



November 13, 2020

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

Re: July 16, 2020 Proposed Statement of Financial Accounting Concepts, *Concepts Statement No. 8, Conceptual Framework for Financial Reporting, Chapter 4: Elements of Financial Statements* [Project No. 2020-500]

Dear Ms. Salo:

The American Institute of CPAs (AICPA) is the world's largest member association representing the accounting profession, with more than 418,000 members in 143 countries, and has a history of serving the public interest since 1887. One of the objectives that the Council of the AICPA has established for the PCPS Executive Committee is to speak on behalf of local and regional firms and represent those firms' interests on professional issues in keeping with the public interest, primarily through the Technical Issues Committee (TIC). This communication is in accordance with that objective. These comments, however, do not necessarily reflect the positions of the AICPA.

TIC had extensive discussions about several concepts in the proposed Concepts Statement and expressed some concerns about how they would be implemented given current practice and existing GAAP. However, we understand that many of our concerns cannot be easily addressed and we were unable to identify concrete alternatives to the proposed framework. Rather, we ask that, as this project moves along, FASB consider how these concepts correlate or conflict with existing GAAP to ensure consistency and to avoid unnecessary confusion to private companies.

The following are TIC's detailed responses to each of the questions posed in the Proposed Concepts Statement.

Question 1: *The Board expects that most assets that met the definition of an asset in FASB Concepts Statement No. 6, Elements of Financial Statements, will continue to qualify as assets under the definition of an asset in this proposed chapter. Do you agree that the definition of an asset in this proposed chapter is consistent with the Board's assertion? If not, please provide examples.*

TIC believes the definition of an asset in this proposed definition is consistent with the Board's assertion.

Question 2: *In particular, respondents are asked to focus on internally generated intangible assets. Is the definition of an asset in this proposed chapter helpful in resolving issues of identifying intangible assets?*

TIC believes that the definition of assets in this proposed chapter is helpful in resolving issues of identifying intangible assets and could not think of any changes that would make this more clear.

Question 3: *The Board's definition of an asset in this proposed chapter does not include the term control. However, this proposed chapter explains why and how control is interrelated to the definition of an asset. Is this discussion sufficient or is the term control necessary to include in the definition of an asset? If the term control is necessary to include, please explain how its inclusion would change the population of items that would meet the definition of an asset in this proposed chapter.*

TIC had a lot of discussion about the term control and its removal from this proposed chapter and was split on whether adding the term back would be necessary. TIC noted that there are many places in the Codification that address control in a manner that is not in complete alignment with the concept of control as described in this proposed chapter, so inclusion of the term may be helpful; however, TIC also recognized that the proposed chapter provides a sufficient conceptual basis to understand control in the scope of this proposed Concepts Statement.

Question 4: *The Board decided that an obligation to transfer either assets or, in certain limited circumstances, an entity's own shares would meet the definition of a liability. Is the discussion in this proposed chapter of the limited circumstances in which the entity's own shares would meet the definition of a liability sufficiently clear?*

TIC discussed whether additional context should be added in the proposed chapter or whether additional details should be in FASB ASC 480. TIC was also curious as to whether this final Concepts Statement would need to be updated once FASB completes its long-term project on liabilities and equity to ensure consistency.

Additionally, TIC believes that the concept of indexation of an entity's own shares is an important concept in helping to define equity and suggests the related discussion in BC4.31 be added to the Equity or Net Assets section of the proposed chapter.

Question 5: *Other than as described in Question 4, to allow certain share-settled instruments to be liabilities, the Board expects the liabilities that met the definition of a liability in Concepts Statement 6 will continue to qualify as liabilities under the definition of a liability in this proposed chapter. Do you agree that the definition of a liability in this proposed chapter is consistent with the Board's assertion? If not, please provide examples.*

Yes, TIC generally believes that the definition of a liability in this proposed chapter is consistent with the Board's assertion; however, TIC also discussed whether an arrangement such as a cliff vesting compensation arrangement (employee is paid a specific amount but only if they stay for 5 years) would meet the definition of a liability under the proposed chapter.

In addition, we did not see a discussion about mandatorily redeemable shares included in either the elements or the basis for conclusions; we believe that questions could arise about whether mandatorily redeemable shares result in a liability under the proposed Concepts Statement.

Question 6: *In practice, the more challenging applications of the definition of a liability in Concepts Statement 6 were related to business risks, constructive obligations, and stand-ready obligations. Is the discussion of those three areas in this proposed chapter adequate to understand and apply the definition of a liability?*

TIC believes that discussion related to business risks, constructive obligations, and stand-ready obligations are adequate to understand and apply the definition of a liability.

Question 7: *The Board suggested that integration with presentation principles would be helpful in distinguishing between the components of comprehensive income. To facilitate this distinction, paragraph E92 of this proposed chapter references presentation principles. Is distinguishing revenues from gains and expenses from losses essential as a matter of elements, or should those distinctions be exclusively a matter for presentation concepts? Please explain.*

TIC sees a lot of confusion in practice regarding the appropriate geography to use on the income statement. Therefore, TIC believes this matter is an essential matter of both elements and presentation concepts.

Question 8: *As described in Question 7, this proposed chapter seeks to distinguish between revenues, expenses, gains, and losses. Do the definitions of and other explanatory language related to revenues, expenses, gains, and losses make the distinction between these elements sufficiently clear?*

TIC believes the removal of "ongoing major or central operations" from the proposed chapter could make the definitions less useful in standards setting or when the Concepts are used to determine whether a transaction is a revenue or gain, expense or loss.

Question 9: *The Board has concluded that, other than when exceptions are specifically noted in this proposed chapter, the elements described in this proposed chapter would apply to not-for-profit organizations. Do you agree with this conclusion?*

TIC believes the elements in this proposed chapter are applicable to not-for-profit organizations when including the proposed exceptions.

Question 10: *This proposed chapter was developed on the basis of Concepts Statement 6, though several paragraphs have been removed or adapted. Are any of the paragraphs from Concepts Statement 6 that have been removed in drafting this proposed chapter necessary to keep? If so, why?*

TIC did not identify anything significant from Concepts Statement 6 that was not included in this proposed chapter but should be.

Question 11: *“Appendix A: Accrual Accounting and Related Concepts,” includes discussion of several concepts that are used in this proposed chapter and in other chapters of the Conceptual Framework. Is this material helpful in a chapter discussing the elements of financial statements?*

TIC found Appendix A to be helpful; however, TIC thought the definition of circumstances in the Appendix was overly complicated. For example, many members had to look up the term imperceptibly. Perhaps these terms could be adjusted to those more commonly used in the standards.

TIC appreciates the opportunity to present these comments on behalf of PCPS member firms. We would be pleased to discuss our comments with you at your convenience.

Sincerely,

A handwritten signature in black ink, appearing to read 'Danielle Supkis-Cheek', with a long, sweeping flourish extending to the right.

Danielle Supkis-Cheek, Chair
On Behalf of the PCPS Technical Issues Committee