



Wipfli LLP  
10000 Innovation Drive  
Suite 250  
Milwaukee, WI 53226  
414 431 9300  
wipfli.com



Mind the GAAP, LLC  
1649 Linda Drive  
West Chester, PA 19380  
773 732 0654  
mindthegaap.com

September 16, 2021

Technical Director  
File Reference No. 2021-004  
FASB  
401 Merritt 7  
PO Box 5116  
Norwalk, CT 06856-5116

*This letter is written jointly by Wipfli LLP and Mind the GAAP, LLC. Wipfli provides auditing and business consulting services and ranks among the top 20 practices in the United States. Mind the GAAP provides U.S. GAAP and IFRS consulting services to accounting firms and financial statement preparers throughout the world.*

Dear Technical Director,

Mind the GAAP, LLC and Wipfli LLP appreciate the opportunity to respond to the FASB's Invitation to Comment – Agenda Consultation (hereafter referred to as the "ITC").

In recent years, many significant new accounting standards have – or will shortly – come into effect. These new standards include, but are not limited to:

- ASC Topic 606, *Revenue from Contracts with Customers*
- ASC Topic 842, *Leases*
- ASC Topic 326, *Financial Instruments – Credit Losses*

These generational changes to generally accepted accounting principles ("GAAP") have been challenging for preparers, auditors and financial statement users. Many stakeholders have incurred significant time, effort, and costs associated with implementing new systems, creating new processes, and performing various training and change management activities.

Over the next few years, we believe that the financial community could use a respite from major standard setting activities. Instead, for the foreseeable future, we recommend that the FASB focus the majority of its time and resources on addressing:

- Relatively narrow accounting matters where there is either diversity in practice or limited applicable GAAP, and
- Findings from various post-implementation reviews.

We also feel that it may be a good opportunity for the FASB to revisit some of its practices for developing standards and better communicating guidance to the accounting community. For example, we believe that:

- The Emerging Issues Task Force (“EITF”) is currently an underutilized resource that could provide valuable assistance to address narrow scope projects. The FASB should consider amending the charter of the EITF to provide more current interpretative guidance, similar to how the IFRS Interpretations Committee functions today.
- The utility of the Accounting Standards Codification (“ASC”) could be improved by incorporating nonauthoritative guidance into each topic, including but not limited to the bases for conclusions found in most Accounting Standards Updates, FASB staff papers, Board meeting handouts, Transition Resource Group meeting minutes, staff training materials, and other relevant publications.

Lastly, we do **not** support the FASB devoting resources to examining potential disaggregation of financial reporting (Chapter 1 of the ITC). We believe the costs to preparers of providing disaggregated information generally would outweigh any benefits received by financial statement users.

In the remainder of this letter, we expand upon our aforementioned views by specifically answering **Questions 1-4** from the ITC.

We truly appreciate the efforts of the Board and staff in strengthening and improving the standard setting process. If you have any questions regarding this letter, please contact Scott Ehrlich, President of Mind the GAAP, LLC, at (773) 732-0654 or Zachary Mayer, Partner at Wipfli LLP, at (608) 270-2909.

Sincerely,



Mind the GAAP, LLC



Wipfli LLP

### **Question 1: What type of stakeholder are you?**

Wipfli LLP (“Wipfli”) provides auditing and business consulting services and ranks among the top 20 practices in the United States. Wipfli serves a large range of clients, but a large portion of our clients are privately-held companies.

Mind the GAAP, LLC (“Mind the GAAP”) is a consulting firm that helps companies and auditors navigate through and apply complex accounting standards. Mind the GAAP also provides training and educational services on U.S. GAAP and International Financial Reporting Standards. Mind the GAAP serves a diverse set of clients, including Fortune 500 companies, pre-revenue start-ups, privately-held or venture-backed private companies, and global, national and regional accounting firms.

### **Question 2: Which topics in this ITC should be a top priority of the Board?**

For the foreseeable future, we encourage the FASB to focus its resources on narrow-scope standard setting activities. In particular, we believe that the Board should prioritize the following topics specifically discussed in the ITC. Please also see our response to Question 4 for additional topics that we suggest be added to the FASB Technical Agenda that were *not* addressed within the ITC.

