



January 31, 2022

Hillary Salo
Technical Director
File Reference No. 2021-001
FASB
401 Merritt 7
PO Box 5116
Norwalk, CT 06856-5116

Re: Proposed Accounting Standards Update: Interim Reporting (Topic 270) – Disclosure Framework – Changes to Interim Disclosure Requirements; File Reference No. 2021-001

Dear Ms. Salo:

One of the objectives that the Council of the American Institute of Certified Public Accountants (AICPA) 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. Our comments in relation to this exposure draft follow the specific requests for comments outlined within the exposure draft.

TIC appreciates the Board's continued focus to improve the effectiveness of disclosures in notes to financial statements through its disclosure framework project. The proposed accounting standards update modifying the guidance for Interim Reporting in Topic 270 provides substantive changes, clarification, and consolidation of requirements that will help to improve interim reporting requirements for entities that provide interim financial statements and notes in accordance with U.S. Generally Accepted Accounting Principles (U.S. GAAP).

While TIC is generally supportive of the changes in the proposed accounting standards update, TIC believes that many private companies and not-for-profit entities, including conduit debt obligors, do not understand the distinction between interim financial statements and notes in accordance with U.S. GAAP and other interim financial information in accordance with U.S. GAAP. In paragraph BC30, the Board acknowledges that they do not believe the amendments in this proposed update will impact many nonpublic entities, because of the differences between interim financial statements and notes in accordance with U.S. GAAP and other interim financial information in accordance with U.S. GAAP. However, TIC believes that greater clarification in the final standard is needed to ensure that entities correctly evaluate whether Topic 270 is applicable to their interim reporting.

Paragraph 270-10-05-1 says “This Topic also clarifies the application of those principles and practices for entities that provide interim financial information other than interim financial statements and notes in accordance with GAAP.” However, other than the potential implicit clarification based on the addition of 270-10-45-20, TIC did not identify where or how this clarification was provided within the proposed standard; rather, the clarification was included within BC30, which will not be part of the codification when the final standard is codified. Additionally, TIC noted there are no proposed modifications to current 270-10-15-3, further confusing the matter. Paragraph 270-10-15-3 states “The guidance in the Interim Reporting Topic applies whenever entities issue interim financial information. It provides guidance on the applicability of generally accepted accounting principles (GAAP) to interim financial information and indicates types of disclosures necessary to report on a meaningful basis for a period of less than a full year. This Topic is not intended to deal with unresolved matters of accounting related to annual reporting.” TIC suggests revising current paragraph 270-10-15-3 to include the conclusions in BC30 and to include the information in paragraph 270-10-45-20 a thru c; changes that would provide greater clarification within the proposed standard regarding the applicability of Topic 270 on interim reporting.

TIC’s responses to the questions for respondents are based on our understanding that the amendments in the proposed update would not affect a large number of nonpublic entities as discussed in the conclusions in BC30.

Questions for Respondents:

Question 1: Would the amendments in this proposed Update that introduce a principle similar to the language removed from Regulation S-X, Rule 10-1 (see paragraph 270-10-50-9) result in less, more, or the same degree of decision-useful information for interim reporting? Please explain why or why not.

The modifications within paragraph 270-10-50-9 should result in more decision-useful information by requiring disclosure of significant events or transactions that have a material effect on the entity, even when specific disclosure requirements within this Topic would not otherwise require disclosure of the significant event or transaction. This addition ensures that users of financial statements will receive information about significant events or transactions that have a material impact to the financial statements in a timely manner and will allow those users to consider these impacts in the interim rather than not being made aware of the information until they receive the annual financial statements. However, TIC questions the operability of this requirement as discussed in the response to question 3.

Question 2: Upon a significant event or transaction occurring since the date of the prior annual financial statements and notes, should an entity provide all the disclosures required by the applicable Topic or only information specific to the event or transaction as described in paragraph 270-10-55-1? Please explain your position.

TIC is supportive of limiting disclosure requirements for private companies. We acknowledge that 270-10-55-1 could result in preparer subjectivity with respect to determining which components of a Topic are required to be disclosed when “only information specific to the event or transaction” is required rather than all disclosures required by the applicable Topic. However, we do not believe that potential omissions would likely be at a level that would materially impact private company financial statement disclosures, particularly when considering that financial statements and notes prepared under 270-10-45-20(a) would, by nature, contain all interim disclosures required by the applicable Topic.

Question 3: Is the proposed disclosure guidance on significant events or transactions operable. If not, which aspects pose operability issues and why?

As noted in Question 1, TIC believes the inclusion of disclosure guidance on significant events or transactions would result in timelier and more decision-useful information to financial statement users. However, without further differentiation between what constitutes a *significant* event or transaction that has a material impact to the financial statements versus an *ordinary event* or transaction that has a material impact to the financial statements, the disclosure guidance may not be operable and could result in diversity in practice. TIC suggests providing additional examples, perhaps by considering the subsequent event guidance in 855-10-55-2, of significant events or transactions to provide consistency of application.

