RSM

RSM US LLP

April 8, 2025

Mr. Jackson M. Day
Technical Director
Financial Accounting Standards Board
801 Main Avenue
PO Box 5116
Norwalk, CT 06856-5116

File Reference No. 2024-ED910

Dear Mr. Day:

RSM US LLP is pleased to provide feedback on the Financial Accounting Standards Board's (FASB or Board) proposed Accounting Standards Update (ASU), *Environmental Credits and Environmental Credit Obligations (*Topic 818*)* (proposed Update or proposal).

We support the Board's efforts to provide recognition, measurement, presentation and disclosure guidance for all entities that purchase or hold environmental credits or have a regulatory compliance obligation that may be settled with environmental credits. As observed by the Board, the absence of authoritative guidance has resulted in diverse accounting and disclosure practices, making it difficult to compare financial positions and operating results across entities. However, although we believe that the proposed Update is generally clear and operable, we are concerned that the proposed recognition and measurement guidance may have unintended consequences and could obscure the extent of an entity's assets and liabilities. As explained in our response to Question 10, we believe the proposed guidance may, in some instances, effectively result in balance sheet netting and extinguishment of liabilities when the entity has environmental credit obligation liabilities that are probable of being settled with compliance environmental credit assets that are internally generated or received as a grant from a regulator or its designees.

We also question the proposal's inconsistent accounting treatment for economically similar transactions. As discussed in our response to Question 3, it's not clear why the initial measurement of an environmental credit received as a grant from a regulator or its designee should differ from those received through other nonreciprocal transfers. In our response, we offer an alternative approach to address the accounting, which would also alleviate some of the previously mentioned unintended consequences from linking the proposed measurement of certain environmental credit obligations with the measurement of the associated environmental credit assets.

If the Board decides to finalize the proposed recognition and measurement requirements as exposed, we recommend that an entity be required to disclose the fair value of environmental credits held and outstanding environmental credit obligations for each annual reporting period, disaggregated by compliance program if significant (refer to our responses to Questions 6 and 14). We believe such disclosures would provide a better indication of the entity's resources and obligations, including assets available to settle the entity's liabilities in a bankruptcy or forced liquidation.

Before finalizing the proposed Update, we recommend that the Board clarify the portfolio approach to apply the subsequent measurement requirements in paragraphs 818-20-35-1 through 35-5 (see our response to Question 4). Additionally, with respect to the proposed fair value option, we believe the Board should either define a class of eligible noncompliance environmental credit assets or provide criteria for

determining what may be considered a reasonable basis for determining an eligible class of assets (see our response to Question 5). Without additional guidance, we believe the proposed guidance would be challenging to apply.

As explained in our response to Question 4, we recommend that all environmental credits should be evaluated for impairment at the end of each reporting period unless the entity has existing environmental credit obligations, and the entity intends to use the environmental credits to settle those obligations. This would prevent an entity from potentially delaying recognition of losses in assets classified as compliance environmental credits. Moreover, we believe there should be restrictions placed on an entity's ability to apply the subsequent measurement guidance for compliance environmental credits when an entity has transferred environmental credits from the compliance to noncompliance category and such transfers are material, either individually or in the aggregate.

Lastly, to reduce some of the anticipated costs of compliance, we provided:

- Suggestions for simplifying the recognition and classification requirements for environmental credit assets (see our response to Question 2)
- A qualitative assessment (or screen) to determine whether a full impairment analysis is required for noncompliance environmental credits held at the end of each reporting period (see our response to Question 4)
- A measurement alternative for the subsequent measurement of unfunded environmental credit obligations (see our response to Question 10)

Our responses to each of the questions posed in the proposed Update, other than those specifically directed solely at investors or preparers (i.e., Questions 7 and 15), are included in the remainder of this letter.

