AICPA

Private Companies
Practice Section

September 13, 2021

Hillary Salo
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FASB
401 Merritt 7
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Re: Agenda Consultation [File Reference No. 2021-004]

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 a history of serving the public interest since 1887. One of the objectives that the Council of the 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. These comments, however, do not necessarily reflect the positions of the AICPA.

TIC has reviewed the Agenda Consultation Invitation to Comment (ITC) and is providing the following comments for your consideration. For simplicity, the terms "private companies," "nonpublic entities," and "private entities" are used interchangeably in this letter.

TIC appreciates the Board soliciting feedback from various stakeholders to take into consideration as part of determining the future standard-setting agenda. As noted in the ITC, TIC concurs that the Board obtaining and carefully considering feedback received from all stakeholder groups is essential in ensuring that the FASB appropriately allocates resources to best fulfill its primary mission of improving financial accounting and reporting standards.

The following responses are organized based on the overall chapter structure that is used in the ITC. Our responses to Questions 2-5 regarding prioritization of projects both within and in addition to those specifically identified within the ITC are included as part of the overall responses. As outlined in the introduction to this letter, TIC represents the view of auditors/preparers of financial statements (response d to Question 1)

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Chapter 1

While TIC appreciates the needs of investors to have access to financial reporting information at a level of disaggregation which allows the financial statements to be most decision useful to them, TIC has not received feedback from clients or the users of their financial statements seeking additional detail in any of the areas noted within the ITC. Disclosures of the kind suggested in many of these areas likely would have the effect of increasing, in some cases substantially, the volume of disclosures in financial statements. As highlighted in the Private Company Decision-Making Framework (PCDMF), access to management may impact the amount of information provided in notes by private companies. DF4 of the PCDMF explains:

> Disclosures for private companies need to provide the information necessary to enable users to ask management follow up questions that would fulfill their information needs, that is, the red-flag approach.

TIC fully supports providing useful information to users of the financial statements, and recognizes that what users find important can shift over time resulting in the need for the Board to continually evaluate if existing disclosures, including the level of disaggregation required, is appropriate. However, TIC has consistently taken the position that the Board should utilize the Private Company Council (PCC) to evaluate any potential new disclosure requirements in conjunction with the PCDMF. Until such disclosures have been evaluated by the PCC, TIC would not support any additional disclosure disaggregation requirements, which is inclusive of both items included in the ITC, and any other areas of disaggregation not specifically noted.

While TIC does not support adding disclosures related to disaggregation of data for private companies for reasons noted in the previous paragraph, TIC believes that some of the suggested areas would be particularly burdensome for private companies to implement, resulting in substantial cost without an equivalent benefit. An example of this is the suggested additional disclosure related to business combinations and the inclusion of a reconciliation of the preacquisition book value to the acquisition date fair value. This information is not typically something that many private companies would have, resulting in an additional burden to gather information for a disclosure with limited benefit.

Intermediate Operating Measures for NFPs

Matters related to NFP organizations are not within the scope of the PCC and, therefore, would not be covered by TIC's position noted above. TIC agrees with the Board's desire for consistency across the NFP industry to enhance comparability of the financial statements; however, the types of entities which operate within the NFP space are diverse, encompassing higher education, healthcare, museums, foundations, aquariums, homeless shelters, and many other entities that all have different measures of operations which they find most relevant. As a result, TIC suggests that this project be incorporated into the existing research project on the agenda to best determine what type of measure, if any, would be most appropriate for use.

Presentation of Statement of Cash Flows

TIC acknowledges that the points raised related to the cash flow statement, specifically the indirect method as well as the potentially significant cost associated with making changes to the cash flow statement are valid. While TIC members have received very few requests or questions on the statement of cash flows, further research into suggestions made regarding clarity and consistency may be worthwhile to determine if there are improvements which could be made that would not result in a significant increase in costs.

Chapter 2

Our responses in this section will specifically address the questions included within the ITC.

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.

