Ford Motor Company
World Headquarters
One American Road
Dearborn, MI 48126

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

VIA EMAIL: director@fasb.org

File Reference: Comments on "Exposure Draft: Concepts Statement No. 8, Conceptual Framework for Financial Reporting – Chapter 4: Elements of Financial Statements"

Ford Motor Company ("Ford"), a global automotive industry leader based in Dearborn, Michigan, manufactures and distributes automobiles across six continents. Ford Motor Credit Company LLC, an indirect, 100% owned subsidiary of Ford, is one of the world's largest automotive finance companies. We appreciate the opportunity to provide input on your "Exposure Draft: Concepts Statement No. 8, Conceptual Framework for Financial Reporting – Chapter 4: Elements of Financial Statements."

We think many of the proposed updates will provide additional clarity when defining the elements of the financial statements compared to the definitions in Concept Statement No. 6. However, we believe "control" is essential to the definition of an asset and its relationship to an asset should not be relegated to only the chapter discussion. In addition, we have identified some instances where we believe the definitions could be enhanced to ensure more consistent application. These include providing additional clarity to distinguish between business risks and constructive obligations, and revenue/expenses and gain/losses.

Please see the attached responses to the proposed questions for our detailed feedback and suggested alternatives.

We appreciate the Board's consideration of our views.

Sincerely,

Julie A. Garity
Director, Global Accounting Policy
jsheph18@ford.com

FASB CONCEPT STATEMENT 8

RESPONSE TO QUESTIONS

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, assets that meet the definition under FASB Concepts Statement No. 6 would continue to meet the definition of an asset in this proposed chapter. The fact that the probability threshold has been removed and present right to an economic benefit has replaced the concept of control, only expands the potential universe of assets meeting the definition.

However, we do believe there is potential for the definition in the proposed chapter to be misinterpreted. The combination of "present right" with "to an economic benefit" may be interpreted to mean that the economic benefit must be certain before an asset can be recognized. If this was the case, assets identified based on the Concept No. 6 definition (primarily related to intangibles in a business combination) may not be identified as assets based on the new definition because of the potential uncertainty related to the economic benefit. While the Basis of Conclusions provides more clarification, we suggest the final definition or proposed chapter clearly explain the Board's intent in applying this definition.

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 definition itself does not provide additional clarity in resolving issues in identifying intangible assets. The definition is more general than the Concept No. 6 definition and substituting "present right" for "control" of a benefit may cause more items to be considered as potential intangibles (see Question #3). However, we do believe the additional discussion within the proposed chapter related to intangibles will help resolve some issues with identifying intangibles. Specifically, paragraph E36 explains that intangibles include both items arising from rights conveyed by contract and items capable of being separated and exchanged for something of value. This clarifies which intangible items may qualify as assets and it aligns with the guidance in ASC 805 on identifying intangibles in a business combination.

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 strongly agree with the Alternate View that suggests the word "control" should be included in the definition of an asset. Fundamentally, the definitions of a "right" versus "control" create different thresholds for identifying what would qualify as an asset. Rights are claims an entity has over something (such as an economic resource). That claim could be individually held or shared among many. As such, a claim to an economic resource may not be an asset of the entity if the entity cannot determine when or how it may be realized. Control establishes that the entity has the power over an economic resource. Even if an economic resource is shared among entities, the entity that controls that resource through its ability to determine when and how the benefit will be realized establishes that the resource is an asset of the entity. For example, a production tool may be owned and controlled by one party, while others may have rights to the output as part of contractual arrangements. Based on the proposed definition, entities with the contractual right to output may conclude they have an asset; however, the tool should only be an asset of the entity that has the power to determine when and how the tool is used.

We agree that the discussion in the chapter does clarify the relationship between "right" and "control". However, if the Board believes it is important to include such a discussion, then we feel it should be included in the base definition of an asset. Control is fundamental to the Revenue and Leasing accounting standards and as such the Board should strive to ensure any changes to the concept statement definition is aligned with issued accounting guidance. In addition, unless there is a significant benefit to diverge, we believe differences between IFRS and U.S. GAAP should be eliminated whenever possible.

