



September 22, 2021

Ms. Hillary H. Salo
Technical Director
Financial Accounting Standards Board
401 Merritt 7, P.O. Box 5116
Norwalk, CT 06856-5116

File Reference No. 2021-004

Dear Ms. Salo:

The Accounting Principles Committee of the Illinois CPA Society (“Committee”) appreciates the opportunity to provide its perspective on the Invitation to Comment (the “ITC”) *Agenda Consultation*. The Committee is a voluntary group of CPAs from public practice, industry and education. Our comments represent the collective views of the Committee members and not the individual views of the members or the organizations with which they are affiliated. The organization and operating procedures of the Committee are outlined in Appendix A to this letter.

We appreciate the Board’s efforts to seek input into its agenda and we continue to be supportive of the goal to reduce complexities in financial reporting while improving financial reporting through more consistent standards that increase the value and relevance of financial reporting to stakeholders without unnecessary cost or complexity on preparers. Since the Board’s completion of major projects, it has largely focused on improving financial reporting thorough its Simplification Initiative resulting in a number of new, narrowly focused standards which have successfully reduced cost and complexity in financial reporting. We applaud the Board’s efforts and believe the Board should continue to focus on narrow improvements as an overall priority for its future agenda in order to continue to reduce complexities and difficulties with application or interpretation of standards. In addition to continuing to focus on short-term improvement projects, we encourage the Board to address the accounting for as internally developed intangible assets and digital assets considering the growing importance of these assets in the economy.

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We appreciate the opportunity to provide our comments and observations on the ITC and would be pleased to discuss them with the Board members or the FASB staff at your convenience.

Sincerely,

William Keirse, CPA
Chair, Accounting Principles Committee

Matt Mitzen, CPA
Vice Chair, Accounting Principles Committee

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).**

Digital and intangible assets

Regarding topics within the ITC, we recommend that the Board make the accounting for and disclosure of cryptocurrencies and intangible assets a top priority. We believe there is a pervasive need to improve GAAP for both topics given, in the case of crypto-assets, the growing importance of cryptocurrencies in conducting commerce, and secondly, the diversity in the accounting for intangible assets between acquired intangibles and those developed internally.

The current accounting framework generally results in classifying crypto-assets, such as Bitcoin, as an intangible asset subject to the indefinite-lived intangible asset model in ASC 350 even though the crypto-asset has a readily determinable market price. Classifying a crypto-asset as an intangible asset has the result of effectively requiring a reporting entity to account for its investment on a lower of cost or market basis. We do not believe that result is reflective of the underlying economics and that reporting such crypto-assets at fair value would provide more decision-useful information than the current result. We believe the Board should add a narrow-scope project to address the accounting for crypto-assets with a readily determinable market price that do not otherwise qualify as a financial asset.

Consistent with our comment letter to the 2016 Agenda Consultation Invitation to Comment, we continue to believe that the accounting for internally developed intangible assets is a major financial reporting issue that the FASB should address. We believe the FASB should align with the guidance in IAS 38, *Intangible Assets*, as that guidance has been applied for many years by companies complying with International Financial Reporting Standards. We do not believe the Board should change the accounting for costs of performing research and should focus on accounting for development costs. Further, we support the Board's current Phase 3 of the Definition of a Business Project to remove differences between recognition of assets and businesses. We believe there should not be any differences in the accounting of intangible assets regardless of the form of the transaction. Finally, we are not in favor of recognizing internally developed intangible assets at fair value. We believe a fair value approach would be needlessly complex and time-consuming whose benefits likely would not outweigh the costs.