TIC appreciates any efforts made by the Board both in the past and going forward to provide improvements and clarification to all guidance related to derivatives. Despite these past efforts, TIC believes that this area remains one of the more challenging portions of the Codification for users to navigate unless they have spent enough time to become specialists in this area. Unfortunately, TIC has not been able to identify a solution to result in a reduction in the complexity due to the nature of these instruments. TIC believes that there is appropriate guidance, but that it is exceedingly challenging to work through even for experienced professionals.

To assist users in this area, TIC suggests that the Board consider the development of additional educational materials which would help users identify when an instrument is or is not within the guidance of Topic 815-10. This resource could take the form of a Staff Q&A outlining various instruments commonly encountered with the determination as to whether the instrument would be within the scope of Topic 815-10. If the Board elects to pursue such an option, TIC gladly would provide examples of instruments to be included in an educational document.

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?

Some TIC members have clients who have begun to hold digital assets and noted that accounting inquiries from clients have consistently increased over the last several years. Acceptance of new technology can happen suddenly, which could result in digital assets becoming more widely used in a short period of time. Of the clients holding digital assets, the majority are holding them for the purpose of investment; however, we also have heard from practitioners with clients who are mining digital assets as a service utilizing their excess resources, as well as entities that are purchasing or mining digital assets with the goal to sell them, similar to inventory.

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?

As noted in our response to Question 11, digital assets do not represent a significant portion of assets held by clients served by TIC; however, we believe that the board should include a project on their agenda to be prepared as use of these assets becomes more prevalent in the future. In addition, TIC suggests that the project scope include other non-financial assets such as artwork.

TIC identified subsequent measurement of digital and other non-financial assets as the area which most needs additional guidance from the Board. Currently, entities apply the guidance related to intangible assets, wherein the assets are recorded at cost and written down when impaired, with no upward adjustment for changes in the fair value. As many entities hold these assets for similar purposes as investments in equity securities, guidance which would allow them to be adjusted to fair value each reporting period may better reflect the purpose for which the assets are being used. While TIC acknowledges that there are some difficulties in determining the fair value of digital and non-financial assets, the volume and volatility of trading in some non-financial assets such as digital assets are similar to those in the stock market.

TIC also suggests that the Board consider a broader project to research the possibility of allowing entities the option of subsequently accounting for intangible assets at fair value should there be a sufficient market for the intangibles to support the fair value. A change in US GAAP in this area could be based on the same guidelines already established as part of IFRS in IAS 38. Adopting a similar approach would address concerns related to digital assets, and other intangible assets while simultaneously eliminating a difference between US GAAP and IFRS.

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.

TIC believes that this area is similar to digital assets, however, less pervasive. While we are aware of some clients who have entered into transactions as described in the ITC, they are less common than those who have begun to transact in digital assets. TIC believes that this is an area that may see significant expansion going forward as more entities are pressured to meet environmental targets set internally, regulated by governments, or due to pressure from investors and the general public. As a result, TIC supports considering standard setting in this area so that relevant guidance exists for these types of transactions as they become more common.

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

TIC does not believe that the Board should undertake a project to standardize the metrics noted within the comment letter (EBITDA or Free Cash Flow (FCF), nor do we believe that there are any

Key Performance Indicators (KPIs) which the Board should seek to further define. While we agree that there is not a standardized approach to these measures, TIC agrees with the position within the ITC that if these measures were defined, many entities would present an "adjusted" version of the number to reflect the information they wish to convey to users, which would effectively eliminate any benefit of including a standardized definition. As noted in our responses to Chapter 1 above, TIC believes that the Board has already provided significant disclosure requirements and does not see meaningful benefit to adding this project to the agenda.

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?

As noted in Chapter 1 above, TIC suggests that all potential new disclosures be evaluated by the PCC through the Private Company Decision-Making Framework to determine if they should be made applicable to private companies.

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?

Because of the COVID-19 pandemic preparers and users of financial statements have become familiar with the models in IAS 20 and Subtopic 958-605 when accounting for government assistance. As there is now an established level of familiarity with application by analogy of both models, TIC believes that leveraging either would be preferable to developing a new model. TIC does not have a preference for either 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)?

