RSM US LLP

June 26, 2025

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

File Reference No. 2025-ITC100

Dear Mr. Day:

RSM US LLP is pleased to provide feedback on the Financial Accounting Standards Board (FASB or Board) 2025 Invitation to Comment (ITC), *Agenda Consultation*.

We appreciate the Board's efforts in soliciting feedback on its future standard-setting agenda. The breadth and depth of accounting topics on which the Board could be focused is vast. While each of the topics discussed in the 2025 ITC is important, we believe the following should be prioritized by the Board:

- Updating the liability and equity guidance in Subtopic 815-40, *Derivatives and Hedging, Contracts in Entity's Own Equity*
- Amending the derecognition guidance in Section 350-10-40 and expanding the scope of Subtopic 350-60, *Intangibles – Goodwill and Other, Crypto Assets*, to improve the accounting for digital assets
- Simplifying and improving the guidance in Topic 815, *Derivatives and Hedging*
- Undertaking a holistic review of Topic 810, *Consolidations,* and addressing the following areas of accounting that interact with that guidance:
  - Accounting for the initial consolidation of a business and the accounting for asset acquisitions
  - Recognition and measurement requirements for acquisitions of variable interest entities (VIEs)
  - Accounting for distinct nonfinancial assets when an investor ceases to hold a controlling financial interest in an investee that does not meet the definition of a business and (1) substantially all of the fair value of the investee's assets is concentrated in nonfinancial assets and (2) the investor retains a repurchase option for the nonfinancial assets
  - Interaction of the VIE guidance and the accounting for a sale and leaseback transaction
- Rethinking and simplifying the guidance in Topic 470, *Debt*, related to a borrower's accounting for debt modifications
- Reconsidering the Accounting Standards Codification Master Glossary definition of "public business entity" and "public entity"

Our more specific thoughts on these topics, as well as our responses to each of the questions posed in the ITC, are included in the remainder of this letter.

Responses to Questions for Respondents

Question 1: Please describe what type of stakeholder you (or your organization) are from the list below, including a discussion of your background and what your point of view is when responding to this ITC:

a. Academic
b. Investor, other allocator of capital, or other financial statement user, such as:
    1. Equity analyst: buy side
    2. Equity analyst: sell side
    3. Credit-rating agency analyst
    4. Fixed-income analyst
    5. Accounting analyst
    6. Quantitative analyst
    7. Portfolio manager
    8. Private equity
    9. Individual investor
    10. Lender
    11. Long-only focus
    12. Long/short focus
    13. Other
c. Practitioner/auditor
d. Not-for-profit (NFP) organization preparer
e. Private company preparer
f. Public company preparer
g. Regulator
h. Standard setter
i. Other

Based on the list provided above, RSM US LLP falls within the category of practitioner/auditor. We are a leading provider of assurance, tax and consulting services focused on the middle market, with nearly 18,000 professionals in 77 U.S. cities, six locations in Canada, one in El Salvador and four in India.

Question 2: Which topics in this ITC, including those related to current technical and research agenda projects, should be a top priority for the Board? Please explain, including the following:

a. Why there is a pervasive need to change GAAP (for example, what is the reason for the change)

b. How the Board should address this topic (that is, the scope, objective, potential solutions, and the expected benefits and expected costs of those solutions)

c. Why is this topic a top priority and what is the urgency to complete standard setting on this topic (that is, how quickly the issues need to be addressed).

We believe the following topics in the ITC should be a top priority of the Board:

- *Distinguishing Liabilities from Equity*. Our responses to Questions 13 and 14 explain why there is a pervasive need to change generally accepted accounting principles (GAAP) and how the Board should address the topic. We believe there is a greater urgency for the Board to complete this project, given that accounting for complex financial instruments (including instruments in an entity's own equity) remains one of the most common areas for financial statement restatements.
- *Crypto Assets.* Our response to Question 24 explains why there is a pervasive need to change GAAP and how the Board should address the topic. We believe there is a greater urgency for the Board to complete this project, given the proliferation of crypto assets. Enhancing and clarifying the derecognition guidance in Section 350-10-40 and expanding the scope of Subtopic 350-60 is important to improve the comparability and decision-usefulness of financial reporting in this area of accounting.
- *Definition of a Public Business Entity (PBE) and Public Entity.* Our responses to Questions 47 and 48 explain why we believe a project to reconsider these definitions and how they impact the scope of several Codification topics should be a priority for the Board. Doing so would reduce unnecessary financial reporting and compliance costs for many entities.
- *Derivatives and Hedging*. Our responses to Questions 15, 16, 19 and 20 explain why the accounting for derivatives and hedging continues to be challenging for many stakeholders. We believe there is moderate urgency for the Board to enhance and simplify the accounting, whether through targeted improvements that can be handled through a series of Emerging Issues Task Force (EITF) projects or by undertaking a more holistic review of Topic 815.
- *Consolidations*. Our response to Question 50 explains why there is a pervasive need to change GAAP and how the Board should address the topic. We believe there is a moderate urgency for the Board to undertake a holistic review of Topic 810. Except for the matters discussed in our response to Question 11, we believe a more holistic review of Topic 810 is preferable to making further targeted improvements that would likely only simplify application of the guidance by experts on the topic.

Question 3: Are there financial accounting and reporting topics in this ITC that the Board should *not* address as part of its future standard-setting efforts? Please explain why not, such as there is no pervasive need to change GAAP, the scope would not be identifiable, or the expected benefits of potential solutions would not justify the expected costs.