Responses to Questions for Respondents

Question 1

Is the proposed definition of *environmental credit* clear and operable? Does the proposed definition of *environmental credit* capture the population of items that require specific accounting guidance? Please explain why or why not. If not, what changes would you suggest? Do you anticipate any auditing challenges? If so, please explain.

We believe the proposed definition of an environmental credit is understandable and operable. We also believe the proposed definition captures the population of items that require specific accounting guidance. We do not anticipate any significant auditing challenges.

Question 2

The proposed amendments would require that an entity recognize an environmental credit as an asset when it is probable that the entity will use the environmental credit to settle an environmental credit obligation or transfer that credit in an exchange transaction. Costs incurred to obtain all other environmental credits would be recognized as an expense when incurred.

a. Do you agree with those proposed amendments, including the probability threshold? Should the costs incurred to obtain all other environmental credits be recognized as an expense when incurred? Please explain why or why not.

b. Are the recognition requirements clear and operable? Please explain why or why not. If not, what changes would you suggest? Do you anticipate any auditing challenges? If so, please explain.

We generally agree with the proposed amendments that would require an entity to recognize an environmental credit as an asset when it is probable that it will be either used to settle an environmental credit obligation (as defined in the proposal) or transferred in an exchange transaction (i.e., sell or trade). However, we believe the accounting could be further simplified if classification were based on an entity's intent and ability, rather than probability, which is similar to the model used for classifying assets under Topic 320, *Investments – Debt Securities*, and Topic 310, *Receivables*. We see no conceptual reason why the recognition threshold should be higher for environmental credits compared to other assets that are purchased or received in a nonreciprocal transaction. Moreover, we believe the proposed probability threshold adds an additional level of analysis that is unnecessary to justify the existence of an asset.

We generally agree that costs incurred to obtain environmental credits to be used for the entity's voluntary efforts to reduce carbon emissions should be expensed as incurred. As explained in the Board's basis for conclusions, an entity that decides to use an environmental credit for voluntary purposes has effectively decided to forgo the economic benefits of the credit, which is analogous to the accounting for abandoned property under Topic 360. However, unlike the proposed amendments, the guidance in Topic 360 for abandoned property applies only once the entity has made the decision to abandon the property, rather than at the point when it determines that it is less than probable that it will continue to use the property. Accordingly, we recommend that the Board redefine its proposed recognition threshold, such that all environmental credits obtained by an entity would be recognized as assets, unless the entity explicitly asserts that the credits will be used for purposes other than to transfer in an exchange transaction or to satisfy an environmental credit obligation. Although both approaches should result in similar accounting outcomes, we believe our proposed recognition threshold would better align with the definition of a recognizable asset.

Apart from our suggestions to simplify and improve the proposed recognition threshold for environmental credits, we believe the Board's proposed guidance is clear and operable and we do not anticipate any significant auditing challenges.

Question 3

The proposed amendments would require that an entity initially measure environmental credits recognized as assets at cost unless received in a nonreciprocal transfer that is not a grant from a regulator or its designee(s). For environmental credits received as a grant from a regulator or internally generated, cost would be limited to the transaction costs to obtain those environmental credits, if any. Are the proposed initial measurement requirements clear and operable? Please explain why or why not. If not, what changes would you suggest? Do you anticipate any auditing challenges? If so, please explain.

We believe the proposed initial measurement requirements are clear and operable and we do not anticipate any significant auditing challenges. For the same reasons noted in paragraphs BC47 through BC50 of the proposed Update, we also generally agree with the initial measurement requirements, which are consistent with those for most internally generated intangible assets. Those measurement requirements are objectively verifiable. However, we question why the initial measurement of an environmental credit received as a grant from a regulator or its designee should differ from those received through other nonreciprocal transfers. Because we see no substantive difference between nonreciprocal

transfers of environmental credits received as grants from regulators or their designees and those received from other parties, we believe the accounting treatment should be the same (i.e., we be believe the assets should initially be recognized on the balance sheet at fair value on the date the credits are received, which is consistent with the guidance in Topic 845, *Nonmonetary Transactions*). To avoid immediate recognition of gains, the Board could require the offsetting credit to be recognized as an adjustment to equity, rather than earnings.

