD&A today). We recommend that the Board weigh the benefits of this additional information against the costs that preparers would incur to provide the incremental disclosure.

We do not support a cost approach as outlined in Alternative A. While a cost approach would capture the investment made by an entity in its attempt to generate future benefits and would facilitate analysis over time of how well an entity is able to generate returns on those investments, we question how recognizing internally generated assets on the balance sheet at cost provides meaningful information to users, especially in the context of internally developed intangibles such as R&D. That said, we see flaws in the fair value approach (also outlined in Alternative A) because of the volatility in those values, often resulting from external forces and not entity-specific reasons, which may not provide useful information to users. Further, we wonder if recognizing internally generated assets at fair value would justify the financial reporting costs. We defer to user and preparer comments on the usefulness and costs.

Question 1.4: Recognition of an intangible asset if a threshold is met and measurement of that asset at fair value would likely result in (a) a gain in the period in which the asset initially is recognized and (b) gains or losses in each period for the change in the fair value of the asset. How should those initial and subsequent gains and losses be presented in the income statement?

We believe that if a model were to call for recognition at a point in time based on a threshold, the corresponding credit should be to the income statement in the period that the threshold is met. In other words, if entities charge costs to expense over time because the threshold has not been met, they should credit the income statement when the threshold is met. Further, we believe that the credit should be to the same income statement line item to which the costs previously were charged. The concept that the same line item should be credited appears in other topics, such as Topic 718 wherein forfeitures are credited to stock compensation expense when recognized.

Chapter 2—Pensions and Other Postretirement Benefit Plans

Question 2.1: Is the accounting for pensions and other postretirement benefit plans a major financial reporting issue that the FASB should consider for improvement? Please explain why.

Yes. Keeping in mind the prioritization outlined in Question 0.2, we believe that the accounting for pensions and other postretirement benefit plans is a major financial reporting issue that the FASB should consider adding to its agenda for improvement. This is an area of significant

complexity with a reduced level of usefulness due to the delayed recognition of changes in the obligation and changes in value of plan assets (the practice referred to as smoothing).

Further, we are seeing more and more “hybrid plans.” These hybrid plans have features of both defined contribution and defined benefit plans – often resulting from former plans merging into current plans or changes to benefits within the plans. Currently, U.S. GAAP does not prescribe accounting and financial reporting requirements for these types of plans, leading to significant diversity in practice.

Question 2.2: Would Alternative A (see paragraphs 2.15-2.16) and/or Alternative B (see paragraphs 2.17-2.19) improve the usefulness of financial information provided to users and be operable?

We support exploring improvements to pensions and other postretirement benefit plans via a route that would consider eliminating all smoothing and instead recognize the measurement changes immediately in the income statement (Alternative B). As discussed in Question 0.1, we suggest that the Board reconsider the conceptual basis for OCI, including its possible elimination. Not only would recognizing changes immediately in earnings better reflect the entity’s current period financial results but eliminating the current option to immediately recognize or delay the recognition of gains and losses from certain transactions would improve consistency in application, offering improved comparability across entities.

We do not advocate Alternative A—Convergence with IAS 19, *Employee Benefits*, which calls for recording gains and losses in OCI and eliminating the current requirement to recycle amounts to the income statement (meaning OCI is used as a perpetual dumping ground). As stated above, we believe that the Board should reconsider the conceptual basis for OCI, including its possible elimination.

Question 2.5: Is the current measurement of a defined benefit obligation appropriate? If not, what changes do you suggest and why (for example, what characteristics of plans are not adequately reflected in the current measurement of the benefit obligation)?

We suggest the following changes:

- Prescribe a consistent discount rate methodology
- Remove the option to present the actuarial present value of the accumulated plan benefits as of the beginning of the plan year
- Align the accounting between plan and plan sponsor financial statements

The guidance presently allows for entities to choose among various approaches to select the interest rate used to discount future benefit payments. ASC 960 addresses two approaches that can be used to select the discount rate – the long-term expected rate of return on plan assets and a settlement rate. The use of different approaches reduces comparability among entities.