Although all the topics in the ITC could likely benefit from standard setting or should be further explored by the FASB for future standard-setting efforts, we believe the following topics should be lower priorities for the Board:

- Eliminating the equity method of accounting (Question 6)
- Revising the definition of a business (Question 9)
- Allocation of costs associated with multi-element software arrangements (Question 26)
- Recognition of inventory and other nonmonetary assets (Question 30)
- Recognition and measurement of asset retirement obligations (AROs) (Question 31)
- Personal financial statements (Question 49)
- Statement of cash flows (Question 52)

Question 4: Are there any financial accounting and reporting topics beyond those in this ITC that should be a top priority for the Board to address? Please explain, including the following:

a. The nature of the topic
b. The reason for the recommended change
c. Whether the topic is specific to a subset of companies, such as public companies, private companies, or NFPs, or specific to a certain industry
d. How the Board should address this topic (that is, the scope, objective, potential solutions, and the expected benefits and expected costs of those solutions)
e. What is the urgency to complete standard setting on this topic (that is, how quickly the issue needs to be addressed).

We believe the FASB should rethink the approach to the borrower's accounting for debt modifications. We believe the two-tier analysis model applied to account for changes made to debt in Subtopics 470-60, *Debt – Troubled Debt Restructurings by Debtors* (which must be considered first), and 470-50, *Debt – Modifications and Extinguishments*, presents application challenges in practice that can be substantively alleviated through standard setting without compromising the decision-usefulness of the financial statements.

Application challenges in Subtopic 470-60 include the subjective analysis required to determine whether a borrower is experiencing financial difficulties (and the different weight some factors carry compared to others) and the requirement to consider multiple changes to the same debt within the same recent time frame on a cumulative basis.

Application challenges in Subtopic 470-50 include applying the 10% cash flow test to debt that is not prepayable, allocating certain fees between lender fees and third-party costs when multiple loans within a loan syndication are modified (which is sometimes necessary given the different treatments afforded such

fees and costs depending on the model applied), the requirement to consider multiple changes to the same debt within a one-year period on a cumulative basis, and determining the appropriate accounting for contemporaneous changes made to term debt and a line of credit with the same lender.

In practice, the application of Subtopics 470-60 and 470-50 typically does not result in the recognition of a gain or loss. For example, a lender typically only will agree to reduce the projected cash flows (on an undiscounted basis) to an amount that is less than the carrying amount of the restructured debt in very limited circumstances, such as when the borrower is experiencing extreme financial difficulties and there has been a significant decline in the fair value of any of the collateral pledged to secure the debt. As another example, performing the 10% cash flow test on debt that is prepayable (which is typically the case) very rarely results in a change in cash flows of 10% or more because the factors that cause a change in cash flows when assuming prepayment, such as lender fees and an increase in any prepayment penalty, rarely rise to the level necessary to produce a change in cash flows of 10% or more.

Based on the application challenges described above, as well as the relative infrequency with which Subtopics 470-60 and 470-50 result in recognition of a gain or loss, we believe the guidance on how to account for changes made to debt can be simplified without diminishing the decision-useful nature of the information provided in the financial statements by the Board undertaking standard setting to:

- Eliminate the guidance in Subtopic 470-60. As discussed in our response to Question 17, we question the benefits of a financial reporting framework that has three potential accounting outcomes for a debt restructuring (i.e., troubled debt restructuring (TDR), modification or extinguishment). Similar to the accounting for lenders, we believe the modification and extinguishment accounting models under Subtopic 470-50 should also be sufficient for borrowers.
- Change from the two-tier analysis model currently required by Subtopics 470-60 and 470-50 to a single-tier analysis model within Subtopic 470-50 for all changes made to debt that results in the recognition of a gain when the undiscounted projected cash flows under the changed debt are less than the carrying amount of the debt (including any accrued and unpaid interest). All other changes to the debt would be accounted for prospectively by using a revised effective interest rate to recognize interest cost over the term of the changed debt (i.e., no gain or loss would be recognized when the undiscounted projected cash flows are equal to or greater than the carrying amount of the debt).
- Require disclosures about all changes made to debt (not just changes that constitute a TDR), including disclosure of:
    - The nature of the changes made to the debt's terms
    - The amount of lender fees and third-party costs incurred to make the changes to the debt and the accounting for and presentation of those fees and costs in the financial statements
    - The debt's new effective interest rate
    - The nature and terms of any partial settlement of the debt (including any gain or loss recognized on assets transferred in that partial settlement)
    - For any changes made to debt that result in gain recognition, the amount of the gain recognized and how it was determined, along with the income statement line item in which it is included if it is not otherwise separately presented

We believe moving to a single-tier analysis model would not diminish the decision usefulness of the financial statements because, when compared to the existing model, our proposed model would not

significantly change the circumstances in which a gain would be recognized and would expand the disclosure requirements for all changes made to debt.