Additionally, because the proposed measurement of environmental credit obligations would be tied to the measurement of environmental credits held by the entity that are intended to fund (i.e., settle) the liabilities, we are concerned that the proposed guidance may, in some instances, effectively result in balance sheet netting and extinguishment of liabilities. This may be the case when the entity has environmental credit obligations that are probable of being settled with compliance environmental credits (as defined in the proposal) that are internally generated or received as a grant from a regulator or its designee. We believe such outcomes would be contrary to Board's stated intent as described in the proposed Update's basis for conclusions. See our response to Question 10 for additional discussion.

Question 4

The proposed amendments would require that an entity subsequently measure an environmental credit based on whether it is determined to be a compliance or noncompliance environmental credit at the reporting date using a costing method (specific identification; first-in, first-out; or average cost). The subsequent measurement requirements in the proposed Update include:

a. For a compliance environmental credit, an entity would subsequently measure the environmental credit at cost and would not test the environmental credit for impairment at each interim and annual reporting date.

b. For a noncompliance environmental credit, an entity would be required to evaluate the environmental credit for impairment at each interim and annual reporting date.

An entity would be permitted to use a portfolio approach when applying the proposed subsequent measurement requirements to similar types of environmental credits. Are those proposed subsequent requirements clear and operable? Please explain why or why not. If not, what changes would you suggest? Do you anticipate any auditing challenges? If so, please explain.

Overall, we believe the proposed subsequent measurement requirements for environmental credits are clear and operable. However, to prevent an entity from potentially delaying recognition of losses, we recommend that all environmental credits should be evaluated for impairment at the end of each reporting period, unless the entity has existing environmental credit obligations and intends to use the environmental credits to settle those obligations. As a result, this would preclude an environmental credit that is acquired before the entity has incurred an environmental credit obligation that could be settled with such credit from being classified as a compliance environmental credit.

Moreover, we believe there should be restrictions placed on an entity's ability to apply the subsequent measurement guidance for compliance environmental credits when an entity has transferred environmental credits from the compliance to noncompliance category and such transfers are material, either individually or in the aggregate. Specifically, we recommend that the Board add guidance in any final ASU stating that when a transfer of an environmental credit from the compliance to noncompliance environmental credit category represents a material contradiction of the entity's stated intent to use the credit to settle an environmental credit obligation, or when a pattern of such transfers has occurred, any

remaining compliance environmental credits must be reclassified to noncompliance environmental credits. After compliance environmental credits are reclassified to noncompliance environmental credits in response to a taint, judgment will be required in determining when circumstances have changed such that management can assert with a greater degree of credibility that it now has both the intent and ability to use those credits to settle the entity's environmental credit obligations.

Paragraph 818-20-35-4 of the proposed Update would require all noncompliance environmental credits to be tested for impairment at each reporting date, and an impairment loss to be recognized when the carrying value of the noncompliance environmental credit exceeds its *fair value* [emphasis added]. However, the basis for conclusions notes that most environmental credits do not have active markets. To potentially reduce the cost of compliance for some entities, the Board may consider amending the proposed guidance by stating that a full impairment analysis is not required unless a qualitative assessment indicates that the noncompliance environmental credit is impaired. Indicators of impairment may include, among others:

- An observable price resulting from an orderly transaction involving the same environmental credit for an amount less than the carrying amount of the environmental credit held
- A bona fide offer to purchase, an offer by the reporting entity to sell or a completed auction process for the same environmental credit for an amount less than the carrying amount of the environmental credit held
- A carrying amount that is less than the amount specified by the compliance program to settle the related environmental credit obligation in cash
- An indication that the compliance program regulator my reduce or eliminate the cost of compliance

Portfolio approach

We believe that application of the proposed portfolio approach should be further clarified before issuing a final ASU.