Further, the guidance allows an entity to present the actuarial present value of accumulated plan benefits as of the beginning or the end of the plan year. Entities commonly use the beginning-of-year approach, causing unnecessary confusion in practice. Under the beginning-of-year approach, the date of the benefit information in the actuarial report may not match the date that net assets are presented and the information becomes irrelevant once a plan is terminated. The Basis for Conclusions for FASB Statement 35 explains that although the Board decided not to require end-of-year benefit information, it considers the presentation of end-of year information to be a desirable goal given it deems that information to be preferable.

Finally, we suggest the Board consider aligning the accounting between plan and plan sponsor financial statements, including requiring the plan to measure the actuarial present value of the accumulated plan benefits as of the end of the plan year and to use the same assumptions to measure benefit obligations, including the same discount rate as discussed above. Different accounting in the plan and plan sponsor financial statements adds unnecessary complexity to the financial statements and creates a disconnect for users.

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

Although we acknowledge that some entities are still required to set up plans under union contracts, we believe that a comprehensive reassessment of pension and other postretirement benefit plan accounting is not warranted given entities are not regularly establishing new defined benefit plans and many existing plans are frozen. We do however support targeted improvements as discussed above since there continues to be a fair number of defined benefit plans in existence today, they tend to be large, and they have a long life.

Chapter 3—Distinguishing Liabilities from Equity

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

Yes, we believe that distinguishing liabilities from equity is a major financial reporting issue that the FASB should consider for improvement. As presently written, the guidance is a collection of numerous rules issued over the years that are extremely complex to follow, costly to apply, and result in very different accounting for economically similar instruments.

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 suggest taking a holistic approach to resolve the issues identified in this area as we believe targeted improvements will not reduce the wide-spread complexity and likely would only result in unintended consequences in other areas of the guidance.

Question 3.5: Considering the alternatives described for simple instruments, which alternative provides more useful information to the users of financial statements and why?

For simple instruments, we support Alternative B which focuses on settlement and on the reporting entity's ability to control that settlement. Under this approach, an entity would classify instruments on the basis of the nature of the return and what the reporting entity is obligated to transfer (that is, assets or shares), meaning perpetual instruments and some equity linked or indexed instruments would be equity classified. Given the Board's proposal, we understand that an entity may appropriately classify some cash-settled instruments within equity. One issue we see in moving forward with this approach is that the Board may need to consider how to resolve questions raised and addressed by the current guidance within ASC 815-40-25 (legacy guidance EITF Issue 00-19, *Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, a Company's Own Stock*).

We recommend that the Board add the requirement to be settled in shares to the definition of a simple instrument in paragraph 3.17 (we think that is the Board's intention).

Question 3.6: Considering the alternatives described for complex instruments, which alternative provides more useful information to users of financial statements and why?

Our preliminary preference, given that many of the decisions about simple instruments would directly impact our views for complex instruments, would be in line with *Alternative A—Bifurcation of all conversion options from the host contract*. This view is grounded in the principle that an issuer of a convertible debt instrument that requires or permits partial cash settlement upon conversion should recognize the same interest cost it would have incurred had it issued a comparable debt instrument without the embedded conversion feature. Once an entity separates the conversion feature, an entity should find it easier to determine if the instrument meets the definition of a simple instrument as outlined in paragraph 3.17.

We do not support *Alternative B—Bifurcate conversion options from the host contract if the instrument is "compound,"* because we believe reverting to this approach essentially unwinds the progress made over the years in advancing and improving the accounting guidance on this topic.

Question 3.7: Which provides more useful information to the user of financial statements: remeasuring liability classified instruments at fair value or at intrinsic value? Please provide the rationale for your choice.

Generally, we support consistency in the measurement guidance and the most useful measure is deemed to be fair value. The notion of fair value provides a standardized measurement basis and encompasses a market participant's holistic view about the price that it would receive to sell an asset or pay to transfer a liability in an orderly transaction.