**Digital Assets:** Even among midmarket clients, we continue to see an increasing number of reporting entities receiving and trading cryptocurrencies. Currently, digital assets are typically accounted for under Topic 350, Intangibles – Goodwill and Other, resulting in these assets being measured initially at cost and tested periodically for impairment. Application of this guidance results in an unusual situation where cryptocurrency assets can decrease in value but never increase. We do not feel this accounting treatment is reflective of the nature of these assets, especially for digital assets where an active market exists. We would recommend that the FASB investigate whether to allow companies to elect an irrevocable fair value option for cryptocurrency assets where Level 1 or Level 2 (as per ASC Topic 820, *Fair Value Measurements*) measurements can be made.

**Government Assistance:** We recognize that the FASB is close to finalizing an Accounting Standard Update (“ASU”) that would require additional disclosures around certain types of government assistance. However, we believe that additional guidance is needed related to the recognition and measurement of government grants and other forms of government assistance provided to for-profit business entities. At present, the lack of explicit GAAP around the accounting for government assistance has resulted in diversity in practice, with some for-profit entities:

- Analogizing to the contributions guidance in ASC Subtopic 958-605, *Not-for-Profit Entities*,
- Applying a gain contingency model under ASC Subtopic 450-30, *Gain Contingencies*
- Employing the principles in International Accounting Standard 20, *Accounting for Government Grants and Disclosure of Government Assistance*.

In addition, we understand that the forthcoming ASU would not apply to some of the more common types of government assistance, such as property tax abatement programs offered by local

municipalities to encourage job creation and sustainability. We would encourage the FASB to reconsider whether these more common governmental assistance programs should be subject to the same disclosures specified within the forthcoming ASU.

**Software Development Costs:** Over the past few decades, the software industry has transitioned from developing on-premise software to creating cloud-based software-as-a-service (“SaaS”) solutions, where control of the underlying software is no longer transferred to the customer. In addition, most software developers now create software using an “AGILE” methodology as opposed to a “linear” approach that was in favor at the time the GAAP guidance underlying ASC Subtopic 350-40, *Internal-Use Software*, was issued.

For these reasons, we believe that the FASB should consider revisiting the existing GAAP guidelines around the accounting for software development costs, including:

- Evaluating whether the guidance in ASC Subtopic 985-20, *Costs of Software to be Sold, Leased, or Marketed*, could be eliminated from the Codification.
- Providing a decision tree to help practitioners evaluate when development costs are within the scope of (i) ASC Topic 730, *Research and Development*, (ii) ASC Subtopic 340-40, *Other Assets and Deferred Costs – Contracts with Customers*, or (iii) ASC Subtopic 350-40.
- Issuing implementation guidance around how developers should determine which costs associated with “sprints” – a technique used by developers employing an AGILE methodology – are subject to capitalization as an asset versus recognition as a period expense.
- Potentially allowing private companies to elect an accounting policy to expense all software development costs within the scope of ASC 350-40 as incurred. In our experience, private companies often lack robust time tracking processes and systems to determine which software development costs are capitalizable. This accounting policy election would allow such practitioners to simplify their accounting while still providing relevant information to financial statement users.

**Consolidation:** For our clients, the guidance in Topic 810, *Consolidation*, is complex and difficult to navigate. We would support a wholesale reorganization of – and where possible, simplification to – the guidance in this topic. Some possible improvements could include, but are not limited to, the following:

- Topic 810 could be reorganized to make clear that entities within the scope of that guidance should first evaluate whether the legal entity is a variable interest entity (“VIE”) and, if so, whether the reporting entity is the primary beneficiary. The current ordering of this Topic suggests that the voting interest model should be applied before consideration of the VIE model.
- The scope exceptions discussed in Paragraphs 810-10-15-12 and 810-10-15-17 could be listed contiguously and moved to the very beginning of ASC Section 810-10-15.
- Where possible, the guidance could indicate the main principles in ***bold italics*** text before providing specific application guidance. For example, the FASB could consider providing guidance before current Paragraph 810-10-25-38A that indicates: “The primary beneficiary shall

consolidate a variable interest entity. The primary beneficiary is the entity that both (i) has the power to direct the activities of a VIE that most significantly impact the VIE's economic performance and (ii) holds variable interests in that VIE that absorb losses or entitle benefits from the VIE that could potentially be significant to the VIE."

- There are several sections within Topic 810 that employ double and triple negatives. As one example, Paragraph 810-10-55-37 states that decision maker fees "...are **not** variable interests if... [the] service provider does **not** hold...". It would be helpful to eliminate this type of grammatical construction throughout the Codification where possible.

On a related note, we would request that the FASB reconsider its decision to remove the consolidation of not-for-profits by for profit sponsors project from the technical agenda. Many of our for-profit clients create not-for-profit foundations or homeowner associations and struggle to determine whether they should consolidate these entities based on the current guidance in ASC 810. We see diversity in practice and believe that the issue is pervasive.

