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September 22, 2021

Ms. Hillary Salo

Technical Director
Financial Accounting Standards Board
401 Merritt 7
PO Box 5116
Norwalk, CT 06856-5116

RE: Invitation to Comment, *Agenda Consultation* (File Reference No. 2021-004)

Dear Ms. Salo:

We appreciate the opportunity to comment on the FASB's Invitation to Comment (ITC), *Agenda Consultation.* As the Board is currently in post-implementation review of recent major standards on revenue, leases, and financial instruments recognition and measurement and impairment, we believe it is an appropriate time for the Board to make a fresh assessment of the projects that it should undertake over the near and longer term. We believe the Board's outreach to constituents is important and we are pleased to be part of the process.

As the Board evaluates the feedback from this process, the decision-making will not be limited to identifying the areas where there is a compelling need to improve GAAP. It will also involve decisions about how to address the financial reporting issues in those areas and will require careful consideration of a wide range of factors, including balancing the need for comprehensive solutions with the urgency of the need to improve financial reporting. While there is no one-size-fits-all approach, we encourage the Board to consider an incremental approach to standard-setting when the need for change is most urgent. An incremental standard-setting approach would allow the Board to accomplish its standard setting objective in two phases. In phase one, the Board would address the improvements that are most urgent and more easily identified. In phase two, the Board would address the remaining issues to provide a comprehensive accounting framework and assess feedback from constituents on the implementation and operation of the changes made in the initial phase. This incremental approach would permit the Board to act more quickly on the most pressing issues, to observe and evaluate the initial changes in application before the full project is completed and allow more time to consider the most challenging aspects of the project. In our responses, we have highlighted some specific areas that we believe would be well-suited to an incremental approach.

To ensure meaningful progress on the areas that are of most pressing importance, we recommend that the Board prioritize:

— Developing guidance for government grants to eliminate diversity in practice, better reflect the economic substance of direct government assistance to all types of entities, including for-profit entities, and separate those effects from the results of an entity's operations.

— Improving the relevancy and usefulness of the performance measures in the financial statements, including incorporating into GAAP some of the most widely-used and relied-upon measures that are reported outside of the audited financial statements.

— Requiring that certain digital assets, such as crypto assets that have a readily determinable fair value, be measured at fair value with changes in fair value reported in earnings to better reflect the effects that holding these assets has on an entity's financial condition and results of operations.

— Addressing the growing disconnect between the accounting for internally-developed intangible assets and intangible assets acquired in a business combination, providing an ability to recover previously recognized impairments, and modernizing outdated guidance on software development.

We understand that the Board has limited resources to allocate to projects and believe that an efficient and productive use of its resources would be to focus on these four items as a priority. Details of why we believe these are priority items for the Board's agenda are included in our responses to specific questions included in the Appendix.

* * * * *

Our responses to the Board's specific questions are included in the Appendix.

If you have questions about our comments or wish to discuss the matters addressed in this comment letter, please contact Kimber Bascom at (212) 909-5664 or kbascom@kpmg.com, or Rob Tockman at (212) 954-2338 or rtockman@kpmg.com.

Sincerely,

KPMG LLP

KPMG LLP

Appendix – Responses to the Board's Questions

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:*

- a. *Academic*
- b. *Investor, other allocator of capital, or other financial statement user, such as:*
    1. *Equity analyst: buy side*
    2. *Equity analyst: sell side*
    3. *Credit-rating agency analyst*
    4. *Fixed-income analyst*
    5. *Accounting analyst*
    6. *Quantitative analyst*
    7. *Portfolio manager*
    8. *Private equity*
    9. *Lender*
    10. *Long-only focus*
    11. *Long/short focus*
    12. *Other*
- c. *NFP organization preparer*
- d. *Practitioner/auditor*
- e. *Private company preparer*
- f. *Public company preparer*
- g. *Regulator*
- h. *Standard setter*
- i. *Other.*

KPMG LLP is a practitioner/auditor.

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 four topics addressed in this ITC should be a top priority for the Board:

Accounting for Government Assistance

We believe the Board should develop guidance for government grants to eliminate diversity in practice, better reflect the economic substance of direct government assistance to all types of entities, including for-profit entities, and separate those effects from the results of an entity's operations. We recommend that the Board take an incremental approach to standard-setting in this area, with phase one addressing only government grants, not other forms of government assistance.

Government grants and similar government assistance have significantly expanded worldwide in recent economic downturns and the potential exists for a significant increase in government assistance programs in the future. The lack of GAAP accounting guidance has led to diversity in practice and the risk that entities' financial statements may not appropriately reflect the economic substance of government assistance that they receive.

We recommend that the accounting guidance be similar to the guidance in IAS 20.

See further discussion of our recommendations, and the reasons why we believe a project should be undertaken, in our responses to Questions 16 and 17.

Financial Performance Reporting
We believe the Board should improve the relevancy and usefulness of the performance measures in the financial statements, including incorporating into GAAP some of the most widely-used and relied on measures that are reported outside of the audited financial statements. We believe that an incremental approach can be taken in this area, whereby certain measures that are most common and broadly applicable are incorporated into GAAP in the near-term while the Board researches the potential for addressing industry specific measures in a subsequent phase.

Over time, investors have become more reliant on financial measures provided outside of the GAAP financial statements. Increasingly, these measures are viewed by preparers and users of the financial statements as more relevant to assessing an entity's performance than the performance measures included in the GAAP financial statements. This is an indication that the relevance of the GAAP financial statements may have diminished. In addition, because there is no GAAP applicable to these performance measures, they are often not calculated consistently, which impairs the comparability of these widely-used measures from one entity to another. Finally, because the measures are not included in an entity's financial statements, they are not subject to audit.

To address these issues, we recommend that the Board incorporate a limited number of new financial measures, e.g. EBITDA, into GAAP, and define (1) what financial statement elements should be included in the calculation, (2) how the measures should be calculated, (3) where in the financial statements the measures should be disclosed and (4) the extent of disclosure (for example, whether the components of the calculation should be shown). We further recommend that the Board require all entities to provide these measures to ensure comparability.

As part of this project, we believe that the Board should also assess whether to retain other comprehensive income (OCI) as a performance measure.

See further discussion of our recommendations, and the reasons why we believe a project should be undertaken, in our responses to Questions 14 and 15.

Accounting for Digital Assets
We believe the FASB should prioritize a project on digital assets and take an incremental approach to the standard setting in this area. We recommend that the initial phase require fair value measurement for certain digital assets with a 'readily determinable fair value'.

For digital assets with a readily determinable fair value, we believe there is an emerging consensus that the present accounting does not provide decision-useful information to investors, or appropriately reflect the effect of these assets on the holder's financial position.

This project would not preclude the Board from subsequently undertaking a longer-term project with a broader scope (e.g. to address a wider range of digital assets), but would provide a clear, operable scope for a project that we believe would address the most critical financial reporting issue related to digital assets in a reasonable timeframe.

See further discussion of our recommendations, and the reasons why we believe a project should be undertaken, in our response to Question 12.

Accounting for Intangible Assets, including Software and Internally-developed Intangibles

We believe the Board should improve the accounting for intangible assets by addressing shortfalls in GAAP guidance, including the disconnect between the accounting for internally-developed intangible assets and intangible assets acquired in a business combination and the outdated guidance on software development. There is a disparity that exists for a company that has grown organically versus a company that has grown through acquisitions – the first generally records much lower amounts of intangibles and amortization, however, records significant research and development expense to develop intangibles. Thus, we believe the Board’s project should revisit the accounting for internally-developed intangibles to alleviate this issue. In addition, we recommend that the Board consider eliminating the different accounting models for external- and internal-use software development as both are productive assets that should follow a capitalization model.

See further discussion of our recommendations, and the reasons why we believe these projects should be undertaken, in our responses to Questions 18 and 19.

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.*

We believe that the following topics in this ITC are not a priority at this time:

- Consolidation – Reorganization and Targeted Improvements: See our responses to Questions 5b and 21.

- Current and noncurrent classification for assets and/or liabilities in a classified balance sheet: See our response to Question 20.

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).

Topics that we believe should be a top priority for the Board to address are included in this ITC (see our response to Question 2) and/or already on the Board's current agenda (see our response to Question 5a).

