



**Mayer Hoffman McCann P.C.**

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September 22, 2021

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

Re: File Reference No. 2021-004

Dear Ms. Salo:

Mayer Hoffman McCann P.C. (“MHM” or “we”) welcomes the opportunity to respond to the *Invitation to Comment – Agenda Consultation*. MHM is a national accounting firm that performs attest services for public and private companies with 26 offices across the country.

We appreciate the Board’s continued efforts to reach out to various stakeholders to inform the standard-setting process. These efforts help ensure GAAP continues to establish financial accounting and reporting standards that provide useful information to investors and other users. We recognize and support the Board’s ongoing efforts to balance maintaining the highest quality financial information for a reasonable cost and believe many of the potential projects discussed in the invitation to comment will further the Board’s mission.

Our consideration of the overall questions is included in the remainder of this letter, and in the attachment to this letter we respond to selected questions related to specific projects.

For financial accounting and reporting, we believe the top priority for the Board should be projects on government assistance, digital assets, environmental, social, governance (ESG) matters and transactions, consolidation, and distinguishing liabilities from equity.

We believe that there is a pervasive need to address matters of government assistance, digital assets, and ESG matters and transactions because of a lack of authoritative guidance that considers the potential unique characteristics of each of these matters and provides a framework to create consistency across companies and transactions that are of a similar nature.

We support addressing consolidation and continuing the Board’s work on distinguishing liabilities from equity because we believe the complexity of the current accounting model creates significant cost. We believe these costs outweigh the benefits, especially when considering the financial reporting needs of many private companies.

We also encourage the Board to adopt projects addressing codification accessibility and the development of an interpretive process. These projects should be a high priority of the Board because they would make using and applying GAAP less costly.

We discuss each of these projects and additional projects in the attachment to this letter.

We appreciate the opportunity to respond to the Invitation to Comment. Please contact James Comito, MHM National Director of Professional Standards, [jcomito@cbiz.com](mailto:jcomito@cbiz.com), (858) 795-2029 if you have questions.

Respectfully submitted,

*Mayer Hoffman McCann P.C.*



ATTACHMENT – Mayer Hoffman McCann P.C.

**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**

The definition of a derivative is broad and complex. We believe the complexity in the accounting is driven by the complex nature of the instruments that are being evaluated and therefore there will always be an inherent level of complexity in the accounting. Under the existing definition and scope, derivatives can arise in circumstances where the economic considerations that drove the transaction were far removed from what is ordinarily contemplated when a company is intentionally and knowingly using derivatives as economic hedges. When this occurs, it is frequently the case that the company does not properly contemplate Topic 815 before applying other GAAP and the users of financial statement may disregard the impact of the derivative accounting. Considering the age of the existing guidance, and the extensive changes in business and financial structures since it was originally issued, we support the Board reconsidering the existing definition and scoping. Specifically, we believe the Board can assist companies by researching and considering the scoping of a derivative as it relates to research and development funding arrangements and variable consideration in a contract with a customer.

We also note preparers also struggle to identify the characteristics of a derivative, whether it be identifying the existence of an underlying, assessing the concepts around initial net investment, or/and net settlement. Many also struggle with the model associated with assessing the concept of clearly and closely related. We encourage the Board to consider performing research on the effectiveness of the standard to identify if there are potential simplifications, clarifications, examples, or education materials that can be provided to improve the existing GAAP and better inform stakeholders.

**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 have not seen significant adoption of digital assets amongst our clients, however, we have experienced an increase in discussion about potential uses of digital assets, particularly in accepting cryptocurrency as a form of payment and holding an amount of the assets for transaction settlement. We are aware of other uses and have discussed with clients issuing digital assets as a form of equity security, holding investments in digital assets, and providing custodian services and dealing in cryptocurrency.

We believe that digital assets are an emerging business development that will become a significant accounting matter in the medium term. We also believe that the existing model of accounting for digital assets held as an intangible asset, or inventory in some cases, results in low quality financial information that often does not fully represent the substance of the digital asset. Therefore, we believe it is appropriate for the Board to undertake a project to address the accounting for the ownership and issuance of these assets.

