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September 22, 2021

Hillary Salo
Technical Director
Financial Accounting Standards Board (FASB)
401 Merritt 7
PO Box 5116
Norwalk, CT 06856-5116

Via Email to director@fasb.org

Re: File Reference No. 2021-004

Dear Ms. Salo:

Grant Thornton LLP appreciates the opportunity to comment on the FASB's 2021 Invitation to Comment, *Agenda Consultation.* We support the Board's efforts to solicit and consider feedback from all stakeholders to identify major financial reporting topics in need of improvement and to appropriately prioritize each of those topics.

Our responses to selected questions in the Invitation to Comment (ITC) follow.

Overall

Question 1: Please describe what type of stakeholder you (or your organization) are from the list below, including a discussion of your background and what your point of view is when responding to this ITC.

Grant Thornton LLP is an independent audit, tax, and advisory firm. When responding to the questions in this ITC, we focused on the auditability and complexity in applying the topics discussed and on areas of U.S. GAAP that are not explicitly discussed in the ITC.

Question 2: Which topics in this ITC should be a top priority for the Board? Please explain your rationale, including the following:

a. **Why there is a pervasive need to change GAAP (for example, what is the reason for the change)**

b. **How the Board should address this topic (that is, the potential project scope, objective, potential solutions, and the expected costs and benefits of those solutions)**

c. **What the urgency is of the Board completing a project on this topic (that is, how quickly the issues need to be addressed).**

We believe that the Board should consider the following topics that are discussed in the ITC for its standard-setting agenda. These are listed in the order of priority below:

- Distinguishing liabilities from equity: Refer to our response to Question 23.
- Consolidation: Refer to our response to Question 21.
- Digital assets: Refer to our response to Question 12.
- Aligning the accounting for internal-use software and software held for sale: Refer to our response to Questions 18 and 19.
- Accounting for ESG-related credits (such as carbon credits or Renewable Identification Numbers): Refer to our response to Question 13.
- Accounting for government grants received by business entities: Refer to our response to Questions 16 and 17.

Question 3: Are there topics in this ITC that the Board should not address as part of its future standard-setting efforts? Please explain your rationale, such as there is no pervasive need to change GAAP, the scope would not be identifiable, or the expected benefits of potential solutions would not justify the expected costs.

While we believe that most topics in the ITC are meritorious of the Board's attention, we believe the following topics in the ITC should not be addressed:

- Key performance indicators (KPIs) and non-GAAP metrics: We believe it will be difficult to develop standardized guidance on KPIs for all entities. We have observed that performance measures are not consistent between industries, entities within a single industry, or even entities in different stages of the business lifecycle; for example, entities that are early in their lifecycle may have different performance measures compared to well-established entities. In addition, we agree with the feedback received by the Board that indicates if certain financial KPIs were standardized, entities would still continue to provide their own entity-specific metrics.
- Materiality of disclosures: We believe that U.S. GAAP already clearly states that disclosure requirements apply only to material items. Additionally, we believe that determining what disclosure requirements are material to an entity's users is an area of significant judgment, and that there is currently sufficient guidance, both in U.S. GAAP and in other authoritative sources, for entities to make that determination without additional guidance from the Board.

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

a. **The nature of the topic**

b. **The reason for the change**

c. **Whether the topic is specific to a subset of companies, such as public companies, private companies, or NFPs, or specific to a certain industry**

d. **How the Board should address this topic (that is, the potential project scope, objective, potential solutions, and the expected costs and benefits of those solutions)**

e. **What the urgency is of the Board completing a project on this topic (that is, how quickly the issues need to be addressed).**

Financial reporting topics that we believe should be a top priority for the Board are those that have been addressed in the ITC, including distinguishing liabilities from equity, consolidation, aligning the software models, accounting for ESG-related credits, recognizing and measuring government grants by business entities, and accounting for digital assets.

Beyond these topics, we believe that a top priority should be improving the subsequent accounting for goodwill, which the Board is already considering in its project on Identifiable Intangible Assets and Subsequent Accounting for Goodwill.

We further believe that the equity method of accounting should be a top priority. The equity method of accounting is not addressed in the ITC, outside of Chapter 1 on disaggregation, nor is it currently on the Board's agenda.

