



Crowe LLP
Independent Member Crowe Global
One Mid America Plaza, Suite 700
Post Office Box 3697
Oak Brook, Illinois 60522-3697
Tel +1 630 574 7878
Fax +1 630 574 1608
www.crowe.com

September 22, 2021

Ms. Hillary Salo
Technical Director
FASB
401 Merritt 7
PO Box 5116
Norwalk, CT 06856

Re: File Reference No. 2021-004

Dear Ms. Salo:

We appreciate the opportunity to comment on Invitation to Comment, *Agenda Consultation* (“the ITC” or “the Agenda Consultation”). We applaud the Board’s efforts to solicit input from key stakeholders on the future strategic direction and prioritization of items on its technical agenda.

With respect to the Board’s current technical agenda, we recommend the Board continue to focus its efforts on completing, and perhaps refining the scope of, several existing projects. Specifically, the Board should prioritize completion of its work on the following existing projects (in no particular order):

- **Identifiable Intangible Assets and Subsequent Accounting for Goodwill** – the subsequent measurement model for goodwill continues to be a time-consuming and resource-intensive exercise for both preparers and auditors. Given general feedback from a number of users that the current subsequent measurement model is less relevant to their analyses, we support the Board’s ongoing efforts to re-introduce an amortization model to the subsequent accounting for goodwill.
- **Distinguishing Liabilities from Equity: Phase 2** – the misapplication of certain debt/equity accounting issues continues to be one of the top reasons for financial statement restatements. We support the Board’s continued efforts to further simplify the accounting guidance and to reduce form-driven accounting outcomes. Refer to our response to Question 23 for further details.
- **Improving the Accounting for Asset Acquisitions and Business Combinations** – the existing accounting models for asset acquisitions and business combinations continue to produce different accounting outcomes despite similar economic events.
- **Consolidation Reorganization and Targeted Improvements** – the guidance in Topic 810 can be complex and difficult to navigate for many stakeholders. We urge the Board to continue to identify ways to improve both the understandability and navigability of the guidance. This may best be accomplished by expanding the current project’s scope to include a holistic review of some of the more complex aspects of the existing guidance as opposed to simply focusing on reorganizing the guidance. Refer to our response to Question 21 for further details.

As the Board works towards completing the aforementioned projects, we suggest future standard-setting efforts would be best spent on the following areas as presented in *Chapter 2 – Emerging Areas in Financial Reporting* of the ITC (in no particular order):

- **Accounting for Digital Assets** – the existing accounting model used for digital assets does not always faithfully represent the economic substance of these assets. Given the increased use of such assets, we believe a standard-setting project is warranted. Refer to our response to Question 12 for further details.
- **Capitalization of Software Development Costs** – the existing dual-model approach for software development costs can be difficult to apply and can result in limited capitalization of costs for an asset that could potentially generate significant revenues for a reporting entity. The Board's efforts should focus on simplifying the accounting guidance and improving the decision-usefulness of the resulting information. Refer to our response to Question 19 for further details.
- **Derivative Instrument Accounting, including Scope Exceptions** – there are several practice issues the Board should address in light of marketplace developments since the initial issuance of the definition of a derivative. Refer to our response to Question 9 for further details.
- **Accounting for Government Assistance** – the COVID-19 pandemic highlighted the need for accounting guidance on how for-profit entities should account for government assistance. While a lower priority, the Board should formally address the existing lack of guidance via standard setting. Refer to our responses to Questions 16 and 17 for further details.
- **Further Developing the Board's Standard Setting Processes** – stakeholders would benefit tremendously from improvements to the Board's cost-benefit analysis framework, the development of a new interpretive process, and increased transparency into the Board's decision-making process. Refer to our response to Question 25 for further details.