Paragraph 818-20-35-7 of the proposed Update states that an entity may use a portfolio approach to apply the subsequent measurement requirements in paragraphs 818-20-35-1 through 35-5, if the portfolio consists of environmental credits that are "sufficiently similar such that it is unlikely at a reporting date that an entity will recognize a significant loss upon the derecognition of an individual environmental credit from a portfolio." Although paragraph 818-20-55-9 states that "[d]etermining whether environmental credits are sufficiently similar to be subsequently measured as a single portfolio may be determined *qualitatively* [emphasis added] or quantitatively (or a combination of both), depending on specific facts and circumstances," it's not clear to us how a qualitative assessment alone could ever be sufficient to support the similarity criterion.

Paragraph 818-20-55-15 illustrates a scenario where noncompliance environmental credits are *not* sufficiently similar to qualify for the portfolio approach due to the differences in the environmental credits' acquisition prices and estimated sales prices. To further clarify application of the portfolio approach, the Board should provide an additional example that illustrates a pool of noncompliance environmental credits that *are* sufficiently similar and, therefore, qualify for the portfolio approach even though the credits relate to different compliance programs and were acquired on different dates at different prices. In addition, an example that illustrates how the similarity assessment can be determined qualitatively alone would be helpful.

Question 5

The proposed amendments would permit an entity to make an accounting policy election to subsequently measure a class of eligible noncompliance environmental credit assets at fair value at the reporting date, with changes recognized in earnings. Is the proposed fair value measurement accounting policy election clear and operable? Please explain why or why not. If not, what changes would you suggest? Do you anticipate any auditing challenges? If so, please explain.

Except for the unit of account eligible for the proposed fair value election, we generally believe the proposed fair value option is clear and operable. We understand that the Board decided not to define what is meant by a class of eligible noncompliance environmental credit assets to allow for reasonable judgment to be applied. However, it's unclear just how much discretion was intended (i.e., how narrow [other than on a credit-by-credit basis] or broad a class can be defined) or what type of criteria would be considered reasonable in determining a class of assets eligible for the fair value option.

We observe that under the proposed amendments, an entity would not be required to disclose what it considers to be a class of eligible noncompliance environmental credit assets, but the entity would be required to provide the applicable fair value measurement disclosures under Topic 820, *Fair Value Measurement*. Paragraph 820-10-50-2B states the following:

> A reporting entity shall determine appropriate classes of assets and liabilities on the basis of the following:
>
> a. The nature, characteristics, and risks of the asset or liability
>
> b. The level of the fair value hierarchy within which the fair value measurement is categorized.
>
> The number of classes may need to be greater for fair value measurements categorized within Level 3 of the fair value hierarchy because those measurements have a greater degree of uncertainty and subjectivity. Determining appropriate classes of assets and liabilities for which disclosures about fair value measurements should be provided requires judgment. A class of assets and liabilities will often require greater disaggregation than the line items presented in the statement of financial position. However, a reporting entity shall provide information sufficient to permit reconciliation to the line items presented in the statement of financial position. If another Topic specifies the class for an asset or a liability, a reporting entity may use that class in providing the disclosures required in this Topic if that class meets the requirements in this paragraph.

Given the guidance in paragraph 820-10-50-2B and the proposed requirement for an entity to provide the applicable disclosures under Topic 820 when the fair value option is elected, we recommend that the Board do the following:

1. Define a class of eligible noncompliance environmental credit assets in proposed Topic 818 ***or*** provide criteria for determining what may be considered reasonable basis for determining an eligible class of assets (such as the associated regulatory compliance program [e.g., Corporate Average Fuel Economy credits originating from U.S.])

and

2. Require an entity to disclose its definition of class of eligible noncompliance environmental credits

We also believe it would be helpful if the Board provided an example illustrating how an entity may define a class of eligible noncompliance environmental credits, including how that would reconcile with the disclosure requirements under paragraph 820-10-50-2B.