**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?**

There are unique matters associated with digital assets. We believe the Board could provide guidance today on classification and measurement. This guidance could be in the form of principles to guide the evaluation of the substance of the digital asset to aid companies in evaluating the appropriate accounting model to apply. Included in the project would be disclosure guidance to explain the purpose of the use of the digital asset and the basis for accounting model applied.

A project on classification and measurement will aid companies in properly reflecting the digital asset within the financial statements. For example, the way an investor may hold a cryptocurrency may result in the asset being in substance similar to an investment in an equity or debt security, while others may use it in a fashion similar to a foreign currency. In either case, accounting for those as intangible assets can distort the financial information of the company.

We believe the scoping of the project should consider the most common use case scenarios that currently exist in order to demonstrate how the classification principle should function. This would include cryptocurrencies, stablecoins, and tokens.

Considering that digital asset uses and markets are still developing, we believe it would be most effective for the Board to provide interpretive guidance in the form of an FAQ to address how digital assets are measured under the differing applicable accounting models. This will provide the Board the flexibility to more quickly react to new developments within the digital asset space and avoid the practical difficulties of developing a unifying measurement principle for all types of digital assets.

Although we believe a comprehensive classification and measurement project would result in the highest quality, we recognize such a project would be a difficult undertaking. Therefore, we would also strongly support a more practical, narrow scope project that creates measurement rules for liquid and non-liquid cryptocurrencies obtained through means other than mining. For liquid cryptocurrencies, we believe a fair value model would be most appropriate. For non-liquid cryptocurrencies, we believe a model similar to that permitted for equity securities without readily determinable fair values may be appropriate.

**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 believe providing accounting and disclosure guidance for ESG-related transactions and uncertainties is an important emerging issue for the Board to address. Transactions involving energy credits and various programs to offset carbon emissions are becoming more prevalent, and it would be helpful to have guidance that addresses the accounting and disclosure of those transactions within financial statements.

We also believe it would be helpful to have educational materials, or guidance within GAAP, to address the disclosure of risks, uncertainties, and commitments made by an entity as it relates to ESG-related matters. Under the present framework for disclosure of these matters, it is difficult for preparers and practitioners to assess when ESG-related matters rise to the level that disclosure required under existing GAAP and educational materials illustrating the circumstances and disclosures would be helpful.

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

We have had clients request various KPIs or non-GAAP metrics be included in financial statements. Most commonly these metrics involve EBITDA or similar measures, supporting schedules of certain types of expenses, information regarding the collection of receivables, and reconciliations or information about differences between GAAP and tax basis. Our observation is that these metrics are typically entity or industry specific, include adjustments or information specified by management for their own purposes, or include adjustments for definitions and reporting requirements associated with debt or other contractual relationships. Due to the wide differences in practice, we believe it would be difficult for the Board to define these metrics. If they were defined, we believe entities will continue to make adjustments to those definitions and the definitions may create more confusion than they resolve.

As an alternative to defining KPIs or non-GAAP measures, we recommend the Board consider providing guidance to private companies on the optional disclosure of KPIs or non-GAAP measures to enable companies to incorporate the relevant metrics within their financial statements and reconcile them to the GAAP amounts.

**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?**

If the FASB were to define certain financial KPIs or metrics, we do not believe those metrics should be required for all companies. The KPIs and metrics relevant to a particular company will depend on its industry, contractual arrangements, and managerial practices. To require particular KPIs or metrics would result in incorporating additional cost into the financial reporting system that in many circumstances would have limited benefit. We also believe it would be inconsistent with the Private Company Decision-Making Framework to require certain KPIs and metrics because of the access to management afforded to many of the financial statement users of private company financial statements.

**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?**

The current environment has brought to the forefront that GAAP is missing guidance on the accounting for forms of government assistance, and we believe it is important for the Board to provide guidance for the accounting for these types of transactions. We recommend the Board consider both an IAS 20 based model and a model based on Subtopic 958-605 and obtain feedback from all stakeholders to assess the quality of the information under the two different models. Our view is that either model would be acceptable, but that the IAS 20 model would likely be preferable for informational needs of for-profit entities because of the similarities between the recognition threshold in IAS 20 and the constraint on variable consideration in Topic 606 *Revenue from Contracts with Customers*. We prefer to leverage either model than create an entirely new model.