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.*

Projects that the Board Should Prioritize Completing (Question 5a)

We believe these projects are a priority for the Board based on the current agenda:

Identifiable Intangible Assets and Subsequent Accounting for Goodwill
We believe the Board should prioritize completing the project on Identifiable Intangible Assets and Subsequent Accounting for Goodwill. Regardless of whether the Board decides to move to an amortization model, potential changes to the model could simplify the accounting and better align the costs and benefits of the model.

Disclosure of Supplier Finance Programs Involving Trade Payables
We recommend that the Board prioritize the project related to Disclosure of Supplier Finance Programs Involving Trade Payables. We continue to see an increase in the prevalence of these arrangements and believe that users will significantly benefit from additional information in the financial statements.

Further, we believe that the disclosure project should be the first step in an incremental approach that ultimately addresses the balance sheet classification of these arrangements as either trade payables or debt. We acknowledge that the second phase will be more challenging due to the varying nature and economic substance of these programs. However, there is no specific guidance in GAAP that addresses when these arrangements should be presented as trade payables or debt. In addition, the classification impacts whether amounts should be presented in the statement of cash flows as operating activities or financing activities.

Codification Improvements – Hedge Accounting
We recommend that the Board prioritize completing the portion of the Codification Improvements – Hedge Accounting project that seeks to clarify its intent related to the change in hedged risk guidance for cash flow hedges. We are seeing an increased number of questions and practice issues in this area related to the forecasted transaction (which is a fundamental aspect of cash flow hedge accounting) that we believe this project would help resolve.

Before the issuance of ASU 2017-12, the hedged forecasted transaction and the hedged risk were generally documented in an integrated manner, as opposed to being distinguished from one another.

ASU 2017-12 introduced a new provision that permits an entity to change the designated hedged risk without discontinuing hedge accounting but did not allow an entity to change the hedged forecasted transaction without discontinuing hedge accounting. ASU 2017-12 did not provide guidance on how to distinguish the hedged forecasted transaction from the hedged risk. This has created a significant lack of clarity, especially when a forecasted transaction is still forecasted to occur but is different from the hedged forecasted transaction originally documented with respect to the price or interest rate index, quality/grade, location or legal entity. Without knowing which attributes relate to the hedged forecasted transaction and which relate to the hedged risk, it is often unclear what an entity should assess when evaluating the probability that the hedged forecasted transaction will occur. As a result, it is often unclear whether hedge accounting can be continued and, if discontinued, whether the related amounts in accumulated comprehensive income should be recognized in earnings.

While we believe that the Board's 2019 proposals with respect to these issues required additional development and clarification, it was a reasonable first step. We recommend that the Board continue to develop these proposals to expeditiously resolve the practice issues we have described.

Joint Venture Formation
We believe the Board should continue with its project Accounting by a Joint Venture for Nonmonetary Assets Contributed by Investors because GAAP is not clear and diversity exists in practice. This project provides an opportunity to more closely align the investor's basis in the venture with the basis in the stand-alone financial statements of the venture.

In our response to Question 2, we have identified several items in this ITC that are a priority for the Board. We believe that the potential agenda items described in our response to Question 2 are generally a higher priority than the priority items we have identified in the response to this question.

Projects that the Board Should Deprioritize or Consider Removing (Question 5b)

We believe the Board should deprioritize or remove the following projects from its agenda:

Consolidation Reorganization and Targeted Improvements
We believe that the Board should consider removing the Consolidations – Reorganization and Targeted Improvements project from its agenda. As noted in our response to Question 21, and our comment letter dated December 1, 2017 on the proposed ASU on Reorganization, although the consolidation guidance is complex, the cost for many organizations to revise their accounting documentation to align with the reorganized guidance could be significant and may provide only modest benefits because the existing Topic 810 guidance is well-established and familiar to most stakeholders.

Lease Modifications
In our comment letter response to Question 12 in the 2021 proposals on Leases Targeted Improvements, we stated that there are conceptually supportable changes that could be made to the lease modification guidance in Topic 842. However, we outlined a number of factors we believe the Board should take into consideration before amending the modification guidance. These included (summarized):

- Amending the lease modification guidance, without changing the lease reassessment guidance, would break the alignment that currently exists between them.
- Amending the lease modification guidance (and the lease reassessment guidance, if the Board were to do so) would deconverge that guidance from IFRS 16.
- Amending the lessor lease modification guidance may break its alignment with the contract modification model in Topic 606.

In general, the existing alignment of the lease modification guidance discussed in the preceding bullets is viewed positively by stakeholders. Nevertheless, we were previously open to the idea of changes, including some of the changes discussed at the September 2020 leases roundtable, even if one or more of these alignments would be lost.

However, since the leases roundtable and our December 2020 comment letter, we have consistently heard from preparers that changes to the lease accounting model that (1) would require software and/or process changes and/or (2) necessitate new manual processes or judgmental assessments that cannot be systematized, would not be useful now, especially in the context of Topic 842 modification guidance that is widely perceived to be an improvement over Topic 840. It appears that the principal changes we have heard discussed at the leases roundtable and subsequently would, in fact, result in either or both (1) and (2). For example:

- Reinstituting guidance similar to Topic 840 for determining when to recognize a termination penalty on modification would require a new judgment and would necessitate a system change to permit recognizing all or a portion of the termination penalty (i.e. a change to the 'consideration in the contract') to expense immediately.
- A 'minor' modification exception to the full lease modification accounting requirements would appear likely to involve new judgments that either could not be systematized or would require a system change to implement.
- The Board's October 2020 lease modification proposal for certain reduction in scope modifications involved qualitative judgments that do not lend themselves to systematization. In addition, the accounting that follows – i.e. principally, as in the first bullet above, to recognize certain changes in the 'consideration in the contract' resulting from the modification through expense immediately – would likely necessitate a change to most leasing software solutions.

Based on our concerns about alignments – to the reassessment guidance, IFRS 16 and the Topic 606 contract modification guidance – and the feedback we have heard about the cost-benefit considerations of the principal amendments that have been discussed to date, we do not believe the Board should continue to pursue amending the Topic 842 lease modification guidance. We believe the accounting model is understood and has been operationalized. Changes to the lease modification guidance now would appear to put one or more of the important modification guidance alignments we have highlighted above at risk, while also causing disruption to, and additional costs for, many companies.

<u>Projects that the Board Should Consider Redefining (Question 5c)</u>

We believe the Board should redefine the following projects on the current agenda:

Improving the Accounting for Asset Acquisitions and Business Combinations
We recommend that the Board redefine the scope of its project on Improving the Accounting for Asset Acquisitions and Business Combinations (Phase 3 of the Definition of a Business Project*)* to more fully align the accounting for asset acquisitions and the accounting for business combinations. This would eliminate the need to (1) maintain separate models for asset acquisitions and business combinations and (2) further develop the asset acquisitions model to address practice issues that are becoming more prevalent.

We understand the original intent of the project was to more directly address the issue of what is an asset or a business by eliminating or reducing the accounting arbitrage between the two.[1] However, the scope of the project is narrow and focuses on only a subset of the accounting differences (contingent consideration, transaction costs, and the accounting for contingent consideration and IPR&D by a primary beneficiary of a variable interest entity that is not a business).

[1] Paragraph BC4 of ASU 2017-01, Clarifying the Definition of a Business.

We believe the narrow scope of the project may not significantly reduce the accounting arbitrage because significant accounting differences would still exist. For example, the Board removed from the scope of the project the accounting for acquired IPR&D, which, in our experience, is one of the most pervasive differences for transactions that historically required more judgment to evaluate the definition of a business.

Additionally, because of the increase in asset acquisitions after the change in the definition of a business, the lack of comprehensive guidance on asset acquisitions has led to practice issues. For example, practice issues have arisen in asset acquisitions where the entity held an interest before the acquisition or acquired a noncontrolling interest.

We recommend a more comprehensive approach to the project that would fully align the accounting for asset acquisitions and the accounting for business combinations. Absent full alignment, the benefits of the current project diminish and could instead create additional complexity. For example, if the Board continues with its current approach, certain changes to contingent consideration could create additional complexity in either or both of the asset acquisition or business combination models. In addition, those changes could have unintended consequences by affecting arrangements in which there is not currently significant diversity, e.g. royalties and other usage-based fees in licensing arrangements (e.g. entering into software, franchise and/or other license arrangements). Therefore, a piecemeal approach may not solve the problem the Board set out to achieve and could introduce additional complexity.

