

November 11, 2020

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

Re: File Reference No. 2020-500

Dear Ms. Salo:

We are a group of two students from the University of Texas at Austin. We were encouraged by our accounting professor to write this comment letter with the goal of improving our understanding of accounting standards updates and providing our thoughts on this exposure draft of the proposed chapter.

We appreciate the opportunity to comment on the FASB's Exposure Draft, *Proposed Statement of Financial Accounting Concepts No. 8, Conceptual Framework for Financial Reporting, Chapter 4*. We believe that it is valuable to give the opportunity for companies and individuals to provide their written views on the Exposure Draft.

We support the decision by the Financial Accounting Standards Board (FASB or Board) to address these ten elements of financial statements and their definitions. We agree that it helps to clear the blurred lines that can sometimes be hard to resolve when deciding categorizations for items within elements.

Our Recommendation

The Board goes into great detail about intellectual property which is a very important matter. We recommend going more into intangible assets other than intellectual property such as brand recognition and goodwill. This can also affect not-for-profit organizations as well when it comes to evaluation in records.

Disclosures

We believe that with more elaboration into intangible assets, then we would agree with some of the alternatives in the matter of clearly defining the elements presented in the Exposure Draft. At the moment, we cannot fully approve the changes regarding each of the ten elements.

Although we believe that certain changes need to be made to the framework, we believe that this is an important project for the Board. We therefore answer each of the Questions for Respondents in Appendix A to provide the Board with considerations for developing a framework.

If you have any questions regarding our comments, please contact John Thomas Villanueva at johnthomasvillanueva@utexas.edu or Victoria Duron at vad467@utexas.edu.

Sincerely,



John Thomas Villanueva



Victoria Duron

Appendix A

Responses to specific selected questions raised in the Exposure Draft of a proposed Statement of Financial Accounting Concepts

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?

Response:

We believe that the proposed chapter lays out an excellent foundation for identifying assets. By defining an asset as “being a present right to an economic benefit, the combination which allows an entity to obtain the economic benefit and control others’ access to the benefit,” FASB creates a strong yet flexible framework to further clarify any issues surrounding intangible assets.

The *Definition of Elements- Assets* section has in-depth coverage offering guidance about this topic, and we believe that the discussion and examples amply provide helpful guidance towards identifying intangible assets. It goes into great detail about the definition of an asset and more specifically rights such as intellectual property. However, it does not go in-depth into more complex issues such as goodwill and brand recognition which could pose a challenge when attempting to apply the framework to future standard-setting. In dealing with this topic, we do also note that the proposed chapter does not cover other important issues relating to *internally generated* intangible assets, such as the difficulty of properly and fairly determining its fair value, which may be outside of its scope. Consequently, these challenges still remain when dealing with *internally generated* intangible assets.

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?

Response:

We believe that the proposed chapter lays out a comprehensive foundation for identifying liabilities. By defining a liability as being “a present obligation of an entity to transfer an economic benefit,” FASB creates a favorable basis to further discuss business risks, constructive obligations, and stand-ready obligations through the lens of “present obligations” and “economic benefits.”

The *Definition of Elements- Liabilities* section offers a succinct discussion about business risks and why it does not fit the definition of a liability. We believe that the proposed chapter offers strong guidance on the differences between business risks and liabilities by creating a strong framework to define liabilities and then demonstrating the differences between each item.

Additionally, we believe that the FASB satisfactorily offers a discussion about constructive obligations and its unique characteristics. Through the liability definition framework offered earlier, the proposed chapter is able to demonstrate how the definition of a liability can be applied.

Finally, we believe that the section is able to adequately provide guidance to help standard-setters and users better understand stand-ready obligations and how the definition of a liability can be applied. Our opinion is that the proposed chapter helps clarify how stand-ready obligations can be classified as liabilities.

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?

Response:

We agree with the Board’s conclusion. Throughout the whole Exposure Draft, FASB has made a note on each subject to take into account the unique characteristics of not-for-profit organizations. While not-for-profit organizations have different goals than for-profit organizations, there are still many similarities between the two in terms of structure, operations, and other functions. For example, one difference is that not-for-profit organizations may emphasize focus on accountability while in contrast for-profit organizations focus on profitability.