**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 the urgency of developing a model warrants a two-phased approach to scoping of the project. The scoping for an immediate project should include nonreciprocal cash payments received by an entity, credits on non-income taxes granted based on meeting certain expenditure conditions (e.g. Employee Retention Credit), and nonreciprocal transfers of property, plant, and equipment, for which the entity obtains control as defined in Topic 606. For practical reasons, we believe the scope should not include exemptions from sales, use, or property taxes.

We also recommend the creation of a second project to address the scoping for other forms of government assistance involving free or discounting goods or services and debt forgiveness. We expect the second phase to be more difficult to address, but that it should not slow down the creation and issuance of the first project. The scope of the second project would consider under what circumstances discounted property, plant, and equipment, as well as, free or discounted intangible assets, services, and goods would be subject to recognition and disclosure guidance for governmental assistance created in the first project. An example of the type of arrangement that would be subject to scoping in the second project is when a local government provides free services (for example painting and exterior maintenance of a facility) as incentives in exchange for arrangements requiring a company to meet certain conditions (for example maintain certain staffing levels for five years).

In addition, we recommend items addressed already in other areas such as Topic 740 *Income Taxes* and Topic 835 *Interest* should be excluded from the scope on any project adopted by the Board.

Although it is difficult to determine an appropriate scope for a project on government grants, we believe that the recent usage of these programs, and likelihood that such programs would be used in future moments of economic turmoil, warrant the Board prioritizing this as a project to begin obtaining feedback as quickly as possible to determine a scope and identify a path forward on an accounting model.

**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?**

We do not believe it is possible for the Board to prescribe a recognition and measurement method for most internally generated intangible assets that would provide useful information to users of financial statements. We base this conclusion on the ongoing controversy over the usefulness of existing fair value measurement guidance and subsequent accounting for acquired intangible assets.

However, we do believe it would be worthwhile for the Board to consider information that, if disclosed, investors would find useful. For example, investors may find it useful to have additional information disclosed about the efforts expended to develop or maintain certain 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.**

We believe the software capitalization guidance should be revised to provide one uniform model to account for software. We find that the existing models do not reflect current development techniques and therefore it is difficult to interpret when under the existing standards projects to improve software qualify for capitalization and when cost capitalization should begin and end. We also find having two models adds unnecessary complexity.

We believe many small private companies and their investors would favor an election to expense development costs because the tracking and evaluation of costs that are required to be capitalized is costly. We also note, that in many instances the development of modern software can be similar to the development and ongoing maintenance of other intangible assets because it requires continuous improvement and maintenance. Therefore, a model that is consistent with other internally developed intangible assets may be preferable for these entities.

If the Board decides to pursue an expensing model, we believe the Board would also need to consider whether that model should be permitted for cloud computing costs.

**Question 20: Should the Board prioritize a potential project on current and noncurrent classification of assets and/or liabilities in a classified balance sheet? If yes, what should be the scope? Please explain**

We believe that the presentation in a classified balance sheet is relatively well-understood and there is no pressing need for a project to change the existing guidance.

**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?**

We believe there are too many consolidation models in existing GAAP, and as a result the guidance is unnecessarily confusing and costly to apply. In particular, the variable interest entity (VIE) model is based on complex and difficult to apply theoretical concepts, which are often implemented through qualitative assessment. Although conceptually permitting the qualitative application alleviates some of the complexity, it opens the door for confusion and significant differences in interpretation. Considering these challenges, and the volume of rules and clarifications within the guidance, we believe the application of the VIE model is error-prone. We support the Board adopting a project to attempt to develop a new model that is focused on the foundational principle of control and that applies a single holistic model to all for-profit entities that would be easier to understand for preparers and investors. We believe such a project would ultimately result in lower cost and more useful financial information.

If the Board were to adopt a project that replaces the existing models, we believe it should include in the project, or as a separate project, research on the accounting and disclosure requirements for risk of loss to ensure risks related to unconsolidated entities are properly accounted for, or disclosed, to avoid creating a situation where financial statement users would not be able to understand an entity's exposure.

We recognize that a complete revision of Topic 810 would be a major project that would result in significant transition costs. However, on balance, we believe that such a project is the best course forward because in the long term it could be significantly less costly than continuing to apply the existing guidance. We would also be supportive of a project that sought to minimize transition costs by continuing to provide improvements to the existing model, but recommend that if the Board pursues a narrower project it attempts to do so in one larger project instead of multiple smaller projects. We make this recommendation because we have observed that the frequent changes to Topic 810 have led to confusion over the requirements to transition to Updates, difficulty in educating about Topic 810, and general frustration with Topic 810.