If the Board adds a project on internally-developed intangible assets (see Question 18), we believe it should consistently apply the principles of that project to this project. For example, many of the questions that would need to be answered about purchased IPR&D, such as how to treat contingent consideration (when to capitalize or expense) would be relevant to both projects. Thus, the key decisions in the intangible asset project may inform the direction of the overall model on this project.

Distinguishing Liabilities from Equity Phase 2

We believe the Board should continue to prioritize the Distinguishing Liabilities from Equity Phase 2 project to continue to make incremental progress toward improvement and alignment of liabilities and equity classification guidance in GAAP. However, as discussed further in our response to Question 23, we believe the Board should also consider taking on a broader project with a more holistic approach to liabilities versus equity classification.

Chapter 1—Disaggregation of Financial Reporting Information

Question 6: *Greater disaggregation and granularity of the types of financial reporting information described in Chapter 1 have been identified as decision useful to investors. The following insights would be helpful to the FASB when considering this area:*

- *a. Investors and other financial statement users—Which, if any, of the areas described in Chapter 1 should be a top priority for the FASB to consider requiring greater disaggregation—on the income statement, the statement of cash flows, or the notes to financial statements? Would this information be most useful in the financial statements or in the notes to financial statements? How would this information be used to analyze a company and make capital allocation decisions?*
- *b. Preparers—What requests or questions does your company receive from analysts on the areas described within Chapter 1? Please explain any requests or questions your company has received.*

We acknowledge that this question is not directed to KPMG LLP as a practitioner/auditor. However, we support the Board's efforts to make targeted improvements to the financial statements with greater granularity and disaggregation of the types of financial reporting information described in Chapter 1.

We note that disaggregation and segmentation are equally entity- and industry-specific which is why the Board has favored a management approach to identifying which financial information to disclose in these areas. We also note that identifying which information is regularly reviewed by the CODM has become more and more challenging in recent years with the development of electronic-based information access and data analysis tools. We encourage the Board to rethink holistically how the management approach should be applied.

Question 7: *Investors and other financial statement users—What cash flow information, if any, required for your analysis is missing in a statement of cash flows prepared using the indirect method? How would this information influence your decisions and behavior? Please explain.*

We acknowledge that this question is not directed to KPMG LLP as a practitioner/auditor. However, we support the Board's effort to improve the presentation of the statement of cash flows and concur with the Board's observation that most preparers use the indirect method to prepare cash flows. We encourage the Board to carefully weigh investors' and other users' needs against the costs to preparers of requiring further disaggregation of operating cash flows prepared under the indirect method, which could in substance require preparers to adopt the direct method.

We note that ASUs issued in 2016 have reduced diversity in practice in how certain cash receipts and payments are classified in the statement of cash flows. However, we believe that comparability across companies and industries could be further improved by making additional targeted improvements to the statement of cash flows guidance to address: (1) other areas in which classification is unclear or complex, (2) gross versus net presentation of certain investing and financing cash flows, and (3) presentation of noncash transactions.

Question 8: *Preparers—What requests or questions, if any, does your company receive from analysts on cash flow information? Please explain.*

Not applicable to KPMG LLP as a practitioner/auditor.

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 have identified several challenges that exist in practice when applying the guidance on the definition of a derivative and the related derivative scope exceptions:
— Scope exception for certain contracts that are nonexchange traded;
— Modifications of derivatives;
— Initial net investment characteristic;
— Net settlement criterion involving delivery of an asset that is readily convertible to cash; and
— Payment provisions.

Scope exception for certain contracts that are nonexchange traded
We believe that certain aspects of the guidance on the scope exceptions for contracts that are nonexchange traded are challenging and that further clarification would result in more consistent application by entities.

Contracts that are nonexchange traded fall within this scope exception if the underlying on which the settlement is based is:
— Climatic, geological or other physical variable;
— Price or value of a nonfinancial asset; or
— Specified volumes of revenue.

Questions related to specific aspects of the scope exception are common as contracts frequently have provisions that could be broadly interpreted to meet the scope exception.

Climatic, geological and other physical variable – The scope exception for the climatic variable has been narrowly interpreted in practice to apply to contracts with settlement directly related to a climatic condition (e.g. temperature and rainfall). We increasingly receive questions on contracts with settlement based on items that are not direct climatic conditions, but that have an impact on climate (e.g. a debt agreement with a provision for interest rate changes based upon levels of carbon emissions).

Price or value of a nonfinancial asset – This scope exception is sometimes narrowly interpreted to apply to only contracts in which the underlying is the fair value of a nonfinancial asset (e.g. a call option on a piece of artwork). We receive questions on contracts with underlyings that are *related* to the value of a nonfinancial asset, but are not the price or value of the nonfinancial asset itself (e.g. (a) an entity enters into an agreement to sell a parcel of land for cash and is entitled to receive a subsequent contingent payment based on the success of drilling for oil or gas and (b) an entity enters into an agreement to purchase an intangible asset related to a drug and agrees to pay the seller various fixed dollar amounts based on the achievement of specified development milestones).

Specified volumes of revenue – There is diversity in practice in how this scope exception is applied. Some entities interpret it narrowly and apply it to only contracts with underlyings that are specifically referenced in the scope exception (e.g. volume of items sold or services rendered). Other entities interpret it more broadly, applying it to contracts with underlyings based on other entity-specific performance measures (e.g. net income or EBITDA). We have also received questions about whether this scope exception can be applied to a specified single line item of an entity’s income statement or a component thereof (e.g., an entity enters into a contract for which settlement is based on a percentage or a multiple of the entity’s R&D expense for a specific period or a specific project).

We recommend that the Board consider clarifying these scope exceptions, and specifically consider whether the exceptions should be broadened to include any underlying that is based solely on specific aspects of the operations of one of the parties to the contract (other than instances where that aspect of the entity’s operations is an observable market index, such as an interest rate index used to determine amounts to be paid or received by the entity).

Modification of a derivative
We believe that current GAAP is unclear about whether or when a modification of a derivative should be evaluated as a new instrument or as a continuation of the existing contract.
In practice, entities generally treat a modification of a contract that impacts cash flows as an extinguishment of the original contract and issuance of a new instrument, including modifications in which no incremental cash is exchanged. This interpretation results in entities evaluating whether the new instrument meets the definition of a derivative in its entirety, if there is an embedded derivative requiring bifurcation, or whether the classification within the statement of cash flows should be changed.

For example, entities have amended pay-fixed, receive-variable rate interest rate swaps to simultaneously extend the maturity dates and change the fixed interest rate in the pay leg of the swap. In this scenario, even though no cash has been exchanged in the modification transaction, entities have treated the transaction as an extinguishment of the original swap contract and issuance of a new contract. In some cases, entities have concluded that the new instrument does not meet the definition of a derivative in its entirety because the exchange of the original contract for the new one did not meet the initial net investment characteristic (i.e., there was more than little or no initial net investment).

We recommend that the Board consider developing guidance on how entities should evaluate a modification of a derivative to determine whether the modification should be evaluated as a new instrument or the continuation of an existing contract.

Net settlement criterion involving delivery of an asset that is readily convertible to cash
We recommend that the Board clarify certain aspects of the guidance on determining whether a contract meets the net settlement criterion because it involves delivery of an asset that is readily convertible to cash. Specifically, we recommend that the Board consider clarifying whether, to be considered readily convertible to cash, the asset to be delivered needs to have quoted prices available in an active market and, if so, whether quoted prices can exist in markets other than exchange markets.

Questions in this area are becoming more prevalent as certain brokered markets and dealer markets have become more liquid.

Topic 815 provides that a contract meets the net settlement criterion if it involves delivery of an asset that is ‘readily convertible to cash’ (paragraph 815-10-15-99(c)). The term readily convertible to cash is defined in the Topic 815 Glossary, and additional guidance is provided in paragraphs 815-10-15-119 through 55-139.

The Glossary definition states that assets that are readily convertible to cash have “quoted prices available in an active market…”. However the guidance in paragraph 815-10-15-119 through 55-139 does not mention the need to have quoted prices, and paragraph 815-10-15-130 appears to contradict the Glossary definition by indicating that a security traded in a market that is “not very active” could, in some circumstances, be considered readily convertible to cash.

