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Committee on Corporate Reporting

September 22, 2021

Ms. Hillary Salo
Technical Director
Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, CT 06856-5116

Re: File Reference No. 2021-004

Dear Ms. Salo,

This letter is submitted by Financial Executives International's (FEI) Committee on Corporate Reporting (CCR) in response to the Financial Accounting Standards Board's (FASB or Board) Invitation to Comment (ITC), *Agenda Consultation*.

FEI is a leading international organization comprised of members who hold positions as Chief Financial Officers, Chief Accounting Officers, Controllers, Treasurers, and Tax Executives at companies in every major industry. CCR is FEI's technical committee of approximately 50 Chief Accounting Officers and Corporate Controllers from Fortune 100 and other large public companies, representing more than $14 trillion in market capitalization. CCR reviews and responds to pronouncements, proposed rules and regulations, pending legislation, and other documents issued by domestic and international regulators and organizations such as the U.S. SEC, PCAOB, FASB, and IASB.

This letter represents the views of CCR and not necessarily the views of FEI or its members individually.

Executive Summary

We commend the FASB for its diligence in performing stakeholder outreach to inform the composition and prioritization of its technical agenda. We appreciate the opportunity to provide a preparer perspective on certain items we believe to be important for the further refinement of accounting standards and the standard-setting process.

As preparers, we strongly support the three criteria against which the Board evaluates potential projects and believe these criteria should continue to govern whether a project is added to the FASB technical agenda. We agree that a potential project should only be undertaken if an identifiable and sufficiently pervasive need to improve GAAP exists in which the expected benefits of a solution justify the costs. To this end, we believe enhancements to the FASB standard-setting process should be a top priority for the Board. Specifically, we believe improvements to the Board's cost-benefit analysis framework, including greater transparency and more targeted outreach earlier in the standard-setting process, would provide the most value to stakeholders.

Of the proposed topics listed by the Board in the ITC, we support a project to improve existing consolidation guidance for variable interest entities (VIEs) as a top priority. We also recommend prioritizing projects on digital assets and on certain environmental, social, and governance (ESG)-related transactions that have a direct financial impact on the financial statements but lack specific guidance, thereby enabling the Board to stay ahead of and address concerns around these emerging topics. Finally, we recommend deprioritizing the Board's current project on income tax disclosures, including the further disaggregation of income tax information.

Enhancements to the FASB Standard-Setting Process

We appreciate the Board's request for feedback on its standard-setting process and support efforts to enhance specific processes and foster greater understanding among stakeholders. While all of the suggestions raised in Chapter 4 of the ITC could benefit stakeholders, we believe enhancements to the FASB cost-benefit analysis framework would be most helpful for increasing the effectiveness of the standard-setting process. In addition, although not identified in the ITC, we believe the standard-setting process could be improved by greater use of industry-specific examples.

FASB Cost-Benefit Analysis Framework

As highlighted in the Board's second agenda criterion, changes to existing guidance may do more harm than good if the costs of a solution exceed the expected benefits. With this in mind, we believe it is particularly urgent for the Board to enhance its process for determining whether potential benefits perceived by users justify the expected costs of implementing and maintaining new and amended financial reporting guidance. We offer the following as recommendations to enhance the Board's cost-benefit analysis:

1. **Facilitate Earlier and More Frequent Joint Outreach with Users and Preparers:** We commend the FASB's stakeholder outreach efforts and appreciate the attentiveness with which the Board considers views from a variety of stakeholders. In particular, we have found greatest value in the discussions organized by the FASB where both preparers and users meet, in the same room, to hear each other's views on specific proposals.[1] We encourage the Board to continue and expand the use of these joint outreach discussions, which enable preparers to better understand the needs of users and to propose effective solutions that may not be readily apparent when outreach is siloed by stakeholder group. We recognize that meetings of the Emerging Issues Task Force (EITF) and Financial Accounting Standards Advisory Council (FASAC) provide a level of collaboration between stakeholders; however, we believe more consistent, frequent, and targeted blended-stakeholder meetings should be central to the Board's cost-benefit analysis and integrated into the standard-setting process. We invite further opportunities to participate in joint meetings with users and the FASB staff to discuss specific needs raised by users and provide insights from a preparer perspective, all with the goal of providing the highest quality financial reporting.

