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To: Director - FASB <director@fasb.org>
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October 26, 2020

Financial Accounting Standards Board (FASB)

401 Merritt 7

P.O. Box 5116

Norwalk, Connecticut 065856-5116

Re: FASB Exposure Draft Proposed Statement of Financial Accounting Concepts Statement 8 (ED-CON_8)-Conceptual Framework for Financial Reporting-Chapter 4: Elements of Financial Statements

Dear FASB,

Executive Summary

Thank you for allowing the public to comment on this Exposure Draft: Proposed Statement of Financial Accounting Concepts Statement No. 8 Ch. 4. Overall, I agreed with the assertions made by the board except for questions 1, 7, 8 and 10. A comparison was made between FASB Concepts Statement No. 6 and No. 8 to answer the questions. Below are my comments to the questions asked.

Question 1: The Board expects that most assets that met the definition of an asset in FASB Concepts Statement No. 6, Elements of Financial Statements, will continue to qualify as assets under the definition of an asset in this proposed chapter. Do you agree that the definition of an asset in this proposed chapter is consistent with the Board's assertion? If not, please provide examples.

I disagree that the definition of an asset in this proposed chapter is consistent with the Board's assertion. The essential characteristics of an asset changed slightly. In FASB Concepts Statement No. 6 there were three; in this proposed chapter there are two. ED-CON_8 Ch. 4 mentions present right, but it is not defined until paragraph E29. This makes it confusing to the reader. In FASB Concepts Statement No. 6 this is defined in essential characteristics in paragraph 26. Having it defined in essential characteristics makes more sense because the reader knows right away what present right means.

Question 2: In particular, respondents are asked to focus on internally generated intangible assets. Is the definition of an asset in this proposed chapter helpful in

resolving issues of identifying intangible assets?

Intangible assets were not defined in FASB Concepts Statement No. 6. It was good to see that this changed in the proposed chapter. While ED-CON_8 Ch. 4 paragraph E34 gives a definition of intangible assets, it does not provide enough examples of what could be considered intangible assets. The proposed chapter only mentioned trademarks as an example of intangible assets.

Question 3: The Board’s definition of an asset in this proposed chapter does not include the term control. However, this proposed chapter explains why and how control is interrelated to the definition of an asset. Is this discussion sufficient or is the term control necessary to include in the definition of an asset? If the term control is necessary to include, please explain how its inclusion would change the population of items that would meet the definition of an asset in this proposed chapter.

ED-CON_8 Ch. 4 paragraph BC 4.16 explains that the inclusion of control in FASB Concepts Statement No. 6 was confusing to readers. The discussion provided was enough to understand why it was misconstrued and to understand what control means. Present right does imply having control of an asset, although once again present right is not defined right away.

Question 4: The Board decided that an obligation to transfer either assets or, in certain limited circumstances, an entity’s own shares would meet the definition of a liability. Is the discussion in this proposed chapter of the limited circumstances in which the entity’s own shares would meet the definition of a liability sufficiently clear?

ED-CON_8 paragraph E39 includes in its “characteristics of liabilities, the transfer of economic benefits”. This gives the reader the inkling that assets might be transferred to others. It makes sense that this could be done with one’s own shares as well. The proposed chapter paragraph E58 makes it clear when the transfer of one’s own assets would be considered a liability.

Question 5: Other than as described in Question 4, to allow certain share-settled instruments to be liabilities, the Board expects the liabilities that met the definition of a liability in Concepts Statement 6 will continue to qualify as liabilities under the definition of a liability in this proposed chapter. Do you agree that the definition of a liability in this proposed chapter is consistent with the Board’s assertion? If not,

please provide examples.

The definition of a liability is longer in FASB Concepts Statement 6 paragraph 35 than it is in ED-CON_8 Chapter 4 paragraph E37. But the definition is still basically the same. The characteristics of liabilities are also longer in FASB Concepts Statement 6, but once again they are saying the same thing. While FASB Concepts Statement 6 explains each characteristic right after the introduction of liabilities in paragraph 36, ED-CON_8 Chapter 4 describes for example present obligation seven paragraphs after its introduction in paragraph E45. So, even though there are some differences in wording, the liabilities that met the definition in Concepts Statement 6 would still do so in ED-CON_8 Chapter 4.

