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Technical Director
Financial Accounting Standards Board
401 Merritt 7, PO Box 5116
Norwalk, CT 06856-5116

via email

File Reference No. 2020-500, Concepts Statement No. 8, Conceptual Framework for Financial Reporting; Chapter 4: Elements of Financial Statements

Dear FASB Technical Director,

As Master's of Accountancy candidates, we welcome and appreciate the opportunity to provide our input on a variety of standard setting decisions based on our academic accounting experiences. We recognize the importance of participating in the standard setting process, as the decisions made today will impact the profession that we represent tomorrow.

Overall, we support the direction of the Financial Accounting Standards Board in developing an accounting framework for financial reporting, regarding elements of financial statements. However, we have some concerns related to several proposed changes as discussed below.

In this letter we will primarily focus on several questions listed at the beginning of the exposure draft including questions 2 ("intangible assets"), 3 ("control"), and 11 ("appendix").

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?

We do not believe that this proposed chapter is helpful in resolving issues of identifying intangible assets. Intangible assets are a contested concept in accounting, primarily focusing on the discrepancy between conceptual underpinnings and actual application. By defining an asset as "a present right of an entity to an economic benefit," we believe that internally generated intangible assets lack clarity in terms of treatment. Internally generated intangible assets carry a substantial amount of risk as they may be created but may not generate the expected value.

Additionally, investments in generating intangible assets typically have longer timeframes and payback periods than organizations' typical revenue cycles as well as their overall accounting period, and identifying present economic benefit is difficult, if possible. Although measurement is a separate consideration and not within the scope of this proposed concepts statement, it still weighs heavily in the treatment of intangible assets. For example, if a firm invests heavily in an internal management software to improve operational efficiency, can this software be considered an asset? We do not believe that internally developed software would be considered an asset under the proposed definition. Although it may represent a 'present right', the economic benefit of said software solution can rarely be accurately or readily measured.

In another example, if a company registers its trademark and subsequently becomes a major market-leading firm, does the trademark have value when the firm is just starting as it is, ultimately, an imaginary concept with no guarantee of future economic benefits? We believe that it does not as this value is not readily determinable, and only reflects the present rights of the firm to the intangible asset.

Given this confusion, we recommend amending the definition of an asset in paragraph E16 to include a clarifier on the determination of economic benefit as follows (our edits are italicized):

> An asset is a present right of an entity to an economic benefit *that the entity controls with a readily determinable value*.

We believe that this will provide clarity on the determination of an intangible asset's value and reflect the economic benefit actually derived from holding said assets. We also believe that including the phrase "*with a readily determinable value*" will allow for the fair valuation as a measure of market participants' value of the asset, allowing for fluctuations for declines in the entity's or market's performance. For our first example, this definition will allow the company to determine the value of the software based on a fair value (if available) or as a reflection of the economic consideration given up generating said asset. For our second example, this definition will allow the company to determine the economic benefit of the trademark based on the brand of the organization based on growth and the economic benefit of having a name brand.

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.

We believe the term "control" has a significant impact on the classification of asset elements. Control is a qualifying term that refers to the true 'owner' of an asset. With physical assets, this can be readily determinable through the actual acquisition of, payment for, and retention and maintenance of an asset, but for intangible assets, this is unclear. For example, if an airline obtains a license to use an airport in its operations, is this license an asset to the airline? We believe that, based on the proposed definition of assets, it does not derive readily identifiable economic benefits from this license that distinguish it from other airlines operating under similar licenses. If a license is obtainable by any market player, this license is simply a barrier to entry, but not one that is insurmountable by a business operating in the industry, and thus should not be considered an asset, rather an expense of doing business.

For another example, if a mining company secures the rights to land to strip mine resources, is this right considered an asset? Under the proposed definition, this right is not an asset either. Any reasonable mining company has the wherewithal to consider submitting bids or purchasing similar rights, and thus this is more of a barrier to entry rather than an asset. Under our aforementioned amendment to the definition of assets, we believe that this second example can be viewed differently. The mining company has control of the land, and the purchase of the rights can be considered the readily determinable value of the land, and with control, no other mining company may benefit from the rights purchased. For airlines, operating on a license that other airways have similar access to, is reflective of the "control" concept. If an airline has an exclusive-use license to a subsection of an airport for the benefit of its customers, this fulfills the control requirements and may be considered an asset for the airline. In this circumstance, the airline is the exclusive guarantor of this private subsection of the airport and no other airline may use this runway, tarmac section, or terminal. Thus, we remain faithful with our proposed amendment to the definition of an asset, as it provides additional clarity in a variety of business circumstances.

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?

We wholeheartedly agree with this initiative and support this type of added discussion moving forward. As students of accounting theory and practice, we have been introduced to the plethora of standard setters, stakeholders, and decision makers that populate the profession. Through this immersion, it is incredibly easy to get confused or misled as certain organizations establish standards while others provide interpretations of said standards and yet other organizations try to bridge the gap between national and international practices. As a result, it becomes unduly difficult to locate authoritative context without having a robust understanding of this system. We faithfully believe that the addition of Appendix A, providing an elaboration on concepts referenced throughout the proposed conceptual statement, increases the information transparency to users of this document and practitioners in the profession. Through our education, the goal of accounting has been consistently reiterated to us, and this goal is to provide fair presentation of the true economic position of entities at a point in time, and over a period. Through additional transparency, reiterated concepts, and strong summaries, we believe that it becomes easier for us, as students and future practitioners, to make well-informed decisions.

To summarize, we are primarily in favor of the proposed concept statement promulgated by FASB with regards to a conceptual framework for and elements of financial statements. We propose amending the definition of assets to reflect the fact that an asset is the "present right of an entity to an economic benefit" *that the entity controls with a readily determinable value.* We believe that this clarification will eliminate confusion surrounding the classification of intangible assets and will provide greater clarity for determining who is the true owner of an economic benefit obtained with an exchange of consideration. Furthermore, we are reiterating our support for the FASB to continue providing additional resources, such as appendices, throughout its releases that clarify difficult concepts for users of all education and experience levels.

Thank you for the opportunity to comment and thank you for maintaining this window of open dialogue with a variety of stakeholders from differing backgrounds, such as ourselves. We are happy and willing to discuss our comments in more detail with members of the Board or staff.

Sincerely,

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11/01/2020

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