September 22, 2021

Technical Director
FASB
401 Merritt 7
PO Box 5116
Norwalk, CT 06856-5116

Re: File Reference No. 2021-004

Dear Technical Director,

We are pleased to provide comments on FASB's *Invitation to Comment – Agenda Consultation*.

Duff & Phelps, A Kroll Business, the leading independent global valuation advisory firm, helps clients make confident decisions in the areas of valuation, real estate, taxation and transfer pricing, disputes, M&A advisory and other corporate transactions. Duff & Phelps acquired Kroll in 2018 and is in the process of rebranding as Kroll by the end of 2021.

Kroll is the world's premier provider of services and digital products related to valuation, governance, risk, and transparency. We work with clients across diverse sectors in the areas of valuation, expert services, investigations, cyber security, corporate finance, restructuring, legal and business solutions, data analytics, and regulatory compliance. Kroll has nearly 5,000 professionals in 30 countries and territories around the world.

We have provided input on select topics from our perspective of independent third-party valuation specialists. We would be pleased to discuss our comments with the FASB staff. Please reach out to Greg Franceschi at greg.franceschi@duffandphelps.com, Gary Roland at gary.roland@duffandphelps.com, or Marianna Todorova at marianna.todorova@duffandphelps.com, with any questions.

Sincerely,

Duff & Phelps, A Kroll Business

Office of Professional Practice
Duff & Phelps, A Kroll Business

Overall 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:

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.

Kroll response: Other. We are independent third-party valuation specialists.

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We have provided input on select topics in the Agenda Consultation from our perspective of independent third-party valuation specialists.

Chapter 1-Disaggregation of Financial Reporting Information

Overall

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?

Kroll response: We echo the stated investor requests for more granularity and disaggregation of financial reporting information and believe the area of ***Performance Reporting—Disaggregation of Performance Information*** should be a top priority.

Disaggregation is a means to provide performance information that facilitates reporting on other areas of interest to investors, such intangible assets and ESG. Rather than being limited to a standalone project, disaggregation should serve as core concept in the development of other standards. Such an approach should be integrated with potential agenda items from the Agenda Consultation and address the following issues, among others:

- Distinguishing financial information between core operations and nonoperating income and nonrecurring items.
- Providing alignment with potential ESG disclosures.
- Recognition of internally generated intangible assets (see our response to **Question 18**).
- Facilitating the measurement of value creation metrics such as ROIC and economic profit. This will help inform investment decisions, performance assessments, resource allocation, and competitive behavior.

In addition, greater transparency of the operations of a company through more refined performance data will lead to a new wave of data analytics allowing benchmarking and performance comparisons across companies, enhancing capital allocation decisions.

Chapter 2-Emerging Areas in Financial Reporting

Digital Assets

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?

Kroll response: The answer is highly variable. Currently, most companies do not have material amounts of digital assets. However, there are companies that invest in or provide support services to digital asset companies that can have very large holdings. For example:

- An entity that provides software support to getting a cryptocurrency platform up and running might hold over a billion $ worth of that currency if it becomes successful.
- Mining businesses hold large quantities of digital assets.
- Certain investment companies concentrate on digital assets.
- Going forward, one could likely expect to see large quantities of digital assets being held by investment banking firms that help them go public.
- Some companies are taking steps towards or are already allowing payment in select crypto currencies (for limited purposes).
- Other companies are taking steps to allow routine payment for goods or services by customers paying in select crypto currencies.

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?

Kroll response: We believe that the greatest urgency in pursuing a project on digital assets relates to cryptocurrencies.[1] Key questions about existence, ownership, measurement, and the potential for market manipulation need to be addressed. Additionally, as companies begin to accept cryptocurrencies as forms of payment, there needs to be a way to account for and distinguish such assets in the context of the reporting currency.

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[1] Also see letter to FASB from U.S. Congress dated May 12, 2021: https://emmer.house.gov/_cache/files/4/5/4562d4a7-da45-47e1-b909-0ce278fb1ba7/D0DE45074191D0B18E1227324345F79E.congressional-letter-to-chair-jones.pdf

In terms of the general framework, under the current guidance, cryptocurrencies may be classified as intangibles and would therefore be subject to the requirements of ASC 350. In contrast, investment companies may be able to measure the asset at fair value at each reporting period upon determining it is an "investment" under ASC 946. The resulting big picture is inconsistent and does not faithfully reflect economic reality; it also indicates that the existing reporting and measurement framework likely needs to be re-thought.