   While these joint discussions are valuable for ongoing projects, we strongly recommend the Board consider using these joint meetings to assess the costs and benefits of potential projects before a decision is made to add them to the FASB technical agenda. For example, direct interaction between users and preparers may be advantageous for addressing concerns around the accounting for research and development (R&D) that is internally developed versus acquired through a business combination[2] as part of the research project on accounting for and disclosure of intangibles. A change

[1] See 2015 Q1 "From the Chairman's Desk" by former FASB Chairman Russell G. Golden.
[2] As discussed in the ITC, Chapter 2—Emerging Areas in Financial Reporting, Intangible Assets, Including Software.

to existing guidance that would require some incremental capitalization of R&D, including prior to regulatory approval, could result in significant process and control implementation costs for monitoring the R&D, a higher volume of impairment assessments, and increased earnings volatility. During joint stakeholder outreach meetings, preparers could discuss these challenges with users and align on the information that users find most decision useful, providing clarity to the Board as it considers the costs and benefits of moving forward with the research project on accounting for and disclosure of intangibles.

In addition, joint discussions with users and preparers could also help to identify and reduce unnecessary complexity related to potential and existing disclosures and validate that the benefits of more onerous disclosures justify the expected costs. For example, various components of pension disclosures (net periodic benefits, target allocations, pension asset fair value measurements, fair value hierarchy level, etc.) in particular have proven to be among the most costly for preparers to compile, yet users, when surveyed, have not identified pension disclosures as among the most useful.[3] We believe many other opportunities exist to streamline existing disclosure requirements and welcome the opportunity to engage further with the Board on this topic.

We also observe that the information requested by users sometimes differs from what is actually used by management to run the business. Holding joint outreach discussions before a project is added to the agenda would allow preparers to share whether the requested data is used by management, and, if not, discuss why that information is not relevant to managing the business and what information is used as an alternative. Preparers could also share how companies could most easily address the needs of its users through either a simplified approach or alternative data or reporting. Information derived from these discussions could help the Board determine whether a compelling reason for change exists, how the issue might be most effectively addressed, and what field testing is needed to understand the practicability of proposed solutions.

2. **Conduct Earlier and More Extensive Field Testing:** We believe the extent of costs incurred to adopt recent major accounting standards could have been better understood[4] by the Board prior to issuance of the final standards. As an example, to comply with ASU 2016-02, *Leases (Topic 842)*, companies not only incurred costs by acquiring incremental software and hiring additional employees both upfront and on an ongoing basis, but also allocated significant resources toward collaborating with software providers to ensure software solutions were properly designed, developed, and tested for compliance with new requirements. These efforts resulted in significant additional and ongoing costs that were not anticipated.

[3] See page 33 of the December 15, 2020 FASAC Meeting Handout.
[4] On February 25, 2016, the FASB issued a publication summarizing the expected costs and benefits of adopting ASU 2016-02, *Leases* (Topic 842). In that publication, the FASB expected that, after implementation, the ongoing costs of complying with the new ASU were "likely to be consistent with the costs of complying with the accounting model in current GAAP." Furthermore, the FASB concluded, "many organizations will be able to apply the requirements of the new ASU using similar systems and processes to what they used to meet current GAAP reporting and disclosure requirements."

To better understand the extent of costs companies may incur to adopt a new accounting standard, we recommend that the FASB staff conduct more detailed field testing earlier in the standard-setting process. The field testing should focus on understanding expected costs and downstream implications, potential complexities, and a reasonable timeframe associated with adopting a new standard. We understand that such efforts will likely require greater preparer engagement than in previous outreach, yet we welcome the opportunity to participate in field testing and hope the Board will consider enhancing these efforts to better inform its cost-benefit analysis before proposed standards become final.

3. **Increase Transparency around the Board's Cost-Benefit Analysis:** We appreciate the Board's efforts to educate stakeholders on its process for analyzing the costs and benefits relating to the adoption of a new standard.[5] While recognizing that this decision-making process is highly judgmental, nuanced, and multi-faceted, we have observed specific examples raised recently during the FASB's post-implementation review (PIR) process where significant costs were incurred and continue to be incurred by preparers, yet it remains unclear whether users have received a correspondingly high benefit.[6] We believe greater transparency into the Board's cost-benefit analysis and how the Board weighed the competing perspectives would promote understanding and cultivate more insightful feedback from stakeholders throughout the standard-setting process. Specifically, we recommend that the Board publish a comprehensive cost-benefit analysis upon issuance of an Exposure Draft, which may enhance understanding and provide an opportunity for stakeholders to provide feedback during the comment process, and again during the PIR process to measure the intended costs and benefits against the results seen in the implemented standard.

