

October 29, 2020

Via email to director@fasb.org

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

**Re: Invitation to Comment - Proposed Statement of Financial Accounting Concepts
Statement 8 - Conceptual Framework for Financial Reporting-Chapter 4: Elements of
Financial Statements, File Reference No. 2020-500**

We are accounting students from Case Western Reserve University. We appreciate the opportunity to provide comments to Financial Accounting Standards Board (the "Board") regarding the Invitation to Comment - FASB Exposure Draft Proposed Statement of Financial Accounting Concepts Statement 8 - Conceptual Framework for Financial Reporting-Chapter 4: Elements of Financial

Case Western Reserve University is one of the top research universities in the United States. Weatherhead School of Management is the business school at Case Western Reserve University. We are students taking the course ACCT 520 - Advanced Accounting Theory at Weatherhead School of Management. We are Juliet Li, Bingguo Wang, Yanyue Wang, and Yueqi Zhang. Writing this comment letter is one of the projects required for the course ACCT 520 in Fall 2020 semester.

Overall, our main concern is on the definition of assets in this proposed chapter. We believe the term "control" should not be removed in the definition of assets since the term "control" better defines the exclusive rights of the assets' owner and reduces ambiguity. Although there are some explanations mentioned in the subsequent paragraph, we still believe it is better to include "control" in the definition itself which will decrease possibilities of misinterpretation when setting accounting principles. We think the discussion about the limited circumstances in which the entity's shares would meet the definition of a liability sufficiently is well illustrated and clear in this proposed chapter and we do not have any concern on the definition of a liability in this proposed chapter. Compared with the proposed chapter, we believe that *Concept Statement No. 6* provides a better explanation to clearly distinguish between revenues, expenses, gains, and losses, and we tend to retain the term "ongoing major or central operations".

Our detailed comments to selected questions posed by the Board in the Invitation to Comment are included in the attached Appendix.

We trust our comments are helpful to the Board in determining next steps for the project. If you have any questions on the content of this letter, please contact Yanyue Wang, Student at CWRU, (216)212-5754.

Sincerely,

 Yanyue Wang Juliet Li Yueqi Zhang Bingguo Wang

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.

According to FASB Concepts Statement No. 6, "Assets are probable future economic benefits obtained or controlled by a particular entity as a result of past transactions or events." In this proposed chapter, "An asset is a present right of an entity to an economic benefit." To our point of view, we believe the term "present right" here creates some ambiguity. For example in E25, it mentioned "To qualify as an asset of an entity, that entity need not have an exclusive right to an economic benefit." Will the absence of exclusiveness element in the right creates double or multiple counting assets in different entities books? Will this absence of exclusiveness element in the present right make it harder to resolve property disputes? Can any rights of an entity related to an economic benefit capitalized? Also, as discussed in more detail in our response to question 3, the removal of the term "control" makes it more difficult to understand the definition of assets and creates more discrepancies between FASB and IASB.

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?

Under current standards, internal generated intangible assets are not recognized unless or until the entity is acquired by another entity. The definition of assets in this proposed chapter gives the FASB standard makers conceptual support in the future standards changes to permit entities to recognize intangible assets claiming they have the present rights to intangible assets when they created intangible assets. While the amount and value of internally generated intangible assets are hard to measure and subject to the discretion of the management which is not fair enough and raises the potential concern of earnings management.

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 that "control" should not be removed from the definition of assets. Although it is mentioned in the subsequent explanation paragraph E20 that "the ability to restrict others' access is a component of an asset of an entity", we consider including this concept in the definition itself could help readers better understand this concept. The definition of any term should include the things it describes as clear and precise as possible. The term "present right" in the definition of an asset could lead to divergence and misunderstanding. We agree with Ms. Botosan's view that it is necessary to include the term "control" in the definition and her reasoning in BC4.41 that "excludes economic resources such as public highways, air, or water from the set of economic resources that might otherwise meet the definition of an asset". Overall, the word "control" is too essential to be removed from 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 discussion of the limited circumstances in which the entity's own shares would meet the definition of a liability is clear. We understand that what the board emphasizes is that the company could issue a variable number of its shares to satisfy an obligation of an obligation of determinable or defined amount. Paragraph E58 clearly states this point.

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 the definition of a liability in this proposed chapter is consistent with the Board's assertion.

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?

Yes, we believe the discussion in this proposed chapter is adequate.

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.

We believe that distinguishing revenue from gain, and expense from loss is more than a presentation matter. As for users of financial statements, revenue, and expense from the day-to-day operating activities can help them predict future cash flows. The information conveyed by gains and losses is different from revenue and expense in terms of their impact on the users' decision-making processes.

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?

From our perspective, the definitions in the proposed chapter are not sufficient to distinguish between revenues, expenses, gains, and losses. Concept Statement No. 6 provides a better explanation. We consider that whether it is generated from the core business of a company is the key to distinguishing, and this expression is removed from the proposed chapter.

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.

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 think that the paragraph about distinguishing revenue from gain, and expense from loss in *Concept Statement No.6* should be retained, especially the term "ongoing major or central operations". Similar to the views expressed by Ms. Botosan in BC4.52, removal of that language will reduce the usefulness of this definition. Also, as mentioned earlier, we think the term "control" should not be removed from the definition of asset.

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 Appendix A is helpful because accrual accounting provides a base for applying all the concepts in this proposed chapter.