In addition, we believe the following simplifications related to the accounting for certain debt modification considerations could be made, regardless of whether the Board decides to retain the two-tier analysis model required by Subtopics 470-60 and 470-50:

- Treating lender fees and third-party costs the same for accounting purposes. For example, under current GAAP, lender fees are deferred and amortized while third-party costs are expensed as incurred when the modification accounting model in Subtopic 470-50 applies. In contrast, lender fees are expensed as incurred while third-party costs are deferred and amortized when the extinguishment accounting model in Subtopic 470-50 applies. If the Board moves to a single-tier analysis model for analyzing changes made to debt, it also could move to a model in which lender fees and third-party costs related to the changed debt are deferred and amortized when the changes made to the debt do not result in gain recognition, while such fees and costs are expensed as incurred when the changes result in gain recognition. If the Board retains the two-tier analysis model, it could change the guidance in Subtopic 470-50 such that lender fees and third-party costs are expensed as incurred under the extinguishment accounting model and deferred and amortized under the modification accounting model.
- Whether multiple changes made to the same debt within a designated time frame are analyzed on a cumulative basis should depend on whether those changes were made in contemplation of one another (and not solely on whether those changes occurred within a designated time frame, as is currently required). Similar to the approach taken in other areas of the Codification (e.g., Topic 606), the Board could provide indicators that would be considered by the borrower in determining when multiple changes to the same debt have been made in contemplation of one another. Regardless of whether the Board revises the guidance on when multiple changes made to the same debt should be analyzed and accounted for on a cumulative basis, additional implementation guidance should be provided to explain and illustrate that analysis and accounting. This guidance is particularly warranted if the Board retains the two-tier analysis model, given the application challenges that exist with respect to applying that model on a cumulative basis in practice.

If the Board retains the two-tier analysis model in Subtopics 470-60 and 470-50, we believe improvements should be made to alleviate some of the other application challenges previously noted, including:

- Providing implementation guidance explaining and illustrating how to apply the guidance in Subtopic 470-50 when contemporaneous changes are made to term debt and a line of credit with the same lender
- Incorporating the examples in the FASB Staff Educational Paper, *Topic 470 (Debt): Borrower's Accounting for Debt Modifications,* into Subtopic 470-50 (as applicable) to illustrate application of the guidance in that Subtopic, including how to apply the 10% cash flow test when debt is and is not prepayable

If the Board decides not to eliminate Subtopic 470-60, then the suggested updates described above would also apply to that subtopic. In addition, the Board should provide guidance on what constitutes a deterioration in creditworthiness when a borrower's debt is not rated by a rating agency.

We believe there is a moderate urgency for the Board to complete this project, as unnecessary complexity and costs can be removed from the financial reporting process without diminishing the decision usefulness of the financial statements.

Question 5: Does the equity method of accounting provide decision-useful information to investors that affect their capital allocation decisions? Please explain.

We defer to the views of investors as to whether the equity method of accounting provides decision-useful information.

Question 6: Should the FASB consider requiring equity method investments to be accounted for consistently with other equity investments in accordance with Topic 321? Please explain.

Applying the equity method can be straightforward at times, but it is often challenging and time-consuming. Consequently, requiring that equity method investments be accounted for in a manner consistent with other equity investments, as prescribed by Topic 321, would significantly reduce complexity, including the challenges associated with the accounting for:

- Basis differences
- Contingent consideration
- Intra-entity profits
- Differences in fiscal year ends
- Differences in accounting frameworks used (e.g., U.S. GAAP versus International Financial Reporting Standards (IFRS))
- Interest costs
- Investee losses in excess of the investment carrying amount plus advances
- Other-than-temporary impairments

Question 7: If the FASB were to require equity method investments to be accounted for consistently with other equity investments in accordance with Topic 321, are there additional accounting matters (for example, accounting for transactions between investors and investees) or disclosures that would need to be considered? For public business entities, is there related industry-specific guidance that would need to be referred to the U.S. Securities and Exchange Commission (for example, the requirement to include financial statements of significant investees or oil and gas disclosures related to equity method investments)? Please explain.

We do not believe that additional matters would need to be considered if the FASB were to require that equity method investments be accounted for in accordance with Topic 321. We defer to users of financial statements as to whether additional disclosures would be needed.

Question 8: What challenges, if any, exist in applying the consolidation and equity method of accounting guidance to renewable energy and similar partnerships? Should the FASB address these issues through standard setting? If so, how should they be addressed (for example, by including HLBV guidance in the Codification, providing other guidance for complex profit-sharing arrangements, or eliminating the equity method [see also Question 6 of this ITC])? Please explain.

While we are not aware of any challenges that are particular to renewable energy partnerships, we do believe that GAAP would generally benefit from codifying guidance related to the hypothetical liquidation at book value (HLBV) approach. The HLBV approach is mentioned in numerous firms' interpretive guidance and is often considered as a viable method for addressing profit-sharing arrangements that are not straightforward.

Question 9: Should the FASB pursue a project to further revise the definition of a business? If yes, why is a change necessary and what improvements could be made to the definition? Please explain.

We do not view a project to reconsider the definition of a business as a priority for the FASB. Although not perfect, we believe the definition is generally operable. In addition, we are not sure what changes to the definition of a business could be made that would simplify the evaluation. However, if the FASB decides to pursue a project in this area, it may be more effective to focus on providing additional application guidance and illustrative examples rather than revising the definition.

Question 10: Should the FASB consider defining the term *common control*? If yes, how should the term be defined and what would be the anticipated effect? Please explain.

We believe consideration should be given to defining the term "common control," which is an important concept in Topic 810 for consolidations, Subtopic 805-50 for evaluating transactions between entities under common control and Subtopic 326-20 for identifying loans and receivables between entities under common control that are beyond the scope of that guidance.