**Question 23: Stakeholders noted many challenges in applying the liabilities and equity guidance, but they had mixed views on how the Board should improve the accounting for financial instruments with characteristics of equity. The Distinguishing Liabilities from Equity Phase 2 project is intended to align the two existing indexation models in Topic 480 and Subtopic 815-40. Should the Board continue pursuing this project in its current scope and objective, or does the Board need to reevaluate this project? Please explain why or why not and if the project scope and objective need to be reevaluated, what should the approach be?**

We support the Board continuing its work in Phase 2 of its project on distinguishing liabilities from equity. We believe the existing goal of aligning the two existing indexation models will improve the existing guidance and be less costly than developing an entirely new model.

**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 do not believe repeating the statement that disclosures need not be applied to immaterial items will address the concerns about the inclusion of immaterial disclosures in the financial statements. Two issues will make it impractical for the Board to resolve these concerns.

First, it is inherently true that financial statement users will seek their own nuanced understanding of a company, and therefore a disclosure that may appear to be immaterial from the perspective of a preparer, or a particular investor, may be material to one of the users of the financial statements.

Second, auditors are required to accumulate misstatements, including omissions of disclosure, which are immaterial but more than trivial and aggregate them for evaluation of whether the financial statements are materially misstated. In addition, the auditor is required to report the immaterial misstatements it aggregates to those responsible for governance. Not only do professional standards require auditors to accumulate immaterial misstatements, but also since identifying, documenting, and reporting omissions likely decreases the risk of the auditor, the auditor is incentivized to continue to

accumulate and report items that are immaterial. Items reported by the auditor to governance are often perceived to be errors or failings of the preparer, thus this process encourages preparers to include immaterial disclosures in the financial statements. The combination of these issues will continue to influence preparers to include immaterial disclosures within their financial statements whenever GAAP provides guidance that an amount or item be disclosed.

**Question 25: Which, if any, of the FASB processes described in Chapter 4 of this ITC could be improved?**

We believe existing non-authoritative guidance has become difficult to manage and understand that it increases the cost of using GAAP and increases the likelihood of error. Two examples of this are the multiple modifications to Topic 606, which result in basis of conclusions related to Topic 606 being spread between more than a half dozen documents and the difficulty in obtaining the basis of conclusion for standards issued prior to the codification. We strongly support the Board adding a project to investigate ways to link and present the basis of conclusion and other non-authoritative guidance, such as FAQs, within the codification. We also believe the Board should consider if there are technological improvements that would improve the manner the codification is presented and the functionality of the codification.

We also believe the Board should prioritize the implementation of an interpretation committee. We have always found the FASB staff to be a valuable resource and appreciated their assistance through the technical inquiry service. We believe a process that allows for technical inquiries, or issues identified by the Board that require interpretation, to be evaluated and publicly answered in a timely manner would enable improvements in consistency of the application of GAAP. We believe the process would also assist the Board in identifying areas where projects are needed, improve implementation of new standards, and potentially eliminate the need for certain projects.

We assess the proposed projects on transition requirements and cost-benefit analysis framework as lower priority. Although the varying transition requirements can be frustrating and difficult to apply, we believe the complexity is inherent in the standard-setting process, and it is likely impractical for the Board to standardize transition. In other words, even if the Board developed a simplified transition framework, the Board will likely be required to depart from any established transition standard for some Updates, and perhaps even many Updates. As a result, we would rate the project as a low priority.

As it relates to the cost-benefit analysis framework, we believe it would be costly and difficult for the Board to implement a robust cost-benefit analysis. We also believe the results of such a project would likely not resolve the concerns over the cost-benefit analysis. Alternatively, we believe a research project that would be designed to inform the Board of the types of costs different investors experience when using financial information for public and private companies may be a useful mechanism to better educate and inform the Board resulting in more robust discussion and qualitative assessment when the Board performs the cost-benefit analysis. Performing that sort of outreach may assist the Board in finding the appropriate balance between preparer costs, which are easier to quantify and obtain, and investor costs.