Noncompliance environmental credits eligible for the fair value option

Pursuant to proposed paragraph 818-20-35-10**,** "[t]o be eligible for subsequent fair value measurement, a noncompliance environmental credit shall be obtained through either of the following:

a. An exchange transaction

b. A nonreciprocal transfer that is not a grant from a regulator or its designee(s)."

Paragraph BC66 of the proposed Update states in part:

> [t]he Board decided that noncompliance environmental credits that are internally generated or granted to an entity by a regulator or its designee(s) would be ineligible for the fair value measurement accounting policy election primarily because the initial measurement of those environmental credits is typically expected to be zero. The Board observed that if the fair value measurement accounting policy election was permitted for those environmental credits, an entity would recognize an immediate gain through earnings solely by electing to subsequently measure the environmental credits at fair value.

As discussed in our response to Question 3, we recommend that all nonreciprocal transfers be initially recorded at fair value in accordance with Topic 845, with the offsetting credit recorded as a component of equity rather than earnings. If the Board agrees with our recommendation, then the list of noncompliance environmental credits eligible for the fair value option would also need to be expanded. If the Board does not agree with our recommendations, then it should amend and clarify its basis for conclusions to explain why a credit received through a nonreciprocal transfer other than from a regulator or its designee should initially be recognized at fair value, which could result in an entity recognizing an immediate gain in earnings.

Question 6

The proposed amendments would require qualitative disclosures for annual reporting periods and quantitative disclosures for interim and annual reporting periods in accordance with paragraphs 818-20-50-1 through 50-7. Are the proposed disclosure requirements for interim and annual reporting periods clear and operable? Please explain why or why not. If not, what changes would you suggest? Do you anticipate any auditing challenges? If so, please explain.

We generally believe the proposed disclosure requirements are clear, operable and auditable. However, with respect to interim reporting periods, we recommend that the Board clarify that the proposed quantitative disclosures are only required if there has been a material change since the end of the most recent fiscal year. We believe that this approach is consistent with the overall requirements for reporting condensed interim financial statements, as well as the disclosure principle in the Board's separate proposal on interim reporting (i.e., Proposed Accounting Standards Update—*Interim Reporting (Topic 270): Narrow-Scope Improvements).*

As noted in our responses to Questions 3, 10 and 13, we question the decision usefulness of the proposed measurement requirements, particularly when environmental credits are received as a grant from a regulator or its designees or when they are internally generated. That is because there would be little to no recorded carrying amounts for these items reflected on the balance sheet or accompanying

disclosures, which would obscure the magnitude of the entity's gross assets. If the Board decides to finalize the proposed recognition and measurement requirements as exposed, we recommend that an entity be required to disclose the fair value of environmental credits held for each annual reporting period, disaggregated by compliance program if significant. Refer to our response to Question 10 for a suggested practical expedient for estimating the fair value of environmental credits that lack a readily determinable fair value as of the reporting date.

Question 7

[Omitted]

Question 8

Is the proposed definition of *environmental credit obligation* clear and operable? Does the proposed definition of *environmental credit obligation* capture the population of obligations that require specific accounting guidance? Please explain why or why not. If not, what changes would you suggest? Do you anticipate any auditing challenges? If so, please explain.

We believe the proposed definition of an environmental credit obligation is both clear and operable and, in our experience, captures the population of obligations that require specific accounting guidance.

Question 9

The proposed amendments would require that an entity recognize an environmental credit obligation liability when events occurring on or before the reporting date result in an environmental credit obligation. The entity would be required to assume that the reporting date is the end of the compliance period. Are those recognition requirements clear and operable? Please explain why or why not. If not, what changes would you suggest? Do you anticipate any auditing challenges? If so, please explain.

We believe the proposed amendments are clear and operable, and we do not anticipate any significant auditing challenges.