We suggest that the Board consider adding a project to its agenda to consider the overall conceptual basis for the equity method of accounting. The current guidance, which requires adjustments to differences in accounting basis that develop over time, is often difficult to apply. In our opinion, the application of the equity method of accounting should be limited to joint ventures under joint control, with all other investments in equity securities of nonconsolidated investees, regardless of the level of influence, subject to the guidance in ASC 321, *Investments – Equity Securities*. We believe that an equity investment in an entity that is subject to joint control by one or more other joint venturers provides a stronger conceptual basis for applying the equity method of accounting than an equity investment that gives the investor significant influence over the investee.

Acknowledging that broadly reconsidering the equity method of accounting might be a long-term project, we believe that, in the near term, the Board should consider allowing entities to elect the fair value option for equity method investments once the investment's fair value becomes readily determinable, rather than allowing entities to elect the fair value option only when they initially acquire the equity method investment. This approach is also consistent with the subsequent measurement guidance in ASC 321, which requires an entity to continuously monitor an investment's lack of a readily determinable fair value and to report the investment at fair value once the security has a readily determinable fair value.

Question 5: The objective of this ITC and the related 2021 Agenda Consultation process is to ensure that the FASB continues to allocate its finite resources to

standard-setting activities that fulfill its primary mission of improving financial accounting and reporting standards and that are of the highest priority to its stakeholders. Therefore, feedback on the prioritization of projects on the FASB's technical agenda (see Appendix A) would be helpful. Do you have any feedback on the FASB's technical agenda, including the following:

a. **Which projects on the FASB's agenda should the Board prioritize completing? Please explain.**

b. **Which projects, if any, should the Board deprioritize or consider removing from the agenda? Please explain.**

c. **Which projects, if any, need to be redefined to improve the objective and/or scope? Please explain.**

Prioritize completion of projects

As discussed elsewhere, we support the Board prioritizing the completion of the following projects, which are currently on its technical agenda:

- Identifiable Intangible Assets and Subsequent Accounting for Goodwill (see Question 4).
- Consolidation Reorganization and Targeted Improvements (see Question 21).

We also support the Board prioritizing the completion of the following projects, which are either near completion or have completed initial deliberations:

- Fair Value Hedging – Portfolio Layer Method
- Fair Value Measurement of Equity Securities Subject to Contractual Sale Restrictions
- Leases (Topic 842) – Discount Rate for Lessees That Are Not Public Business Entities
- Leases (Topic 842) – Lease Modifications
- PCC Issue No. 2018-01, Practical Expedient to Measure Grant-Date Fair Value of Equity-Classified Share-Based Awards
- Recognition and Measurement of Revenue Contracts with Customers under Topic 805

Of the remaining projects that are in the initial deliberations phase, we think the Board should prioritize the project on Improving the Accounting for Asset Acquisitions and Business Combinations (Phase 3 of the Definition of a Business Project). Currently, there is a lack of guidance on key aspects of accounting for asset acquisitions, including accounting for contingent consideration arrangements. This lack of guidance is further exacerbated by differences in accounting for business combinations versus asset acquisitions. The adoption of the amendments in ASU 2017-01, *Business Combinations (Topic 805): Clarifying the Definition of a Business*, has generated an increase in the number of acquisitions qualifying as asset acquisitions, which means that the issues created by the lack of guidance have become only more pervasive. As

a result, we believe it would be beneficial for the Board to prioritize the issues within the scope of this project.

We support the remaining projects in initial deliberations, which are listed below, but believe the project to improve the accounting for asset acquisitions and business combinations should take the highest priority:

- Financial Instruments – Credit Losses (Topic 326) – Acquired Financial Assets
- Financial Instruments – Credit Losses (Topic 326) – Targeted Improvements to the Accounting for Troubled Debt Restructurings for Creditors
- Joint Venture Formations
- Reference Rate Reform – Fair Value Hedging
- Financial Performance Reporting – Disaggregation of Performance Information
- Segment Reporting

Generally, we support the Board's efforts both to improve the information provided in, and to reduce the sheer volume of, disclosures under its disclosure projects, as well as the Board's framework projects, post-implementation review projects, and research projects.

Deprioritize or consider removing

We believe there are no existing projects on the Board's technical or research agenda that should be removed. We provide suggestions on how to consider the prioritization of current projects in the previous section.

Redefine or modify objective

We believe the Board should reconsider the overall accounting model on distinguishing liabilities from equity and, as a result, reconsider the objective of the current project on Distinguishing Liabilities from Equity Phase 2 (see Question 23).