In addition, we offer the following additional thoughts with respect to *Chapter 2 – Emerging Areas in Financial Reporting* of the ITC (in no particular order):

- **Non-GAAP measures and key performance indicators** – the pursuit of defining KPIs or non-GAAP measures by the Board would be challenging given that KPIs and non-GAAP metrics are commonly tailored to an entity's specific facts and circumstances. Refer to our responses to Questions 14 and 15 for further details.
- **Environmental, social, and governance (ESG) reporting matters beyond those that affect general purpose financial statements** – the Board's efforts in this area should be limited to ESG matters that affect items reported in general purpose financial statements. We appreciate the recent work performed by the FASB staff to identify areas of overlap between ESG reporting, ESG-related matters, and financial reporting. Moreover, we agree with all the areas of intersection identified by the FASB staff in their March 2021 educational paper, "Intersection of Environmental, Social, and Governance Matters with Financial Accounting Standards." We encourage the Board to continue these studies in the future to educate key stakeholders about the intersection of ESG and general purpose financial statements. Refer to our response to Question 13 for further details.
- **Current and Noncurrent Classification of Assets and Liabilities** – though we agree that the debt classification guidance could be simplified and incremental convergence with IFRS would be desirable to many entities, we acknowledge the difficulty in achieving a consensus view on the classification principle, as evidenced by the outcome of the Board's recent project in this area. Refer to our response to Question 20 for further details.

Lastly, as a general observation, we encourage the Board to further expand its efforts to provide educational materials and implementation guidance to constituents on complex accounting matters. We believe the recent efforts undertaken by the Board and its staff to produce educational materials, implementation Q&A documents, etc. for the new revenue recognition standard, the new credit impairment standard, and for COVID-19-related accounting matters (e.g., debt modifications, lease concessions, etc.) have helped preparers in their understanding and application of the related accounting considerations. We observe that the Governmental Accounting Standards Board frequently produces implementation guides to assist preparers in their understanding of new and/or complex accounting guidance. We encourage the Board to consider a similar approach.

Our responses to the questions in the ITC have been attached as Appendix A.

Please contact Scott Lehman at (630) 574-1605 (scott.lehman@crowe.com) or Sean Prince at (646) 230-7285 (sean.prince@crowe.com) should you have any questions or would otherwise like to discuss our response.

Sincerely,

A handwritten signature in black ink that reads "Crowe LLP". The "C" is large and loops around the "rowe", and "LLP" is written in a simpler, slightly slanted font.

Crowe LLP

cc: James Dolinar, Partner, Crowe LLP
Matthew Schell, Partner, Crowe LLP

Appendix A – Responses to ITC Questions

NOTE: Certain questions in the ITC are addressed specifically to investors and other users and/or preparers. These questions have been omitted below.

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.*

Response 1: Crowe LLP (www.crowe.com) is a public accounting, consulting, and technology firm. Crowe provides audit, tax, advisory, and consulting services to public and private entities across various industries.

Our responses to the questions in the ITC primarily reflect our perspective as a practitioner/auditor of both public and private companies, including not-for-profit entities. To some degree, our responses may also reflect a preparer perspective gained from our experience providing services to clients.

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).*

Response 2: Please refer to our cover letter.

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.*

Response 3: Please refer to our cover letter.

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).*

Response 4: Please refer to our cover letter.

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 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.*

Response 5: Please refer to our cover letter.

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.*

Response 9: We support the Board's exploration of the possible need to revisit the definition of a derivative instrument and the related scope exceptions in Subtopic 815-10 in the context of marketplace developments since the original issuance of Topic 815. While we do not believe a fundamental change to the definition of a derivative is needed at this time, we agree that developments in the marketplace, along with recurring practice issues with the existing definition and scope exceptions, may merit certain clarifications or changes effected by standard setting.

Below we outline several common challenges and/or emerging practice issues that might benefit from clarifications, changes, or possibly FASB staff-prepared educational materials:

- *Unit of account/analysis challenges* – an oft-recurring challenge in analyzing financial instruments and embedded features under Subtopic 815-10 is determining the appropriate unit of account/analysis to use when assessing whether an instrument (or embedded feature) is a derivative instrument, including whether the instrument qualifies for a scope exception. As financial instruments and embedded features have become more complex and as embedded features within an instrument or arrangement become more interrelated, we continue to observe preparers struggling to determine the appropriate unit of account/analysis.

One example of this challenge can be demonstrated through a line-of-credit arrangement under which the lender is granted warrants for the borrower's common shares based on the number of draws the borrower makes on the line of credit arrangement. For example, if the borrower makes one draw on the line of credit, the lender is granted warrants for a specified number of shares of the borrower. Similarly, if the borrower makes a second draw on the line of credit, the lender receives additional warrants for an even larger number of shares of the borrower. If the provision that grants warrants to the lender is treated as two separate features, then it is likely to qualify for a scope exception from derivative accounting. In contrast, if it is treated as a combined feature, it likely would fail the indexation guidance under Subtopic 815-40 and might require derivative accounting treatment.