Question 3.8: Are there instances in which the remeasurement of liability-classified instruments at each reporting period is not useful? If so, which instances and why?

We do not believe the remeasurement of plain vanilla debt at each reporting period would be useful because of own-credit, unless this debt is to be settled at fair value.

Chapter 4—Reporting Performance and Cash Flows

Question 4.1: Is income statement presentation a major financial reporting issue that the FASB should consider for improvement? Please explain why. In making your assessment, what criteria were used?

We understand that the Board's "reporting performance" project encompasses the presentation and display of revenues, expenses, gains, and losses that are reported in the income statement, segment information, and the notes. We believe that the Board should prioritize its efforts on improving segment reporting (see Questions 4.7 and 4.8) and OCI (see Questions 4.11-4.14), before addressing the other topics in this chapter. We also suggest that the Board consider improvements around the use of non-GAAP performance measures. Although this issue is being considered from a regulatory perspective, we suggest that the Board consider addressing measurement and presentation of items presented in the statement of comprehensive income that are often adjustments in arriving at non-GAAP performance measures. We also suggest the Board consider whether certain GAAP-defined performance measures would enhance the usefulness of financial statements.

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?

Subject to the prioritization outlined above, we lean toward Alternative B or Alternative C as outlined in the ITC. Alternatives B and C seem to be easier for preparers to apply (more rules-based) than Alternative A (where the FASB describes but does not define operating activities and allows management to determine its composition through an accounting policy). We recognize that principles-based guidance is preferable in certain topics; however, we believe that taking a more rules-based approach to the basic presentation of an income statement is more practical. That said, Alternatives B and C place a lot of emphasis and pressure on the definition

of either operating or nonoperating activities, which we believe may have limitations as further discussed in our response to Question 4.3.

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)?

Just as revenue is described consistently and in our view, effectively, for all types of reporting entities, we believe that the Board could define an “operating activity” consistently and effectively. However, any definition and the extent to which entities would need to exercise judgment likely would give rise to questions in practice. We suggest that the Board first consider the need for a definition of an operating activity based on user feedback to this ITC.

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

We suggest that the Board conduct research with stakeholders to first understand if this is an area in need of improvement.

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 recommend that the Board pursue a project on combining or separating earnings components and presenting discrete lines. Rather, we believe the Board should focus its efforts on categorizing the income statement into operating and nonoperating activities if it wishes to pursue improvements in reporting performance.

Should the Board choose to pursue work on combining or separating earnings components, we have the following comments on the alternatives provided in the ITC:

We believe that Alternative A (reexamining the current guidance in ASC 225, *Income Statement*, on infrequently occurring transactions or events) should be addressed as part of the Board’s efforts to categorize the income statement into operating and nonoperating activities.

We do not support Alternative B (identifying and defining a type of earnings component that is termed a remeasurement, which would isolate changes in the carrying amounts of existing assets and liabilities that are recognized in net income). We believe these “remeasurement” items should be included within net income and do not support isolating these amounts. Should an entity wish to separately present remeasurements within operating and nonoperating activities, it may do so today under the existing flexible presentation requirements.

Finally, if the Board pursues Alternative C (disaggregating functional lines into natural components), we suggest that the requirement be isolated to the notes to the financial statements.

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?

Yes. We suggest that the Board add “segments” to their list of areas for potential improvements given the number of questions that continue in practice. Under the current approach to segment disclosures, there is an inherent subjectivity and lack of consistency and clarity in financial statement disclosures.

Question 4.8: Considering the three alternatives described for improving aspects of the Topic 280 disclosure requirements, which, if any, alternative provides more useful information to the users of financial statements and why?

We defer to users to provide views on which alternative provides the more useful information. Notwithstanding, we favor Alternative C which maintains the management approach because individual segment disclosures would be based on the information reviewed by the CODM. Under this approach, the entity would display segment information in the context of how the amounts relate to lines and captions from the income statement and the asset and liabilities from the balance sheet. We find this presentation to be the most logical given that the information is organized by the associated financial statement line item.