Greater disaggregation of financial reporting information

We believe the FASB should prioritize further research around the benefits and costs of requiring enhanced disaggregation of financial reporting information in the statements themselves or notes thereto. For example, while disaggregation of expenses comprising cost of sales might provide financial statement users improved transparency of an entity's cost structure and help those users assess, for their decision-making purposes, the exposure and sensitivity of the entity's key financial statement line items to changes in economic and other trends and events, the cost to prepare such information for larger entities, especially those operating in numerous countries, may be significant relative to the related benefits it may provide. Furthermore, we also believe current GAAP provides an effective framework for reporting summarized consolidated results for stakeholders and that providing more disaggregated financial information within the income statement itself might make that statement more complicated to understand or dilute its value as a

summary of an entity's overall performance. We believe if the FASB were to conclude there are concerns regarding the transparency of the nature and quality of earnings, or the sources and characteristics of earnings (which the Committee does not believe to be the case), the FASB should consider adding supplemental disclosure guidance rather than making wholesale changes to the income statement presentation itself to address those concerns. Moreover, as part of the Board's research in this area, given the limited current GAAP regarding income statement presentation requirements, we believe the Board could address concerns about the comparability of income statement line items as well as the costs that enter into the determination of cost of sales, through a future project addressing disclosure of how entities define such financial statement line items and the nature of costs included. By way of comparison, disclosure of items comprising cost of sales by their nature, similar that required under IAS 1, paragraphs 99 through 104 (a requirement that is retained in the IASB's project on Primary Financial Statements) might be one approach the Board should consider. While we understand there is a need to provide investors with more useful information that will directly influence their decisions, we believe there are inherent conflicts between providing more information and providing that information timely and without unnecessary cost and complexity. If investors believe more financial information is needed to better understand the performance of the entity and assess its future operating results, cash flows, and risks, we believe the Board should consider those concerns in its current segment reporting project.

We recognize some preparers' concerns regarding potential competitive disadvantages that could be revealed through additional transparency of an entity's cost structure. Additionally, we recognize that entities in certain industries do not present cost of sales or gross profit because these line items are not useful to their financial statement users. To that end, we suggest the Board evaluate those concerns in its research and in developing a solution that would address financial statement users' needs for more comparable and disaggregated information.

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.

Effects of environmental, social, and governance (ESG) matters on financial statement line items

We believe the Board should continue to monitor developments relating to ESG matters and the benefits of requiring ESG-related disclosures but do not believe the Board should add a project on this topic at present. We applaud the work performed by the FASB staff to highlight areas of overlap between ESG reporting, ESG-related matters, and financial reporting. Likewise, we believe the areas of intersection identified by the FASB staff in the March 2021 educational paper, "Intersection of Environmental, Social, and Governance Matters with Financial Accounting Standards" are relevant and the paper serves as a great educational tool to stakeholders. We encourage the Board to continue monitoring and researching existing and potential areas of overlap between ESG matters and general-purpose financial statements, and to continue educating stakeholders as developments emerge.

As this area continues to evolve, we recommend the Board continue its outreach to address concerns raised by some preparers about the costs of providing ESG-related disclosures, including challenges in identifying whether (and which) ESG-related matters impact the financial statements, and to what extent (quantitative or qualitative) the ESG-related matters impact the financial statements versus other factors such as economic conditions or changes in technology.

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).**

Consistent with the Board's efforts to improve the accounting for convertible debt instruments in ASU 2020-06, we believe the Board should add a project to remove the guidance in ASC 470-60 on a debtor's accounting for a troubled debt restructuring from the Codification to simplify the accounting for debt modifications. We believe the requirement to assess whether a creditor has granted a reporting entity that is experiencing financial difficulties a concession adds unnecessary complexity, particularly in contrast to the guidance in ASC 470-50 on determining whether a modification of debt should be treated as an extinguishment. Further, if a modification is determined to be a troubled debt restructuring, we believe the subsequent accounting by the debtor does not provide a reasonable depiction of the economic substance of the arrangement. We do not see the benefit to users of a debtor experiencing financial difficulty reporting no or immaterial interest expense because the lender has agreed to a repayment plan that will result in it recovering principal and interest accrued through the date of the modification. Given the existence of the model in ASC 470-50, we believe this would be a project the Board could address in a short-term project as it would not need to develop a replacement approach.