Another example of this challenge can be demonstrated by a convertible debt instrument that, depending on the facts and circumstances, could be settled for either a variable number of shares or a fixed number of shares. For example, the instrument might provide that if the issuing entity issues shares in a "qualified financing event" for an amount below a specified price, the debt instrument automatically converts into a variable number of shares equal to a fixed amount. In contrast, if the price per share in the qualified financing event exceeds the specified price, the debt instrument automatically converts into a fixed number of shares. U.S. GAAP is not clear on what the proper unit of account/analysis should be for these types of embedded features.

- *Clarification of the fundamental characteristics of a derivative instrument* – We continue to observe misapplication of certain concepts within the definition of a derivative. For instance, despite the examples provided in Topic 815, misapplication of the concepts of "little to no initial net investment" and "net settlement" is common. While we do not believe a fundamental change to the definition of a derivative instrument is needed, we would encourage the Board to consider developing staff educational materials or including additional examples within the Codification to assist stakeholders in their interpretation and application of existing guidance.
- *"Specified volumes of sales" scope exception* – the scope exception in ASC 815-10-15-59(d) specifically mentions "specified volumes of sales or service revenues." Over time, practice has expanded its interpretation of this scope exception to include not only sales but also other entity-specific performance measures, including EBITDA, operating income, net income, and operating cash flows. We support this broader interpretation and would encourage the Board to consider clarifying within the Codification that such an interpretation is acceptable.
- *"Climatic or geological variables" scope exception* – over the past few years, there has been an increase in the number of financial instruments issued that include provisions affecting an instrument's cash flows based on the achievement of an ESG-related metric. For example, a reporting entity may issue bonds that include a provision that increases the bond's coupon rate if the reporting entity fails to achieve "carbon neutrality" by a specified date. We expect the issuance of financial instruments with these types of ESG-related provisions to continue, and perhaps even increase.

Given this, we encourage the Board to consider whether such provisions should be treated as an embedded derivative (requiring bifurcation) or whether existing scope exceptions can or should be expanded to avoid having such provisions accounted for as embedded derivatives. For example, while some ESG-related provisions may qualify for the "climatic or geological variable" scope exception in ASC 815-10-15-59(a) (e.g., those tied to measurable climate goals) others may not (e.g., those tied to diversity & inclusion hiring goals). We believe the Board's deliberations on this matter should be informed by user feedback, especially in light of the rationale for the Board's recent decisions in ASU 2020-06 (i.e., user feedback that they prefer to analyze certain financial instruments on a "whole-instrument basis").

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?*

Response 11: The majority of the companies we are involved with do not have material involvement with digital assets. However, we also provide services to companies with significant holdings of digital assets and/or that operate directly in the digital asset ecosystem. For example, our firm provides services to exchanges, payment processors, merchant services firms, custodians, investment funds, financial institutions, and fintech entities among others. In addition to holding direct investments in digital assets, these companies are involved in a number of digital-asset-related activities. Examples include:

- Exchange activities
- Payments and settlements
- Custody services
- Lending
- Mining

We have also observed an increase in the number of industries engaging in digital-asset-related activities. For example, historically many digital asset applications were focused on payments and exchange activities; however, more recently, numerous technology, media, and telecom companies have shown interest in the opportunities presented by nonfungible tokens (or NFTs). We anticipate an increased interest in this and other industries in the short- to medium-term as the use cases of digital assets expand further.

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?*

Response 12: We support the Board adding a project to its technical agenda on digital assets because the intangible asset accounting model (Topic 330) that currently applies to most digital assets does not, in many cases, faithfully represent the economic substance of those assets, especially those used as a medium of exchange. To address the most pressing practice issues, we believe the project's scope should initially focus on crypto assets that are used as a medium of exchange or investment. To narrow the scope of the project, we encourage the Board to use as its starting point the definition of "crypto asset" as defined by the AICPA's "Accounting for and Auditing of Digital Assets" practice aid, which builds on many of the concepts in the IFRS Interpretation Committee's definition of "cryptocurrency". Further adjustments to that definition may be helpful to clarify that items such as NFTs would not be considered crypto assets. We believe digital assets outside of crypto assets can be considered in the future as circumstances warrant. Similarly, we believe accounting matters related to issuers of crypto assets (including their parents, subsidiaries, affiliates, and related parties) should be addressed in the future.