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?

For the reasons stated in Question 0.1, we believe that the presentation of OCI is a major financial reporting issue that the FASB should consider for improvement, including its possible elimination. Should the Board retain OCI, we encourage it to define what OCI represents and what the characteristics are of items that should be considered for recognition in OCI.

Question 4.12: Considering the two alternatives described for minimizing the use of reclassification adjustments, which alternative provides more useful information to the users of financial statements and why?

Subject to our comments in Question 0.1, and should the Board continue to allow or require entities to present items in OCI, we would support Alternative A whereby the Board would research and analyze the basis for triggering reclassification adjustments to evaluate if some of these bases could be rationalized. Under Alternative B, the Board would do the same but on a project-by-project basis as standard-level improvements are undertaken which only means protracted resolution of the identified issues.

Question 4.13: Do the described improvements to (a) remove the option for presenting comprehensive income over two statements and (b) emphasize other earnings per share measures improve the relevance of the performance information included in other comprehensive income?

Before the Board pursues removing the option for presenting comprehensive income over two statements, we suggest that the Board consider feedback received on this topic when previously discussed (as part of the Board's deliberations that resulted in the issuance of ASU 2011-05, *Presentation of Comprehensive Income*) to determine if improvements are necessary in light of that feedback.

On item (b), we are not opposed to emphasizing other per share measures. We defer to users to provide feedback on which measures provide the most relevant information.

Question 4.14: Are there other alternatives for improving the relevance of other comprehensive income that the FASB should consider? If so, please describe them in detail to help the FASB in considering your proposal(s). Please provide your rationale for why your proposal provides users of financial statements with more useful information.

Again, we encourage the Board to evaluate the conceptual basis for OCI and consider its elimination as discussed in Question 0.1.

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?

We do not recommend that the Board add the presentation of cash flows to its agenda. We considered that the EITF and FASB recently addressed some of the areas identified where guidance was lacking and therefore diversity in practice existed through its issuance of ASU 2016-15, *Classification of Certain Cash Receipts and Cash Payments*. We also base our recommendation partially on the fact that in our experience, we do not find that entities struggle with this topic.

Should the Board decide to add this topic to its agenda, we have the following comments to Questions 4.16-4.20.

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 FASB reconsider the three-category structure and the definitions of operating, investing, and financing activities within the statement of cash flows. We believe that the principles differentiating operating, investing, and financing activities are not always intuitive and we would prefer to focus on the interrelationships between the income statement and the cash flow statement instead of focusing on the definitions of operating, investing, and financing.

Question 4.19: How should the cash flow statement be categorized, if at all? Considering the three alternatives that would reconsider the current structure of the cash flow statement, which, if any, alternative provides more useful information to users of financial statements and why? How should the FASB define or describe those categories?

We defer to users to provide information on what presentation alternative provides the most useful information. That said, in our view, we lean toward Alternative C which links cash receipts and cash payments to the respective income statement caption. We support the conceptual basis for this approach, but we defer to preparers to understand how operational the approach would be.

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

We believe the Board will need to make a call between the benefits of consistency, comparability, and auditability versus the potential pitfalls of inflexibility and cost. We suggest the Board solicit feedback from users and preparers.

Question 4.23: What type of project or projects do you recommend that the FASB prioritize to improve the reporting of performance and cash flow information? If you recommend multiple projects or different combinations, please explain the recommended sequencing of those projects.

We suggest that the Board take a holistic project approach to prioritize improvements to the reporting of performance and cash flow information. We are concerned that a narrow-scope approach would fail to identify the interdependencies of the various projects, resulting in potential unintended consequences.

We would be pleased to discuss our comments with you. If you have any questions about our response, please contact Mark Scoles, Partner, 312 602 8780, mark.scoles@us.gt.com.

Sincerely,

/s/ Grant Thornton LLP