Chapter 2: Emerging Areas in Financial Reporting

Question 9: What challenges, if any, are there in applying the guidance on the definition of a derivative and the related derivative scope exceptions in Subtopic 815-10? Please explain the challenges and whether and how they could be addressed through standard setting.

We believe the main challenge in applying the definition of a derivative relates primarily to the sheer volume of scope exceptions to the basic characteristics-based definition of a derivative. However, we also believe that the definition is generally well understood in practice and, while complexities can arise, that practice can address challenges in applying the definition of a derivative to emerging areas.

In the near-term, if stakeholders identify certain industry-specific derivative instruments that they believe should not be accounted for as derivative instruments, we suggest that the Board address these narrow-scope issues by either adding or modifying existing derivative scope exceptions in ASC 815-10, *Derivatives and*

Hedging: Overall, or by adding the project to the Emerging Issues Task Force's (EITF) agenda.

The existing volume of specific, targeted scope exceptions to the definition of a derivative might indicate that U.S. GAAP would benefit from the creation of an overarching principle on exemptions from derivative accounting. While a principle-based approach would simplify the guidance in this area, and potentially mitigate the need for future standard setting related to new instruments or transactions, we are skeptical that such a principle could be established that would appropriately capture the broad population of instruments and embedded features with existing scope exceptions and also capture new instruments, features, or emerging transactions that warrant a new derivative scope exception. Therefore, we ultimately support adding or modifying existing derivative scope exceptions to address certain transactions, such as research and development arrangements and ESG-linked financial instruments or embedded features, for which a scope exception does not currently exist.

Question 12: If the Board were to pursue a project on digital assets, which improvements are most important, what types of digital assets should be included within the scope, and should this guidance apply to other nonfinancial assets?

We support the Board's pursuit of a project on digital assets, as the use of digital assets is growing exponentially throughout global markets.

There are known challenges in determining what types of intangible assets constitute "digital assets" and, furthermore, what types of digital assets should be included within the scope of any guidance. Additionally, given the frequent introduction of new types of digital assets, we believe the Board should research whether expanding the fair value option to all nonfinancial assets with readily determinable fair values is a feasible solution to address accounting for certain digital assets.

Nonfinancial assets with readily determinable fair values are generally commodities, whether physical or digital, and we propose that many users believe that the fair value is the most decision-useful information about a commodity with a readily determinable fair value. Additionally, we believe that currently the most prominent and prevalent digital assets are actively priced and traded on exchanges and may be considered to have readily determinable fair values under a potentially modified definition of that term. Therefore, allowing entities that hold digital assets with readily determinable fair values to elect the fair value option could address the needs of most users and preparers, without introducing undue costs and complexity in determining the fair value of digital assets without readily determinable fair values on a continuous basis.

Another aspect to consider is which derecognition model should apply to a nonfinancial asset with readily determinable fair value, keeping in mind that each unit of a digital asset is fungible. Specifically, a project on digital assets should consider whether such assets should be subject to the derecognition model in ASC 860, *Transfers and Servicing,* rather than the guidance in ASC 610-20, *Other Income: Gains and Losses from the Derecognition of Nonfinancial Assets*. The outcome could differ, because in a lending transaction of digital assets, a lender would not be able to

derecognize the loaned digital asset if ASC 610-20 was applied, whereas the loaned digital asset would likely be derecognized by the lender if ASC 860 was applied.

Question 13: Are there common ESG-related transactions in which there is a lack of clarity or a need to improve the associated accounting requirements? Please describe the specific transactions and why standard setting is needed.

We are aware of common ESG-related transactions for which there is diversity in practice. Given that the prevalence of ESG transactions will only increase over time, we believe standard setting is needed to address the diversity and to improve comparability for financial statement users.

ESG-related credits

Generators, users, and investors of ESG-related credits (for example, carbon credits) currently account for such credits either as inventory in accordance with ASC 330, *Inventory*, or as an indefinite-lived intangible asset in accordance with ASC 350, *Intangibles – Goodwill and Other*. Given that applying each model yields a different impact on the income statement, along with the increasing significance of ESG credits in practice, we recommend that the Board either (1) specify which existing Codification Topic applies to accounting for ESG-related credits or (2) develop new guidance specific to ESG-related credits in order to reduce diversity in practice.