### **Question 3: Are there topics in this ITC that the Board should not address as part of its future standard-setting efforts?**

***Disaggregation of Financial Reporting Information:*** We do not support the FASB dedicating resources to investigate whether reporting entities should provide additional disaggregated financial reporting information. The users of the financial statements of our privately-held clients typically have a close relationship with management that they could gain access to this disaggregated data if they asked for it. The added cost and complexity involved in tracking, reporting, and disclosing this information (as well as auditing it) would significantly outweigh the benefits.

We also believe it would be difficult to establish standards of disaggregated information applicable and relevant across industries and companies. User needs are different based on the type of reporting entity and the industry in which these entities operate and would be difficult to address with a single set of requirements, even if that guidance is principles-based. Similarly, we believe it would be difficult to come up with universal guidance around reporting an intermediate measure of performance for not-for-profits as they are organized and operate in a variety of different ways.

We also do not support requiring presentation of disaggregated information from equity-method investees/JVs/other investments, as it often would be difficult for reporting entities to accumulate this information on a timely basis (obtaining this information is outside of the control of the reporting entity). Also, there would be concerns regarding the accuracy of such information as the reporting entity doesn't prepare – and often cannot put in place effective controls to evaluate – the data. In addition, auditing this information would add more cost to preparers for little additional benefit.

***Environmental, Social, and Governance Reporting:*** We do not believe that this is the responsibility of the FASB, nor is it the best use of its resources, to develop standards around environmental, social, and governance ("ESG") related matters. ESG standards should ideally be established by a global organization rather than one primarily focused on U.S. reporting standards. Moreover, some of the components of ESG reporting may comprise activities a bit outside of the FASB's purview, such as corporate governance and diversity and inclusion matters.

**Question 4: Are there any other financial reporting topics beyond those in this ITC that should be a top priority for the Board to address?**

We recommend that the FASB add the following two projects to its technical agenda. We believe that both of these projects meets the following criteria for agenda consideration:

1. *Is there an identifiable and sufficiently pervasive need to improve GAAP?*
2. *Are there technically feasible solutions and are the perceived benefits of those solutions likely to justify the expected costs of change?*
3. *Does this issue have an identifiable scope?*

**Accounting model for debt with variable share settlements:** Many start-up companies are obtaining financing through instruments that typically will be settled in a variable number of future equity instruments. Examples include bridge loans and simple agreement for future equity, or SAFE, arrangements. Sometimes these securities will be settled through a future class of stock that has not even been issued by the reporting entity. In accounting for these agreements, we often find it difficult to determine whether:

- The instruments should be accounted for as stock-settled debt under ASC 470-20-25-8 or scoped into ASC 480-10-25-14a.
- If the instruments are within the scope of ASC 480, the instruments should be measured at fair value or at amortized cost (as ASC 470-20 may specify another measurement attribute for stock-settled debt, as suggested by ASC 480-10-35-5).
- The variable share settlement features are embedded derivatives requiring bifurcation under ASC 815.

**Partnership Accounting and Profits Interests:** Profits interests are increasingly being used by partnerships and similar entities to attract and retain talent. However, the accounting and valuation of profits interests can be challenging. We would encourage the FASB to transition its current PCC project on profits interests into a formal Board project. In particular, there is diversity in practice as to whether or not certain distribution thresholds attached to profits interests effectively create an implicit performance vesting condition, which can impact the measurement and recognition of cost associated with those awards.

\*\*\*

Beyond these financial reporting topics, we further suggest that the FASB consider revisiting some of its practices for developing standards and better communicating guidance to the accounting community.

The Codification is accessible and fairly easy to navigate. For this reason, we would support expanding the Codification to include both authoritative and nonauthoritative guidance. For each Topic, the nonauthoritative section of the codification could include FASB staff implementation papers and examples, relevant sections of ASU bases for conclusions, Board meeting handouts, Transition Resource Group meeting minutes, staff training materials, and other relevant publications. Access to this information would provide both reporting entities and auditors with readily accessible interpretive guidance on application of the standards within the Codification.

We would also support expanding the role of the EITF. The EITF seems to be an underutilized resource that could provide valuable assistance to address narrow scope projects. For instance, the Task Force could provide more frequent interpretative guidance, similar to the agenda decisions issued by the IFRS Interpretations Committee functions today. These agenda decisions could also be integrated into the newly created nonauthoritative section of the Codification, as suggested in the previous paragraph.