Question 10

The proposed amendments would require that an entity initially measure the funded portion of an environmental credit obligation liability using the carrying amount of compliance environmental credits associated with that obligation at the reporting date. If an entity has insufficient compliance environmental credits at a reporting date to satisfy an environmental credit obligation liability, the unfunded portion of its environmental credit obligation liability would be measured under the proposed amendments using the fair value of the environmental credits necessary to settle that portion of the liability at the reporting date, with certain exceptions (see paragraph 818-30-30-3(a) through (b) in this proposed Update). Are the proposed amendments for initially measuring the environmental credit obligation liability clear and operable? Please explain why or why not. If not, what changes would you suggest? Do you anticipate any auditing challenges? If so, please explain.

We generally believe the proposed amendments for initially measuring the environmental credit obligation liability are clear and operable, and we do not anticipate any significant auditing challenges. However, as noted in our response to Question 3, we are concerned that the proposed guidance may, in some

instances, effectively result in balance sheet netting and extinguishment of liabilities. This may be the case when the entity has environmental credit obligation liabilities that are probable of being settled with compliance environmental credit assets that are internally generated or received as a grant from a regulator or its designees. To illustrate, assume an environmental credit obligation (ECO liability) is initially recognized before the entity obtains or generates an environmental credit that it intends to use to settle the obligation (i.e., before it obtains or generates a compliance environmental credit asset). In this instance, the ECO liability would be measured using the fair value of the environmental credits necessary to settle that portion of the liability at the reporting date, with certain exceptions noted in paragraph 818-30-30-3(a) through (b) of the proposed Update. Additional assumptions include the following:

- The fair value of the ECO liability as of December 31, 20X4, and related expenses for the year then ended is $500,000.
- As of March 31, 20X5, the entity's ECO liability increased to $600,000.
- On June 30, 20X5, the entity generates environmental credits sufficient and probable of being used to settle the outstanding ECO liability. As such, the credits are classified as compliance environmental credits.
- On June 29 and 30 of 20X5, the fair value of the compliance environmental credits necessary to settle the ECO liability is $625,000.

In accordance with proposed paragraph 818-20-55-5, on June 30, 20X5, the entity initially measures the internally generated credits based on the transaction costs necessary to validate and register the environmental credits so that the credits may be used to settle the ECO liability. For simplicity, assume there were no transaction costs, so the carrying value of the compliance environmental credits is zero.

In accordance with proposed paragraph 818-30-30-3, as of June 29, 20X5, and for the period from January 1, 20X5, through June 29, 20X5, the entity would recognize an ECO liability of $625,000 and related expenses of $125,000, respectively.

In accordance with proposed paragraph 818-30-30-2, on June 30, 20X5, the entity would measure the funded ECO liability using the carrying amount of the compliance environmental credits expected to be derecognized upon settlement of the liability (which, in this case, is zero), resulting in the full reversal of the ECO liability of $625,000 and an offsetting entry (i.e., credit) to ECO expense.

In the scenario described above, if the Board finalizes the proposed amendments as exposed, the measurement requirements may effectively result in balance sheet netting, which the Board has stated would not be permitted because these arrangements do not meet the conditions for netting under Subtopic 210-20, *Balance Sheet - Offsetting*. The proposed amendments may also effectively result in the extinguishment of ECO liabilities, even though none of the derecognition requirements of Subtopic 405-20, *Liabilities – Extinguishments of Liabilities*, have been met.

To avoid these unintended consequences, we recommend the following changes to the proposed initial measurement requirements:

- An ECO liability that an entity intends to settle with an internally generated environmental credit should be measured at fair value, with the offsetting debit recorded as a compliance environmental credit if the credit was generated prior to incurring the liability.
- An ECO liability that an entity intends to settle with an environmental credit received as a grant from a regulator or its designees should follow the same measurement principle as above, unless the Board accepts the measurement guidance we recommended in our response to Question 3.