In addition, Topic 815 is not clear about what is meant by ‘quoted prices’. This presents challenges when the asset to be delivered under the contract is traded in a market other than an exchange market. Specifically, it is not clear whether binding, executable offers in dealer markets or brokered markets constitute quoted prices.

We recommend that the Board consider:
- Clarifying whether an asset is considered readily convertible to cash only when there are quoted prices available in active markets;
- Amending paragraph 815-10-15-130 to remove the example where the market is not active, if an active market is required for an asset to be considered readily convertible to cash; and
- Clarifying whether quoted prices can exist in dealer markets or brokered markets and provide examples of quoted prices in those scenarios (e.g., when brokers make available binding, executable offers to buy or sell assets), if quoted prices are required for an asset to be considered readily convertible to cash.

Payment provisions
We believe that certain aspects of the guidance on determining whether a payment provision meets the fixed or determinable criterion would benefit from further clarification.

To meet the definition of a derivative a contract needs to have (1) one or more underlyings and (2) one or more notional amounts or payment provisions, or both. The notional amount or payment provision is needed to compute the contract's periodic settlements and resulting changes in fair value. The Glossary definition provides that a payment provision specifies a fixed or determinable settlement to be made if the underlying behaves in a specified manner but does not provide further guidance on how to determine whether a payment provision is determinable. Specifically, the guidance is not clear with respect to whether the amount would need to be determinable at contract inception, or alternatively whether a payment provision could be considered to be determinable after contract inception.

For example, if a contract specified that one party would pay 40% of the amount of favorable litigation judgment between $1M - $10M, the settlement amount cannot be calculated until the outcome of the specified litigation is known.

We recommend that the Board clarify whether a payment provision is determinable if the settlement formula incorporates variables with outcomes that would not be known at contract inception.

Question 10: *Investors—How significant are holdings in digital assets, such as crypto assets, in the companies you analyze? What type of financial reporting information about holdings in digital assets do you use in your analysis of a company? How does that information influence your decisions and behaviors? If there is other financial reporting information about digital assets that would be decision useful, what is that information and why is it decision useful?*

Not applicable to KPMG LLP as a practitioner/auditor.

Question 11: *Preparers and practitioners—Does your company (or companies that you are involved with) hold significant digital assets, such as crypto assets? What is the purpose of those holdings?*

We work with companies that hold significant digital assets. Those companies generally hold them for one or more reasons:

- Investment purposes;
- Proprietary trading;
- To be able to fulfill customer orders for those assets (e.g. in the event of system/exchange issues);
- Lending purposes; or
- Because they accept customer payments for their goods or services in digital assets such as bitcoin (in which case they may immediately dispose of those assets or hold them for one or more of the reasons in the preceding bullets).

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 believe the FASB should prioritize a project on digital assets and take an incremental approach to the standard setting in this area. We recommend that the objective of the initial phase should be to require fair value measurement for certain digital assets. Specifically, we believe this accounting should be applied to those digital assets for which a 'readily determinable fair value', substantially as defined in ASC Section 321-10-20, is available. Refinements to the definition for purposes of this project might include stipulating that the fair value of a digital asset is readily determinable if it is traded on one or more exchanges of significant breadth and scope and the prices on that exchange form the basis for current buy/sell transactions. As a practical matter, we believe this population (hereafter, crypto assets) may substantially converge with 'crypto assets' as defined in the American Institute of Certified Public Accountants' (AICPA) *Accounting for and auditing of digital assets guide* (Digital Assets Guide). This project would not preclude the Board undertaking a further, likely longer-term, project with a broader scope (e.g. to a wider range of digital assets), but would provide a clear, operable scope for a project that we believe would address the most critical financial reporting issues related to digital assets in a reasonable timeframe.

For crypto assets, such as bitcoin and ether, we believe there is an emerging consensus that the present accounting does not provide decision-useful information to investors, or appropriately reflect the effect of these assets on the holder's financial position. Companies with material holdings of crypto assets generally provide significant non-GAAP disclosures (e.g. of balance sheet date/current market value, and income measures exclusive of crypto asset impairment losses or inclusive of unrecognized gains) to help investors understand the true, economic effect of their crypto asset holdings on their financial position and performance. The extent of these non-GAAP disclosures, often at the request of the Company's investors, indicates that the current GAAP accounting may not result in decision-useful information nor reflect the economic substance of digital assets.

It is our view that these assets should be measured on a recurring basis at fair value, with realized and unrealized gains/losses recognized in current period earnings. The differences in accounting between this approach and current GAAP are striking. As an example, an SEC registrant that is one of the largest holders of crypto assets, measured its crypto asset holdings for GAAP purposes at approximately $2.1 billion (cost less accumulated impairment losses) as of June 30, 2021 and had recognized cumulative impairment losses of almost $700 million through operating income (loss) over the twelve-month period ending June 30, 2021. Under a fair value measurement model, it appears those same crypto assets would have been measured at approximately $3.7 billion as of that date, with cumulative unrealized gains of approximately $900 million over the same twelve-month period.

We are not in favor of this proposed accounting being optional because we believe (1) optionality creates a lack of comparability that puts financial statement users at a disadvantage and (2) fair value measurement is the appropriate measurement basis for crypto assets. We do not believe implementing this approach would be costly for preparers because most companies that would be significantly affected by the change are already providing non-GAAP disclosures involving most of the information the preparer would need to apply the accounting we propose, and are tracking the fair value of their crypto assets to record their currently-required impairment losses. Further, we believe having this information as part of the audited financial statements and footnotes would benefit investors.

We are aware that some believe that this proposed accounting should be accomplished by treating these assets as a special type of intangible asset, while others would suggest treating crypto assets as their own class of asset or some type of financial asset. While arguments can be made for different approaches, we believe it may be most practical to treat these assets as a subset of intangible assets for which fair value measurement is required.

With respect to IFRS convergence, we believe the International Accounting Standards Board (IASB Board), as part of its concurrent Agenda Consultation, will receive a significant amount of feedback suggesting IFRS Standards should be amended for the accounting for crypto assets. While we encourage the Board to work closely with the IASB Board to develop a converged crypto asset accounting model if possible, we believe the Board should proceed along the lines we suggest even if the IASB Board decides to take no action or pursues a different path (e.g. disclosure-only).

Looking beyond the scope of the initial phase of a project on digital assets, we believe the issues related to crypto asset accounting highlight an overall deficiency in US GAAP on the accounting for intangible assets that are actively traded or held for investment purposes. This category could include non-fungible digital tokens (NFTs), renewable energy credits and emissions allowances/credits (see further discussion in Question 13). In many cases, the current intangible asset accounting model does not provide relevant, decision-useful information to investors about a company's holdings of these intangible assets. We believe the Board could consider whether improvements to GAAP for crypto assets could be leveraged to improve the accounting for other intangible assets. Our response to Question 18 addresses intangible asset accounting (excluding software, which is addressed in Question 19) more holistically.

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 believe there is a lack of clarity in the accounting (and related disclosures) for emissions trading systems, of which there are two broad types:
- Cap-and-trade system, whereby an upper limit on emissions is set, and allowances/credits may be auctioned or distributed for free following specific criteria.
- Baseline-and-credit system, whereby emissions over a specified floor must be compensated by credit

The related financial reporting issues include:
- Assets:
  - Initial recognition of allowances/credits received for no consideration;
  - Subsequent measurement, in particular whether allowances/credits can or should be measured at fair value;
- Liabilities:
  - Whether and when to recognize a liability for activities that require allowances/credits;
  - How to measure a recognized liability;
- Presentation and disclosure:
  - The extent to which assets and liabilities associated with these instruments should be offset;
  - What disclosures should be required.

There is an opportunity for a Board project to be conducted jointly with the IASB Board and other national standard setters, which would maximize the efficiency and effectiveness of the Board's project. The IASB Board has included pollutant pricing mechanisms in its own Request for Information Feedback as part of its Third Agenda Consultation. The IASB Board notes (paragraph B70) that it "would need to decide whether to address all types of pollutant pricing mechanisms, or only some, such as emission trading schemes."