The primary focus of the Board's project should be to address the appropriate measurement attribute for crypto assets used as a medium of exchange or investment. We believe the current cost-basis measurement attribute inadequately captures the value of these assets on the holder's balance sheet given the price volatility of such assets and, to some degree, the intended use of such assets as a medium of exchange or investment. Our view is that crypto assets that are used as a medium of exchange or investment should be measured at fair value, with changes in fair value recognized in earnings in the period of change. The Board should perform user outreach to determine whether this measurement attribute should be optional or required.

Additionally, when crypto assets are measured at fair value, we believe Topic 820 disclosures should apply. If the Board pursues a path whereunder fair value measurement is optional, we believe the Board should at a minimum consider 1) providing an exception to the baseline cost measurement approach for crypto assets that allows for recoveries to the extent they do not exceed prior losses and 2) requiring disclosure of the fair value of crypto asset holdings measured at cost at period end.

We also encourage the Board to consider performing outreach to understand the cost and complexity of identifying the principal market for a crypto asset measured at fair value. We understand these complexities can arise when preparers trade crypto assets in multiple markets and/or when there is an inability to ascertain whether other markets have a higher volume and level of activity than the markets in which they trade. The Board may want to consider providing a practical expedient to fair value (e.g., something akin to the guidance in ASC 820-10-35-41C(a)).

The secondary focus of the Board's project should be on the derecognition model applied to crypto assets used as a medium of exchange or investment. In practice, application of the intangible asset derecognition model (e.g., Subtopic 610-20) can result in the same crypto asset being accounted for on the balance sheet of multiple entities. For example, consider a reporting entity that lends a crypto asset to a borrower with the promise that the borrower will return the crypto asset to the lender on a specified date. Under Subtopic 610-20, the reporting entity is unable to derecognize the crypto asset because, due to the borrower's obligation to return the crypto asset, control is not deemed to have transferred to the borrower. In practice, however, the borrower would also recognize the same crypto asset (with an accompanying liability) on its balance sheet at the time of transfer because it holds the private key to the asset, it has legal ownership, and typically it has the right to use the crypto asset as it pleases (e.g., as collateral, in an exchange transaction, in a lending transaction, etc.).

We are concerned by the outcome of the above example because the lender's accounting does not faithfully represent the lender's current risk exposure. While the lender remains subject to the price volatility of the underlying crypto asset, it is now also exposed to the credit risk of the borrower, in addition to other possible risks arising from the lending arrangement. None of these incremental risks are accounted for under the existing accounting model because the transferred crypto assets continue to be recognized and the lender is unable to record a receivable and account for the borrower's credit risk. The accounting is further obfuscated by the fact that the crypto asset and related payable/receivable continue to be measured at cost (with a possible embedded derivative in the payable/receivable).

The optimal accounting outcome for the above example may be that the lender derecognizes the transferred crypto assets, records a loan receivable for the future receipt of the crypto assets, and accounts for the loan receivable at either fair value (or with changes in the value of the receivable due to changes in the value of the crypto asset recorded as incurred, similar to an foreign-currency denominated receivable) while the borrower would record the crypto assets received (at fair value) with an accompanying loan payable at fair value (or with changes in the value of the payable due to changes in the value of the crypto asset recorded as incurred). This outcome acknowledges the risks inherent in the transaction, such as credit risk. We believe this optimal accounting outcome is achievable if the Board were to change the derecognition criteria applicable to crypto assets by borrowing from concepts for financial instruments or foreign currencies.

If the Board is unable to timely resolve the derecognition issue, we believe a temporary short-term solution would be to require lenders of crypto assets to disclose information about (a) the principal balance of crypto assets transferred but not derecognized, (b) terms of the loan, and (c) the current fair value of the crypto assets transferred but not derecognized.