We believe implementing the recommendations outlined above will yield a more robust cost-benefit analysis that ultimately provides greater benefits to users in a cost-effective manner. We urge the Board to apply these recommendations as soon as possible, not only to research projects, but also to projects currently on the FASB technical agenda. For example, the Segment Reporting project may benefit from greater collaboration between users and preparers, in conjunction with additional field testing, to ensure that the benefits of updating current guidance, including recommendations recently put forth by the Board, justify the costs. For example, at the Board meeting on March 10, 2021, the Board tentatively decided[7] that each significant expense category disclosed under the significant expense principle should be reconciled to its corresponding consolidated amount. We believe disclosing these reconciling amounts may not be operable for many companies because the data required is not readily available in their systems, as costs are generally pooled and allocated differently across business segments and lose attribution in the process. Companies would need to either aggregate the data manually or implement additional system solutions to comply with such requirements, which may not be cost-effective, negatively impacting both preparers and investors. Further disaggregation of segment-related information may also have unintended consequences, such as requiring some companies to disclose otherwise confidential or competitively sensitive information. Discussions

[5] See "Cost-Benefit Analysis" on the FASB website.
[6] For example, see the meeting recap of the FASAC meeting on June 24, 2021. Based on comments from Council members, it was unclear whether the new leases standard provided better information to users, and preparers indicated that implementation and ongoing costs were higher than expected.
[7] See Tentative Board Decisions Reached for the Segment Reporting project on March 10, 2021.

between preparers and users would promote understanding and collaboration across stakeholder groups. Users can help the FASB and stakeholders understand what incremental segment-related information they believe would be helpful and how such data would be used. Preparers could help the FASB and stakeholders understand the types of data regularly provided to management, data availability, and the complex processes behind the compilation and maintenance of both internal and external financial reporting. After these joint discussions, we encourage the FASB to conduct detailed field testing on new requirements being contemplated to ensure a comprehensive understanding of the costs and benefits of the proposed guidance.

Industry-Specific Considerations

We have found that the impact of standards can sometimes vary greatly by industry, such as ASU 2016-13, *Financial Instruments—Credit Losses (Topic 326)*, which generally impacted financial institutions to a greater extent than non-financial institutions. Therefore, we believe greater use of industry-specific examples within implementation guidance, where appropriate, may help to mitigate challenges within industries where applying certain standards is complex. We recommend that the FASB staff solicit and identify any industry-specific complexities as a regular part of stakeholder outreach and consider how they could be addressed through illustrative examples and/or other specific implementation guidance.

High Priority ITC Topics

After considering whether a pervasive need exists to change GAAP for any of the topics listed in the ITC, we recommend as a top priority for the Board a project to improve the existing consolidation guidance for VIEs. We also recommend prioritizing projects on digital assets and on certain ESG-related transactions that have a direct financial impact on the financial statements and lack specific guidance, as both areas are becoming more pervasive, complex, and nuanced, and clearer accounting guidance that leverages existing models could simplify the accounting and related disclosures and reduce diversity in practice. We expect ESG-related transactions and digital assets to become more prevalent, and moving to address these topics now will provide the Board the necessary lead time to perform sufficient outreach with stakeholders and stay ahead of such rapidly evolving topics.

Consolidation—Accounting for Variable Interest Entities Under Topic 810

We appreciate the Board's efforts to reduce complexity around the accounting for VIEs under Topic 810, including the ongoing project to reorganize and streamline guidance within Topic 810.[8] However, we agree that applying the consolidation guidance for VIEs continues to be overly complex, subjective, and prone to inconsistent application, as noted in the ITC. The judgments and nuance involved in reaching a conclusion under the current VIE model also may not be easy to understand or allow for comparability across companies.

Complexity arises, in part, because variable interests that trigger the assessment of the VIE criteria are numerous and can come in the form of contractual, ownership, or other economic interests, such as equity investments, loans, guarantees, supply agreements, licenses, royalty arrangements, etc. Because these

[8] We believe the current VIE guidance is complex to navigate and support the Board's intent to streamline the guidance through the proposed ASU, *Consolidation (Topic 812): Reorganization,* and the Board's decision in its June 27, 2018, meeting to develop nonauthoritative educational material to address the more difficult parts of consolidation guidance.

variable interests are present in many common transactions, VIE assessments are often required for entities that rarely end up being consolidated. We recognize the importance of making an accurate consolidation determination, which can significantly impact an entity's reported leverage, results of operations, and cash flows; however, we believe there is an opportunity to simplify the consolidation guidance and reduce the compliance costs associated with researching, documenting, and validating conclusions under the VIE model without diminishing the quality of information provided to users. For example, the following targeted improvements could prove helpful:

- **Scope Exceptions**: The scope exceptions found within the VIE model could be simplified and expanded. Preparers often spend a significant amount of time determining whether an entity is in scope of the VIE model, and documenting why a scope exception applies can be as burdensome as determining whether an entity should be consolidated. Simplifying existing VIE scope exceptions would mitigate many of these costs and expedite the VIE analysis. The Board could also reduce costs by expanding the business scope exception or more clearly scoping out certain arrangements from the VIE model. We believe there are a number of possible scope exceptions—such as an updated version of the development-stage exception that was eliminated by ASU 2014-10[9]—that could be considered for inclusion, and we encourage the Board to conduct further outreach to identify which exceptions would be most effective in simplifying the VIE assessment without a loss of decision-useful information to users.

- **Evaluation of Primary Beneficiary**: More clarity could be provided for evaluating whether an entity is the primary beneficiary, specifically in situations where traditional elements of control (e.g., voting rights) are not the elements that indicate control. For example, situations may arise where a presumed level of indirect control is demonstrated by the existence of an economic relationship that provides outsized influence beyond the contractual rights, or where no single party has unilateral or veto powers over an entity. The primary beneficiary evaluation in such situations is highly judgmental, and more authoritative illustrative examples and implementation guidance, including those with industry-specific facts and circumstances, would help reduce both the complexity of VIE analyses and diversity in how existing guidance is applied.

- **Disclosure Requirements:** Unnecessary complexity in VIE disclosure requirements could be reduced by evaluating whether the benefits of current disclosures justify the costs of providing them. For example, the usefulness of some disclosures required of a nonprimary beneficiary holder of a variable interest in a VIE is at times diminished due to diversity in interpretation of requirements, such as how to determine the reporting entity's maximum exposure to loss[10] for limited partnership fund investments, resulting in less comparable disclosures. We encourage the Board to perform outreach to identify additional VIE-related disclosure requirements that do not provide users with significant incremental value justifying the high cost and complexity of gathering the necessary data, which may also be in arrears and less decision-useful as a result. In addition, the Board may consider holding joint

[9] We recognize that the Board eliminated the development stage exception to promote consistency in consolidation decisions (see ASU 2014-10 BC16). However, we believe an updated exception would be helpful and encourage the Board to explore ways in which this may be possible without creating inconsistent consolidation decisions.
[10] See paragraph ASC 810-10-50-4.

outreach sessions with users and preparers to discuss what information is most helpful for users and which disclosures are most challenging for preparers.

Certain ESG-Related Transactions

We recommend that the FASB prioritize areas where further guidance or simplification may be beneficial around the accounting for certain ESG-related transactions that have a direct financial impact on the financial statements, enabling the Board to stay ahead of and address concerns around this quickly emerging topic. We recognize that current GAAP already requires an entity to consider the effects of certain material ESG matters, consistent with other items having a material direct or indirect effect on the financial statements and notes thereto.[11] However, investors, regulators, and other stakeholders are requesting more detail and transparency around ESG-related topics, and we believe the Board should prioritize providing targeted guidance on specific ESG-related transactions to keep financial reporting current with market demands and innovations.

For example, certain ESG-related transactions, such as equity investments in renewable energy partnerships and new market tax credits, are often accounted for using the Hypothetical Liquidation at Book Value (HLBV) method, which was set forth by the AICPA in a proposed statement of position[12] but never adopted into authoritative guidance. Because the HLBV method uses a balance sheet-oriented approach for allocating pre-tax GAAP income or loss to an investor and recognizes the tax benefits separately once earned, the amounts reported in the financial statements may not reflect the economics of such arrangements and are difficult to explain to those who lack a specialized knowledge of the underlying accounting. The HLBV accounting model is also complex to apply, and the lack of codified guidance in this area may contribute to diversity in practice that reduces the transparency and comparability of information provided to users. To address the lack of guidance around renewable energy investments, new market tax credit investments, and other similar investments, we support the Board's decision[13] to add a project to its technical agenda on investments in tax credits and potentially allow the proportional amortization method within ASU 2014-01, which is currently permitted only for low-income housing tax credit investments, to also be permitted for other tax credit investments. Although the Board previously voted to not expand the scope of ASU 2014-01 to other tax credit investments,[14] we believe the proportional amortization method presents a more operational accounting solution that would result in more consistency, greater simplicity, and more decision-useful information for users.