We believe the Board's priority should be emissions trading systems because of their prevalence as a key policy tool for facilitating reduced emissions and the potential significance of the accounting questions to an entity's financial position and performance. We acknowledge that if the Board collaborates with the IASB Board and the latter takes on a broader project (e.g. including carbon taxes), there may be further opportunity to widen the scope of the Board's project without significant additional effort.

Question 14: *Are there common financial KPIs or metrics—either widely applicable to all companies or industry specific—that would provide decision-useful information if they were defined by the FASB? Please explain.*

We believe it is fundamental to a system of high-quality financial reporting that the audited GAAP financial statements provide relevant information to assess and measure an entity's performance. For this reason, we recommend that the Board undertake a project to examine how to provide financial statement users with financial performance reporting that is most relevant to them. As part of that project, we recommend that the Board:

- incorporate a limited number of new financial measures, such as EBITDA, into GAAP, and define (1) what financial statement elements should be included in the calculation, (2) how the measures should be calculated, (3) where in the financial statements the measures should be disclosed and (4) the extent of disclosure (for example, whether the components of the calculation should be shown);
- assess whether to retain other comprehensive income (OCI) as a performance measure; and
- refresh the requirements of Topic 260, Earnings per share.

Incorporating New Performance Measures

We believe the Board should work with investors, preparers and other users of the financial statements to identify a limited number of non-GAAP measures that are most common to preparers across industries and for which providing a definition would lead to better comparability for users of those metrics. The Board would also benefit from referring to non-GAAP measures reported by registrants that are subject to certain SEC rules and oversight. Non-GAAP financial measures are often presented in conjunction with GAAP measures in MD&A, earnings releases and other communications and further research is required to understand the type of financial measures financial statement users are looking for and the manner in which they would be presented.

Many of the most-widely used, and most relevant, non-GAAP measures are designed to adjust earnings or cash flows to remove non-recurring or non-operating items from GAAP earnings to provide a better year-over-year comparison of performance of an entity's core earnings to be used as a basis to project future performance. We encourage the Board to expand its project on Financial Performance Reporting to address the structure of the performance statement for all entities.

We have observed increased diversity in defining and presenting unusual transactions and non-operating income and losses, such as loss contingencies, grant income and insurance recoveries, all of which have been exacerbated by the effects of Covid-19. We believe improving consistency in this area is foundational to progress on non-GAAP metrics because it would make it easier for users to distinguish transactions or elements with greater predictive value from other transactions or elements and would better facilitate comparisons between entities.

We appreciate that it would be very challenging for the Board to develop guidance in the near-term that would differentiate core and non-core earnings in a manner that could be consistently applied and relevant to all entities and industries. As an interim step, we believe the Board could consider a management approach that would provide an entity with flexibility to define the elements of its core earnings and non-core earnings, but require specific disclosures of the elements of that policy and the amounts determined to be non-core under that policy. Although, this interim approach would have drawbacks, the Board may find them to be outweighed by some key benefits that could be realized more quickly. Specifically, this approach could perpetuate inconsistencies in reported financial measures, but it would also (1) facilitate incorporating additional, highly-relevant financial measures into the audited financial statements in the near-term and (2) provide investors with a better understanding of the components of these measures. While the measures themselves may be unique, ideally investors would be provided information in the related disclosures (or in the income statement itself) that would facilitate comparisons.

We also observe that the IASB Board in its Primary Financial Statements project is working on bringing certain management performance measures into the financial statements. We encourage the Board to monitor the IASB Board's progress in this area.

Evaluating Whether to Retain OCI

We do not believe that OCI has a conceptual underpinning and we are not convinced that it is necessary to retain it, especially if the Board is able to make progress on incorporating new financial measures, such as EBITDA, into GAAP and/or to address income statement presentation in a manner that appropriately disaggregates elements of income.

To date, the Board has used OCI on an ad-hoc basis in part to address mixed attribute measurement for assets and liabilities. As a result of this ad hoc approach, GAAP is often inconsistent with respect to whether transactions should be reflected in OCI and when amounts in accumulated OCI should be recognized in the income statement. We believe these inconsistencies have diminished the relevancy of OCI as a performance measure and, therefore, recommend that the Board evaluate whether to replace OCI with a more relevant performance measure(s).

Refreshing the requirements in Topic 260
While EPS is a requirement under Topic 260, it also is widely used as a performance measure. In recent years, instruments that result in EPS adjustments have become more complex; absent specific guidance in Topic 260, diversity has emerged on how to reflect the EPS adjustments creating the potential to undermine the relevance of EPS, especially diluted EPS. As mentioned in our Comment Letter from June 28, 2019, we believe the Board could (1) provide additional guidance on calculating diluted EPS using the two-class method (such guidance appeared in a 2008 Exposure Draft for an amendment to Statement 128, but was not finalized and is still being applied in practice), (2) clarify the guidance on convertible instruments with both a market condition and variable conversion alternatives/conversion price adjustments (while a market condition is ignored for a convertible instrument, the Board could clarify how the market condition should be considered when it affects the conversion alternatives available or the conversion price), and (3) clarify the application of paragraphs 260-10-55-7 through 55-11 when there are unit structures involving convertible preferred stock and a range forward contract and if the treasury stock or if-converted method is used even after ASU 2020-06 is adopted.

Question 15: *If the FASB were to define certain financial KPIs or metrics, should all companies be required to provide those metrics or should providing those metrics be optional?*

Because we envision that the Board would define only a limited number of metrics that are already most commonly used across industries, we believe all companies should be required to provide these metrics to ensure comparability.

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 believe the comprehensive accounting for government grants by business entities should be a priority project of the Board.

Government grants and similar government assistance have significantly expanded worldwide in recent economic downturns and the potential exists for a significant increase in government programs in the future. The lack of GAAP accounting guidance has led to diversity in practice and to accounting for some significant transactions in a manner that may not reflect their economic substance. As a result, the financial statements may not properly reflect the impacts of government assistance programs.

Examples of government programs for which accounting guidance on government grants would have led to an improvement in financial reporting include:

> The Paycheck Protection Program (PPP) available under the Coronavirus Aid, Relief, and Economic Security (CARES) Act is a $953 billion government program that provided forgivable loans to over 5 million businesses to provide relief related to the effects of Covid-19. In most cases, it was probable at the time the loan was made that the borrower would meet the criteria for loan forgiveness and the loans would, therefore, not be repaid. For this reason, some entities recognized the PPP loan as a government grant by analogy to IAS 20 or Subtopic 958-605. Other entities applied Topic 470 and accounted for the transaction as debt without evaluating the likelihood that amounts would be repaid.
>
> Government assistance was provided during the Financial Crisis of 2007-2008 to a number of entities through the Troubled Asset Relief Program (TARP). Under TARP, government entities provided direct assistance through the purchase of preferred shares issued by the business entities at below-market dividend rates. In the absence of a grant accounting framework in GAAP, entities did not recognize in their financial position or performance the economic benefits that they received.

We recommend that the Board develop grant accounting guidance that is similar to the guidance in IAS 20 and that would require an entity to:

- Recognize a government grant when it is probable that the entity will comply with conditions attached to the grant and the grant will be received.
- Recognize the benefit of receiving a loan or equity investment from a government with a below market interest or dividend rate.
- Recognize grants intended to compensate for costs to be incurred in the future as income (as opposed to an offset of the related cost) on a systematic basis over the period necessary to align them with the costs they are intended to compensate.
- Recognize grants intended to provide immediate financial support, with no related future costs, as income in the period in which they are receivable.
- Recognize non-monetary grants, such as land, at fair value.
- Present government grants separate from the entity's ordinary activities performed in exchange for consideration from customers as part of its normal business model.

IAS 20 permits an accounting policy choice between two presentation models: the capital approach and the income approach. To enhance consistency and comparability, the Board may wish to require a single presentation model.

The Board has made significant progress on an existing project on the disclosure of government assistance to business entities. That disclosure guidance could be incorporated into the conclusions reached on this broader recognition and measurement project, with additional disclosure requirements, as needed, to further enhance transparency and accessibility of information by users of the financial statements.

We believe that the recognition and measurement of government grants should be aligned across both for-profit and not-for-profit entities to improve comparability of financial reporting for similar transactions regardless of the industry or taxable status of the reporting entity.