Most if not all interpretive guidance refers to the limited Securities and Exchange Commission (SEC) staff guidance captured in the last abstract for EITF Issue 02-5, *Definition of "Common Control" in Relation to FASB Statement No. 141 (*which was never finalized), and a statement in paragraph BC15 of Accounting Standards Update 2014-07, *Consolidation (Topic 810): Applying Variable Interest Entities Guidance to Common Control Leasing Arrangements*, indicating that the definition of common control for purposes of applying the related private company accounting alternative should go beyond the examples provided in that limited guidance. Using these references as the starting point for developing a definition should lead to more consistent application of the guidance that relies on the concept of common control while also minimizing disruption to existing practice.

Question 11: Should the FASB prioritize a potential project to improve and align the guidance in any of these areas? If yes, what should be included in the scope and what alternatives should be considered? Please explain.

We believe the following areas of GAAP, which are further discussed in the FASB's ITC and interact with the guidance in Topic 810, present challenges for both preparers and practitioners:

- Accounting for the initial consolidation of a business and the accounting for asset acquisitions

- Recognition and measurement requirements for acquisitions of VIEs
- Accounting for distinct nonfinancial assets when an investor ceases to hold a controlling financial interest in an investee that does not meet the definition of a business and (1) substantially all of the fair value of the investee's assets is concentrated in nonfinancial assets and (2) the investor retains a repurchase option for the nonfinancial assets
- Interaction of the VIE guidance and the accounting for a sale and leaseback transaction

We agree with other stakeholders that these areas result in unnecessary complexity and diversity in practice. As such, we believe the FASB should prioritize a project to improve and align the guidance in each of these areas. More specifically, we believe each represents a viable project for the EITF.

Question 12: Are there challenges in applying the pushdown accounting guidance in Subtopic 805-50? If so, what additional guidance is needed? Please explain.

We believe there are several challenges in applying pushdown accounting for which additional guidance would be helpful. Those challenges include:

- Distinguishing between items that can be pushed down and those that must only be recorded at the acquirer level (e.g., debt, contingent consideration liability)
- Determining how to present the acquisition in the statement of cash flows, including whether the opening balance of cash in the successor period should be the ending cash balance of the prior period or $0 (as pushdown accounting represents the termination of one basis of accounting and the creation of a new one)
- Presenting opening balances in the statement of stockholders' equity
- Whether the measurement period from Topic 805 may be used by the acquiree when determining the fair value of assets and liabilities

We also believe the FASB should provide guidance to address the "on-the-line" treatment of certain transaction costs. Specifically, we recommend that the FASB codify the SEC Staff guidance provided in the "Blackline expense presentation" portion of a 2014 speech,[1] which is commonly followed in practice, along with explicitly listing the differences between acquisition accounting and push-down accounting.

Question 13: If the FASB were to make targeted improvements to the liabilities and equity guidance in Subtopic 815-40, would you support those changes if they significantly changed current financial reporting outcomes? For example, would you support accounting for more contracts indexed to an entity's own equity as equity as compared with today? Please explain.

We would support improvements to the liabilities and equity guidance within Subtopic 815-40 even if those improvements result in changes to current financial reporting outcomes. Further, we would not be opposed to changes that result in more contracts being considered indexed to an entity's own stock and accounted for as equity. However, we believe that investors and other financial statement users are in a better position to provide insight on whether the application of the classification guidance, particularly application of the indexation guidance in Subtopic 815-40, results in meaningful information for making investment decisions.

[1] SEC.gov | Remarks before the 2014 AICPA Conference on Current SEC and PCAOB Developments

Question 14: What targeted improvements, if any, to the liabilities and equity guidance in Subtopic 815-40 should the FASB consider making? For example, should the improvements focus on the indexation guidance in the Scope and Scope Exceptions Section of Subtopic 815-40, the settlement guidance in the Recognition Section of Subtopic 815-40, or both? Please explain.

We believe that any targeted improvements to the liabilities and equity guidance should focus on the indexation guidance within the Scope and Scope Exceptions Section of Subtopic 815-40. In our experience, this is the guidance that is the most complex and difficult to apply and, consequently, results in the greatest diversity in practice.

Although we would support a targeted improvements project, we recommend that the FASB first consider making more comprehensive amendments to the indexation guidance. In that regard, we have two suggestions for the Board's consideration.

Our first suggestion would result in more instruments being considered indexed to the entity's own stock and, therefore, qualified for equity classification. Under this approach, an adjustment to the settlement amount of an instrument issued by an entity would be treated similarly to a down round provision. Such a feature would not result in liability classification (i.e., it would not preclude an instrument from being considered indexed to the entity's own equity). Rather the impact of the adjustment (i.e., the value created) would be accounted for as a deemed dividend when the adjustment is triggered. Prior to the feature being triggered, information about the potential adjustment to the instrument's settlement amount (e.g., adjustment to the number of shares or exercise price) would be provided in the disclosures accompanying the financial statements. By utilizing this approach, the Board would be able to leverage the existing guidance on earnings per share impact and disclosures for down round provisions. We would also support an accounting model that evaluates settlement provisions in a manner similar to exercise contingencies and eliminates the separate fixed-for-fixed analysis required under current GAAP.

Our second suggestion would be to provide a narrower interpretation of the acceptable changes to the settlement amount of an instrument, which would result in more instruments precluded from being considered indexed to an entity's own stock and, therefore, being classified as liabilities. Under this approach, the instrument is not considered indexed to the entity's own stock if its settlement amount is affected by variables that do not result in fair value at the settlement date.