We believe the project could also explore defining "currency." U.S. GAAP does not presently define "currency" and we believe doing so could be useful as governments explore or start permitting the acceptance of crypto assets as legal tender. Our view is that crypto assets should not be considered a form of currency or classified within cash and cash equivalents even when adopted as a form of legal tender by a government unless the crypto assets are issued, controlled, and backed by a sovereign government.

Finally, we do not believe the scope of the project should extend beyond crypto assets to other non-financial assets that may be held for investment (e.g., commodities). We believe crypto assets are unique in the way they are typically used as compared to these other assets (i.e., as a medium of exchange). If the Board were to decide to expand the scope, we caution the Board against requiring a fair value measurement attribute for these other assets considering prior standard-setting projects that pursued such an approach for similar assets and were never finalized.

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.*

Response 13: We appreciate the recent work performed by the FASB staff to identify areas of overlap between ESG reporting, ESG-related matters, and financial reporting. Moreover, we agree with the areas of intersection identified by the FASB staff in their March 2021 educational paper, “Intersection of Environmental, Social, and Governance Matters with Financial Accounting Standards”. We encourage the Board to continue these studies in the future to identify what, if any, standard setting may be warranted.

With respect to the need for more clarity on how to account for specific ESG-related transactions, one current practice issue that would benefit from further clarification is how to account for embedded features within bonds or other hybrid financial instruments that reference ESG-related metrics (“sustainability bonds”). For example, a bond may require the issuer to pay a higher interest payment if the issuer fails to achieve certain ESG-related metrics (e.g., diversity hiring, carbon footprint, renewable energy targets, etc.). It is unclear whether such features would or should qualify for a scope exception from derivative accounting under Topic 815.

As noted in our response to Question 9, we encourage the Board to revisit the scope exceptions to Topic 815. As part of this effort, the Board should deliberate whether they believe such features are best accounted for as derivative instruments or not. We encourage the Board to solicit user feedback on the matter, especially considering the rationale for the Board’s recent decisions in ASU 2020-06 (i.e., user feedback that they prefer to analyze certain financial instruments on a “whole-instrument basis”).

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.*

Response 14: It would be challenging for the Board to specifically define widely applicable KPIs or non-GAAP metrics that provide decision-useful information to all entities or all entities within a specific industry. Companies often use financial KPIs and non-GAAP metrics to provide stakeholders with management’s perspective on the financial condition and performance of the entity; however, KPIs and non-GAAP metrics are typically tailored to the entity’s specific facts and circumstances. For example, while the Securities and Exchange Commission (SEC) clearly defined EBITDA in Exchange Act Release No. 34-47226, an 2018 Audit Analytics Report entitled “*Long-Term Trends in Non-GAAP Disclosures: A Three Year Overview*” found that the majority of S&P 500 entities disclosing an EBITDA metric disclosed “Adjusted EBITDA.” Moreover, the majority of entities who disclosed “EBITDA” were actually disclosing an adjusted EBITDA figure without actually labeling the metric “adjusted.” That same report found that many S&P 500 entities that disclose “free cash flow” (FCF) either disclosed adjusted FCF or multiple cash flow metrics in addition to FCF. These datapoints suggest standardized metrics are not always sufficient to provide decision-useful information for an entity’s specific facts and circumstances. FASB standard setting to define specific financial KPIs or other metrics might decrease decision-usefulness, particularly if any additional regulatory interpretation might limit an SEC registrant’s ability to provide more tailored metrics to communicate management’s perspective on the entity’s results.

As an alternative, greater transparency in the disaggregation of financial performance information (as discussed in Chapter 1) might alleviate the need to standardize KPIs or non-GAAP metrics. In addition, the Board might consider broader financial statement user outreach to assess whether there is a need for targeted improvements to industry specific disclosures for revenues, expenses, cash flows, or other broad transactions to assist financial statement users in making their own calculations of relevant metrics.

Notwithstanding the views above, which apply to all entities, specific to private companies, investors and creditors would more likely than not have sufficient access to management, as discussed in the *Private Company Decision-Making Framework*, to obtain information supporting any disclosed KPIs or non-GAAP metrics.