TIC agrees that there are multiple forms of government assistance that could be considered grants, resulting in challenges in developing a project scope. As a result, TIC suggests a narrow-scope standard to close a gap in existing guidance, resulting in for-profit entities no longer needing to apply other guidance by analogy. TIC notes that some entities and users of financial statements have struggled to understand why it is acceptable to apply other guidance by analogy while still being in compliance with US GAAP, a situation which would be remedied by issuing guidance. Once there is guidance in US GAAP applicable for government assistance to for-profit entities, TIC would support a project to provide examples of how that guidance should be applied to specific forms of government assistance.

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?*

TIC agrees with the points raised by stakeholders that there are differences in the recognition and measurement requirements for intangible assets such as R&D (Research & Development) when it is developed organically versus through a business combination. However, we do not agree that those differences result in unnecessary complexity to US GAAP as the existing guidance is clear in how to account for R&D in both situations. TIC agrees with the point noted in the ITC that materially changing the types of internally developed intangible assets recognized on the balance sheet would add additional complexity without an equivalent benefit.

Finally, TIC also acknowledges that the point raised by shareholders with regard to a significant difference between book value and market capitalization is valid as there is commonly a large gap between those two measures. However, TIC fundamentally disagrees with the need to reduce that gap, as correlation with market capitalization is not the purpose of financial statements. As a result, TIC does not support a project to change the accounting for the majority of internally recognized intangible assets, with the exception of a change to the accounting for software as discussed in our response to question 19 below.

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.

TIC agrees with stakeholders that the existing guidance related to costs eligible for capitalization for software developed for internal and external purposes no longer reflects the realities of how software development occurs in practice. In the current environment software developers work to obtain a minimum viable product (MVP) as soon as possible and then add additional features afterwards. Under current guidance this results in complexity in attempting to determine if a new feature should be partially capitalized or expensed as maintenance/R&D/ or a bug fix. Given the prevalence of entities establishing technological feasibility on what is essentially a bare bones software release, this issue is especially problematic.

For smaller entities, TIC has found that tracking the costs associated with each new feature and determining the appropriate accounting represents a burden for management. Additionally, the decision to capitalize or expense the costs does not have a meaningful impact on users of the financial statements. As a result, TIC suggests that the Board consider the suggestions noted within the ITC to allow entities the option to expense all software development costs as well as align the guidance between software developed for internal and external purposes.

Chapter 3

TIC appreciates the Board's willingness to evaluate if there are current areas of US GAAP which can be revised to reduce costs and complexity in the system. As the Board has asked for both feedback on specific questions as well as thoughts on how to prioritize the items, TIC will respond to the questions in this section in order and include how we suggest the Board prioritize the projects at the end.

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.

TIC does not believe that there are significant issues with application of existing guidance related to balance sheet classifications. While TIC is not aware of widespread issues, TIC suggests that the Board evaluate research and feedback from the balance sheet classification of debt project which was removed from the Board's agenda in April of 2021. TIC agreed with the removal of that project, however, would support targeted improvements of existing guidance to better reflect how certain debt agreements operate in practice.

Specifically, TIC would suggest that the Board consider modifying the guidance when debt agreements include material adverse change (MAC) and subjective acceleration clauses (SAC). In practice TIC has found that theses clauses are rarely, if ever, enforced by the lender; however, classification guidance, as it currently exists in the Codification, hinges on the existence of these clauses. This disparity could be addressed through aligning the Codification with how these clauses work in practice.

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, TIC strongly supports that the Board pursue a project in this area. The guidance in this area has grown overly complex for what TIC believes is an area that should be simple to understand (i.e., if an entity has an economic interest that grants control of another entity, it should be consolidated). While TIC appreciates the Board's efforts to reduce complexity in Topic 810 through various ASUs issued over the past several years, the guidance remains challenging to navigate and understand. This complexity is evident through the interpretive guides issued by large accounting firms which each stretch over a thousand pages to provide non-authoritative guidance in this area.

