November 13, 2020

Submitted via email: director@fasb.org
Technical Director
Financial Accounting Standards Board
401 Merritt 7, P.O. Box 5116
Norwalk, CT 06856-5116

File Reference No. 2020-500

Dear Technical Director:

The Technical Issues Group (TIG) of the Missouri Society of CPAs (MOCPA) appreciates the opportunity to respond to certain matters in the Proposed Accounting Standards Update. The views expressed herein are written on behalf of the TIG of the MOCPA. The TIG has been authorized by the MOCPA Board of Directors to submit comments on matters of interest to the society's membership. The views expressed in this letter have not been approved by MOCPA's Board of Directors; and therefore, should not be construed as representing MOCPA's policies.

We believe the efforts by the Board to improve the definition of the elements of the financial statements is a beneficial exercise and the proposed definitions have conceptual merit. As discussed in our attached responses to the Questions for Respondents, our greatest concerns relate to the removal of the term *control* from the definition of an asset, a need for additional clarity for why variable and fixed transfers of an entity's own shares are treated differently, and the omission of the concept underlying major and central operations from the definition of revenues and expenses.

We noted the following additional items that were not specifically included as part of the Questions for Respondents:

- We believe it would be helpful to include further clarity regarding when executory contracts that are legally enforceable give rise to an asset or a liability. This may be accomplished by further explaining the point in time when the asset or liability exists.
- We believe the statement "Some obligations require an entity to refrain from engagement in certain types of activities or to forgo an economic benefit to which the entity may otherwise be entitled" in paragraph E56 should be further clarified. It is not clear to us if the Board's intent is to scope obligations to "refrain" or "forgo" into the definition of a liability, suggest that some could meet the definition, or to clarify that although these may be obligations of the entity they would not be accounting liabilities. If it is the Board's intent that these are accounting liabilities, we believe additional explanation and examples are warranted to prevent the definition from being applied overly broadly.

Thank you for considering our comments. We would be pleased to respond to any questions the Board or its staff may have about any of the following comments. Please direct any questions to Mark Winiarski, TIG Chairman, MWiniarski@CBIZ.com.

Sincerely,

Mark Winiarski, CPA
TIG Chairman

Jeff Antrainer, CPA
TIG Member

Robert A. Singer, CPA
TIG Member

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.

Response: Yes, E18 through E36 inclusive, which define and describe an asset as an element that conveys a "present right" and a "right to an economic benefit," appear to include all items that would have met the definition of an asset as articulated in FASB Concepts Statement No. 6. We could not identify any assets that we believe would have met the definition of an asset under FASB Concepts Statement No. 6 and would not meet the definition under the proposed chapter. Thus, we believe that the proposed chapter is consistent with the Board's assertion.

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: E35 of this exposure draft enumerates a number of internally generated intangibles such as research and development, start-up costs, and training activities. We believe that the proposed change in the definition will likely encourage the identification of more internally developed intangible assets. For example, under existing authoritative accounting guidance, research and development expenditures are be expensed as incurred. Under the proposed definition, we believe it is reasonable to conclude that that the elimination of the term *probable* means that an asset does exist. Here, we believe that the Board needs to place the definition of an asset in the context of better differentiating research from development activities. At the development stage where many R&D efforts reach the point of *technological feasibility*, a case can be made that development costs provide a present right to an economic benefit, and thus merit treatment as assets.

In our view, the proposed definition will clarify that many internally developed intangibles meet the conceptual definition of an asset. We believe this because the removal of the phrases *probable* and *future* make it clear, that to be an asset, the intangible does not need to have a specified level of certainty of actual future cash flows. We believe this will result in standard setting being driven to focus on whether or not an asset (for example, the results of research and development, assembling a skilled workforce, brand names, etc.) meets recognition and measurement thresholds based on the usefulness of the information to users, rather than if they are assets. We believe this outcome better aligns accounting concepts to the "real" world, because, in our opinion, investors consider these things to be assets of the entity. Our hope is that such changes will enable accountants to better, and more consistently, explain to users of financial statements why certain assets are, or are not, recognized by focusing on the usefulness of recognizing and measuring the assets.

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.

Response: The proposal to omit the term *control* from the definition of an asset is concerning to us for two primary reasons:

1) Omission of the term *control* would introduce a difference between U.S. and international accounting in one of the most important elements of the financial statements. Although we agree that the terminology that is retained captures the notion of control, we do not believe it is possible to predict the long-term implications from this difference between the concepts followed by the U.S. and international standard setters and fear that unintended divergence may occur. Over the long-term, will both standard setters continue to use the term *control* in setting accounting standards as they have historically? Or will this change cause U.S. accounting standards to diverge from this historical norm and introduce additional complexity by trying to avoid the term?