We note that the IASB Board is performing its own Request for Information Feedback as part of its Third Agenda Consultation and, as noted at paragraph B42, 'Some national standard-setters have already conducted work on government grants, which could inform the [IASB] Board's work.' If the Board decides to take on a project on the recognition and measurement of government grants, we recommend that the Board coordinate with the IASB Board and other national standard-setters to maximize the efficiency and effectiveness of FASB resources while achieving greater convergence.

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 recommend that the Board take an incremental approach to standard setting in this area, with the initial phase addressing only government grants, not other forms of government assistance. Government grants are a 'direct' benefit provided from the government to the reporting entity in the form of cash, financial instruments, or nonmonetary assets. Government assistance includes 'indirect' economic benefits that may result from broader government activities, such as improved general trading conditions or providing infrastructure in development areas.

Scoping a project to focus on government grants only would:

- include the result of direct actions of the government to assist a business entity or a specifically identified group of business entities (e.g. the transfer of resources or direct benefits).
- exclude effects that are the indirect actions of a government designed to improve general economic conditions (e.g. the provision of infrastructure or imposition of tariffs on competitors)
- exclude tax law changes intended to encourage (or discourage) a specific behavior by certain companies. These changes should be outside the scope of a government grants project and should instead remain within the scope of Topic 740.
- exclude transactions that are part of the normal course of business for the entity (which would be subject to Topic 606) or non-core business transactions (subject to Topic 610-20).

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 current guidance on intangible assets could be improved. If the Board undertakes a project on intangible assets, we do not believe it should be a disclosure-only project. We believe that requiring disclosures only would be suboptimal for financial statement users and would be unlikely to meaningfully reduce the cost and effort of preparers, particularly public companies, compared with a comprehensive project that would affect recognition, measurement and disclosure.

In our view, there are several key areas in which the existing intangible assets guidance in GAAP could be improved:

- The disconnect between the accounting for internally-developed intangible assets and intangible assets acquired in a business combination;
- Disparate treatment for similar intangible assets acquired in an asset acquisition versus a business combination – see relevant discussion in our response to Question 5c;
- The inability to recover impairments of intangible assets;
- The absence of distinct guidance for actively traded and held-for-investment intangible assets;
- The need for guidance on emissions trading systems to the extent the related assets are intangible assets – see relevant discussion in our response to Question 13; and
- The outdated guidance on software development (external- and internal-use software) – see our response to Question 19.

Internally-developed versus acquired intangible assets

We believe the Board should consider developing guidance that would capitalize post-research development costs that meet criteria similar to those in IAS 38 on intangible assets and/or Subtopic 350-40 on internal-use software.

Intangible assets represent a large majority of many companies' assets when considered on a fair value basis. Companies that have grown primarily through acquisitions often recognize very significant intangible assets on the balance sheet that organically grown companies do not. The financial statement differences for these companies do not end with the balance sheet. Companies with acquired amortizable intangible assets record significant intangible asset amortization, while companies with organically grown intangibles do not record amortization but, typically, recognize significant R&D expense (e.g. for developed technology) or other expense to develop intangible assets that an acquirer would later recognize at fair value in acquisition accounting if the company were acquired.

Although we believe the accounting disparity that exists for a company with organic growth versus one with acquired growth results in an uneconomic comparison of the two companies, we understand that there may not be a simple resolution to this disparity. For example, on one hand, the accounting for acquired intangible assets under Topic 805 is substantially converged with the accounting for those assets under IFRS Standards. Meanwhile, financial statement users[2] often discount the financial statement information provided about acquired intangible assets (e.g. entities often back out acquired intangible asset amortization when reporting non-GAAP income measures), and most users exclude this information from their financial models. We also recognize the practical challenges of developing a recognition model for internally-developed intangible assets. However, we believe there are viable alternatives the Board could explore that build from the experience in practice with the application of Subtopic 350-40 and/or IAS 38.

In the near- to medium-term, we do not believe it would be beneficial to most companies or financial statement users to deconverge US GAAP business combination accounting from IFRS Standards. As a result, it is the accounting for internally developed intangible assets that would need to change. Assuming that, we believe a fair value measurement model is too complex and costly to implement. Therefore, we believe the Board could initially focus on whether more R&D costs (including R&D assets acquired in an asset acquisition – see our response to Question 5c), particularly development (versus research) costs, should be capitalized under US GAAP.

We recommend that the Board evaluate the accounting by companies that apply IAS 38, which requires expensing research costs as they are incurred to generate an internally-developed intangible asset but capitalizing the development costs. Paragraphs 56 and 59 give examples of research and development activities, respectively.

The Board might also consider whether there is a conceptual reason for significant internal-use software development costs to be capitalized, but not similar costs of developing other products or technology. Statement of Position No. 98-1 on internal-use software (now codified as ASC Subtopic 350-40), reflected the premise that the development risks associated with creating internal-use software are conceptually no different from the development risks associated with creating other assets. We generally agree with that premise.

Drawing from the concepts in IAS 38 and Subtopic 350-40 (particularly paragraph 350-40-55-3), despite some attendant challenges such as diverse application of the development cost guidance in IAS 38, a possible framework could emerge that would have companies capitalize at least a significant portion of their costs to develop intangible assets derived from R&D efforts once they have established that an asset is likely to result therefrom. Applying that approach to intangible assets developed from R&D may lessen the significance of the differences between the intangible assets recognized for companies that organically develop such assets and those that acquire them.

[2] For the investor article by Gary Buesser, FASB Member, August 2019

Even though there is diversity in practice under IFRS in terms of the development costs companies capitalize under IAS 38, a model conceptually aligned with IAS 38 may enhance convergence between US GAAP and IFRS Standards, particularly if the new US GAAP guidance and/or its application drives more consistency under IFRS Standards.

Recovering previous impairment losses
We recommend that the Board undertake a project that would require recognizing recoveries of previously-recognized intangible (and other long-lived asset) impairment losses.

ASC Section 350-30-35 requires companies to consider intangible assets to be impaired under certain circumstances. Impairment losses, once recorded, cannot be reversed. The effects of Covid-19 have, in our view, called into question the merits of non-reversible impairment losses for long-lived and indefinite-lived tangible and intangible assets. The Covid-19 economic recession was the shortest in US history, and the US economy has recovered faster from that recession than many economists predicted. Therefore, it is likely that many companies took impairment losses on their long- and indefinite-lived assets that were greater than they would have taken had they been able to accurately forecast the duration of the recession and speed of the economic recovery. If companies were required to reverse impairment losses up to the affected assets' now-recoverable amounts (not to exceed their carrying amount that would exist had no impairment been taken), we believe many companies may have had impairment reversals in subsequent periods.

The ability to reverse an impairment loss may have made unnecessary the amendments in ASU 2021-03. That is, if an impairment loss were reversible during a reporting period, it would be irrelevant whether an additional impairment existed at a date within the period. For example, determining whether an impairment existed at March 10, 2020 would not be relevant if we know the amount of the impairment that existed at March 31, 2020 because any additional impairment on March 10 would be reversed between that date and March 31.

Additionally, we observe that requiring long- and indefinite-lived asset impairment recoveries to be recognized would enhance convergence with IFRS Standards, which, under IAS 36, require recoveries of an impaired asset or cash-generating unit (CGU) to be recognized.

Finally, in the absence of other action with respect to digital assets (see our response to Question 12), because most crypto assets are accounted for as indefinite-lived intangible assets, permitting the reversal of intangible asset impairment losses would at least permit holders of crypto assets to recover recorded impairment losses up to the assets' acquired cost basis. Although this is not our preferred approach to the accounting for crypto assets, we believe this would be an improvement over current US GAAP.

Actively traded and held-for-investment intangible assets
As noted in our response to Question 12, we believe issues with respect to the accounting for crypto assets highlight an overall deficiency in US GAAP on the accounting for intangible assets that are actively traded or held-for-investment purposes. This category could include non-fungible digital tokens (NFTs), renewable energy credits and emissions allowances/credits. In many cases, like for crypto assets, it would appear that the current impairment cost basis accounting does not provide relevant, decision-useful information to investors about a company's holdings of these intangible assets. We encourage the Board to undertake a project to learn from financial statement users whether fair value accounting, such as we believe is appropriate for crypto assets (see our response to Question 12), or some other model besides the current model, would better serve their information needs while meeting the cost-benefit test for financial statement preparers.