Cryptocurrency may also be the most problematic to value of all digital assets: its value is not tied to any underlying cash flows but is based solely on supply and demand. It is basically worth what the next person is willing to pay for it. The relevant markets are largely unregulated, wildly volatile, and rife with fraudulent trades inflating value. In December 2019, the AICPA issued a practice aid on the *Accounting for and Auditing of Digital Assets*.[2] While the AICPA's guidance is very helpful, to some extent it leaves open questions with respect to measurement and is nonauthoritative guidance in nature.

Finally, given the significance and rapid growth of the digital assets class, FASB and IASB should collaborate in addressing recognition, classification, and measurement issues to ensure a consistent outcome. We consider this project to be of **high priority** for both boards.

Financial KPIs or Non-GAAP Metrics

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

Kroll response: We agree that it would be helpful to define certain standardized financial metrics, such as EBIT, EBITDA, EBITDAR, FCF and other, to set common parameters and introduce consistency. Also, it would be helpful to further distinguish and report such metrics in terms of operating activities only (i.e., exclude non-operating items). The concern that some companies might make additional adjustments, providing their own non-GAAP metrics, should not be a deterrent to this effort, as the quality of information provided across the board would be improved.

Additionally, standardizing common KPIs by industry would be extremely helpful for analysis purposes and would increase consistency. Changes to required KPIs due to

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[2] The AICPA guide can be accessed here: https://www.aicpa.org/content/dam/aicpa/interestareas/informationtechnology/downloadabledocuments/accounting-for-and-auditing-of-digital-assets.pdf

industry evolution is an issue that should be monitored by FASB and is no different than responding to other emerging financial reporting issues.

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?

Kroll response: Optionality tends to increase diversity in practice; therefore, we believe such disclosures should be required rather than being optional.

Intangible Assets, Including Software

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?

Kroll response:

Scope of potential project on intangible assets

We believe that the FASB should take a holistic approach to the accounting for *acquired intangibles* in both business combinations and asset acquisitions, and for *internally generated* intangibles. In any event, a harmonized approach in the accounting, to the best extent possible, **should not come at the expense of the intangible assets currently recognized and measured in acquisitions,** which would be an enormous step backwards from sharing value-relevant information with users.[3]

In pursuing a project on intangible assets, the FASB should collaborate with the IASB, considering this is an opportunity to fully evaluate the accounting and reporting for intangibles, rather than patch existing standards that may have come together piecemeal over time, and are thus not reflective of nature of the current economy.

[3] We are aware that FASB has a research project on the ***Accounting for and Disclosure of Intangibles***, and that it has also broached the subject of intangibles in its project on the accounting for goodwill.

Intangible assets currently recognized in business combinations should not be limited

The existing guidance for the separate recognition and measurement of identifiable intangibles is appropriate and operational.[4] Subsuming (certain) intangibles in goodwill will eliminate significant useful information.

The purchase price allocation process, in conjunction with the accounting recognition and measurement requirements, explains what investments have been made as part of the transaction, considering the company's business model, value drivers, competitive dynamics and *by employing the principles of corporate finance*. The more intangibles are subsumed in goodwill, the more unexplained the substance of the transaction becomes, which rightfully sparks questions from auditors, regulators, and investors.

Perspective in recognizing intangible assets

It is critical to recognize that assessing the merits of an intangible asset solely through the lens of whether it can be *sold or separated from a business*, or *transacted outside of a business acquisition*, falls short of conveying the importance of the asset used in an ongoing operation. Such a narrow approach would fail to capture the economic value associated with many intangible assets.

A prime example of an asset that falls in this category are customer intangible assets, which are key assets in many industries. Especially in the case of defense contractors, cable and technology companies, customer contracts are a critical intangible asset and the fair value of the backlog of contracts in place (and expected renewals) provide a meaningful indication of contracts in hand as opposed to those that have yet to be won. Customers in place are less risky than the future yet-to-be won (new) customers. Retention metrics are key operating indicators in these industries, and the data underlying these metrics is very robust. Thus, existing customer contracts and contract renewal expectations provide relevant and decision-useful information about expected cash flows and their risk. In addition, the way companies interact with their customers and leverage customer information has changed dramatically in the modern information age. For example, the retail and consumer products industry has been utilizing customer contact information (email and text) to track customer behavior to predict and drive future customer revenue.