We believe that investors and other financial statement users are in the best position to determine which model is the most appropriate and provides the most decision useful information. We believe either model would increase consistency and reduce complexity, thereby improving practice.

If, however, the Board decides to undertake more narrow scope amendments to the indexation guidance, we suggest the Board consider providing an exception for adjustment provisions that are within the entity's control by amending the guidance in paragraph 815-40-15-7D and making an exception for adjustment provisions that are contingent and not probable of occurring. Further, we suggest the Board consider updating the application examples within Section 815-40-55 to address:

- Adjustments to the number of shares based on a percentage of fully diluted shares outstanding
- Adjustments triggered by contractual changes to the strike price of another instrument
- Changes to settlement amount based on the holder of the instrument
- Warrants issued upon subsequent tranches of debt
- Optionality in determining share price upon net settlement

- Calculation of the settlement amount upon a fundamental transaction based on pre-specified inputs
- Regular cash dividends paid on warrants when out of the money

Question 15: Should the FASB consider revising the hedge accounting model? If so, what core aspects of the hedge accounting model should be amended or removed to allow hedge accounting to more accurately reflect the economics of an entity's risk management activities? Please describe why and how those core aspects should be amended or why they should be removed.

We believe the FASB should consider revising the hedge accounting model to more accurately reflect the economics of an entity's risk management activities. While Accounting Standards Update (ASU) 2017-12 made meaningful improvements in this area, the model remains complex, overly prescriptive and misaligned with real-world risk management practices.

To promote financial reporting that better reflects an entity's risk management activities, we recommend the following amendments.

Eliminate the 80%–125% effectiveness range

The current threshold is both arbitrary and restrictive. For example, a hedge with 79% effectiveness may be economically sound but disqualified from hedge accounting. This binary cutoff creates unnecessary volatility in financial reporting and discourages hedging activity that is fundamentally risk-reducing.

We recommend replacing the threshold with a principles-based effectiveness assessment, consistent with IFRS 9, *Financial Instruments*, that focuses on the existence of an economic relationship between the hedged item and the hedging instrument. This approach may better accommodate macro hedging and certain commodity hedging strategies where achieving a result within the 80%–125% effectiveness range may not be feasible or economically meaningful.

Alternatively, if the FASB retains a rules-based approach, we recommend allowing private entities to apply the simplified approach described in paragraphs 815-20-25-133 through 25-138 to all interest rate hedges (not just interest rate swaps used in cash flow hedges) and permitting narrative explanations of effectiveness for static, short-term hedges.

Simplify documentation requirements

Current documentation requirements are overly rigid and can disqualify otherwise effective hedge relationships based on technical or timing issues, particularly for private and smaller reporting entities with limited resources. The result is underutilization of hedge accounting, even for highly effective strategies.

We recommend:

- Amending paragraphs 815-20-25-139 through 25-141 to align documentation timing rules across all private entity hedges with the simplified approach set forth in paragraph 815-20-25-136.
- Allowing post-inception documentation updates within a defined grace period when evidence exists at the time of the transaction that the purpose of the transaction was for risk management rather than speculation.

This would shift the focus to the economic substance of the transaction and reduce administrative burden without compromising the integrity of financial reporting.

Permit dynamic hedging models, macro hedging and net position hedges

Many entities hedge risks at the portfolio or enterprise level using a dynamic approach to manage multiple assets simultaneously and adjusting positions to optimize overall risk exposure, rather than utilizing static hedge strategies for individual assets. Although entities in industries like banking, insurance and energy often use dynamic, macro and net position hedging strategies to manage their constantly evolving portfolio risk exposures, GAAP generally does not permit hedge accounting for these forms of hedging. We believe that should change so that financial statements may more faithfully reflect an entity's risk management activities.

Question 16: Should the FASB consider changing hedge accounting disclosures? If so, what changes could be made to hedge accounting disclosures and how would they better portray the economics of an entity's risk management activities? Please explain.

We believe the FASB should consider changing hedge accounting disclosures to more clearly convey the economic substance and strategic purpose behind an entity's risk management activities. More specifically, we recommend shifting toward a more principles-based disclosure framework that highlights an entity's risk exposures and its strategic rationale for hedging, rather than focusing solely on accounting results. Such an approach would align more closely with international disclosure standards, such as those in IFRS 7, and could be adapted to complement the objectives and strengths of the GAAP framework. In addition to providing greater transparency, such an approach could also reduce reliance on non-GAAP metrics and provide a more holistic view of an entity's performance and risk, particularly in volatile market environments.

Question 17: How often is the TDR guidance in Subtopic 470-60, *Debt—Troubled Debt Restructurings by Debtors*, applied? Does the TDR guidance for borrowers continue to be relevant and provide decision-useful information to investors? Is it possible for borrowers to determine the fair value of restructured debt in a TDR? Do you foresee any challenges in determining the fair value of restructured debt when a borrower's financial difficulty results in other market participants being unwilling to lend to that borrower under the terms of the restructured debt? Are there other alternatives to improve the TDR guidance for borrowers that should be considered? Please explain.

We often see the TDR guidance in Subtopic 470-60 applied by our audit clients. For many private companies—and other entities that do not have publicly traded debt—determining the fair value of restructured debt in a TDR can be challenging. Entities may have to engage third-party service providers due to a lack of internal resources and access to specific models and market input data to assist with the estimation of fair value, resulting in increased expenses during times of financial difficulty.

