Deloitte & Touche LLP

695 East Main Street
Stamford, CT 06901-2141

Tel: 1 203 708 4000
Fax: 1 203 708-4797
www.deloitte.com

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
Re: Invitation to Comment, *Agenda Consultation*

Dear Ms. Salo:

Deloitte & Touche LLP ("Deloitte" or "we") appreciates the opportunity to provide comments on the FASB's Invitation to Comment (ITC) *Agenda Consultation* issued on June 24, 2021.

We applaud the Board for soliciting feedback about financial reporting issues and its agenda. This is an important step in considering the future path for standard setting and ensuring that financial statements remain relevant to users and continue to represent financial information faithfully. Since economies and companies do not remain static, financial reporting standards need to keep pace, and it is vital that stakeholders such as investors, preparers, and practitioners have input into this important process.

As the Board considers stakeholder responses to the ITC and sets its future agenda, we ask that the Board keep the following critical resourcing issues in mind:

- Preparer and auditor resources will be limited because of other key initiatives, including implementation of systems to report on environmental, social, and governance (ESG) matters. It appears likely that companies will be required in the near term to expand reporting on ESG matters or reporting on the effects of climate change. This expanded reporting will require preparers and practitioners to devote a significant amount of their limited resources to these efforts. Therefore, these stakeholders will have less capacity than usual to implement significant Accounting Standards Updates (ASUs).
- The Board itself may have limited capacity to initiate a significant number of new projects given its upcoming postimplementation reviews related to significant accounting standards, including the standards on revenue recognition, leases, and financial instruments.

At the same time that the FASB is seeking feedback on its agenda through the ITC, the International Accounting Standards Board (IASB) is also seeking feedback on its agenda through its Request for Information *Third Agenda Consultation*. It is very possible that both boards will receive similar feedback on financial statement issues and projects from stakeholders. It is also possible that both boards will add common projects to their agendas. In such instances, we encourage the FASB and the IASB to work together, using similar timelines, and to consider issuing accounting standards with common principles. We understand that there may be situations in which different standards are warranted on the basis of diverse stakeholder perspectives; however, we believe that differences should be the exception rather than the rule. When the economic phenomena being depicted are the same, there are benefits to all stakeholders when the two primary sets of accounting standards used around the world apply common principles.

As to potential agenda projects, each of the topics included in the ITC has merit for being added to the FASB's agenda. However, as previously noted, since resources are limited, priorities must be set. Given these parameters, we propose that the Board should prioritize certain projects, as further described in the appendix of this letter. We believe that these prioritized projects should include (1) disaggregation of the performance and cash flow statements, (2) disclosures of intangible assets, and (3) accounting for crypto assets. These are increasingly relevant topics that would provide significant opportunities for improvement and greater transparency for stakeholders. By prioritizing certain topics, the Board will provide investors with better, more useful information while allowing preparers and practitioners the opportunity to implement standards on those topics in a quality fashion among a sea of priorities.

****

The appendix contains our responses to the ITC's questions for respondents.

We appreciate the opportunity to comment on the ITC. If you have any questions about our comment letter, please feel free to contact Bob Uhl at (203) 761-3152, Brandon Coleman at (312) 486-0259, or Kristin Bauer at (312) 486-3877.

Sincerely,

Deloitte & Touche LLP

cc: Bob Uhl, Brandon Coleman, and Kristin Bauer

Appendix
Deloitte & Touche LLP
Responses to Questions for Respondents

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 . . . .*

Deloitte is a large accounting firm and is considered a practitioner/auditor among the types of stakeholders listed in Question 1 above. We provide audit and assurance services as well as accounting and reporting advisory services to our clients, which include companies across the Fortune 1000 and middle market, private enterprises, and not-for-profit (NFP) organizations. To the extent relevant, our responses to this ITC also take into account the needs of the preparers that we serve and their investors in the capital markets.

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

a. *Why there is a pervasive need to change GAAP (for example, what is the reason for the change)*
b. *How the Board should address this topic (that is, the potential project scope, objective, potential solutions, and the expected costs and benefits of those solutions)*
c. *What the urgency is of the Board completing a project on this topic (that is, how quickly the issues need to be addressed).*

We believe that all of the topics discussed in this ITC have merit and could result in improvements for stakeholders. However, we acknowledge that not all of these topics can be addressed in the near term and that priorities therefore need to be established. We believe that addressing the topics highlighted below will provide significant benefits to users and should be considered a top priority for the Board.