Question 4: Are the proposed amendments that would clarify that an entity’s assessment of whether to provide a disclosure at an interim period may incorporate the information provided in the prior annual financial statements and notes appropriate? Please explain why or why not. Would these proposed amendments result in a change in practice?

TIC is supportive of limiting disclosure requirements for private companies and believes the proposed amendment’s clarification that an entity’s assessment of whether to provide a disclosure at an interim period may incorporate the information provided in the prior annual financial statements and notes is appropriate. This approach reduces preparer burden by allowing them to rely on certain disclosures included within prior annual financial statements and notes rather than duplicating them in the interim financial statements and notes. It also provides financial statement users access to interim information that is timely, relevant, and applicable to the current period while avoiding duplication between interim and annual financial statements and notes.

Paragraph 270-10-45-22 states that “the form and content of interim financial statements and notes described in paragraph 270-10-45-20(b) and (c) are only appropriate when the previous annual financial statements and notes have been made available to the users of those interim statements”. Additionally, paragraph 270-10-50-11 requires disclosure to financial statement users that “interim statements are to be read in conjunction with the prior annual financial statements and notes”.

TIC believes including the disclosure requirement as proposed in 270-10-50-11 is sufficient to ensure that users of interim financial statements appropriately consider the prior annual financial statements and notes when relying on the interim statements. TIC suggests removing the additional and somewhat duplicative requirement in paragraph 270-10-45-22.

Question 5: Is the proposed amendment describing interim financial statements and notes in accordance with GAAP (see paragraphs 270-10-45-20 through 45-21) appropriate? Does it capture the form and content of interim financial statements and notes currently being provided in accordance with GAAP?

TIC believes that the proposed amendment describing interim financial statements and notes in accordance with U.S. GAAP provides a broad range of options for preparers of interim financial statements and notes. TIC believes these broader options will be useful for many preparers but that additional clarification around scope is needed as noted in our opening paragraphs to avoid unintended consequences that would prevent a private company from taking full advantage of certain accounting alternatives (such as the goodwill impairment relief provided under ASU 2021-03, *Goodwill and Other (Topic 350) – Accounting Alternative for Evaluating Triggering Events*) when such accounting alternatives are based on reporting periods, which may include interim reporting periods, where U.S. GAAP compliant financial information is provided.

Question 6: Is the list of interim disclosure requirements and/or references to interim disclosure requirements in Section 270-10-50 complete?

TIC believes the interim disclosure requirements and/or references to interim disclosure requirements in Section 270-10-50 are substantially complete and generally appropriate given the Board’s stated position in BC23 to not add any new or remove any of the current specific disclosure requirements; however, TIC notes that neither the information within Disclosure in Interim Financial Statements and Notes in Accordance with GAAP by Nonpublic Entities in 270-10-50-21 nor the information within Guidance Related to Disclosure of Other Topics at Interim Dates in paragraph 270-10-55-22 contain references to Financial Instruments – Overall, Disclosure, Fair Value Option, Required Interim and Annual Disclosures, Section 825-10-50-28. This Topic specific disclosure is also missing from the similar information presented for publicly traded companies.

Question 7: Would the proposed amendments that (a) remove phrases such as for each period presented and (b) now state that those disclosures should be comparative when comparative financial statements are presented clarify that the disclosures should be comparative in nature? Would the proposed amendments result in a change in practice? If yes, please explain below. Should any of the paragraphs that were clarified as comparative also be required at interim periods?

TIC does not believe that the change in phrasing to reference *comparative when comparative financial statements are presented* instead of phrasing such as *for each period presented* will result in a change in practice for most private companies. However, TIC has the following observations related to this proposed change:

- TIC believes a change in phrasing to reference *comparative for each comparative financial statement presented* would ensure that financial statements including more than two years of information would include disclosures for each of the years presented. Alternatively, the Board could consider including a definition for comparative financial statements in the Master Glossary clarifying that comparative financial statements consist of financial statements containing two or more periods of financial information.
- Does the Board intend that this change will impact disclosures related to comparative summarized financial statements, which often omit disclosure information relating to the period that is comparative but summarized?
- TIC believes the phrasing of *for each prior period presented that is impacted by the error* is a more appropriate use of phrasing in Correction of an Error in Previously Issued Financial Statements, Section 250-10-5-7 given that the nature of this disclosure is to provide error correction information for all periods presented and impacted by the error, not to provide disclosure information that is comparative in nature.

Question 8: Should the proposed disclosures be required to be implemented retrospectively or prospectively? Please explain why.

TIC supports a prospective implementation of the proposed disclosure requirements, largely for the same reasons discussed in BC32.

Question 9: How much time would be needed to implement the proposed amendments? Should those proposed amendments on clarifying comparative disclosures have the same effective date as the other proposed amendments or be effective upon issuance? Should early adoption be permitted? Please explain why or why not.

TIC does not believe the proposed amendments on clarifying comparative disclosures will result in a substantial change in practice. As such, TIC has no preference regarding the effective date of these changes. Additionally, TIC does not have concerns about early adoption of any provisions of the proposed standards update.

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,

Bryan Bodnar

Chair, On Behalf of the PCPS Technical Issues Committee