2) We believe that the term *control*, although used differently within accounting standards depending the nature of the standard, is such an integral concept that omitting the term in the definition of an asset creates a significant break from existing accounting standards and historical practice. This divergence is more concerning because we do not expect accounting standards to be modified to conform to the language in the proposed definition.

   Many of the recent standards, such as ASC Topic 842 and ASC Topic 606 among others, predicate effective transfers of assets on a control criteria. A case in point is the guidance underlying the sale and leaseback of assets. Under paragraph 842-40-25-2, if any of the five criteria are met, any such transaction would result in a finance lease thereby resulting in a failed sale and leaseback. A successful leaseback must result in an operating lease classification. This example is one of many highlighting the importance of control in establishing both a present right and right to economic benefit. In this regard, we believe that excluding the term *control* would change the population of items meeting the definition of an asset and, while *present right* and *right to economic benefit* are necessary, these terms are not sufficient without incorporating control in the definition itself. We believe that *present right* and *right to economic benefit* derive from the concept of control and thus the term *control* should continue to be an integral part of any definition of an asset.

Considering these two concerns, although in principle we agree with the Board's concerns over the term *control* as expressed in BC4.16, we believe that it is better for the term to be retained. The concerns about the improper use of the definition by constituents are reasonable, but are tempered by the fact that the guidance in the concept statements are primarily to inform the Board decision making process and not authoritative guidance. We further believe that the identification of the asset that is controlled is addressed through the other changes to the definition, and not by the removal of the term *control*.

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?

Response: Yes. The discussion in this proposed chapter for the limited circumstances in which the entity's own shares would meet the definition of a liability is sufficiently clear. The Board notes that an obligation that requires a sufficient number of shares to equal a specific value when issued is a liability. However, the proposed guidance is very specific on this topic. We believe financial statement users may find it beneficial to have other types of settlements in the form of an entity's own shares classified as liabilities.

What remains unclear to us is the conceptual basis to conclude that the transfer of a variable number of shares would be the only form of transfer of an entity's own shares that requires an entity to provide economic benefits to others. In our opinion the transferring of shares to a party provides them economic benefits whether they were entitled to a fixed or variable quantity. We believe additional clarification as to why or when a holder of an instrument that is on the path to potentially becoming a shareholder prevents the instrument from being a liability. We would find it helpful for the Board to provide additional explanation for why it believes it is more meaningful for the residual interest in the entity to include potential future shareholders.

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.

Response: Yes. We agree that the definition of a liability in this proposed chapter is consistent with the Board's assertion. The Board's emphasis on the term *present obligation* is an improvement on the discussion used in Concept Statement 6.

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 the discussion of business risks and constructive obligations is adequate to apply the definition. We believe the discussion on stand-ready obligations should be expanded to further clarify when a liability should be recognized.

In addition, we encourage the Board to provide additional clarification for considerations around executory contracts to further clarify when an executory contract that has enforceable rights and obligations becomes a liability. Additionally, the Board should consider including the language and discussion mentioned in BC4.26 "little or no discretion to avoid the future sacrifice" in the proposed chapter text pertaining to constructive obligations.

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.

Response: We believe that distinguishing the types of transactions that are revenues or expenses vs. those that are gains or losses is beneficial. By including it as an element, it highlights the unique position that the classification of the items has on describing comprehensive income of an entity and distinguishing between the core earnings of the entity and the non-core activities. However, by omitting the terms *ongoing major or central operations* and *peripheral or incidental*, the definitions as proposed will not be effective in guiding the Board in standard setting. We believe it would be more useful to include language similar to *ongoing major or central operations* in the definition of revenues and expenses to further clarify what distinguishes revenues and expenses from gains and losses. We encourage the Board to consider inserting the term *ordinary activities* used in the definition of customers to aid in distinguishing these elements. This could be accomplished by changing "carrying out other activities" to "carrying out other ordinary activities" in the definition of revenues and expenses.

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?

Response: We believe the definitions and explanatory language could be improved by inclusion of terminology similar to *ongoing major or central operations* or *ordinary activities* as discussed in our response to Question 7.

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: Yes, we believe that the elements described in the proposed chapter would apply to not-for-profit organizations as described.

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?

Response: We noted none.

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?

Response: Yes, we believe the information is helpful in clarifying the concepts for those interested in the Boards standard setting process.