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.**

Identifiable intangible assets and subsequent accounting for goodwill

The Committee believes the Board should consider redefining the scope of its project on Identifiable Intangible Assets and Subsequent Accounting for Goodwill, the objective of which is to revisit the subsequent accounting for goodwill and identifiable intangible assets for all entities. The FASB has spent considerable time and energy on the accounting for goodwill and intangible assets over the years, resulting in a model that the Committee does not believe requires any substantial changes (and certainly does not believe there is a pervasive need to improve). As indicated in the Committee's comment letter to the Invitation to Comment, *Identifiable Intangible Assets and Subsequent Accounting for Goodwill*, as well as in the summary of comment letters on that ITC prepared by the FASB staff, there are diverse views on the accounting for goodwill with no clear consensus on which view or views should prevail which would provide investors with better, more useful information. Considering the diversity and the general support to retain the current accounting for intangible assets as noted in the FASB comment letter summary, the Committee believes the FASB's time would be better spent on making the goodwill and indefinite-lived intangible asset impairment testing more cost effective; thereby, removing unnecessary cost and complexity from the system.

Improving the accounting for asset acquisitions and business combinations (phase 3 of the definition of a business project)

We continue to support the Board's project to narrow differences between the two acquisition models (accounting for acquisitions of assets versus businesses) and believe this project should be a priority. We believe the accounting for an acquired set of net assets, regardless of whether that set is a business or not, generally should be the same because that information provides users of financial statements more consistent and meaningful information when comparing financial performance. Applying the "definition of a business" guidance in ASC 805, in certain circumstances, can be complex, require professional judgement, and lead to significantly different accounting outcomes (e.g., contingent consideration) if the conclusion is business versus asset acquisition. We believe the Board should continue to focus on this project to eliminate those differences which have significantly different outcomes between both models in order to provide more consistent financial reporting of the economics of a transaction in subsequent periods, regardless of the form of such transaction.

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

We believe the Board should consider two modifications to the guidance in ASC 815. First, we believe the Board should reassess the scope exception in ASC 815-10-15-59 to ensure that embedded derivatives that require separation are not being over-identified. We are aware of arrangements where a party becomes obligated to make a payment to a licensor upon approval of a product by a regulatory agency for which separation has been required. We believe results like that highlight that the guidance in that paragraph is not as effective as it should be in avoiding unnecessarily separating embedded features.

Second, we believe the Board should reconsider its guidance on the unit of account relating to equity derivatives (whether freestanding or embedded in a host contract). Currently, if an equity derivative fails to meet the requirements in ASC 815-40, the reporting entity is required to record the equity derivative as a liability and recognize changes in fair value in earnings, even if the provision that resulted in the liability classification has a remote chance of occurring. We believe a better result would be to separate only the feature that precludes classification in equity and record that feature as a liability. As the likelihood of a payout under the provision increases, the reporting entity will report the economic effects of that increased likelihood in its income statement. This approach would avoid the issues raised in connection with the Board's earlier proposal to classify an equity derivative in equity as long as the provision that would otherwise preclude that classification was remote of occurring. By separately accounting for that feature as a derivative, there is less pressure on an assessment of the probability of an event occurring because it no longer has such a significant impact (if remote under the Board's proposed model, there would never be an impact on the income statement).

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?

Members of the Committee have not seen entities holding significant digital assets to date.

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 there are common KPI's that are generally widely applicable to all companies. For example, "days sales outstanding," "days payables outstanding," "turnover ratio," and EBITDA, among others, are common KPIs or metrics that would apply to most companies and industries. While we don't support a broader project on KPI's, if the Board were to undertake such project, we believe there would be some benefit for the Board to define these terms and allow companies to voluntarily disclose relevant KPIs in their footnotes because that would provide standardized metrics which would be consistently calculated. For example, while EBITDA is widely understood to be defined as earnings

before interest, taxes, depreciation and amortization, some companies interpret “earnings” to mean different things such as either net income, net income allocable to parent, or “operating earnings” and some also have different interpretations on what is included in “amortization” expense. An additional benefit for defining these under GAAP would potentially negate the need for SEC registrants to reconcile these KPI’s to their nearest GAAP measure under Item 10(e) of Regulation S-K. Beyond common financial KPIs, we do not believe the Board should have a project to consider a framework for disclosing KPI’s which are other than common metrics noted above.

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?

We believe companies should not be required to disclose KPI’s or metrics, and if the FASB were to define financial KPIs, we believe their disclosure should be optional.

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 Board should leverage the existing model in IAS 20, *Accounting for Government Grants and Disclosure of Government Assistance*, for accounting and disclosing governmental assistance programs. In the absence of any existing GAAP on accounting for governmental assistance programs, many entities reporting under GAAP have analogized to IAS 20 and are familiar with that standard.