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.*

We believe there are two potential areas for improvement related to US GAAP on accounting for software development.

External-use versus internal-use software

We believe that the existing distinction between software to be sold, leased or otherwise marketed (henceforth, external-use software) and internal-use software is no longer relevant. In our view, both external- and internal-use software are productive assets that should follow a capitalization model consistent with that characterization. The historical perspective that external-use software is akin to inventory (see FAS 86, paragraphs 44 and 48) is a relic of a time when software was developed, reproduced on disks (later, CDs) and sold boxed at retail outlets. Other US GAAP enacted in recent years (e.g. ASC 606 and paragraph 350-40-25-17 introduced in ASU 2016-19) has appropriately clarified the substantive difference between a license to a software product or application and the software intellectual property (IP) itself. In a software licensing arrangement, the vendor sells, and the customer obtains, a license to (i.e. a right to use) the software, not the software IP itself. The software IP is an asset controlled by the software vendor that it uses to produce its saleable product (i.e. licenses to that software) in the same productive manner that a software-as-a-service (SaaS) provider uses its software IP to provide the service of access to its software on a hosted basis.

We note that software vendors often sell licenses to and SaaS over the same software product. Even assuming that the longstanding distinction remained intellectually justifiable today, software vendors are required to follow the Subtopic 985-20 external-use software model for software even if the software will principally (but not exclusively) be used to provide SaaS, rather than be licensed to customers. This means that two software vendors developing two similar software products may capitalize significantly different development cost amounts if Vendor 1 has a substantive plan to license its software even on only a very limited basis, but Vendor 2 will sell access to its software on a SaaS basis only. This is the case even if Vendor 1 intends to license its software for license periods consistent with its SaaS subscription periods and under similar over-time payment terms.

Because of the significantly different accounting guidance that applies to external- and internal-use software, questions of scope (i.e. which Subtopic applies to a particular software development project) are common, including requests for companies to justify their software scoping conclusions by auditors and regulators. Additionally, questions of scope have become more complex and less intuitive over time as increasingly more software solutions developed and marketed as a single, integrated offering have included both license and SaaS elements (often referred to as ‘hybrid cloud’ offerings). In general, the software that will be licensed to the customer is in the scope of Topic 985-20, while the software the customer will access as part of the offering only via the cloud is in the scope of Subtopic 350-40.

We recommend eliminating the different accounting models for external- and internal-use software development. Doing so would eliminate this area of cost and complexity for preparers and lack of comparability for users. While the Board could develop an entirely new accounting model that would apply to this combined population of software, we believe it would be reasonable, and considerably less complex, to scope external-use software into Subtopic 350-40. As outlined above, we believe external-use software is, like internal-use software used by a company to provide SaaS, a productive asset that is used by the company to produce the software licenses it sells to customers.

New methods of software development

There is a widely observed and acknowledged disconnect between the ASC 350-40-25 recognition guidance centered on 'stages' of software development and current, prevalent models of software development (namely, agile software development). We have observed that identifying discrete (i.e. separate, unconnected and detached) stages of software development is exceedingly difficult under modern software development approaches; however, the same types of development activities (e.g. coding and testing) are taking place, leading to confusion and at least some disparate practice about whether the entity should focus its attention on identifying and capturing capitalizable and non-capitalizable activity costs or on trying to identify distinct 'development stage' beginning and end points (which often do not practically exist).

Meanwhile, external-use software development cost accounting under Subtopic 985-20 has always been affected by the company's software development process. Even before the widespread adoption of agile software development, differences in companies' cost capitalization for similar types of software resulted exclusively from differences in their software development processes (e.g. based on whether their development processes involved detailed program designs). And in recent years we have observed those differences increase between companies that have adopted an agile development methodology and those that have not, including significant changes for some companies in the amounts of development costs they capitalize once they migrate to an agile methodology (typically, less cost capitalization). While there is a broader question about whether the Board continues to believe companies' software development cost capitalization for substantially similar software projects should depend solely on how each company chooses to undertake its software development, agile adoption has increased those differences. Additionally, understanding the effects of an agile methodology on the application of Subtopic 985-20, which was not developed in contemplation of agile software development, and accounting for those effects appropriately remains an area of cost and complexity in US GAAP.

As neither Subtopic 350-40 nor Subtopic 985-20 contemplate the now-prevalent agile approach to software development, we believe the Board could either refine both Subtopics to better address agile software development or adopt an entirely new model for software development cost capitalization. However, we recommend the Board undertake a near-term project solely to make targeted improvements to Subtopic 350-40. This is based on our earlier recommendation to eliminate Subtopic 985-20, and instead scope external-use software into Subtopic 350-40. Consequently, only amendments to Subtopic 350-40, to address its shortcomings related to agile software development, would be necessary.

This approach of amending Subtopic 350-40 is preferable in our view to a broader project that would develop a new model for external- and internal-use software. This is because a narrow-scope project to amend Subtopic 350-40 would be achievable much more quickly than a project to develop an entirely new development cost model for external- or internal-use software, or both. It would also preclude needing to change aspects of Subtopic 350-40 that are operational and well-understood in practice.

The amendments to Subtopic 350-40 that we propose would amend ASC 350-40-25 to base the determination about whether costs should be capitalized or expensed as incurred on the nature of the related software development and implementation activities, without consideration as to whether they can be assigned to a distinct (or discrete) software development 'stage'.

We do not believe an entirely new model is necessary because, in our view, the conceptual basis for the Subtopic 350-40 model (outlined in paragraphs 68 and 69 of SOP 98-1) remains sound, i.e. that, in effect, costs of activities such as those in paragraph 350-40-55-3(a) around deciding what to develop and how should be expensed as incurred, while the costs of activities to actually produce and implement the software (such as those in paragraph 350-40-55-3(b)) generally should be capitalized. And while SOP 98-1 is dated, we believe a model of this nature is consistent with the new definition of an asset in the forthcoming Elements Chapter of Concepts Statement No. 8; in our view these software production activities give rise to software IP that is a present right of the company to the economic benefits of owning that IP (e.g. the ability to sell licenses or SaaS subscriptions to the software).

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 do not believe the Board should prioritize a project at this time on classification in a classified balance sheet. Although there are potential benefits to be achieved through standard setting in this area, we believe that the benefits to be obtained from other projects (see our response to Questions 2 and 5) would be greater.

We acknowledge that the current guidance on balance sheet classification of debt is complex and was developed over many years to address various complex classification issues arising in practice. However, the current GAAP requirements have an underlying principle that is based on the Master Glossary definition of current liabilities, i.e. to inform financial statement users about whether an entity *expects* to use current assets to satisfy its existing debt obligations. When the current GAAP requirements were developed, the foundation for each piece of guidance was based on the underlying principle in the Master Glossary. The Board's attempt to articulate a different principle for debt classification through the 2017 and 2019 exposure drafts (i.e. debt classification based on contractual terms that exist at the balance sheet date) was inconsistent with the general principle on the classification of liabilities.

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 do not believe the Board should prioritize a project to simplify the consolidation guidance at this time. Although the consolidation guidance is complex, we believe it is well-established and familiar to most stakeholders.

If the Board adds to its agenda a project on consolidation, we believe it should be a holistic review of the guidance rather than targeted improvements or reorganization. We believe a holistic review could achieve a single model that establishes consolidation principles that are simpler to understand and apply consistently to a variety of arrangements (i.e. both voting interest entities and variable interest entities). Further, as stated in our December 1, 2017 comment letter on the proposed ASU on reorganization, we believe that simply reorganizing the guidance would create a significant cost to organizations (i.e. it would create a need for many organizations to revise their accounting documentation) that would likely outweigh the benefits.

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 believe it is generally appropriate to continue accounting for a modified debt instrument as an extension of the same debt instrument when a borrower modifies a debt instrument with the same lender. However, in some circumstances, the modifications are so significant that it is appropriate to apply extinguishment accounting. We believe the guidance in Subtopic 470-50 for determining when a debt instrument has been modified so significantly that it represents a new instrument, including the 10 percent test, is generally well-understood. Further, that guidance generally results in modification accounting for most modified instruments, while identifying changes that are so significant that extinguishment accounting is appropriate. Although the '10 percent' threshold is arbitrary, a bright-line threshold yields greater comparability and consistency than would a list of indicative factors to be applied to each modification.