Disaggregation in the Performance and Cash Flow Statements

We support the Board's efforts to improve the usefulness of the information provided in an entity's financial statements and to help users of the financial statements make decisions in their capacity as capital providers. We agree with many of the ITC's perceived issues related to disaggregation of financial reporting information and believe them to be, collectively, a major reporting issue that the Board should consider improving. We support prioritizing a project that would require further disaggregation of the performance and cash flow statements to provide users of the financial statements with better, more useful information.

Within the performance and cash flow statements, we believe that information should be sufficiently disaggregated to provide users of the financial statements with decision-useful information. Disaggregation would provide users with an improved understanding of the nature of an entity's activities and more transparent information for assessing both an entity's future cash flows and past performance. We believe that well-defined criteria for an appropriate level of disaggregation could allow for a level of comparability in performance metrics across entities and industries.

We especially encourage the Board, when contemplating changes to the current performance reporting model, to consider the continual increase in use of and requests for non-GAAP measures since ongoing trends seem to indicate that users of the financial statements are looking for types of information that are different from what is currently provided under U.S. GAAP. By acknowledging these trends and understanding what users are requesting, the Board will be able to incorporate meaningful changes into the financial reporting model.

Disclosures of Intangible Assets

As the world's economies evolve, technologies improve, and intellectual property grows, intangible assets are playing a much larger role in providing economic benefits to companies than ever before. That is, the predominant creators of enterprise value in many companies are not physical assets. These creators of enterprise value may or may not be recognized as intangible assets. If these intangible assets are recognized, their measurement is at cost less amortization, which may provide little information about their current value.

For many companies, we have observed that the difference between the carrying value of their net assets and the market price of their outstanding shares has significantly increased to such a point that some stakeholders are concerned that there is little relationship between the two. We recognize that the full difference between book value and market capitalization for companies is not completely attributable to (1) unrecognized intangible assets and (2) differences between current value and historical cost for recognized intangible assets; however, we believe that such items account for a significant portion of the difference. As a result of the significant differences between book value and market capitalization, there is concern about whether financial statements are maintaining their relevance to investors.

In a manner similar to our response to the Board's 2016 Invitation to Comment, *Agenda Consultation* (the "2016 Agenda Consultation"), we are not advocating for a project to address the recognition and measurement of intangible assets at this time. Such a project would take significant effort to be satisfactory to a majority of stakeholders. However, we believe that enhanced disclosures could improve the relevance of the financial statements to users. We recognize that the accounting for and disclosure of intangible assets is a current research project on the Board's technical agenda; however, we believe that the Board should give greater priority to this project.

For both recognized and unrecognized intangible assets, we are not proposing a project to disclose their fair values. Instead, we support a project that would result in qualitative disclosures of an entity's predominant creators of enterprise value and how these assets create value for the entity. Qualitative disclosures would provide better insights into the value of the net assets of companies and make the financial statements more relevant to users. Further, since the subject of this proposed project has significant interaction with the scope of projects being addressed by sustainability standard setters, we recommend that the Board coordinate with those other standard setters.

Accounting for Crypto Assets

We believe that the Board should add a project on crypto assets. The *FASB Accounting Standards Codification* (ASC or the "Codification") does not contain explicit guidance on the accounting for crypto assets. As a result, and after analysis of a number of topics, practice (applying U.S. GAAP) has concluded that crypto assets must be accounted for as indefinite-lived intangible assets in the absence of industry exceptions. Accordingly, these assets are subsequently measured at cost less any impairments (i.e., lower of cost or market measurement model).

Since many crypto assets are traded in significant volumes at any time of day every day of the year, any quoted price from the principal exchange used that is below the asset's cost can trigger an irreversible impairment loss. Therefore, decreases in fair value below the asset's carrying value are recognized while increases in fair value are not. This accounting model provides only one side of the economic picture to stakeholders. Because the measurement model is highly dependent on when the asset was acquired, fungible units can be measured at significantly different amounts, making comparability difficult. This accounting has been a barrier to entry for some entities; nevertheless, the use of crypto assets by entities is becoming more prevalent.