Financing instruments linked to ESG metrics

We are aware that financing instruments linked to ESG metrics, such as green bonds, are becoming more common. We believe guidance currently exists to account for ESG metrics embedded within financing instruments, and entities must already analyze other types of embedded features that could impact the settlement amount or future cash flows when accounting for financial instruments.

As discussed in Question 9, we believe stakeholder concerns about whether derivative accounting is required for embedded features linked to ESG metrics within financing instruments could be addressed by either adding a new, or modifying an existing, derivative scope exception.

Question 16: If the Board were to pursue a project on the recognition and measurement of government grants, should the FASB leverage an existing grant or contribution model (such as the models in IAS 20 or Subtopic 958- 605) or develop a new model? If you prefer leveraging an existing model, which would be most appropriate and why? If the FASB were to develop a new model, what should the model be?

We support the Board's pursuit of a project on the recognition and measurement of government grants, as we frequently encounter questions about which accounting model is appropriate for business entities that receive government grants, credits, or other support.

In our view, the Board should leverage an existing model, particularly the model in IAS 20, *Accounting for Government Grants and Disclosure of Government Assistance*, given that IAS 20 provides guidance for a broad range of government

grants, exemplified by the fact that many business entities applying U.S. GAAP currently analogize to IAS 20 to recognize and measure government grants.

Question 17: The FASB has encountered challenges in identifying a project scope that can be sufficiently described for government grants. If the Board were to pursue a project on the recognition and measurement of government grants, what types of government grants should be included within the scope and why (for example, narrow or broad scope)?

We think the scope of IAS 20 would be useful in practice; Paragraph 2 clarifies that "government assistance that is provided for an entity in the form of benefits that are available in determining taxable profit or tax loss, or are determined or limited on the basis of income tax liability" is excluded from the scope of IAS 20. We think a scope similar to IAS 20 would be helpful for business entities in differentiating between government assistance within the scope of ASC 740, *Income Taxes*, versus government assistance within the scope of guidance similar to IAS 20 or another model if the Board were to pursue a different approach. In addition, the Board might consider clarifying that the recognition and measurement guidance in an IAS 20-type model would apply only if no other guidance in U.S. GAAP applies.

Utilizing a scope similar to IAS 20 would also align the recognition and measurement guidance with the scope of the Board's current project on disclosures by business entities about government assistance, which, for scoping purpose, currently refers to when a business entity has analogized to a grant or contribution model in either IAS 20 or ASC 958-605, *Not-for-Profit Entities: Revenue Recognition.*

Question 18: The FASB has encountered challenges in identifying a project scope that can be sufficiently described for intangible assets. If the Board were to pursue a project on intangible assets, what types of intangible assets should be included within the scope and why? Within that scope, should a project on intangible assets be primarily focused on improvements to recognition and measurement or to disclosure?

We believe the Board should continue considering an overarching intangible asset accounting model that focuses on the definition of an asset and includes the development of a principles-based cost capitalization threshold to apply to all internally developed intangible assets. The Board should evaluate whether a principle-based cost capitalization threshold could be developed that would avoid cost capitalization that results in immediate impairment. The principle could also take into consideration how to account for new and evolving intangibles under the scope of the guidance, such as intangibles related to green technology, like energy credits, as well as intangibles related to other emerging technology.

We understand that determining the scope of such a project could be challenging. In the near term, we recommend a hierarchy to break down some of the more nuanced accounting issues that currently exist, which would first, align the capitalization models of internal-use software and software to be sold, leased, or otherwise marketed, as further discussed in our response to Question 19. Second, we recommend that the Board address the inconsistent accounting treatment of in-process research and development (IPR&D) acquired in a business combination

compared to the accounting in an asset acquisition, as we believe the accounting outcomes for both should be consistent. The Board could address the IPR&D accounting alignment as part of its project on accounting for business combinations and asset acquisitions. Third, the Board could address all other intangibles, as well as consider new and evolving intangible assets. We believe that any intangible asset project, whether broadly or narrowly scoped, should be focused on improving the recognition and measurement guidance.

Question 19: What challenges, if any, exist in applying the capitalization thresholds in Subtopics 350-40 and 985-20? What improvements, if any, could be made to the software capitalization guidance to overcome those challenges? Should there continue to be a capitalization threshold when accounting for software depending on whether it is for internal use or whether it is to be sold, leased, or otherwise marketed? Please explain.

