CASE WESTERN RESERVE UNIVERSITY EST. 1826
think beyond the possible℠

October 30, 2020

Via email to director@fasb.org

Technical Director
File Reference No. 2020-500
Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, CT 06856-5116

Re: Invitation to Comment – *Concepts Statement No. 8, Conceptual Framework for Financial Reporting*, File Reference No. 2020-500

As graduate students and staff at Case Western Reserve University, we greatly appreciate the opportunity to provide comments to the Financial Accounting Standards Board regarding *Concepts Statement No. 8 - Conceptual Framework for Financial Reporting*. The views expressed in this letter are our own and do not represent the views of Case Western Reserve University.

Limited Definitions of Income Statement Elements

This new concept statement is in line with the current shift in focus from the income statement to the balance sheet. The balance sheet elements were discussed much more in-depth, than income statement elements. Due to this we feel like there is room for improvement in the discussions of revenue, expense, gains and losses. While the definitions included for these elements were concise and we approve of that, not including the characteristics and examples of these elements deemphasizes the importance of these elements and makes it more difficult to distinguish revenue from gains, and expenses from losses.

Lack of Term "Control"

We do feel that explicitly including "control" in the definition, would be a more beneficial approach, instead of assuming that it is implied through inclusion of "present right" or through the explanatory paragraphs. If there is concern about what control means and that it can be misinterpreted, we can clarify by including a definition of what control means in this particular circumstance instead of just eliminating the term from the definition. Removal can also cause more items to be considered assets otherwise. Including "control" would also allow for convergence with current IASB concepts. We also agree with Ms. Botosan that not including it can cause problems in the future in relation to developing principles when it comes to the derecognition of assets.

Changes to Net Assets of Non-for-Profit Organizations

Given both our work experiences in finance at a not-for-profit institute of higher education, we appreciate the consideration as to how this applies to not-for-profit organizations and specifically agree with the reclassification of net assets of not-for-profit organizations into only two classes. The elimination of temporarily restricted class as outlined in Concepts Statement 6 aligns with ASU 2016-14. CWRU has already adopted these new standards. Including this in the Conceptual Framework allows for more consistency and reduces complexity.

Overall, we recognize that this entire statement is striving to reduce complexity with all the definitions of the elements of financial statements and support the Board's efforts to update the Conceptual Framework. We greatly appreciate the opportunity to provide our feedback and our specific response to the questions posed by the Board in the Concepts Statement No. 8 are detailed below in the Appendix.

If you have any questions on the comments in this letter, please do not hesitate to contact Jelisa Richards at jxr472@case.edu or Kathleen Wick at kwb32@case.edu.

Sincerely,

Jelisa Richards *Kathleen Wick*

Jelisa Richards
MACC Student - Class of 2021

Kathleen Wick
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Appendix: Questions for Respondents

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.

Yes, the removal of the term "control" from the definition of an asset will most likely allow additional items to be recognized as assets. However, we don't necessarily feel that removing the requirement for "control" of an asset is a move in the right direction. It could lead to more items being recognized as assets.

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?

No, we don't feel the definition resolves issues of identifying intangible assets. Without "control" in the definition, it creates more ambiguity as to what should be recognized as internally generated 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.

We feel the term control should be included in the definition of an asset. We agree with the views expressed by Ms. Botosan that including control in the definition would mitigate potential misapplication of the definition to assets that an entity may have a right to but not the ability to control. Under the proposed definition of an asset, an entity might consider including its workforce as an asset without the specific term control in the definition.

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?

Yes. We feel the definition is clear but there would be more information needed in terms of the measurement of the obligations. However, it was very clearly stated that all matters of measurement were purposely kept separate from the definitions.

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.

Yes, we agree that a liability that met the definition of a liability in Concepts Statement 6 will continue to qualify as liabilities under the definition in this proposed chapter.

Questions 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?

Yes, we agree that the discussions included related to business risks, constructive obligations and stand ready obligations were discussed in a clear and concise manner, in order to adequately understand and apply the definition of a liability. Providing examples allowed for clarity.

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.

Yes, integration with presentation principles would be helpful in distinguishing between the components of comprehensive income. However, just including paragraph E92, is not sufficient integration. Successful integration would have been including, as a reference, the actual paragraphs from Chapter 7, as this particular kind of repetition provides consistency and prevents users of these concept statements from having to reference separate statements.

It is also very important to distinguish revenues from gains and expenses from losses and those matters should be essential as a matter of the elements. These are performance indicators of a company and may not always be included in net income due to recognition principles. These elements are also reviewed as part of assessing a company's capital maintenance.

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 definition itself, of each of these elements is clear and concise, however, including the characteristics and examples, would help with distinguishing these elements. Including the characteristics, also helps with making the discussion of each element on this concept statement to be more consistent overall. Otherwise, it may deemphasize the significance of clearly distinguishing revenue from gains and expenses from losses.

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?

Yes, we agree that other than when there are specific exceptions listed, that the elements described in this proposed chapter can apply to not-for-profit organizations. There has been a definitive discussion of the classes of net-assets for non-for-profits, since the balance sheet, also known as "Statement of Financial Position" does not have an equity section.

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?

We agree that the removal of several paragraphs or adapting from concepts statement 6 allows for a more clear and concise discussion of the elements. However, like discussed previously in other responses, we felt like it is important not to remove the term "control" from the definition of an asset as this can cause problems in drafting future principles as it relates to derecognition of assets.

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?

No comment.