Crypto assets are assets whose economic benefits come solely from exchanging them for other assets such as other currencies, goods, or services. That is, crypto assets do not provide cash flows or other value to the holder other than through their eventual exchange. Thus, the most faithful representation and the most relevant measure for many crypto assets that are traded on exchanges is a current value, such as fair value. Given the opportunity to provide accounting guidance for crypto assets that is more faithfully representative and more relevant to users, we believe that the Board should add, as a priority, a project on crypto assets.

We believe that a project on crypto assets should take the form of creating a new ASC subtopic that addresses scope, recognition and derecognition, measurement, and disclosure. With respect to scope, we suggest that the scope be kept narrow and modeled from the AICPA Practice Aid *Accounting for and Auditing of Digital Assets*. Using this model, the scope might include crypto assets that:

- "[F]unction as a medium of exchange" (e.g., are accepted by many vendors as consideration for the vendors' goods or services).
- "[A]re not issued by a jurisdictional authority ([e.g.], a sovereign government)."
- "[Do] not give rise to a contract between the holder and another party." (However, the Board may want to consider an exception for crypto assets that "wrap" another crypto asset that is within this scope.)

With respect to measurement, one view is that crypto assets should be measured at fair value with changes in fair value recognized in income if the crypto assets have a fair value that is readily determinable from exchanges with adequate breadth. For the reasons noted above, we believe that fair value is the most relevant measure for these assets. For crypto assets that do not meet the criteria for having a fair value that is readily determinable, the measurement should be cost less any impairment. An alternative view is that crypto assets' default measurement should be at cost less any impairment, but the Board should permit a fair value option with changes in fair value recognized in income if the crypto assets have a fair value that is readily determinable from exchanges. One issue that should be further explored is whether and, if so, when an entity that creates a crypto asset that is being accounted for should or could measure its holdings at fair value.

As to the recognition and derecognition guidance, we believe that (1) the guidance should address the accounting for both the transferor and the transferee of crypto assets in the same transaction, (2) the model should be based on whether control of the crypto assets has been transferred, and (3) application of the guidance should provide symmetrical accounting results.

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

We have not identified any topics in this ITC that do not merit addressing to improve financial reporting. However, given the limited resources noted above, the Board needs to judiciously determine which topics should be prioritized.

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).*

We have not identified any financial reporting topics beyond those in this ITC (other than those that would reasonably be addressed through the Board's postimplementation review process) that should be a top priority for the Board to address.

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.*

We recognize that all projects on the FASB's current agenda were added because in each case, a topic for potential improvement was identified and the need for a better solution is being sought by at least a significant number of stakeholders. The requests for improved financial reporting must be weighed against (1) the limited resources of the FASB, which will also need to dedicate effort toward upcoming postimplementation reviews and any identified related improvements, and (2) preparers' and practitioners' capacity to implement new ASUs. We currently expect that preparers will be required to implement new sustainability reporting standards, which are likely to be challenging. We therefore believe that the FASB should prioritize only those projects from the agenda with the potential to provide the greatest benefit to stakeholders. The current technical agenda projects that we see as potentially providing the greatest benefit are highlighted below.

Distinguishing Liabilities From Equity Phase 2

As expressed in our response to the 2016 Agenda Consultation, we believe that one of the fundamental issues in the current guidance on distinguishing liabilities from equity is the internal inconsistency between various models that create complexity and cause instruments with economically similar terms to be accounted for in different ways. We continue to have reservations about a model that incorporates indexation. However, we recognize that any model that does not incorporate indexation is unlikely to garner sufficient stakeholder support. While current guidance does incorporate tests of indexation in models for distinguishing liabilities for equity, this current guidance is unnecessarily complex. We support the Board's continuing pursuit of a project to alleviate the unnecessary complexity as a priority.