There are several challenges in applying Subtopic 470-50 that we believe could be alleviated via standard setting:

- **Determining whether a modified loan represents a troubled debt restructuring (TDR)**. A loan modification is in the scope of Subtopic 470-50 only if it does not represent a TDR under Subtopic 470-60. In our experience, it is sometimes challenging to determine whether a modification represents a TDR. Further, we believe TDR accounting sometimes does not represent the economic substance of the ongoing relationship, e.g. when the carrying amount of the debt is greater than the undiscounted cash flows of the restructured debt, a gain is recognized for the difference and no interest expense is recognized in future periods, even if the restructured debt is interest-bearing. We observe that the FASB has a project to consider eliminating TDR recognition and measurement guidance for lenders, and encourage the FASB to consider a project to overhaul the corresponding guidance for borrowers, including potentially eliminating the recognition and measurement guidance while maintaining or developing appropriate disclosures for these circumstances.
- **Determining whether to apply modification accounting when a debt instrument is repaid with proceeds from a new debt instrument, both involving multiple lenders.** Assume a borrower repays its old debt instrument with the proceeds of a new debt instrument and some lenders that were party to the old debt instrument also participate as lenders on the new debt instrument. In that situation, there is diversity in practice on whether a borrower is required to apply the guidance in Subtopic 470-50 or may apply the guidance for extinguishments of liabilities in Subtopic 405-20. Moreover, there is not much guidance in Subtopic 405-20 to evaluate whether debt has been extinguished in these circumstances.
- **Impact of partial paydowns made in connection with a loan modification.** US GAAP does not specify how to apply the 10 percent test when there is a change in the principal amount. In the absence of guidance, the so-called 'gross' and 'net' methods were developed in practice. We understand that the SEC staff generally believes the gross method is required unless it inappropriately ignores the economic substance of a transaction, in which case the net method may be appropriate. Further, those methods are not defined in US GAAP and issues are periodically raised about their application. For example, it is not clear whether a partial paydown (and corresponding decrease in principal balance) as part of a modification should always be treated as a partial extinguishment or should always be included when performing the 10 percent test. If a partial payment should be included in the 10 percent test and that test indicates that modification accounting is appropriate, it is unclear whether a proportionate amount of the debt issuance costs and unamortized discount should be recognized in the income statement at that time, or whether all of the unamortized costs and discount can continue to be amortized over the remaining term of the modified debt.
- **Determining whether to apply modification accounting when a conversion option is bifurcated.** In some situations, the conversion option in a convertible debt instrument is bifurcated and separately accounted for as a derivative. When a conversion option is bifurcated before and/or after the instrument is modified, it is unclear how to apply the guidance in Subtopic 470-50 to the modification, including whether an entity is required to apply the 10 percent test and, if so, whether the 10 percent test is applied to the separate components.

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 existing liabilities and equity classification guidance holistically. Although it is possible for the Board to improve GAAP by making incremental targeted improvements to existing guidance (as is contemplated under the Distinguishing Liabilities from Equity Phase 2 project), we are not convinced the benefits would make that worthwhile because doing so runs the risk of perpetuating the ad-hoc approach that has created the current complexity and fragmentation of GAAP on this topic. In addition, if the Board intends to undertake a broader holistic project on liability and equity classification, simultaneously undertaking incremental targeted improvements would risk developing guidance that is inconsistent with the guidance developed under the broader project. We recognize the challenges of a holistic approach, but we believe it will ultimately be the best solution and come at a long-term lower overall cost to the financial reporting community and financial statement users than a series of narrow-scope ad-hoc projects.

We believe it is important for US GAAP to encompass all classification guidance. However, SEC registrants are required to classify certain instruments in 'temporary' or 'mezzanine' equity. In 1979, SEC ASR 268 created that category on the balance sheet as a 'stop-gap' measure while the Board continued working toward providing guidance on classification of liabilities and equity. As part of a holistic project, we recommend the Board consider whether to incorporate the guidance in ASR 268 into US GAAP.

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 do not recommend including materiality guidance in the Disclosure Section of each Codification Subtopic as we believe it is already clear that the guidance in paragraph 105-10-05-06 relates to all provisions of the Codification.

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.*

Improving the understandability and navigability of the Codification

We believe the Codification could be organized more intuitively, as it currently requires the user to navigate through various sub-sections to understand the accounting for certain items. We recommend that the Codification be organized in a more 'story-like' format so that all of the information related to an accounting topic is not broken up into pieces such as initial and subsequent accounting; this would enable users to find information in one designated area instead of visiting various subsections. An important aspect of this reorganization would include linking the relevant illustrative examples to the paragraphs in the Codification to which they relate, instead of putting them in a separate sub-section. This would enable the reader to identify and use the examples that relate to specific Codification paragraphs more quickly and easily.

Further, we believe it would be helpful for relevant nonauthoritative guidance such as basis for conclusions paragraphs, FASB staff Q&As and TRG memos, to be linked to the related Codification paragraphs to better facilitate the use of this information.

Cost-Benefit Analysis

The Board's analysis of the expected costs and benefits of a proposed change to GAAP is a critical component of the standard-setting process and, therefore, we broadly support and encourage efforts to continually improve the analysis. While we recognize there is no shortage of costs associated with implementing new standards, in many cases those costs are easier to quantify than the benefits. Developing a systematic approach to quantifying the benefits of a proposed change can be significantly more challenging. As a result, we have observed that these analyses have usually been qualitative in nature. We understand that the quantification of the benefits of improved financial reporting has been the subject of academic research and suggest that the Board continue to explore ways to leverage that research, or partner with academics to perform research, as part of its cost-benefit analysis.

In addition, we recommend that the Board consider whether cost-benefit considerations can be incorporated throughout the standard-setting process, as different decisions are made and guidance is drafted, as opposed to evaluating a proposal in its entirety only once all of the decisions have been made and guidance has been drafted.

Interpretive process

We believe that establishing a new, formal interpretive process to respond to stakeholder questions in a timely and transparent manner would be useful and relevant to the Board's constituents. We recommend that the Board consider a process similar to the International Financial Reporting Interpretations Committee (IFRIC) process.

To be most effective, we believe that the process should have these attributes:

- a structured process for the intake of questions;
- formal procedures for internal review and approval;
- publicly available written guidance that is subsequently linked to the related guidance in the Codification;
- transparent explanation of the Board's basis for its interpretation; and
- a description of transition provisions, if applicable, or discussion of how Topic 250 would be applied to any accounting changes resulting from the interpretive guidance.

In addition to our commentary on the points raised in the ITC, we recommend additional specific enhancements to the FASB's processes:

Early identification of emerging issues and research

We believe the FASB should reconsider its position that a financial reporting issue should be addressed only after it has become pervasive. Instead, we encourage the Board to seek out and address emerging accounting issues that have the potential to become pervasive in the future. By doing so, the Board will be able to consider and evaluate the issue in a more orderly fashion without undue time pressure, provide guidance to stakeholders that is more timely and therefore more relevant, and address the issue before it has a significant impact on the quality of financial reporting.

For example, we are seeing an expansion in the use of crypto currencies and the growth of ESG-related features in transactions (e.g. ESG-related embedded derivatives). We expect these trends to continue (see our responses to Questions 12 and 13). We recommend that the Board start projects to address these arrangements before they become pervasive so that the financial reporting standards don't lag the economic activity in the market.

To assist in accomplishing this objective, we encourage the Board to further invest in research tools and resources to assist in identifying potential emerging financial reporting issues, evaluating the potential impacts and developing alternative approaches for the Board to consider.

Making board materials public

We recommend that the Board make its Board memos used in the preparation for its public meetings publicly available, consistent with the practices of the IASB Board. We believe this would assist stakeholders in better understanding the discussion at the Board's public meetings and the rationale for decisions made. This additional transparency would, in turn, lead to more thoughtful and useful input on the topics discussed.

Transparency in agenda requests

We believe the Board should provide more transparency to stakeholders that have submitted agenda requests. Specifically, it would be helpful to provide these stakeholders with an expected timeline for the key steps in the process including outreach activities, if applicable, and public discussion by the Board. Additionally, it would be helpful to keep those stakeholders informed if circumstances change and delays are anticipated.