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[4] This is also evidenced by the fact that, overall, respondents to FASB's ITC **on *Identifiable Intangible Assets and Subsequent Accounting for Goodwill*** opposed changing the current guidance for the recognition of identifiable intangible assets.

Recognizing intangible assets provides a perspective into assets that management has invested in. In many cases these investments are material. In the current knowledge-based economy, intangible assets provide insight into the value drivers of the company and manifest sources of competitive advantage. Subsuming such assets into goodwill (in a business combination) or expensing the cost of corresponding internally developed intangibles creates opaqueness.

Capitalizing investments in intangible assets[5]

Perhaps more broadly, and consistent with a holistic approach to evaluating the accounting for intangible assets, FASB should explore capitalizing investments in intangible assets. Accounting requires the expensing of many types of costs (research, development, advertising, etc.) as they are incurred, when economically, there often is a benefit from such costs in future years. Such accounting distorts economic reality and skews the picture of invested capital and return on capital. Treating such costs as investments by capitalizing and amortizing them over a reasonable period would provide better insight into value creation and would be a step towards narrowing the gap between an entity's book value and its market valuation. This capitalization approach can be coupled with a fair value impairment model, requiring an impairment test when certain indicators are present. Reversal of impairment should, when certain criteria are met, also be explored.

Disclosures about intangible assets

A holistic approach to the accounting for intangible assets includes improving disclosures. However, disclosures are not an alternative for recognition and measurement (unless a fair value estimate is presented as part of the disclosures), rather, they are a useful supplement to measurement. Disclosures could have several drawbacks, including sharing potentially sensitive information, boilerplate language, and may be costly to provide.

Interaction of ESG and Intangible Assets

We agree that a certain subset of ESG matters can currently be addressed by applying US GAAP, as they lie at the intersection of ESG with financial reporting.[6] However, we also observe that moving forward, greater

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[5] Also see ***Missing intangible assets distorts return on capital***, by Steve Cooper (former IASB board member) and Dennis Jullens (former member of advisory committees for IASB and EFRAG): https://www.footnotesanalyst.com/missing-intangible-assets-distorts-return-on-capital/

[6] FASB staff educational paper, ***Intersection of Environmental, Social, and Governance Matters with Financial Accounting Standards***, March 19, 2021.

transparency about internally generated intangibles would be very responsive to the needs of interested parties, including investors and regulators, in the context of ESG.

As stated earlier, disaggregation of financial information, non-GAAP measures and KPIs can be used as a means for communicating relevant information to address matters related to ESG and internally generated intangibles.

Project priority

We consider the accounting for intangible assets to be a **high priority** project. Considering the importance of such assets, ESG trends, and the time it takes to develop a large project into a final standard, the Board should start addressing the issues in an active project as soon as possible.

It is well acknowledged that the 21st century economy is overwhelmingly driven by information and intangibles, a trend that has been gaining foothold for decades and has accelerated in the aftermath of the financial crisis. More recently, the emergence of COVID-19 gave technology companies an even greater prominence, just as the shift to remote work in several industries has further pushed many companies towards a tangible "asset-light" model. It is estimated that the share of intangible assets as a percent of the S&P 500 market value was 32% in 1985, growing to 80% in 2005 and further rising to 90% in 2020.[7] Investor groups (including members of FASB's IAC) and government bodies have been calling for more information on intangibles.

This is not uniquely a US GAAP issue; it is a global issue, which requires a common approach and a consistent outcome between FASB and IASB.

For example, a recent investor survey concluded that well over 90% of respondents surveyed—which were approximately evenly split between North America, Europe, and Asia—called for more transparent and specific disclosures for IP rights, and for their standardized accounting treatment across countries and regions[8].

In addition, consider the following from a recently proposed EU directive:[9]

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[7] Source: https://www.oceantomo.com/intangible-asset-market-value-study/
[8]Source:https://www.columbiathreadneedle.co.uk/uploads/2020/11/e5a2c01886bf6bba00346269251ae587/grasping_the_intangible_nov_2019_emea.pdf
[9] Proposal for a DIRECTIVE OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL amending Directive 2013/34/EU, Directive 2004/109/EC, Directive 2006/43/EC and Regulation (EU) No 537/2014, as regards corporate sustainability reporting: https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A52021PC0189.