Although we generally defer to the users of financial statements as to whether the TDR guidance continues to provide decision-useful information, we question the benefits of a financial reporting framework that has three potential accounting outcomes for a debt restructuring (i.e., TDR, modification or extinguishment). Similar to the accounting for lenders, we believe the modification and extinguishment accounting models under Subtopic 470-50 should also be sufficient for borrowers. If the FASB decides to eliminate the TDR model for borrowers, the Board may consider adding disclosure requirements to Section 470-50-50 similar to those in paragraphs 470-60-50-1 and 50-2. See also our response to Question 4.

Question 18: If borrowers were required to measure restructured debt at fair value, should interest expense be recognized? If yes, when should it be recognized and how should it be calculated? Please explain.

If restructured debt is required to be initially measured at fair value on the restructuring date but not subsequently, then we believe interest expense should be recognized using the interest method in accordance with Subtopic 835-30, *Interest – Imputation of Interest*.

On the other hand, if restructured debt is also required to be remeasured at fair value each subsequent reporting date, we defer to users of financial statements as to whether interest expense should be separately recognized, including whether the amount should be reported based on the debt's contractual interest rate or its effective rate.

Question 19: Regarding derivative accounting, what other challenges (beyond those that would be addressed in the 2024 proposed Update on derivative scope refinements), if any, do you encounter in practice? Please explain.

In addition to the accounting for modifications to derivative contracts discussed in our response to Question 20, accounting for embedded derivatives in financial assets remains a persistent challenge in practice, particularly for hybrid financial assets with features that exhibit characteristics of both debt and equity.

Applying the bifurcation requirements of Subtopic 815-15 often requires significant judgment, especially for instruments with complex or non-standard terms. Entities face difficulties in determining whether embedded derivatives are clearly and closely related to the host contract and measuring the fair value of embedded derivatives that require bifurcation and lack observable inputs.

To address these challenges, we recommend that the FASB explore a principles-based approach that focuses on assessing a hybrid financial asset in its entirety, rather than dissecting it feature by feature. Such an approach could leverage the concepts in paragraphs 815-15-25-17 through 25-17D, which allows entities to determine whether a host contract is more akin to an equity instrument or a debt instrument. Under this approach, if the instrument is more akin to equity, an entity would apply the guidance in Topic 321*, Investments – Equity Securities*.

If the hybrid instrument is determined to be more akin to debt, the instrument would require further analysis to determine whether its expected cash flows reflect a basic lending arrangement (i.e., cash flows that are solely payments of principal and interest on the principal amount outstanding), similar to the contractual cash flows characteristics assessment under IFRS 9.

As part of this evaluation, features that introduce variability in cash flows that are linked to equity prices; commodity values; leverage; or other factors unrelated to the borrower's credit risk, prepayment risk or the instrument's contractual term to maturity (i.e., non-traditional lending variables) would be disregarded if they are not expected to have a significant impact on the overall fair value of the hybrid instrument over the expected life of the instrument. However, disclosures would be required in the notes to the financial statements that describe the features and the expected impact on the timing and amount of cash flows, including recognition of interest income under the effective interest method.

If the contractual cash flows, excluding those related to non-traditional lending features that are individually or in the aggregate not significant to the overall fair value of the hybrid instrument, reflect only principal and interest, the hybrid instrument would be accounted for in its entirety either:

- In accordance with the guidance in Topic 320, *Investments – Debt Securities*, if the hybrid debt instrument meets the definition of a security
- In accordance with Topic 310, *Receivables,* if the hybrid debt instrument that does not meet the definition of a security

However, if the hybrid instrument includes one or more non-traditional lending variables that exceed the significance threshold, the entire instrument would be measured at fair value, with changes in fair value reported through earnings. In addition, if management's expectations about the impact of non-traditional lending variables changes such that the features individually or in the aggregate are now expected to have a significant impact on the overall fair value of the instrument, the entire instrument would be remeasured at fair value at that date and every subsequent reporting period thereafter, with changes in fair value reported through earnings until the instrument matures or is derecognized through a sale transaction.

We recognize that this alternative model would replace an existing complex model with another that introduces significant judgment (particularly for hybrid debt instruments); however, we believe it could simplify the overall accounting framework for the recognition and measurement of financial instruments and further narrow the differences with IFRS.

Question 20: There is currently a project on the research agenda that includes the accounting for derivative contract modifications. If the FASB were to prioritize a project on derivative modifications, what approach should be applied to assess and account for the modification of a derivative? Please explain.

If the FASB prioritizes a project on derivative modifications, we recommend a principle-based approach that aligns with common risk management practices.

The first step in evaluating a modified derivative contract should be to determine whether the modified contract continues to represent a derivative instrument in its entirety, subject to Topic 815, or a hybrid instrument with an embedded derivative requiring bifurcation (i.e., separate accounting for any embedded derivative that is not clearly and closely related to the host contract).

In cases where the derivative contract was designated as a hedging instrument, we believe that hedge accounting should be continued (rather than being automatically discontinued solely due to the modification), provided the hedging relationship remains highly effective. This approach would support continuity and consistency with the underlying risk management strategy, which is a key objective of hedge accounting.