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?*

Response 15: If the Board were to define certain financial KPIs or metrics, companies should not be required to provide any specifically defined financial KPIs or non-GAAP metrics. Rather, presentation of such information should be optional. Many financial KPIs or non-GAAP metrics evolve as an entity's circumstances change; consequently, to require all entities to present specifically defined KPIs or non-GAAP metrics might cause entities to prepare disclosure that lacks decision-usefulness to its key stakeholders. For example, some entities or stakeholders might devalue the usefulness of standardized metrics because the metrics might not reflect how management or financial statement users evaluate the entity's performance. As described in the response to Question 14, the Board's initiatives around disaggregation of performance information might better serve users.

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?*

Response 16: We support the Board adding a project to its agenda to develop recognition and measurement guidance for the receipt of a government grant by a for-profit business entity. The COVID-19 pandemic highlighted the need for an accounting model within US GAAP to address the accounting for government grants by for-profit entities.

We believe the Board should use an existing accounting model (e.g., Subtopic 958-605 or IAS 20) as a starting point for the project, rather than attempting to create a new model. While we do not have a preference as to which model the Board uses as its starting point, in our experience during the pandemic, for-profit preparers overwhelmingly elected to apply the IAS 20 model to government grants received.

Finally, while we agree the Board should pursue a project in this area, we do not believe it is as high a priority as other topics addressed elsewhere in the ITC (see our cover letter). Through the pandemic, many for-profit entities have come to understand how government grants may be accounted for under U.S. GAAP; therefore, we do not believe urgent standard setting is needed in this area.

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)?*

Response 17: We acknowledge the challenge in identifying a project scope related to government assistance given the wide variety of government assistance (tax incentives, cash grants, other resources) that can be provided. This challenge was readily apparent in the Board's recent project to develop disclosure requirements for government assistance, as well as past attempts at standard setting in this area. Consistent with our response to Question 16, however, we believe the starting point for the project's scope should be the existing scope of either Subtopic 958-605 or IAS 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?*

Response 18: We support the Board's continued research around the recognition, measurement, and disclosure of intangible assets. We acknowledge that the accounting for internally developed intangible assets continues to represent one of the main differences between a reporting entity's book value and its market capitalization. Given that, we encourage the Board to continue its research in this area to better understand the needs of users of financial statements with respect to a reporting entity's internally developed intangible assets. User input should drive whether any standard-setting efforts should focus on disclosures only or also recognition and measurement concepts.

As the Board continues its research in this area, we share the following observations:

- The pace of technological and innovative change continues to accelerate. As a result, any benefit from the effort entities expend on research & development activities may continue to become shorter-lived.
- Identifying, tracking, and classifying internal costs as research & development expenses or as some other type of expense within the scope of other guidance (e.g., start-up costs, process improvements, advertising, PP&E, internal-use software, etc.) may be challenging in some circumstances.
- In general, the more material intangible assets recognized in a business combination are customer relationship intangible assets.
- We have observed that the number of business combination transactions with material amounts of in-process research & development recognized tends to be minimal.

Finally, we encourage the Board to continue its work on reconciling differences between the accounting for asset acquisitions and business combinations. We believe the results from this project may, to some degree, further alleviate differences in the treatment of acquired intangible assets.

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.*

Response 19: We support the Board adding a project to its agenda to modernize and improve the existing software capitalization guidance. The existing guidance can be burdensome to apply and challenging to audit and, in the case of software to be sold, leased, or otherwise marketed, generally results in limited costs being capitalized or the costs eligible to be capitalized being deemed immaterial. For preparers, significant judgment can be required to determine which phase of development a reporting entity is in and which costs are eligible for capitalization. For auditors, significant time and effort can be required to understand how capitalized costs are tracked, in which phase of development they are incurred, and whether the costs are related to new development, maintenance, or product enhancement.

We believe replacing the existing guidance with a single model for software—both internal-use and externally marketed—would reduce the cost and complexity of applying the guidance and improve financial reporting for items with similar economic characteristics. Like other assets of an entity (e.g., PP&E), software—whether used internally only or marketed externally—is used by an entity to generate revenues. However, unlike accounting guidance for other asset classes, the intended use of software by an entity determines the appropriate capitalization threshold for costs incurred. We believe this difference complicates the application of U.S. GAAP. Frequently, preparers struggle to identify which guidance to apply (e.g., Subtopic 350-40 or Subtopic 985-20), especially in light of a general market shift towards delivering software as a service.