Consolidation

We continue to support a holistic review of ASC 810, *Consolidation*, to simplify the existing guidance, particularly with respect to scope issues and the framework for determining whether a reporting entity has a controlling financial interest. Determining the appropriate framework for assessing whether a reporting entity has a controlling financial interest is one of the most common areas of U.S. GAAP that practitioners struggle with, and we have observed that the cost of making the determination significantly outweighs the benefit of meaningfully different financial reporting results. We believe that the Board could simplify the requirements by establishing a single consolidation model that would replace the voting interest entity model and the variable interest entity (VIE) model. The voting interest entity and VIE models share the principle that consolidation should be based on control. We support the creation of a single, principles-based model focused on the concept of control to determine when an entity consolidates another.

Other Crosscutting Issues for Consideration

In addition to these priorities, we encourage the FASB to identify broader themes and to develop an overarching principle or set of principles before addressing specific application within topics. For example, common themes that are present in multiple areas of existing guidance and continue to be raised include (1) when, and what type of, costs should be capitalized as part of assets; (2) when to recognize variable consideration that may be paid or received in the future; and (3) how to account for modifications of contracts. In that vein, the Board should consider general principles related to the accounting for modifications of contracts before specifically addressing its current project on modification of leases.

A significant number of issues pertaining to the statement of cash flows have been identified. The Board should either address the most important of these issues or consider whether the pervasiveness of these issues is such that a full reconsideration of the guidance on cash flow statements may be warranted.

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

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

We are neither primary users of financial statements nor preparers. However, we have developed perspectives as practitioners/auditors for the Board to consider.

In this question, the ITC seeks stakeholder feedback on ESG disclosures. Through our interactions, we are aware that users of the financial statements are seeking additional disclosures to better understand how ESG, including climate change and related actions, affects an entity's account balances and classes of transactions. We encourage the Board to work with these stakeholders to reduce the gap between user expectations with respect to ESG-related disclosures and the Codification requirements.

Further, we expect to see the development of ESG standards, which public entities will be required to implement in the near term, that will also provide for disclosures. These standards may be (1) developed by independent boards and adopted by regulators with or without amendments or (2) developed by regulators. In the United States, it is the SEC that will decide who develops these standards and the related requirements. These ESG standards will most likely address a number of subjects that are closely related to the elements of financial statements. Thus, it will be critically important for the Board to coordinate closely and work actively with the SEC to ensure that U.S. GAAP and ESG standards complement each other and do not contain redundancies. Also, disclosure provisions that appear in both U.S. GAAP and ESG standards and have the same objectives should not contain different requirements. We believe that redundancies and inconsistencies can be avoided if the scope of the standard setters is appropriately set and the Board proactively coordinates its efforts with those of the SEC.

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.*

This question is not applicable since Deloitte is considered a practitioner/auditor among the types of stakeholders listed in Question 1 above.

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

This question is not applicable since Deloitte is considered a practitioner/auditor among the types of stakeholders listed in Question 1 above.

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.*

Generally, given the maturity of the standard, we have not identified new challenges in applying the guidance on the definition of a derivative and the related derivative scope exceptions in ASC 815-10, *Derivatives and Hedging — Overall*, other than for ESG transactions. Please refer to our response to Question 13 below regarding challenges in applying the guidance on derivatives to ESG-related transactions.

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 would it be decision useful?*

This question is not applicable since Deloitte is considered a practitioner/auditor among the types of stakeholders listed in Question 1 above.

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

We do not hold crypto assets. However, please refer to our response to Question 2 above.

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?*

Please refer to our response to Question 2 above. In addition, we would suggest that the Board reserve some of its resources to address any significant developments related to digital assets that may arise in the future.

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

We recognize that the ESG landscape is continually evolving as various stakeholders are focused on addressing climate-related and other ESG matters. Thus, we believe that it would be prudent for the Board to reserve some of its capacity to address any significant issues as they arise. One aspect of ESG-related transactions that the Board should consider is ESG provisions within financial instruments. For example, we have identified challenges with respect to applying the guidance on derivatives in ASC 815 to provisions in bonds under which the cash flows vary on the basis of sustainability-linked 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.*

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 that before the FASB addresses a project pertaining to KPIs or metrics, the Board should address the issues discussed in Chapter 1 of the ITC related to the disaggregation of financial reporting information. As described in the ITC, stakeholders have indicated that greater disaggregation and granularity of financial reporting information are needed to provide investors with better, more useful information that will directly influence their decisions and behaviors. In our response to the 2016 Agenda Consultation, we expressed our support for a project focused on the structure and display of the information reported in the income statement. We continue to support such a project.