The proposed amendments would require an unfunded ECO liability to be measured at fair value, which may be challenging for some entities when the associated environmental credits do not have an active market. To alleviate some of the potential challenges of estimating a fair value in accordance with Topic 820, we suggest that the Board consider modifying proposed paragraph 818-30-30-3 to state that the unfunded ECO liability may be measured based on the cash settlement amount prescribed by the regulatory compliance program unless the fair value of an environmental credit that can be used to settle the ECO liability is readily determinable as of the reporting date. Alternatively, if there is no cash settlement option under the regulatory compliance program, the value could be estimated based on the observable price of the most recent orderly transaction involving the same environmental credit, which is similar in concept to the measurement alternative available under Topic 321, *Investments – Equity Securities*, for equity securities that lack a readily determinable fair value. However, unlike the guidance in Topic 321, this measurement alternative should only be available to be used if there has been an observable orderly transaction within three months of the reporting date. Additionally, use of the measurement alternative should be disclosed in the notes accompanying the entity's financial statements.

Question 11

The proposed amendments would require that at each interim and annual reporting date an entity subsequently measure an environmental credit obligation liability using the same method as initial measurement and recognize any measurement changes through earnings. Are the proposed amendments for the subsequent measurement of an environmental credit obligation liability clear and operable? Please explain why or why not. If not, what changes would you suggest? Do you anticipate any auditing challenges? If so, please explain.

We believe the proposed amendments for the subsequent measurement of an environmental credit obligation are clear and operable, and we do not anticipate any significant auditing challenges. However, for the same reasons noted in our response to Question 10, we are concerned that the proposed guidance may, in some instances, effectively circumvent the balance sheet offsetting and liability derecognition requirements of Subtopics 210-20 and 405-20, respectively.

Question 12

The proposed amendments would require that an entity account for the derecognition of an environmental credit obligation liability in accordance with Subtopic 405-20, Liabilities—Extinguishments of Liabilities. Is that proposed derecognition guidance clear and operable? Please explain why or why not. If not, what changes would you suggest? Do you anticipate any auditing challenges? If so, please explain.

We believe that application of the derecognition requirements in Subtopic 405-20 to an environmental credit obligation liability would be clear and operable and we do not anticipate any significant auditing challenges. However, as noted in our response to Question 10, we believe the proposed recognition and measurement requirements, in some instances, effectively circumvent the derecognition requirements in Subtopic 405-20.

Question 13

The proposed amendments would require that an entity present its compliance environmental credits separately from its environmental credit obligation liabilities on its consolidated balance sheet. Do you agree with that proposed presentation, or should environmental credit obligation liabilities be offset with

their related compliance environmental credits and presented on a net basis? Please explain why or why not. If not, what changes would you suggest?

We agree with the proposed amendments that would require compliance environmental credits to be presented separately from the related environmental credit obligation liabilities on an entity's balance sheet. Although we recognize that in the ordinary course of business net presentation may better depict the future net cash flows associated with an entity's regulatory compliance programs, we believe that gross presentation provides a better indication of the assets available to settle the entity's liabilities in a bankruptcy or forced liquidation. Additionally, permitting net presentation would require creating another exception to the general offsetting requirements in Subtopic 210-20, *Balance Sheet – Offsetting*. However, as noted in our response to Question 10, the Board's proposed measurement requirements may, in some instances, effectively result in balance sheet offsetting. which seems to be contrary to the Board's intent.

Question 14

The proposed amendments would require qualitative disclosures for annual reporting periods and quantitative disclosures for interim and annual reporting periods in accordance with paragraphs 818-30-50-1 through 50-7. Are those proposed disclosure requirements clear and operable? Please explain why or why not. If not, what changes would you suggest? Do you anticipate any auditing challenges? If so, please explain.