Additionally, we recommend enhanced principle-based disclosures, including disclosures about:

- The nature and purpose of the modification
- The basis for accounting treatment (e.g., continued derivative versus hybrid classification)
- The impact on hedge accounting relationships, if applicable
- The effect on earnings and other comprehensive income

We believe these disclosures would provide more decision-useful information for investors, especially in periods of market volatility when derivative risk management becomes most critical.

Question 21: Should the below-market or interest-free component of the loan from a donor be accounted for as financial support? If it should continue to be accounted for as financial support, what specific accounting guidance is needed to more consistently reflect the economics of those transactions? Please explain.

We believe that the below-market or interest-free component of a loan from a donor should continue to be recognized as financial support. We believe this approach accurately reflects the economic substance of such transactions, as the benefit derived from the below-market interest rate or interest-free nature of the loan constitutes a form of financial assistance.

The American Institute of Certified Public Accountants' (AICPA) Audit and Accounting Guide for Not-for-Profit Entities (NFP A&A Guide) provides relevant non-authoritative guidance for these types of loans. Specifically, paragraphs 5.170 through 5.172 address recipient accounting, while paragraphs 8.29 through 8.35 cover donor accounting for below-market interest rate loans. Although we have not observed significant diversity in practice, we believe, given the lack of relevant guidance in GAAP, the Board should consider codifying the guidance in the NFP A&A Guide, which is well understood and widely applied.

Question 22: Are there challenges in determining whether a funding arrangement should be accounted for as an R&D funding arrangement or a sale of future revenue? If the FASB were to pursue a project on R&D funding and sales of future revenue arrangements, what types of arrangements should be included in the scope of the project? Please explain.

We have not encountered significant challenges in determining whether a funding arrangement should be accounted for as a research and development (R&D) funding arrangement or a sale of future revenue. We have primarily encountered these arrangements within the Life Sciences industry, where the R&D risk is generally considered to be substantive until Food and Drug Administration approval is received. As a result, the majority of the challenges we have seen have revolved around the determination of whether the arrangement represents an obligation to repay the funding party or a contract to perform services.

Question 23: If the FASB were to pursue a project to consider improvements to Topic 860, what issues or transactions should it address? For those issues, please explain the challenges encountered in practice when applying the current guidance and what improvements should be considered.

If the FASB decides to pursue a project to revisit the guidance in Topic 860, *Transfers and Servicing*, we suggest that it consider addressing the following matters:

- Clarify the meaning of the term "participating interest" either by amending the criteria in paragraph 860-10-40-6A or by issuing additional implementation guidance to address:
    - Can a single share of common stock that's been divided into smaller increments meet the terms of a participating interest? This question has been repeatedly raised by stakeholders with diverse views ever since brokerage firms have introduced opportunities for individual investors to purchase fractional amounts of an existing share of a publicly traded company.
    - Is transfer of legal title to the underlying asset relevant when evaluating transfers of participating interests? Some stakeholders believe that a transfer of a participating interest without first depositing the underlying asset in a trust, securitization vehicle or other entity

whose sole purpose is to facilitate an asset-backed financing represents the issuance of non-recourse debt by the transferor.

- Does the participating interest guidance apply to the sale of a note that is considered a legally separate instrument but whose payments are linked to the payment provisions of another note of the same issuer so that the total all-in interest on the aggregated loans does not change or exceed a predetermined total aggregated amount?
- Would retained servicing rights alone cause transfers of all other portions of an entire financial asset to fail the conditions for derecognition if those other portions of the whole asset did not meet the requirements of a participating interest?

- Clarify what constitutes "proceeds received" in a transaction treated as a secured borrowing. In certain transactions that fail the conditions for sale accounting, the transferor receives not only cash but also a beneficial interest in the transferred assets. In these instances, it is not clear whether the transferor should record the beneficial interest at the transaction date in addition to recognizing the cash received. Some believe beneficial interests in transferred financial assets should be recognized even in a transaction that is accounted for as a secured borrowing because beneficial interests are included in the Master Glossary definition of "proceeds" linked to Topic 860. Others believe that beneficial interests received in a secured borrowing transaction should not be recognized because doing so would result in double-counting, as the source of the beneficial interest's cash inflows are cash collections on the underlying financial assets that the transferor continues to recognize. This alternative view aligns with the guidance in paragraph 815-10-15-64, which states that "[a] derivative instrument held by a transferor that relates to assets transferred in a transaction accounted for as a financing under Topic 860, but which does not itself serve as an impediment to sale accounting, is not subject to the requirements of this Subtopic if recognizing both the derivative instrument and either the transferred asset or the liability arising from the transfer would result in counting the same thing twice in the transferor's balance sheet."
- Provide additional application guidance to further clarify the circumstances when use of a legal specialist may be necessary to evaluate the isolation criterion in paragraph 860-10-40-5(a). For example, consider providing a non-exhaustive list of circumstances involving continuing involvement that would call into question legal isolation, contrasted with those that generally would not require an in-depth analysis from a legal specialist. Currently, the extent of analysis performed and evidence obtained by entities to support the isolation criterion varies significantly primarily based on, among other things:
  - Interpretations of what constitutes continuing involvement with the transferred financial assets or the transferee
  - The technical competency and experience of the reporting entity and its auditors with Topic 860
  - Whether a reasoned legal opinion is demanded by market participants to support management's assertions

  Alternatively, limit an entity's consideration of legal isolation under bankruptcy to those circumstances typically demanded by market participants. Typically, market participants demand a legal analysis in securitization transactions where assets are transferred to a special-purpose entity designed to be bankruptcy remote and the securitization vehicle issues to investors

beneficial interests in those transferred assets. The pricing of those beneficial interests partly depends on whether the transferred assets are beyond the reach of the transferor and its creditors even in bankruptcy.