Challenges that exist in applying the existing capitalization thresholds include determining whether technological feasibility has been reached, which involves significant judgment that is challenging to both apply and audit. In addition, it can be practically difficult to capture the costs eligible for capitalization under either ASC 350-40, *Intangibles – Goodwill and Other: Internal-use Software*, or ASC 985-20, *Software: Costs of Software to Be Sold, Leased, or Marketed*.

Previously, software development was performed in a linear fashion, but today the development of software follows an agile development model that is more iterative and cross-functional, with development modules occurring simultaneously in order to streamline the process. As a result, it is more difficult to apply the existing software guidance. Determining when technological feasibility has occurred for each module is increasingly difficult, and capturing the costs eligible for capitalization is challenging to track.

We believe the Board should explore making capitalization rules that are consistent for both internal-use and external-use software by project stage. The Board should also research whether a principles-based cost capitalization threshold could be established that, once reached, would require entities to capitalize costs to enhance comparability. Furthermore, different models for internal-use software and for software to be sold, leased, or otherwise marketed not only adds unnecessary complexity, but is less relevant now that entities are marketing hybrid products that include both software licenses and software-as-a-service (SaaS). Therefore, we support the alignment of the two models and believe that, because of the movement to SaaS and mixed SaaS and software license models, use of the internal-use software capitalization model for all software capitalization is more appropriate.

Chapter 3: Reduction of Unnecessary Complexity in Current GAAP

Question 20: Should the Board prioritize a potential project on current and noncurrent classification of assets and/or liabilities in a classified balance sheet? If yes, what should be the scope? Please explain.

We believe the Board does not need to address the classification of assets, as we are not aware of issues in classifying assets as current or noncurrent in practice.

Debt classification is the most prevalent question we receive in terms of classifying liabilities. Existing debt classification guidance can be challenging to apply, but the current rules are well established in practice. The contractual principle introduced by the Board in the balance sheet classification of debt project is conceptually sound, but we recognize such a principle, if finalized, would create inconsistencies with other liability classification guidance. The recent removal of the project on the balance sheet classification of debt from the Board's agenda seems to indicate that the Board could not simplify the debt classification guidance. Therefore, we believe the Board should focus its attention on other projects in the near term.

Question 21: Should the Board prioritize a potential project to simplify the consolidation guidance in Topic 810? Please explain why or why not. If yes, should the approach focus on targeted improvements or a holistic review of Topic 810?

We believe that the Board should prioritize a project to simplify the consolidation guidance in ASC 810, *Consolidation*. Existing guidance, particularly regarding variable interest entities, was developed over a series of years in response to specific practice issues. As a result, the guidance in ASC 810 is challenging to navigate and is interpreted by some as "rules-based" in nature, making it complex and difficult to apply in practice. We recognize that legal entities have complex structures and that there is a degree of complexity that will always be present in applying ASC 810, such that judgment will always be required in practice.

That said, we support the Board making the following targeted improvements to ASC 810 so that the guidance is easier to understand:

- Reorganize ASC 810: We previously supported, and continue to support, the Board's proposed amendments to reorganize the guidance in ASC 810. We believe reorganizing this Topic to more clearly differentiate the voting interest entity and the variable interest entity (VIE) models would go far to improve the understandability of the guidance.
- Reorganize and align definitions: The Board should clarify how overlapping definitions apply to the voting interest entity and the VIE models (for example, kick-out rights, participating rights, protective rights), which would likely also be achieved by reorganizing ASC 810.

While we support the Board making targeted improvements to ASC 810, we would also support the Board pursuing a project that performs a holistic review of ASC 810. In particular, the Board should consider whether the voting interest model is necessary to identify a controlling financial interest or whether the VIE model can be modified to allow any reporting entity to apply the VIE model to identify whether it has a controlling financial interest in a legal entity. Doing so would reduce the efforts invested in determining whether an entity qualifies as a variable interest entity before proceeding to the rest of the VIE model. A converged, single model could focus on who has a variable interest in the legal entity, which activities most significantly impact the economic performance of the legal entity, how those significant activities are directed, and which, if any, variable interest holder controls the activities that significantly impact the legal entity's economic performance. A principles-based

approach could address both traditional VIEs and also voting interest entities, thereby eliminating the need for two separate models.

Lastly, we believe the Board should consider adding a project to improve the consolidation guidance for not-for-profit entities (NFPs) in ASC 954-810, *Health Care Entities: Consolidation*, and in ASC 958-810, *Not-for-Profit Entities: Consolidation.* In addition, there is no guidance on when, if ever, a for-profit entity should consolidate an NFP, other than when an NFP is used to circumvent the VIE rules. As a result, there is diversity in practice, which the Board could help to reduce by providing additional guidance.

