Crowe LLP
Independent Member Crowe Global
One Mid America Plaza, Suite 700
Post Office Box 3697
Oak Brook, Illinois 60522-3697
Tel +1 630 574 7878
Fax +1 630 574 1608
www.crowe.com

November 13, 2020

Ms. Hilary Salo
Technical Director
FASB
401 Merritt 7
PO Box 5116
Norwalk, CT 06856

Re: File Reference No. 2020-500

Dear Ms. Salo:

We appreciate the opportunity to comment on Proposed Statement of Financial Accounting Concepts, *Concepts Statement No. 8, Conceptual Framework for Financial Reporting—Chapter 4: Elements of Financial Statements* ("the Board's Proposal" or "Proposed Concepts Statement). We support the Board's efforts to continue to improve and further develop its conceptual framework for financial reporting in support of the standard-setting process. While we appreciate the Board's effort to refine and improve the elements of financial reporting, we do have several suggestions, which are summarized below:

Definition of an Asset

- *The Proposed Concepts Statement should make clear (e.g., in the Basis for Conclusions) whether the proposed changes to the definition of an asset are intended to change the population of items that would qualify as assets*.
- *The proposed definition of an asset should continue to explicitly reference the notion of control.*

Definition of a Liability

- *The Proposed Concepts Statement should make clear (e.g., in the Basis for Conclusions) whether the proposed changes to the definition of a liability are intended to change the population of items that would qualify as liabilities*.
- *The Proposed Concepts Statement should make clear whether an executory contract gives rise to a present obligation.*

Definitions of Revenues and Expenses

- *The Proposed Concepts Statement should retain the concept of "ongoing major or central operations" in the definitions of revenues and expenses.*

Our detailed responses to the questions contained in the Board's Proposal are included in Appendix 1.

Please contact Scott Lehman at (630) 574-1605 (scott.lehman@crowe.com) should you have any questions or would otherwise like to discuss our response.

Sincerely,

Crowe LLP

Crowe LLP

cc: Jim Dolinar, Partner, Crowe LLP

Appendix 1

Responses 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.

We agree with the Board's 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 the proposed chapter. While the proposal suggests *most* items that currently meet the definition of an asset would generally continue to qualify as assets under the revised definition, if it is the Board's intent and expectation that the revised definition will result in different items now qualifying as an asset or certain items no longer qualifying, it should state that fact and provide examples of the types of items that are now expected to qualify or not qualify as such.

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?

Paragraph E35 of the Proposed Concepts Statement states "Some activities are undertaken with the expectation of obtaining an economic benefit in the future. Examples include research and development, advertising, training, start-up activities, and pre-operating activities. While the costs incurred in these activities are not assets, the activities may result in an entity obtaining an asset or enhancing an existing asset. For these and similar activities, assessments of when a present right exists and whether the right is to a related economic benefit may be especially uncertain. The practical problem is whether a right to a future economic benefit exists at a specified date." The aforementioned statement falls short of saying such activities would be prohibited from being recognized as assets. If it is the Board's intent to not have activities such as research and development meet the definition of an asset, it should be explicitly stated within the Proposed Concepts Statement. Without further clarification, we envision some could possibly take the position that these activities meet the definition of an asset because they believe such costs represent the present right to a future economic benefit.

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 proposed term "present right" does not sufficiently capture the fundamental aspects of an asset. In particular, we believe – as described in paragraph E20 of the Proposed Concepts Statement – that it is an entity's "ability to restrict [that] creates … privileged access and control of economic benefits" to such an extent that an asset would be present. Furthermore, the wording of Question 3 makes clear that "control is interrelated to the definition of an asset" (see also paragraph BC4.14). If such is the case, we believe control should be explicitly included in the definition. The importance of control as a fundamental part of the definition of an asset is further supported by both recent and legacy standard setting efforts, including Topic 606, Topic 810, Topic 842, and Topic 860. In each of those standards, control is fundamental in determining whether a party possesses an asset or not.

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?

It is sufficiently clear that the proposed definition of a liability would include fixed or determinable amounts that are settled through issuance of a variable number of shares. However, we suggest the Board clarify in the body of the Proposed Concepts Statement why settlement of an obligation with a fixed number of shares would not meet the definition of a liability. We recognize such a discussion is included in the Basis for Conclusions (paragraph BC4.31); however, we believe this discussion should be elevated to the body of the Proposed Concepts Statement to explicitly clarify how "fixed-for-fixed" arrangements would be treated under the definition of a liability.

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.

While the proposal suggests most items that currently meet the definition of a liability would generally continue to qualify as liabilities under the revised definition, if it is the Board's intent and expectation that the revised definition will result in different items now qualifying as a liability, it should state that fact and provide examples of the types of items that are now expected to qualify or not qualify as such. See, for example, our response to Question 6 regarding the applicability of the definition of a liability to executory contracts.

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 acknowledge the challenges that business risks, constructive obligations, and stand-ready obligations present in determining when such items give rise to a liability. Specifically, with respect to equitable or constructive obligations the Proposed Concepts Statement paragraph E54 states "The distinction between equitable or constructive obligations and obligations that are enforceable in courts of law is not always clear, and the distinction between equitable and or constructive obligations and no obligations may be even more troublesome. Determining whether an entity is bound by an obligation to a third party in the absence of legal enforceability is often extremely difficult. Thus, the concepts of equitable obligations and constructive obligations must be applied with great care. Overly narrow interpretations tend to exclude significant actual obligations of an entity, while too-broad interpretations effectively nullify the definition of liabilities." This proposed language lacks an appropriate degree of specificity and direction. Without further clarification in the Proposed Concepts Statement or authoritative standard-setting, we believe there with be continued disparity in practice with respect to the recognition of such obligations.

Furthermore, the Proposed Concepts Statement should explicitly address whether an executory contract (e.g., a master service agreement, a lease contract, etc.) would give rise to a present obligation and, therefore, meet the proposed definition of a liability. Given the lack of guidance in this regard, it is difficult to assess whether the proposed definition would result in changes to which items would qualify as a liability. If the Board intends for some or all executory contracts to meet the definition of a liability, we suggest the proposal include such discussion and related examples.

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 our response to Question 8 below.

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?

While we acknowledge the Board's general desire to remove "presentation concepts" from the definition of the elements of financial reporting (see paragraph E92), the removal of the existing distinction between revenues, expenses, gains, and losses – that is, the reference to an entity's ongoing major or central operations – will result in less decision-useful information to users of the financial statements. In practice, this distinction is used frequently to help determine proper income statement presentation of an entity's inflows and outflows. Furthermore, we agree with the arguments expressed in paragraphs BC4.52-BC4.55 of the Proposed Concepts Statement, especially that "the proposed removal of that language will make the definitions less helpful when deciding between revenue or gain classification in standard setting."

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?

We agree with the Board's conclusion that the elements described in the proposed chapter would apply to not-for-profit organizations.

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 did not identify any paragraphs that were removed from Concepts Statement 6 that are necessary to keep.

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 material presented in Appendix A is helpful; however, it is not readily apparent to us how this information should be considered when discussing the elements of financial statements. We suggest the Board provide further clarification in the final version of the Concepts Statement.