Question 6: In practice, the more challenging applications of the definition of a liability in Concepts Statement 6 were related to business risks, constructive obligations, and stand-ready obligations. Is the discussion of those three areas in this proposed chapter adequate to understand and apply the definition of a liability?

Business risk was not explained in FASB Concepts Statement 6. Which I believe that it is necessary, because otherwise a risk could get misconstrued as a liability. The definition of constructive obligations was adequate in both FASB Concepts Statement 6 paragraph 40 and ED-CON_8 Chapter 4 paragraphs E49-E55. In my opinion equitable obligations, however, can lead the way to constructive obligations. This is because the motivation for an obligation might be equitable, but after it is done repeatedly it becomes constructive. Stand-ready obligations were well explained in ED-Con_8 Ch.4 paragraphs E59-E63. Examples were given that made understanding stand-ready obligations easier compared to Concepts Statement 6 paragraphs 44-47. FASB Concepts Statement 6 paragraphs 44-47 focused more on explaining what can occur if assets and liabilities are not recognized as such because of uncertainty.

Question 7: The Board suggested that integration with presentation principles would be helpful in distinguishing between the components of comprehensive income. To facilitate this distinction, paragraph E92 of this proposed chapter references presentation principles. Is distinguishing revenues from gains and expenses from losses essential as a matter of elements, or should those distinctions be exclusively a matter for presentation concepts? Please explain.

Properly defining revenues, gains, expenses and losses is very important. ED-CON_8 Chapter 4 did not include characteristics for any of these. Including these characteristics aids in the understanding of these concepts. FASB Concepts Statement No. 6 paragraphs 79, 81, 84 and 85 provided examples in the characteristics section that helped better understand these concepts.

Question 8: As described in Question 7, this proposed chapter seeks to

distinguish between revenues, expenses, gains, and losses. Do the definitions of and other explanatory language related to revenues, expenses, gains, and losses make the distinction between these elements sufficiently clear?

The definitions provided by ED-CON_8 Ch.4 paragraphs E84-E87 did not give enough explanations about revenues, expenses, gains, and losses. Like mentioned in Question 7, FASB Concepts Statement No. 6 provided better explanations through the characteristics section. The distinction was much clearer in FASB Concepts Statement No. 6.

Question 9: The Board has concluded that, other than when exceptions are specifically noted in this proposed chapter, the elements described in this proposed chapter would apply to not-for-profit organizations. Do you agree with this conclusion?

ED-CON-8 Ch. 4 does a good job of noting when elements apply to not-for-profit organizations. Information is also given about situations that only apply to not-for-profit organizations. For example, ED-CON-8 Ch. 4 paragraphs E72 and E73 explains the restrictions imposed by some donors on not-for-profit organizations telling them how funds should be used.

Question 10: This proposed chapter was developed on the basis of Concepts Statement 6, though several paragraphs have been removed or adapted. Are any of the paragraphs from Concepts Statement 6 that have been removed in drafting this proposed chapter necessary to keep? If so, why?

Like previously mentioned in Question 8, ED-CON_8 Ch.4 paragraphs E84-E87 does not include characteristics for revenues, expenses, gains, and losses. These characteristics are vital in the understanding of the concepts and should be kept. Without them, the explanations of the concepts are too vague. In this sense, I agree with Christine A. Botosan in ED-CON_8 Ch.4 paragraph BC4.52, because she did not believe these should be removed either.

Question 11: "Appendix A: Accrual Accounting and Related Concepts," includes discussion of several concepts that are used in this proposed chapter and in other chapters of the Conceptual Framework. Is this material helpful in a chapter discussing the elements of financial statements?

Appendix A was helpful in understanding why certain paragraphs in FASB Concepts Statement No. 6 were changed or removed in ED-CON_8 Ch. 4. While I did not always agree with the rationale, I appreciated having the explanations. It was also good to know that not all board

members agreed with ED-CON_8 Ch. 4. Because the reader was able to see her point of view as well.

I appreciate the opportunity to comment on this proposed chapter.

Sincerely,

Enika Stasko