Question 22: What challenges, if any, exist in accounting for debt modifications in accordance with the guidance in Subtopic 470-50, Debt— Modifications and Extinguishments? Please explain the challenges and how they could be overcome through standard setting.

We recognize that the debt modification guidance can be challenging to apply in complex transactions. We recommend that the FASB provide more implementation guidance in the form of examples to assist practitioners in applying the debt modification guidance to complex transactions, such as when there is a change in the principal amount of debt in connection with a modification, when modifications involve loan syndications, and when a borrower has multiple credit facilities, including a line of credit, with a single lender and all facilities are modified in a single transaction.

The Board could also consider offering a practical expedient to private companies whereby all modifications are treated as debt extinguishments in order to minimize the effort currently expended to analyze debt modifications, particularly if the benefits of distinguishing between modifications and extinguishments for users of private company financial statements do not outweigh such efforts.

Given the Board recently added a project to its technical agenda on removing troubled debt restructuring (TDR) recognition and measurement guidance from U.S. GAAP for creditors that have adopted ASU 2016-13, *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, we think the Board should consider removing TDR guidance for borrowers, as well. Applying the guidance on TDRs in ASC 470-60, *Debt: Troubled Debt Restructurings by Debtors*, before applying the guidance in ASC 470-50, *Debt: Modifications and Extinguishments*, is burdensome, and we believe users have other avenues to understand the borrower is in distress without requiring borrowers to apply ASC 470-60. Additionally, the conceptual underpinning of the TDR guidance is questionable, with the model biased toward delaying the recognition of actual economic gains from concessions received by a troubled borrower.

Question 23: Stakeholders noted many challenges in applying the liabilities and equity guidance, but they had mixed views on how the Board should improve the accounting for financial instruments with characteristics of equity. The Distinguishing Liabilities from Equity Phase 2 project is intended to align the two existing indexation models in Topic 480 and Subtopic 815-40. Should the Board continue pursuing this project in its current scope and objective, or does the Board need to reevaluate this project? Please explain why or why not and if

the project scope and objective need to be reevaluated, what should the approach be?

We believe the Board should reevaluate the objective of the current project to align the indexation models in ASC 480, *Distinguishing Liabilities from Equity*, and ASC 815-40, *Derivatives and Hedging: Contracts in Entity's Own Equity*, because aligning two sets of rules-based guidance would likely still result in revised guidance that remains rules-based. Instead, we encourage the Board to undertake a broad-scope project that addresses the fundamental issues in the distinguishing liabilities from equity guidance. We refer the Board to Grant Thornton's response to the 2016 Invitation to Comment, *Agenda Consultation*, in Comment Letter No. 24A, which provides our view on how to broadly address the distinguishing liabilities from equity guidance.

We also believe that the conceptual basis of any revised guidance on distinguishing liabilities from equity should incorporate concepts from the SEC's guidance on redeemable equity in ASC 480-10-S99. Conceptually, we support the alignment of classification principles in both U.S. GAAP and the SEC guidance. Because entities commonly determine that an instrument is equity-classified under U.S. GAAP but then conclude that permanent equity classification is not appropriate using the SEC's guidance, we believe that the concepts in existing U.S. GAAP are not adequately capturing the economic substance of the transaction. That is, the SEC would not have needed to promulgate guidance on distinguishing permanent from temporary equity if U.S. GAAP reflected the economic substance of temporary equity instruments.

Additionally, creating a single, holistic model would reduce the costs and complexities in applying multiple models to the same instruments. We observe that the guidance, as it exists today, is particularly burdensome for private entities that undertake an initial public offering and, as a result, become subject to the SEC's guidance on redeemable equity.

Lastly, we believe the Board should also clarify the scope of ASC 480, whether as a targeted improvement, a FASB staff clarification, or as a broader project. In particular, the Board should address whether a freestanding financial instrument issued in the legal form of a debt instrument should be evaluated under the guidance in ASC 480-10-25 on Obligations to Repurchase Issuer's Equity Shares by Transferring Assets and Certain Obligations to Issue a Variable Number of Shares. The Board should clarify whether legal form debt instruments that contain features similar to those found in equity-linked instruments represent obligations to repurchase the issuer's equity shares by transferring assets, such as:

- A debt instrument that is settleable in a liability-classified, equity-linked instrument, such as warrants.
- A convertible debt instrument that can be converted into a mezzanine-classified preferred stock

Similarly, the Board should clarify whether a debt instrument that embodies a conditional obligation that the issuer may or must settle by issuing a variable number of its equity shares when the monetary value of the obligation is known at inception

should be subject to the guidance in ASC 480 on Certain Obligations to Issue a Variable Number of Shares.