If the Board decides to undertake a project to modernize the accounting for software costs, we encourage the Board to leverage the existing model for internal-use software as its starting point. We believe this model (in contrast to the model in Subtopic 985-20) would better capture the costs incurred to develop software. We understand that many analysts use capitalized software costs as an indicator of the recurring cash costs an entity may need to incur to maintain current profitability. Therefore, a model that better captures these costs in the balance sheet would appear to be preferable than one resulting in limited capitalization of costs.

While we acknowledge that an “expense as incurred” practical expedient would be operationally simpler and easier to audit than existing guidance, we are concerned such an expedient would exacerbate the concern expressed in the ITC about the difference between book value and market capitalization for companies with significant intangible assets. Given that, we encourage the Board to obtain user feedback to better understand what type of information they use in their analysis of an entity’s development of software.

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.*

Response 20: We do not believe the Board should prioritize a project in this area. Though we agree that the debt classification guidance could be simplified and incremental convergence with IFRS would be desirable to many entities, we acknowledge the difficulty in achieving a consensus view on the classification principle, as evidenced by the outcome of the recent project in this area.

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?*

Response 21: Consistent with the feedback received by some stakeholders as indicated in the ITC, we recommend the Board continue its efforts to resolve existing complexities in the consolidation guidance in Topic 810. We believe this should be done holistically, challenging fundamental concepts such as whether “controlling financial interest” should be defined in such a way that the distinction between VIE and non-VIE entities is no longer needed, etc. This would be a departure from the scope of the Board’s current project to simply reorganize the guidance in Topic 810 to make it easier to navigate.

If the Board would rather make more timely, targeted improvements without revisiting the consolidation model holistically, we recommend that the Board develop a single disclosure regimen in Topic 810 applicable to all entities as a starting point. Because of the different disclosure requirements for VIEs and non-VIEs, a reporting entity must assess if an entity it is involved with is a VIE—even when it is clear it would not be consolidated—to determine which disclosure requirements to follow. By replacing the existing disclosure requirements with a single disclosure regimen for all entities, we believe the Board could simplify the application of the guidance, eliminating an often-complicated step in the analysis when the reporting entity clearly does not have a controlling financial interest in the other entity.

The Board might also consider expanding the existing “common control” accounting alternative for private companies to include entities not only under common control but also those under common ownership. For example, in many circumstances two entities are commonly owned by the same group of investors, but no single investor has a controlling financial interest. We believe that the basis for conclusions used to support the existing accounting alternative could also generally apply to entities under common ownership.

Alternatively, the Board might consider developing an accounting alternative for private company preparers of combined financial statements. For example, the Board could consider providing an exception to the VIE guidance for reporting entities presenting combined financial statements that include legal entities that might otherwise possibly be consolidated under the VIE guidance. Under this alternative, private companies could elect not to apply the VIE guidance to determine if they

are the primary beneficiary of a possible VIE if that entity has been included in the combined financial statements of the reporting entity (for example, because the two entities are part of a group with common investors or common management).

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.*

Response 22: Consistent with the feedback received from stakeholders as indicated in the ITC, we acknowledge that some aspects of the accounting for debt modifications can be complex to apply as, in some cases, it requires considerable judgment in applying the guidance. One way the Board might address some of the challenges expressed by stakeholders is to provide additional implementation guidance and examples around some of the more judgmental aspects, for example, in applying the 10 percent cash flow test. Alternatively, we believe the Board could continue its efforts to educate stakeholders in this area by providing additional educational materials, such as building on the FASB Staff Educational Paper issued in October 2020, “Topic 470 (Debt): Borrower’s Accounting for Debt Modifications.”

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?*

Response 23: We support the Board’s continued efforts to improve the accounting for financial instruments with characteristics of equity. Given the complexity of the instruments involved and the accompanying accounting guidance, this area of accounting has historically been high on the list of financial statement restatement matters.

We believe the project scope of narrow improvements to the indexation models provides a feasible path to incremental simplifications to this complex area. We supported the Board’s incremental improvement approach to ASU 2020-06, and recommend the Board employ a similar philosophy in this project, by focusing on outcomes that are broadly important to financial statement users, and that simplify, in an operable manner, application of the guidance for preparers and practitioners.

