RSM US LLP

30 South Wacker Drive
Suite 3300
Chicago, IL 60606

www.rsmus.com

February 17, 2023

Ms. Hillary Salo
Technical Director
Financial Accounting Standards Board
801 Main Avenue
PO Box 5116
Norwalk, CT 06856

File Reference No. 2022-ED400

Dear Ms. Salo:

RSM US LLP is pleased to provide feedback on the Financial Accounting Standards Board's (FASB or Board) Proposed Statement of Financial Accounting Concepts - *Concepts Statement No. 8, Conceptual Framework for Financial Reporting Chapter 5: Recognition and Derecognition,* (the proposed Chapter or proposal).

Overall, we support the Board's efforts to update its current framework for recognition and derecognition of elements in financial statements. However, as discussed in our responses to Questions 1 and 4 in the proposed Chapter, we believe the framework would be further enhanced if the Board provided more contextual guidance to describe the application of the proposed recognition and derecognition criteria.

Further, we note that the Board has recently initiated its Conceptual Framework: Measurement project (Measurement project), which will update the FASB's conceptual guidance regarding the measurement of elements in financial statements. As measurability is a critical criterion supporting financial statement recognition, we suggest postponing any final decisions on this proposed Chapter until after the Board has exposed and received feedback on its Measurement project.

Our responses to the questions posed in the proposed Chapter are included in the remainder of this letter.

Responses to Questions for Respondents

Question 1: Do you agree that an item must satisfy all three criteria in paragraph RD5 concurrently to be recognized in financial statements? If not, why? Do you agree that the criteria in paragraph RD5 are necessary and sufficient as recognition criteria?

We agree with the Board's proposal that an item should meet the definition of an element of financial statements, and be measurable with faithful representation, in order to be recognized in financial statements. We further agree that the three criteria are necessary and sufficient as recognition criteria. However, we believe that the value of the three criteria could be enhanced if the proposal provided greater contextual guidance on their application. To provide this additional context, we suggest that the Board consider the criteria for financial statement recognition and derecognition found in *Chapter 5: Recognition and Derecognition* of the International Accounting Standards Board's (IASB) *Conceptual Framework for Financial Reporting* (Conceptual Framework). Specifically, we recommend the following:

- Including a more detailed description of the linkage between the recognition of financial statement elements and their respective financial statements, similar to the guidance in paragraphs 5.2 – 5.4 of the IASB's Conceptual Framework.
- As further detailed in our response to Question 4, clearer articulation of the conceptual requirements for financial statement derecognition of an item, either as part of the proposed Chapter or as a separate chapter within *Concepts Statement No. 8*.

Question 2: Do you agree that the qualitative characteristic of relevance is adequately captured in the definitions and measurability criteria, as explained in paragraph BC11? If not, why?

We agree that the qualitative concept of relevance is captured in the proposed Chapter's definitions and measurability criteria. However, as the Board continues its Measurement project, it should ensure that its description of the measurability attributes that emerge from that project retain the qualitative characteristic of relevance, as articulated in paragraphs QC6 – QC10 of *Concepts Statement No. 8, Conceptual Framework for Financial Reporting Chapter 3: Qualitative Characteristics of Useful Financial Information*. Among other things, these paragraphs make clear that financial information is relevant if it is capable of making a difference in the decisions made by financial statement users by having predictive value, confirmatory value or both.

Question 3: Are there circumstances in which an item may meet the definition of an element (as defined in Chapter 4, *Elements of Financial Statements*, of this Concepts Statement) but does not meet the measurability or faithful representation criteria? Please describe those circumstances and provide a specific example or examples.

Conceptually, we believe there are no circumstances in which an item would meet the definition of an element but would not meet the measurability or faithful representation criteria, taking into account the materiality and cost constraints considerations.

Question 4: Do you agree that derecognition occurs when an item fails to meet any one of the recognition criteria in paragraph RD5? If not, why?

We broadly agree that lacking any of the three proposed criteria for financial statement recognition, derecognition would seem appropriate. However, we recommend that the Board develop a more robust framework to better articulate the concept of financial statement derecognition, such as that in Chapter 5 of the IASB's Conceptual Framework. We believe a more robust articulation of the framework, including the basis for conclusions, would enhance the proposed Chapter's usefulness in the Board's future standard-setting decisions, including the understanding of academics and other stakeholders.

We would be pleased to respond to any questions the Board or its staff may have concerning our comments and ask that questions be directed to Richard Stuart at 203.905.5027 or Joseph Cascio at 212.372.1139.

Sincerely,

RSM US LLP

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