Florida Institute of Certified Public Accountants

November 3, 2020

Technical Director, File Reference No. 2020-500
Financial Accounting Standards Board (FASB)
401 Merritt 7
PO Box 5116
Norwalk, CT 06856-5116

Re: Exposure Draft- Concepts Statement No. 8- Conceptual Framework for Financial Reporting- Chapter 4- Elements of Financial Statements

Dear Technical Director

The Accounting Principles and Auditing Standards Committee (the Committee) of the Florida Institute of Certified Public Accountants (FICPA) respectfully submits its comments on the referenced proposal. The Committee is a technical committee of the FICPA and has reviewed and discussed the above referenced proposed *Concepts Statement No. 8- Conceptual Framework for Financial Reporting- Chapter 4- Elements of Financial Statements*. The FICPA has more than 19,600 members, with its membership comprised primarily of CPAs in public practice and industry. The Committee is comprised of 26 members, of whom 42% are from local or regional firms, 19% are from large multi-office firms, 19% are sole practitioners, 4% are in international firms, 8% are in education, and 8% in industry. The Committee has the following comments related to *the 11 questions numbered below*:

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.

The committee generally agrees with the assertion 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. The committee also agrees with the Board that the removal of the terms "probable" economic benefits and "past" transactions and events makes sense. We also agree with the decision to use the term "Economic Benefit" instead of "Economic Resource." The committee, however, disagrees with removal of the term "control." We agree with Ms. Botosan that the term control "…would mitigate potential misapplication of the definition to economic resources to which an entity has a right but no ability to control."

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?

The committee believes that the definition of an asset in this proposed chapter does not adequately address internally generated intangible assets. The proposed chapter should specifically address internally generated intangible assets through use of examples that do not only discuss the characteristics but also analyze the impact on the financial statements.

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.

The committee tends to agree with the minority FASB opinion that the term "control" should remain within the definition of an asset. While the exposure draft does discuss some of the reasons and provides limited examples justifying its removal from the definition, several of the committee members suggested the inclusion of extensive examples should the Board decide not to include the term control within the definition of an asset.

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?

The committee believes that the discussions should include names of commonly known instruments to assist in understanding the examples provided. For instance, instruments such as convertibles and contingent convertibles should be brought into the conversation to enhance and focus the discussion.

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 committee felt that E51 is so overly broad that it might unintentionally expand the definition of a liability per E38. For instance, "An entity may become constructively obligated through customary business practice. In the normal course of business, an entity conducting certain activities may not create a present legal obligation but may nonetheless cause the entity to become presently obligated." This portion of E51 is expansive in that unanticipated and unforeseen types of transactions could generate a liability.

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?

The committee reached no consensus on this question. Most felt that it was not needed.

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.

The committee agrees with distinguishing both revenues from gains and expenses from losses. Further, we agree that this is a matter of elements and not presentation. This distinction will provide a broader view of the company's sources of comprehensive income and will be more informative to the interested parties and helpful in decision making.

3800 Esplanade Way, Suite 210 | Tallahassee, FL 32311| 800.342.3197, in Florida | 850.224.2727 | Fax: 850.222.8190 | www.ficpa.org

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 committee generally agrees with the distinctions made between revenues versus gains and expenses versus losses but offers two recommendations. The first recommendation is that E89 should include the term "or more." In other words, it should read, "Gains and losses typically result from one <u>or more</u> of the following four circumstances:" Also, we believe that the concept of "core" operations should be included in the description to distinguish revenues and expenses from gains and 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?

The committee agrees with the Board's conclusion. We agree that that the two-class distinction was preferable because the prior distinction between permanently restricted classes and temporarily restricted classes had been blurred due to changes in laws.

Question 10: This proposed chapter was developed based on 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?

The committee noted no unnecessary removals.

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?

The committee recommends keeping the "Appendix A: Accrual Accounting and Related Concepts" in the Conceptual Framework.

Respectfully submitted,

Trey M. Bruce, Esq., CFE, CPA, LL.M.
Chairman, FICPA Accounting Principles and Auditing Standards Committee

Committee members coordinating this response:
Joel DiCicco, CPA
Mark Murray CA(SA)
Trey Bruce, CPA