S&P Global Ratings

55 Water Street

New York, NY 10041

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

September 22, 2021

Via Electronic Submission: director@fasb.org, File Reference No. 2021-004

Re: Agenda Consultation

Dear Sir/Madam:

We appreciate the opportunity to provide the Financial Accounting Standards Board (the Board) our comments on its Agenda Consultation.

The views expressed in this letter represent those of the Accounting Specialist Group of S&P Global Ratings and do not address, nor do we intend them to address, the views of any other affiliate or division of Standard & Poor's Financial Services LLC or of its parent, S&P Global. We intend our comments to address the analytical needs and expectations of our credit analysts.[1]

As a part of our analysis of financial statements, we make analytical adjustments to numerous reported items and disclosures in accordance with S&P Global Ratings' Ratios and Adjustments Criteria. Our comments to the FASB for this Agenda Consultation are focused on those analytical adjustments.

In our view, users of financial statements, like our credit analysts and investors would greatly benefit from the following projects:

1. Environmental, social, and governance (ESG) related disclosures
2. Digital assets
3. Financial key performance indicators (KPIs) or non-GAAP metrics

The FASB has many in-progress projects related to financial statement disclosures that will also have a significant impact on our financial statement analysis, once finalized. We fully support the FASB's project on Disclosure of Supplier Finance Programs Involving Trade Payables, as this is an area that is critical to our analysis. In addition, we believe the other disclosure-related projects, including Interim Reporting, Income Taxes, Disaggregation of Performance Information, and Targeted Improvements to the Statement of Cash Flows would all enhance the value of financial statements. We support the FASB's efforts to bring these projects to a conclusion as soon as practicable.

[1] The opinions stated herein are intended to represent S&P Global Ratings' views on potential changes in accounting and financial reporting standards. Our current ratings criteria are not affected by our comments on the Agenda Consultation.

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In the Appendix to this letter, we provide more detailed responses to your specific questions only where it is applicable to our credit analysis.

Thank you for the opportunity to provide our comments. We would be pleased to discuss our views with members of the Board or your staff. If you have any questions or require additional information, please contact the undersigned.

Sincerely,

Shripad Joshi
Senior Director and Accounting Officer, Corporate Ratings
S&P Global Ratings
shripad.joshi@spglobal.com
(212) 438-4069

Leonard A. Grimando
Director and Accounting Specialist, Corporate Ratings
S&P Global Ratings
leonard.grimando@spglobal.com
(212) 438-3487

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Appendix — Responses to Specific Questions in the Agenda Consultation

Overall

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

We intend our comments to address the analytical needs and expectations of the credit analysts working in S&P Global Ratings.

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).

In general, we believe the topics in Chapter 1 - Disaggregation of Financial Reporting Information and Chapter 2 - Emerging Areas in Financial Reporting should receive priority as they will have a more immediate impact on our credit analysis and for other financial statement users. While the topics in Chapters 3 and 4 concerning reduction of unnecessary complexity and improvements to FASB standard-setting processes are worthy topics and can be addressed by the FASB after Chapter 1 and 2 topics.

More specifically, our view of the top five priorities are as follows:

1. **ESG-related disclosures:** We favor a single standardized global disclosure framework to enhance comparability and consistency that would facilitate our credit analysis. We also support the creation of a core set of reliable ESG metrics for standardized reporting that will foster better comparability among peers. (See Question 13 below for further details).
2. **Digital assets:** With the popularity of cryptocurrencies and digital assets, there is also a significant need for direct accounting standard guidance for these assets. (See Questions 10 and 12 below for further details).
3. **Financial KPIs or non-GAAP metrics:** We look at the EBITDA metric very closely and use it for peer comparison. A consistent reported EBITDA defined under GAAP will provide for better comparability as a starting point for our analytical adjustments as per our criteria. (See Questions 14 and 15 below for further details).
4. **Disaggregation of financial reporting information:** Certain data elements in the financial statements lack sufficient detail, such as depreciation and amortization included in cost of goods sold (COGS) or selling, general, and administrative (SG&A) expenses if not reported as a separate line item, gain, or loss on derivatives – a portion of realized and unrealized, foreign exchange gain, or loss and whether operating or nonoperating, etc. Additional details in the reported

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financials will enhance financial statement analysis, in our view. (See Question 6 below for further details).

5. **Recognition and measurement of government grants:** During this COVID-19 pandemic, there was a surge in government grants issued across sectors. This highlighted the need to have appropriate accounting guidance in place for this area. (See Question 16 below for further details).

For the first three items mentioned above, a project started as soon as practicable would be welcome.

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.

Our prioritization recommendations are based on an analytical point of view, as follows:

- **Disclosure of Supplier Finance Programs Involving Trade Payables**: Supplier financing arrangements have been on the increase in recent years. For our credit analysis, where companies join supplier financing arrangements, we treat trade payable days greater than 90 days as debt-like. Increased and more consistent disclosure including the portion of Accounts Payables in such programs will assist financial statement users in understanding the potential risks involved in these transactions.
- **Disclosure Framework: Disclosures – Interim Reporting**: Currently, interim disclosures are limited and may not provide the appropriate level of details we need for our analysis; e.g., cash interest paid, cash taxes paid, lease disclosures, share-based compensation non-cash expense, capitalized interest.
- **Disclosure Framework: Disclosure Review - Income Taxes**: We would welcome more detailed income tax disclosures; e.g., taxes accrued and paid at the country level. Additionally, cash taxes paid is a key item for our funds from operations (FFO) metric. Interim disclosures for cash taxes paid will simplify the mechanics of our calculation. (See Question 6 below for further details).
- **Financial Performance Reporting-Disaggregation of Performance Information**: For our credit analysis, we generally delve deep into financial statement details for making certain adjustments mandated by our criteria. Any relevant disaggregation of performance information will thus be very helpful. (See Question 6 below for further details).
- **Targeted Improvements to the Statement of Cash Flows**: Certain cash flow disclosures are extremely relevant and insightful to our analysis. We thus look forward to these targeted

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improvements bringing in more clarity and consistency. (See Question 7 below for further details).