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, the discussion in the proposed chapter of the limited circumstances in which the entity's own shares would meet the definition of a liability is sufficiently clear.

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 believe liabilities that meet the definition of a liability in Concept Statement No. 6 will continue to meet the definition of a liability under the proposed chapter.

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?

We believe further clarity in the definition of liability or in the proposed chapter is required to better define the difference between business risks, constructive obligations, and stand-ready obligations. The discussion in the proposed chapter focuses on distinguishing business risk from an obligation based on determining the point-in-time at which an obligation exists. The example of the business risk related to an airplane crash and the discussion around constructive obligations being created by customary business practices makes this point-in-time uncertain. For example, if an airline always compensates passengers injured during a plane crash as a customary business practice, and it is almost certain a plane crash will occur at some point, would an obligation exist today? Another example is a company that routinely offers employee retirement incentives during times of poor performance or economic downturn. Given business cycles happen regularly and the entity customarily offers these packages so often that employees may hold off retirement until a package is offered, should an entity recognize an obligation today to provide these incentives?

We suggest this issue could be mitigated by defining business risk versus obligation based on the concept of control over the event that may cause the obligation. This may provide a better distinction between the two concepts. For example, a plane crashing is generally outside the airline's control, therefore, it is considered a business risk and any obligation related to that event would occur once the event happens. The same logic applies to the economic downturn example. Although retirement packages have always been offered, the economic downturn is outside the entity's control, therefore, it is considered business risk and not an obligation. However, implicit warranty (as discussed in E61) would be considered an obligation because the quality of the product is something within the entity's control. Therefore, because it is known that products sold will break and require repair, an obligation exists when sold, instead of product defects being a business risk.

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.

See response to Question 8.

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?

We do not believe the definitions and other explanatory language provide clarity in distinguishing between revenue, gains, expenses, and losses. The proposed chapter defines revenue and expenses generally as something related to delivering or producing goods, rendering services, or carrying out other activities. Gains and losses are anything that is not classified as revenues or expenses. In addition, the proposed chapter infers that revenue is related to routine transactions, yet it does not define routine. The example in paragraph E90 attempts to provide some clarity by describing how income generated by an entity selling a manufacturing asset used in a production activity would be classified as a gain or loss and not revenue or expense. However, for many manufacturing entities, selling off used fixed asset or scrap material is a routine part of operations. Given this, one may infer that this income would meet the definition of revenue. Similarly, a significant part of an auto finance company's business is leasing vehicles to customers. At the end of the lease, the finance company sells the vehicle. Selling vehicles is a routine part of the finance company's operations, and given the definition provided in the proposed chapter, this income could qualify as revenue.

We agree with the Alternate View comment that Concept Statement No. 6 better defines revenue and expenses by including the phrase "constitute the entity's ongoing major or central operations". However, consistent with our examples above related to routine operations, this does little to solve the issue.

We support the Board's view that distinguishing between revenues, expenses, gains, and losses is a matter for presentation concepts (Question 7). However, we also believe a high-level definition of each of these four elements should be included within this proposed chapter as a basis for defining them within the presentation concepts. Therefore, we recommend modifying the definitions in the proposed chapter to provide more clarity between revenues, expenses, gains, and losses. A possible solution may be to connect revenue to an entity's actions that change its existing assets and liabilities. This would expand what is classified as revenue (which we support) and eliminate the judgment in defining routine or ongoing major operations. A definition that connects revenue to changes in an entity's assets and liabilities would not be inconsistent with ASC 606, but would clarify what would be considered ongoing major operations. We also recommend including a definition and discussion around comprehensive income from a conceptual perspective rather than just as a mathematical equation.

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?

No comment

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?

No comment

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?

Yes, we believe inclusion is helpful, as it is the basis for recognizing assets and liabilities.