In such fact patterns, the debt instrument is classified as a liability, irrespective of whether the guidance in ASC 480 is or is not applied. However, the subsequent measurement guidance might differ depending upon whether the debt instrument falls within the scope of ASC 480 or other guidance. If the debt instrument does not fall within the scope of ASC 480, the embedded feature is assessed for bifurcation under ASC 815-15, *Derivatives and Hedging: Embedded Derivatives*, and the host debt instrument is generally accounted for at amortized cost. Alternatively, if the debt instrument is within the scope of ASC 480, the instrument is generally measured at fair value, with changes in fair value recognized in earnings.

Question 24: How helpful would it be in evaluating disclosure materiality if the materiality guidance in paragraph 105-10-05-06 that "the provisions of the Codification need not be applied to immaterial items" was repeated in the Disclosure Section of each Codification Subtopic? Please explain.

We believe that incorporating ASC 105-10-05-06 within the Disclosure Section of each Codification Subtopic is unnecessary, since the concept of materiality is already embedded throughout the entire financial reporting process.

Chapter 4: Improvements to FASB Standard-Setting Processes

Question 25: Which, if any, of the FASB processes described in Chapter 4 of this ITC could be improved? Please explain your rationale for each, including the following:

a. **Why that process needs improvement**

b. **How the FASB should improve that process**

c. **What the urgency is of that process improvement.**

Codification accessibility

We support certain changes to the Codification to improve the understandability of existing guidance. Nonauthoritative guidance is helpful when interpreting and applying U.S. GAAP and, as such, the Codification could be improved to incorporate nonauthoritative guidance that is relevant to each Topic. The following nonauthoritative sources would be helpful if incorporated into the Codification, perhaps below the status table in Section 00, *Status*:

- Basis for Conclusions for standards that were issued prior to the existence of ASUs. Each ASU that impacts a particular Codification Topic is already listed in the status section, so the link to each ASU's basis is already accessible. Including the Basis for Conclusions for pre-ASU standards in the status section would further improve the Codification.
- Transition Resource Group materials and minutes
- EITF materials and minutes, including interpretations of U.S. GAAP if the Board utilizes the EITF to provide such interpretations

- Pre-Codification FASB Staff Positions (FSPs)
- FASB Staff Q&As

We believe that other nonauthoritative materials, such as Board meeting materials and minutes, should not be incorporated in the Codification, given that such materials do not always reflect the final decisions reached for a project.

We also encourage the FASB to make PDFs of the Codification books available. Not only would a PDF be an environmentally friendly way to distribute the Codification to those who wish to access the Codification in a book format, but it would also increase the usability, considering the advent of electronic tools that are used to read and access documents.

Interpretive process

We support the FASB in establishing a single, consistent process that would provide timely interpretations of U.S. GAAP and believe using the EITF to provide such interpretations is a reasonable approach.

Over time, the FASB has utilized a variety of approaches to provide interpretive guidance. Going forward, we think it would be most helpful for stakeholders if the Board used a consistent process and form of communication to provide interpretations. We also encourage linking such interpretations to the authoritative guidance in the Codification, as further discussed in the Codification accessibility section.

Transition guidance

We agree that in some ASUs, the transition requirements are overly complex and challenging to apply.

We believe the Board can improve the understandability of transition guidance by using consistent language across all ASUs to achieve the same objective. As such, the Board should ensure language is consistently used to communicate public business entity and nonpublic business entity effective dates, early adoption provisions, and annual and interim reporting requirements. Illustrations are helpful in understanding the transition guidance, so we recommend that the Board continues to provide illustrations, especially when transition guidance is particularly complex.

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We would be pleased to discuss our comments with you. If you have any questions, please contact Lynne Triplett, Partner-in-Charge, Accounting Principles Group, at 312.602.8060 / Lynne.Triplett@us.gt.com.

Sincerely,

/s/ Grant Thornton LLP