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?

While we would generally be in favor of each of the disaggregation types mentioned in Chapter 1, the following stand out as priorities:

- Defined subtotal for operating income and a designation of whether income and expense items (such as restructuring costs) are recurring or nonrecurring to increase comparability across reporting periods and companies
- Effects of environmental, social, and governance (ESG) matters on financial statement line items
- Breakdown of income tax information to better assess global tax risk
- Breakdown of operating results by jurisdictions and product lines to understand geographical and jurisdictional risks
- Effects of business combinations to compare a company pre- and post-acquisition

While the operating income subtotal would be preferable on the face of the income statement, our other priority items would best be presented in the notes. The designation of recurring versus nonrecurring can be highly subjective and would only be helpful if clearly defined.

In addition to the priorities listed above, the following disaggregation could also be considered by FASB to enhance analysis of financial statements:

- Cash and short-term investments details – region-wise or at country level
- Cash taxes paid at country level

These items form an important part of our ratios/metrics and availability of this information consistently in the notes to financial statements will further enhance our analysis.

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Presentation of the Statement of Cash Flows

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.

- Cash interest paid is an important input to calculate our FFO metric. It would be helpful if there were additional disclosures supplementing the cash flow statement footnote amount indicating the breakdown of what types of interest are, or are not, included in the disclosed amount; e.g., cash interest paid on debt refinancing, financing fees, nondebt-related interest.

- Noncash add-backs/deduction are not always consistently presented on the face of the cash flow statement as a separate line item.

In absence of the details for analysis in the income statement, we look at the cash flow statement to help identify the significant noncash add-backs and deductions. Having consistency in the presentation of this information will be helpful. Separately, as discussed for the disaggregation project above, if details of line items on the income statement are available it would serve the purpose to a great extent. Examples of noncash items we look for are gain/loss on sale of fixed assets, share-based compensation noncash expenses, etc.

Chapter 2—Emerging Areas in Financial Reporting

Digital Assets

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?

While digital asset holdings are currently only significant for a few companies, it is an area of significant investor and user interest that we expect will likely continue to increase. The current accounting of these as intangible assets has been challenged by numerous users and other constituents. We believe a direct accounting standard or guidance on this topic will benefit the investor and user community.

Additionally, the starting point of our credit analysis are financial statements and improved accounting for this unique asset will be highly beneficial.

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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?

Accounting that reflects the true nature and value of the digital asset on the balance sheet will be beneficial to our analysis. All types of digital assets such as cryptocurrencies and stable coins should be addressed through this project. Digital assets as a medium of exchange is continuing to increase and relevant accounting guidance is needed.

Digital assets are a novel and unique asset-type and we believe it will require a novel approach to accounting. The accounting for digital assets should be stand-alone and not apply to nonfinancial assets, in our view.

ESG-Related Transactions

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.

ESG is a rapidly evolving area and the accounting and disclosure of ESG-related transactions and metrics needs to keep pace.

Under currently available financial statement disclosures it is not always possible to identify if the company has specifically incurred expenses from an ESG perspective. e.g., for compliance or litigation costs related to emissions regulations for the industry in particular, inventory obsolescence from environmental impacts, asset impairments rising mainly from environmental matters.

In addition, many companies disclose important ESG information and metrics in separate reports outside of the financial statements. Going forward, we would welcome standardized ESG metrics reported in the U.S. GAAP financial statements, and thereby subject to annual audit and quarterly review. This would enable us to better identify nonfinancial risks and opportunities in our ESG analysis, and similarly allow investors and other financial statement users to assess ESG risk.

Financial KPIs or Non-GAAP Metrics

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.

Yes, earnings before taxes, interest, depreciation and amortization (EBITDA) is a commonly used measure and an important metric used extensively in our credit analysis. The EBITDA metric is widely applicable to companies across sectors and provides a good starting point for peer comparison. We would greatly benefit from EBITDA being defined by the FASB. Further, while not a KPI or metric, a breakdown of the types of amortization included would also be a helpful disclosure.

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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 it would be helpful to our analysis if companies were required to provide these metrics to ensure a consistent and comparable starting point in the financial statements. Additionally, this would also enable auditors to audit/review the metrics in accordance with FASB's definitions.

Recognition and Measurement of Government Grants for Business Entities

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 FASB can leverage on IAS 20 as a starting point for the project, with further developments made as is determined necessary. We would prefer consistency in this area between IFRS and U.S. GAAP.

Materiality Considerations for Disclosures

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.

While it is not clear to us how this might affect existing standard disclosures, we do not view the repeating of the materiality guidance as helpful. We make certain routine adjustments regardless of materiality e.g., our pension debt adjustment. We believe that any movement toward a reduction in useful disclosures should be avoided. Where current technology is used to comb through and pull necessary information, this proposed change may not add value.