- "The current legal framework does not ensure that the information needs of these users are met. This is because some companies from which users want sustainability information do not report such information, while many that do report sustainability information do not report all the information that is relevant for users. When information is reported, it is often neither sufficiently reliable, nor sufficiently comparable, between companies. The information is often difficult for users to find and is rarely available in a machine-readable digital format. **Information on intangibles, including internally generated intangibles, is under-reported, even though these intangibles represent the majority of private sector investment in advanced economies (e.g. human capital, brand, and intellectual property and intangibles related to research and development)."** *[emphasis added]*

- "Directive 2013/34/EU does not require the disclosure of information on intangibles other than intangible assets recognised in the balance sheet. It is widely recognised that information on intangible assets and other intangible factors, including internally-generated intangibles, is underreported, impeding the proper assessment of an undertaking's development, performance and position and monitoring of investments. To enable investors to better understand the increasing gap between the accounting book value of many undertakings and their market valuation, which is observed in many sectors of the economy, adequate reporting on intangibles should be required. **It is therefore necessary to require undertakings to disclose information on intangibles other than intangible assets recognised in the balance sheet, including intellectual capital, human capital, including skills development, and social and relationship capital, including reputation capital. Information on intangibles should also include information related to research and development.**" *[emphasis added]*

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.

Kroll response: We recommend that the evaluation and reconsideration of current capitalization cost guidance be folded into a holistic approach to the accounting for intangible assets.

Chapter 4-Improvements to FASB Standard-Setting Processes

Overall

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

Kroll response:

Codification Accessibility

We agree with constituents that have asked for bases for conclusions to be included in the ASC in some form. In particular, the basis for conclusions is especially useful for understanding the board's thought process in developing a standard and facilitates the interpretation and application of standards. Including other nonauthoritative guidance such as discussion materials and board papers, identified in the Agenda Consultation under this topic, in a single place in the ASC, can also be helpful.

We think that this improvement has a **low priority**.

Cost-benefit analysis framework

We think that FASB should re-evaluate its approach to simplification projects, especially in instances where PCC's standard-setting seems to influence the public-company agenda and outcomes. Users of public company information depend on information presented in the financial statements and other external company communications as a basis for their investment decisions.

FASB should also consider greater investor input, participation, and representation in developing standards, amidst increasing demands for transparency and information. Both U.S. Congress and investor groups have been calling for strengthening transparency and accountability, putting the investor perspective front and center in the development of new financial accounting standards, and for expeditious standard setting around intangibles and digital assets.[10, 11, 12, 13] Additionally, there are new challenges to be addressed, arising from the consideration of ESG factors and their interrelationship with financial reporting.

These significant recent developments should be a catalyst for bringing forward a principally cost-based (or mixed) accounting model, rooted in a manufacturing economy, to a new level, reflecting the new economic reality and meeting the needs of present-day investors.

Finally, regardless of whether convergence between existing FASB and IASB standards is a current priority for the boards, when it comes to *large scale new projects with a great potential impact*, we believe that consistency is imperative. In other words, both boards should collaborate in developing standards in key areas of financial reporting that are of high priority to stakeholders.

We think that reconsideration of the perspective used in cost-benefit analyses and its application is of **high priority**.

Interpretative process

We agree with stakeholders' suggested process to provide more timely interpretations of US GAAP that would not require amendments to the ASC, and to make such interpretations accessible through the ASC.

We think that this improvement initiative has a **medium priority.**

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[10] Letter to the SEC from the Council of Institutional Investors dated April 22, 2021: https://www.cii.org/files/issues_and_advocacy/correspondence/2021/Gensler%20Ltr%20(final).pdf
[11] Letters to the SEC from the Alliance of Concerned Investors dated April 19, 2021 and October 26, 2020: https://aboutblaw.com/W5L
[12] Letter to the SEC from a group of more than 30 individuals and organizations dated June 7, 2021: https://aboutblaw.com/XWe
[13] Letter to FASB from U.S. Congress dated May 12, 2021. See footnote 1.