We believe the proposed disclosure requirements are generally clear, operable and auditable. However, with respect to interim reporting periods, we recommend that the Board clarify that the proposed quantitative disclosures are only required if there has been a material change since the end of the most recent fiscal year. We believe that this approach is consistent with the overall requirements for reporting condensed interim financial statements, as well as the disclosure principle in the Board's separate proposal on interim reporting (i.e., Proposed Accounting Standards Update—*Interim Reporting (Topic 270): Narrow-Scope Improvements*).

As noted in our responses to Questions 10, 12 and 13, we question the decision usefulness of the proposed measurement requirements when the entity has environmental credit obligation liabilities that are probable of being settled with compliance environmental credit assets that are internally generated or received as a grant from a regulator. That is because there would be little to no recorded carrying amounts for these items reflected on the balance sheet or accompanying disclosures, which would obscure the magnitude of the entity's gross liabilities. If the Board decides to finalize the proposed recognition and measurement requirements as exposed, we recommend that an entity be required to disclose the fair value of outstanding environmental credit obligations for each annual reporting period, disaggregated by compliance program if significant. Refer to our response to Question 10 for a suggested practical expedient for estimating the fair value of environmental credit obligations.

Question 15

[Omitted]

Question 16

An entity would be required to apply the proposed amendments retrospectively through a cumulative-effect adjustment to the opening balance of retained earnings (or other appropriate components of equity or net assets in the balance sheet) as of the beginning of the annual reporting period of adoption. The entity would apply the proposed amendments as if they always had been applicable, subject to specific modifications to those requirements upon adoption. Are the proposed transition requirements clear and operable? Please explain why or why not. If not, what changes would you suggest? Do you anticipate any auditing challenges? If so, please explain.

We believe the proposed transition approach is both clear and operable, and we do not anticipate any significant audit challenges.

Question 17

Would full retrospective application (compared with the approach described in Question 16) of the proposed amendments be operable and should it be permitted? Please explain why or why not.

We defer to the views of the preparers of financial statements as to whether full retrospective application of the proposed amendments would be operable; however, we would not take exception if the Board allowed it, provided that the full retrospective method would be subject to the same transition-specific modification requirements referenced in Question 16, applied as of the earliest period presented.

Question 18

How much time would be needed to implement the proposed amendments? Should the effective date for entities other than public business entities differ from the effective date for public business entities? If so, how much additional time would you recommend for entities other than public business entities? Should early adoption be permitted? Please explain your reasoning.

While we generally defer to the preparers of financial statements as to how much time would be needed to implement the proposed amendments, due to the nature and extent of proposed changes, we recommend that the implementation period be at least one year from the date that the proposed ASU is finalized (i.e., for annual reporting periods beginning at least one year after a final ASU is issued). We believe at least one year will be needed for preparers to develop policies and implement systems, processes and controls to comply with the new standard.

Further, in our experience, providing nonpublic business entities with additional time to learn from the transition experiences and interpretations of public business entities is helpful for those other entities.

Lastly, we believe that early adoption should be permitted. As noted by the Board, today the accounting for these assets and liabilities varies across entities due to the lack of authoritative guidance. As a result, allowing entities to early adopt the proposed amendments would not adversely affect the comparability of information reported across entities.

Question 19

The proposed amendments, including disclosures, would apply to all entities, including private companies. Do you agree? Are there any private company considerations that the Board should be aware of in developing a final Accounting Standards Update? Please explain your reasoning.

We agree that the proposed amendments should apply to all entities; however, we defer to the users of financial statements for purposes of determining whether the same level of disclosures is needed of private companies. We are not aware of any private company considerations that the Board should be mindful of in developing a final ASU.

We appreciate this opportunity to provide feedback on the proposed Update and would be pleased to respond to any questions the Board or its staff may have concerning our comments. Please direct any questions to RoAnna Pascher at 732.515.7333 or Joseph Cascio at 212.372.1139.

Sincerely,

RSM US LLP

RSM US LLP