Currently, the Codification has guidance on the structure of a statement of financial position and a statement of cash flows. However, it does not provide guidance on the structure of a statement of income or comprehensive income and any subtotals therein, other than the separation of other comprehensive income. Although entities now look to SEC guidance or practice, these concepts should be included in the Codification. It would be logical for guidance on the structure of a statement of income to require certain subtotals to provide a level of comparability in performance metrics across entities and industries.

Regardless of whether the FASB develops standardized KPIs, we believe that companies are likely to continue providing their own KPIs to tell their financial story for the reporting period. Guidance that provides for sufficient disaggregation and granularity of financial reporting information should generally provide a more useful mechanism to help users understand the inputs in a company's KPIs. Such guidance would also improve comparability of financial reporting and performance information across entities and provide enhanced inputs for a user's own metrics.

Should the FASB choose to pursue a project to define standardized KPIs, we would encourage the Board to coordinate the development of such metrics with the development of disaggregated financial performance information and ESG reporting standards.

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?*

If the Board were to pursue a project on the recognition and measurement of government grants, we would suggest leveraging existing models, including the framework established by IAS 20, *Accounting for Government Grants and Disclosure of Government Assistance*, as part of the FASB's commitment to converging some of its guidance with that of the IASB, as a starting point for the project. As a large accounting firm with significant experience in the application of IAS 20, we have found the principles in that standard to generally provide relevant and representationally faithful information to stakeholders.

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

We believe that there are higher priorities than government grant accounting for the Board to address. However, if the Board adds a project to address the recognition and measurement of government grants, the scope of the project should be kept narrow and limited to nonreciprocal transactions in which a government entity transfers assets to (or extinguishes liabilities owed by) the reporting entity without receiving any assets or direct services from the reporting entity.

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?*

Please refer to our response to Question 2 above.

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.*

While the guidance on capitalization is not new, we continue to observe challenges in practice when applying the software capitalization guidance in both ASC 985-20, *Software — Costs of Software to Be Sold, Leased, or Marketed*, and ASC 350-40, *Intangibles — Goodwill and Other: Internal-Use Software*. In addition to the challenges raised in the ITC, we observe that the guidance is challenging to apply in many circumstances, including, but not limited to, the following:

- *Scop*e — Many software companies have multiple product offerings that are offered on an on-premise basis or as software as a service (SaaS). Those companies may find it challenging to determine which guidance to apply on the basis of the criteria in ASC 985-20-15-5 and 15-6. Diversity in practice may also exist in determining the appropriate scope for software development costs when a customer has the right to take possession of the hosted software, particularly when the vendor must use judgment to determine what is considered a "significant penalty."
- *Hybrid offerings* — Many software companies sell hybrid offerings that include both on-premise software (subject to the guidance in ASC 985-20) and a cloud-based service such as SaaS (subject to the guidance in ASC 350-40). It is often challenging to segregate costs associated with the on-premise software and costs associated with the SaaS, particularly when the on-premise software and the SaaS are significantly integrated, highly interdependent, or highly interrelated. When software engineers are working on developing both the software that will be sold or marketed externally (i.e., the on-premise software) and the software that is used by the entity to provide a service (i.e., the SaaS) concurrently and in an integrated manner, it may be difficult to discern how much cost should be attributed to the portion accounted for under ASC 985-20 and to the portion accounted for under ASC 350-40.
- *Agile development* — The guidance is ASC 350-40 is best suited for a sequential, pre-defined software development approach like the waterfall method. However, many software companies use an agile development approach under which software development does not move linearly through the phases in ASC 350-40. In those circumstances, it may be difficult to discern which costs are incurred during the application development stage (and therefore may qualify for capitalization) and which costs are incurred during the other stages (and therefore are required to be expensed).