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.*

Response 24: We support the Board’s continued efforts to clarify how the materiality guidance applies to an entity’s disclosures. Our thoughts with respect to this particular matter are consistent with feedback received from stakeholders as indicated in the ITC. However, we recall in BC275 of ASU 2016-02, the Board rejected the notion of including an explicit statement about materiality in the disclosure guidance in light of the disclosure objective concept used in Topic 842. This particular disclosure objective, as well as disclosure objectives included in recently issued major standards, allows for judgment in determining the level of detail necessary to satisfy the disclosure objective, as well as the amount of emphasis to place on each of the disclosure requirements. Should the Board include materiality guidance in the disclosure section of each Subtopic, we recommend the Board consider how the materiality guidance will coexist with existing disclosure objectives, as applicable.

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.

Response 25: Of the items described in Chapter 4, we believe the most urgent area for improvement is the Board's cost-benefit analysis framework. The current framework seems largely to be a subjective process, whereunder each board member makes their own cost-benefit determination. The Board itself has acknowledged on several occasions that the process can be avoidably more qualitative than quantitative. In contrast, using a more comprehensive, quantitative, and systematized cost-benefit framework, may yield better information from which the Board could make a more objective cost-benefit determination.

Some items for the Board to consider in making improvements to its cost-benefit analysis framework include:

- Using an enhanced outreach methodology to access a broader number and more diverse group of stakeholders, including preparers and auditors, from a diverse demographic (e.g., type of organization). This might include establishing a desired stakeholder sample size, which could be scalable depending on the scope of a particular project.
- While understanding the evolving needs of and benefits to users will always serve as a critical component of the analysis, obtaining broader and timelier project-related feedback might provide the Board enhanced decision-making insight into stakeholders' perceptions of benefits and costs, including those relating to technology, resource requirements, internal controls, the complexity of given transactions, and auditing considerations.
- Ensuring the views of relevant standard setters and regulators (e.g., SEC, PCAOB, ASB, banking agencies) are incorporated in the Board's consideration of costs, benefits, and operability of standard setting proposals.

In implementing changes such as those described above, we believe it would be helpful for the Board to observe and consider frameworks and processes employed by other organizations, for example, the IASB and IFRIC's Due Process Handbook and the SEC's Current Guidance on Economic Analysis in SEC Rulemaking. These frameworks seemingly provide enhanced rigor, discipline, and transparency with respect to how information is gathered and the neutrality and consistency of how costs and benefits are considered, evaluated, and incorporated in standard-setting and rulemaking.

In addition, consistent with feedback received from stakeholders as indicated in the ITC, we encourage the Board to consider establishing a new interpretive process to respond to stakeholder questions that do not require amendments to the Codification but that would be published and retrievable. If the Board ultimately decides to pursue the development of such a process, we suggest looking to the structure of the IFRS Interpretations Committee. Additionally, the Board might consider expanding the role of the EITF to include activities similar to those of the IFRS Interpretations Committee. In doing so, the Board may wish to expand and diversify the composition of the EITF.

With respect to increased transparency, we recommend Board meeting handouts remain accessible indefinitely. Doing so would provide much needed background and context to the published Board meeting minutes, which are maintained on the FASB's website indefinitely – especially for stakeholders who might not follow each step in the Board's deliberative process. For example, after a standard is issued, a stakeholder might wish to better understand a Board decision and in turn, refer to the related handouts, minutes, and videos. At that point, the handouts may no longer be available on the FASB website. Board meeting handouts often provide a significant amount of background and context to matters which the Board has deliberated on. Without this information, coupled with the summarized nature of the Board meeting minutes, stakeholders may be left with little background and context when trying to understand and apply certain aspects of the authoritative guidance. Regarding published Board minutes, we recommend

the Board consider expanding on the summarized nature of the information in order to provide increased depth on the matters discussed.

Lastly, stakeholders might find having indefinite access to all archived Board meetings useful to gain further insight and increased understanding of the Board's thought process. We understand the inherent risk that might arise from doing so, particularly if a Board decision is subsequently changed. However, with the proper caveats, providing indefinite access might be very helpful to stakeholders.