As another example, because sustainability-linked loans (SLLs) with ESG features are not covered by existing scope exceptions, and the features are not considered to be clearly and closely related to the debt host instrument, many stakeholders believe these features are embedded derivatives that should be bifurcated

[11] See the FASB Staff Educational Paper, *Intersection of Environmental, Social, and Governance Matters with Financial Accounting Standards*.
[12] See the AICPA's proposed Statement of Position, *Accounting for Investors' Interests in Unconsolidated Real Estate Investments*.
[13] As discussed during the FASB Board meeting on September 22, 2021.
[14] See the Board Meeting Minutes from April 28, 2014. We also note that some members of the EITF supported application of the proportional amortization method to all tax credit investments that meet the conditions in ASU 2014-01, but the scope was limited to only investments in qualified affordable housing projects because it more quickly addressed the concerns in practice at the time (see ASU 2014-01 paragraph BC10).

from the debt host instrument and separately accounted for at fair value. Bifurcating and separately accounting for ESG features at fair value creates significant operational complexities associated with valuing a wide range of unique and mostly unobservable metrics. We believe there is room for simplification in this area and encourage the Board to conduct outreach to identify practical solutions that provide users with the insight they need into such arrangements.

Although we have provided specific examples in this letter, as the scope of ESG disclosures required within the broader regulatory environment increases, we recommend that the Board also identify and address other ESG-related transactions that have a direct financial impact on the financial statements but lack well-established and specific guidance.

Digital Assets—Cryptocurrencies

With the continued legitimization and increased prevalence of investments in and transactions involving certain digital assets in both domestic and international markets, we believe it is important for the Board to provide authoritative guidance on the accounting for such assets and address concerns raised by stakeholders.[15] To this end, we recommend that the Board prioritize a project focused specifically on the accounting for cryptocurrencies. Companies are using or facilitating the use of cryptocurrencies in retail transactions, and we anticipate market demand for such transactions to increase. Furthermore, in addition to becoming a major asset class, cryptocurrencies have attributes that are settling into definable categories that we believe make standard setting feasible. We also recommend that the Board continue monitoring activity around other digital or nonfinancial assets to respond to market developments and changes in pervasiveness.

Under current GAAP, cryptocurrencies meet the definition of an indefinite-lived intangible asset and are generally accounted for as such,[16] yet the intangible asset accounting model does not capture the underlying economics. Because indefinite-lived intangible assets are generally measured at cost and subsequently adjusted only in the case of impairment,[17] investors may not receive all the information needed regarding subsequent changes to the value of cryptocurrency or management's intended use of the assets, creating financial results likely to become more distorted and potentially misleading over time as cryptocurrencies become more pervasive. If a project is added to the technical agenda to address the accounting for cryptocurrencies, we recommend leveraging existing accounting and disclosure models that are well understood in practice, such as those used for cash and cash equivalents, foreign currencies, and financial instruments, to create a standard-setting solution in a cost-effective and timely manner.

Low Priority ITC Topic—Disaggregation of Income Tax Information

We encourage the Board to evaluate the relative costs and benefits of each topic mentioned in the ITC and each project on the FASB technical agenda and deprioritizing those for which the benefits do not justify the

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[15] In the FASAC meeting on March 9, 2021, some Council members noted that under current GAAP, the accounting for cryptocurrency may diverge from the underlying economics and does not provide transparency around management's intended use of the asset.
[16] See the FASB ASC Master Glossary. The AICPA also issued a publication titled "Accounting for and auditing of digital assets," which supports the idea that cryptocurrencies should generally be accounted for under ASC 350, *Intangibles – Goodwill and Other,* when specialized industry guidance does not apply.
[17] See paragraphs ASC 350-30-30-1 and 35-18.

costs. For example, we believe that the Board should deprioritize its current project on income tax disclosures, including the further disaggregation of income tax information. Disaggregating income taxes at a jurisdictional or country level is extremely difficult to operationalize, and the complexity of the information and corresponding accounting, such as the impact of intercompany charges and transactions, could cause disclosures to be misleading or of limited use to investors. We also have concerns around materiality in the context of these disclosures and whether the requirements could potentially lead some companies to make disclosures for dozens of jurisdictions where the income tax information would not typically be viewed as material. Consequently, we believe such disclosures may not meet the FASB's cost-benefit agenda criteria.

Conclusion

We appreciate the Board's effort to obtain input from stakeholders on its agenda consultation. Given the limited time and resources available to both the FASB and stakeholders more broadly, we believe prioritizing the FASB's technical agenda and outreach efforts to be of utmost importance. As the Board considers the ideas and recommendations included in this letter, we welcome further questions and dialogue and stand ready to assist the Board as needed.

Sincerely,

Rudolf Bless

Rudolf Bless
Chair, Committee on Corporate Reporting
Financial Executives International