TIC suggests that the Board review this guidance holistically to create an entirely new unified model that would apply to all entities (including NFPs, although we note that additional illustrative guidance for NFP specific scenarios may be required). While we agree with the core concepts in the existing consolidation guidance, we believe that taking a 'blank page' approach in this area may be the most effective way to create a standard that is clear and understandable.

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.

The primary challenge TIC has identified in this area is of individuals not being aware of the guidance that is currently in the Codification and misunderstanding when it should be applied to a transaction. TIC is not aware of any significant issues which could be resolved through standard setting as the existing guidance is clear and operable. TIC also supports the current 10 percent cash flow test included in the standard since this is an operable test that provides a bright line that is easily understood and not subject to judgment.

While TIC believes that the existing guidance is operable without any change being required, TIC agrees that this is an area where a private company alternative would be beneficial, and TIC supports research by the PCC to that end. TIC would be pleased to share additional insights with the PCC should they choose to pursue an alternative in this area.

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?

TIC agrees that distinguishing liabilities from equity is a topic which warrants additional research by the Board as an area where simplification would be warranted. TIC suggests the Board re-evaluate if the current project to align Topic 480 and Subtopic 815-40 would result in a meaningful simplification to existing standards or if a more comprehensive review and potential revision of this guidance would be more beneficial to users.

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.

While TIC understands the feedback from stakeholders noted within the ITC, we do not believe that this topic merits the attention of the Board as it is widely understood in practice.

Prioritization

TIC suggests prioritizing the projects listed above in the following order:

1. Consolidation
2. Distinguishing liabilities from equity

3. Balance sheet classification
4. Debt modifications
5. Materiality considerations for disclosures

Chapter 4

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

TIC believes that, in the spirit of continual improvement and reevaluation of existing processes, all four areas noted within this chapter could be improved. Our feedback on each suggestion is presented in the order that we believe would be most helpful to users.

• *Improving the understandability and navigability of the Codification*

As the Codification has grown in complexity the ease of navigating information has not grown at the same pace. The overall structure of the Codification remains understandable and easy to navigate; however, the lack of integration between the Codification and the materials noted within the ITC reduces the ability of users to gain a full understanding of Codification topics. TIC fully supports amending the Codification to incorporate references to these items.

• *Establishing a new interpretive process to respond to stakeholder questions that do not require amendments to the Codification but that would be published and retrievable*

In reviewing the ITC, TIC recommends that this suggestion be grouped together with increasing the navigability of the Codification; linking interpretations as suggested in this section within the overall Codification would further improve usefulness. The suggestions for implementing a process to provide feedback that is similar to what is done by the IFRS Interpretations Committee would also be a welcome change. Maximizing the positive impact of such a change could be achieved through providing the information in an easily searchable format that is linked directly to the Codification.

• *Standardizing language used to describe transition requirements of new guidance.*

TIC supports the standardization of the language and effective dates for transition guidance. Consistent transition guidance language would reduce the potential for misunderstanding effective dates for new accounting standards. TIC does not have a preference on which wording should be used. TIC does not believe that making such a change would represent a difficult undertaking and could be implemented quickly.

• *Developing a transparent and thorough cost-benefit analysis framework, including using innovative ways to perform outreach*

TIC appreciates the efforts already being made in order to solicit feedback; however, if the Board is interested in obtaining additional feedback, TIC suggests assigning responsibility to a person for specific outreach efforts. As part of their job description and performance metrics this individual would be responsible for ensuring that key constituencies such as state CPA societies and other large networks have been contacted. While this would not guarantee additional feedback from any of those groups, a formalized system for ensuring that they have been contacted likely would increase feedback received.

The feedback from preparers on providing more transparent and thorough cost-benefit analysis is worthwhile; however, TIC is unclear if such modifications would be operable from a cost-benefit standpoint. If preparers are requesting that additional narrative be provided on how existing cost-benefit analyses are conducted. then TIC believes that would be operable and favorable from a cost-benefit aspect. However, if preparers are suggesting that the Board undertake additional studies to ascertain this information, TIC does not believe that such work would be warranted or beneficial.

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