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 take on this as a new project as we do not believe this is an area where there is a pervasive need to improve GAAP or the consistent application of GAAP that would provide more decision useful information.

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.

Similar to stakeholder feedback identified in the ITC, we recognize that some aspects of the accounting for debt modifications require considerable judgment, and therefore can be complex to apply. The Board might address some of the challenges noted by stakeholders by providing additional educational materials or interpretive guidance without the need for formal Codification amendments (as discussed in Chapter 4 of the ITC). For example, building out the existing FASB Staff Educational Paper “Topic 470 (Debt): Borrower’s Accounting for Debt Modifications” with examples around some of the more judgmental aspects of the guidance might help stakeholders understand and/or apply the guidance.

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 support the Board’s continued efforts to improve this complex area of accounting, which has historically been high on the list of financial statement restatement matters. The Board should continue pursuing this project with its scope of

narrow improvements to the indexation models because this approach provides a feasible path to incrementally simplify this complex area. Additionally, we recommend the Board consider a similar philosophy as used in developing ASU 2020-06, by focusing on outcomes that are broadly important to financial statement users and result in operable simplifications.

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.

The Committee does not believe replicating the disclosure in ASC 105-10-05-06 within the Disclosure Section of each Codification Subtopic would be helpful in evaluating disclosure materiality because the Committee believes, based on its experiences, that most preparers understand that concept irrespective of the location of the guidance.

APPENDIX A

ACCOUNTING PRINCIPLES COMMITTEE ORGANIZATION AND OPERATING PROCEDURES 2021-2022

The Accounting Principles Committee of the Illinois CPA Society (Committee) is composed of the following technically qualified, experienced members appointed from industry, education and public accounting. These members have Committee service ranging from newly appointed to more than 20 years. The Committee is an appointed senior technical committee of the Society and has been delegated the authority to issue written positions representing the Society on matters regarding the setting of accounting standards. The Committee's comments reflect solely the views of the Committee and do not purport to represent the views of their business affiliations.

The Committee usually operates by assigning Subcommittees of its members to fully study and discuss exposure documents proposing additions to or revisions of accounting standards. The Subcommittee ordinarily develops a proposed response that is considered, discussed and voted on by the full Committee. Support by the full Committee then results in the issuance of a formal response, which at times includes a minority viewpoint. Current members of the Committee and their business affiliations are as follows:

Public Accounting Firms:

Large: (national & regional)

Ryan Brady, CPA	Grant Thornton LLP
Ashley Carboni, CPA	KPMG LLP
Michael Couillard, CPA	Baker Tilly US, LLP
Matthew Denton, CPA	Sikich LLP
Jason Eaves, CPA	Crowe LLP
William Keirse, CPA (Chair)	Ernst & Young LLP
Jason Plourde, CPA	Grant Thornton LLP
Darshana Raigaga, CPA	BKD LLP
David Wentzel, CPA	Crowe LLP

Medium: (more than 40 professionals)

Danielle Martin, CPA	Porte Brown LLC
Jeffery Watson, CPA	Miller Cooper & Company Ltd
Jennifer Walters, CPA	Miller Cooper & Company Ltd

Small: (less than 40 professionals)

Peggy Brady, CPA	Selden Fox, Ltd.
Brian Kot, CPA	Cray Kaiser Ltd CPAs
Matthew Mitzen, CPA (Vice Chair)	Bronswick Benjamin P.C.

Educators:

Mollie Adams, CPA	Bradley University
John Hepp, CPA	University of Illinois at Urbana-Champaign

Industry:

John Bercerril, CPA	Elkay Manufacturing
Christopher Carli, CPA	FreightCar America Inc.
Jeffrey Ellis, CPA	FTI Consulting, Inc.
Michael Maffei, CPA	GATX Corporation
Thomas Masterson, CPA	Medix
Lisa Sezonov, CPA	Northern Trust
Richard Tarapchak, CPA	II-VI Corp.
William Wang, CPA	Union Tank Car Company

Staff Representative: Rafael Wiesenber, CPA Illinois CPA Society