The activities performed and the economic benefit expected to be derived from the software being developed are effectively the same regardless of whether the software is being developed for internal use (which is the case when the software is only sold as SaaS) or the software is being developed so that it can be sold or marketed externally (which is the case when the software is sold as an on-premise solution). However, the capitalization models differ in material ways. Other than for presentation, the customer's accounting for the acquisition of a license and its accounting for a contract to purchase SaaS were effectively aligned with the issuance of ASU 2018-15, *Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract* — a consensus of the FASB Emerging Issues Task Force; however, the vendor's accounting for the same software continues to be different depending on how it is sold. The different capitalization models result in additional costs and complexities for preparers. Such differences may also make it more challenging for financial statement users to analyze the costs that are required to be capitalized (and subsequently amortized) and the costs that are required to be expensed immediately when the nature of the costs is similar. We support a project that would result in consistent software capitalization guidance regardless of whether the software is for internal use (often sold as a cloud- or SaaS-based offering) or is to be sold, leased, or otherwise marketed (license of on-premise software). We believe that a single model of accounting for software development costs would provide more consistent and meaningful information to stakeholders while reducing costs and complexities.

We believe that if the FASB were to pursue a project aimed at developing a single model of accounting for software development costs, the Board should (1) strive for consistencies with its other ongoing projects on intangible assets and (2) be mindful of the project's scope. It would be critical for any such project to be contemplated in light of the Board's broader evaluation of intangible assets to provide investors with better, more useful information.

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.*

No, we do not believe that the Board should prioritize a potential project on current and noncurrent classification of assets and/or liabilities in a classified balance sheet. We believe that a project to differentiate between current and noncurrent assets or liabilities would be challenging and would not provide sufficient benefit to financial statement users and other stakeholders. Information regarding when assets are expected to be realized or when liabilities are contractually due would be better provided through disclosure to reduce complexities associated with balance sheet classification.

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?*

Yes, as a high priority. Please refer to our response to Question 5 above.

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.*

Although the guidance on debt modifications is rules-based, we have not identified any significant challenges in applying the accounting for debt modifications that would warrant urgent standard setting. However, as mentioned in our response to Question 5 above, if the Board were to consider general principles related to the accounting for modifications of contracts, it should consider including those principles in the debt modification framework.

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?*

Please refer to our response to Question 5 above.

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

We believe that it would provide little benefit to stakeholders to repeat in the Disclosure section of each Codification subtopic that it is unnecessary to apply the Codification's provisions to immaterial items.

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.

We believe that the FASB processes highlighted below, three of which are described in Chapter 4 of the ITC, could be improved.

Codification Accessibility

We understand that the Codification is meant to be the single source of authoritative U.S. GAAP. However, there are other materials that are very useful in understanding these authoritative principles, such as the Board's basis for conclusions, Board meeting materials and minutes, Transition Resource Group meeting minutes and materials, the FASB Staff Q&As, and the FASB Staff Educational Papers. Stakeholders may be unaware of these resources or, if they are aware of them, may often have difficulty locating them. We support a nonurgent process improvement to provide links or references to these materials in the Codification to improve awareness and to enable consistent application of the requirements of the standards.

Interpretive Process

We support a nonurgent process that would provide timely interpretations of existing U.S. GAAP consistent with the Codification. To implement this process, the Emerging Issues Task Force could assist stakeholders with interpretations of existing U.S. GAAP in a manner similar to how the IFRS Interpretations Committee helps stakeholders apply existing IFRS Standards. In a manner consistent with stakeholder observations outlined in this ITC, we believe that links or references to such interpretations should be inserted in the Codification to improve accessibility by all stakeholders.

Transition Requirements

Inconsistencies in the methods of applying transition guidance across new accounting standards increases the cost and complexity of adopting changes to U.S. GAAP. Standardizing transition guidance for new accounting standards would reduce complexity for stakeholders and could also reduce complexity in the standard-setting process itself. We believe that the Board should develop consistent methods of applying transition guidance prospectively as new accounting standards are drafted.

Other Process Improvements

In addition to the process improvements noted above, we support greater transparency of information provided to the Board in its decision-making capacities. We believe that greater transparency of Board meeting materials would allow stakeholders to early identify any challenges associated with new accounting standards and, in turn, would reduce the overall costs and complexities resulting from the standard-setting process. Further, we believe that such process improvement would reduce the number of postissuance activities and amendments during the implementation and application of new accounting standards.