- Consider replacing the isolation criterion, which requires an analysis of various legal theories, including bankruptcy law, with a criterion that considers whether substantially all the risks and rewards of ownership have been transferred. Such an analysis would consider factors such as, but not limited to:
  - Whether the transaction price is based on the fair value of the asset as of the transaction date
  - Whether the transaction purports to be a sale for both accounting and tax purposes
  - Whether the transferor (seller) has retained other-than-insignificant risk of loss due to changes in market, credit or other factors unrelated to standard representations and warranties regarding the nature of the assets and the seller's ability and legal authority to transfer such assets
- If the Board decides to retain the legal isolation criterion in paragraph 860-10-40-5(a), clarify whether simply obtaining a "true sale" opinion and, if applicable, a "non-consolidation" opinion consistent with the guidance in paragraph 860-10-55-18A would be sufficient for management to support its assertion. Some believe that a transfer of financial assets meets the legal isolation criterion if and only if the transfer is structured to overcome the ability of a transferor or its bankruptcy trustee, conservator, receiver, liquidating agent or creditor to reject or rescind the transfer based on any reasonably applicable legal theory. Proponents of this view note that paragraph 860-10-40-5(a) states "even in bankruptcy or other receivership" is an expansive, rather than limiting, construction. They also note that paragraph 860-10-40-10 requires consideration of "other factors pertinent under applicable law." Proponents of this view observe that a typical "true sale" opinion does not cover all applicable legal theories.

Question 24: What challenges, if any, are there in applying current recognition and derecognition guidance to crypto asset transactions? Are there specific transactions that are more challenging? If so, how pervasive are those transactions and does the application of the current guidance appropriately portray the economics of those transactions (and if not, why)? Please explain, including whether and how these challenges could be addressed through standard setting.

ASU 2023-08, *Accounting for and Disclosure of Crypto Assets*, marked meaningful progress in improving the accounting for crypto assets. However, we believe further enhancements are needed to address the following matters.

Derecognition of Crypto Assets

Based on the guidance in paragraph 350-10-40-1, derecognition of crypto assets within the scope of Subtopic 350-60 occurs only upon the transfer of control. Control is considered to remain with the transferor if it holds a substantive obligation or right to repurchase the asset (or an asset that is substantially similar), as described in paragraphs 606-10-55-66 through 55-68.

Many crypto asset transfers include a provision that allows the transferor to retain a right to the future return of the asset that some believe prohibits derecognition, even when the transferee has possession of and full deployment rights until return of the same or equivalent asset. Others contend these rights do not

constitute repurchase arrangements under Topic 606 and therefore do not automatically prohibit derecognition. This view is based in part on SEC staff remarks at the 2022 AICPA & CIMA Conference on SEC and PCAOB Developments. This interpretive divergence has led to inconsistent application, added complexity and higher compliance costs.

Many view the prohibition on derecognition of transferred crypto assets as counterintuitive and potentially misleading to investors when the transferor receives a distinct crypto asset (e.g., liquidity pool token) with its own functionality (e.g., use on other blockchains, collateralization) and tradability, including sale without redeeming the original asset. If derecognition is not allowed, entities may report both the transferred and received assets, despite lacking rights to the economic benefits of both. This may also lead to recognition of a liability to return the received crypto asset, even when no such obligation exists (e.g., when the crypto asset is freely tradable and extinguishes any return right).

We believe the repurchase agreement guidance in paragraphs 606-10-55-66 through 55-68 was not intended for the crypto asset transactions described above. Applying it in this context leads to a balance sheet "gross-up" that misrepresents the entity's financial position. We believe the transfer of control principle in paragraph 606-10-25-25 (applicable under both Topic 606 and Subtopic 610-20) offers a more appropriate basis for derecognizing crypto assets. Accordingly, we recommend that the Board amend Section 350-10-40 to incorporate this principle and clarify application of the repurchase agreement guidance to the transactions described above. We believe this issue affects both crypto assets within Subtopic 350-60 and those excluded under criteria (b), (e), or (f) in paragraph 350-60-15-1.

Reconsideration of the scope of Subtopic 350-60

When the FASB issued ASU 2023-08, it decided to exclude crypto assets that provide an asset holder with rights to other crypto assets from the scope of the amendments in that ASU. As explained in paragraph BC21 of ASU 2023-08, the Board was concerned that broadening the scope to include crypto assets that provide rights to other crypto assets was not identified as pervasive, and expanding the scope to include crypto assets that derive value principally by providing rights to other assets could have consequences that have not been fully evaluated. In addition, addressing those assets would have delayed the Board's ability to finalize the amendments in the ASU.

As noted in our June 2, 2023, comment letter response to the FASB's then-proposed ASU, we continue to believe that the Board should expand the scope of the guidance in Subtopic 350-60 to include crypto assets that provide rights to other crypto assets but otherwise meet all of the other criteria specified in paragraph 350-60-15-1. Since 2023, crypto assets that meet these requirements have become more prevalent in the market. Some examples of this expansion include staking, marker tokens and wrapped tokens. Requiring entities to switch from fair value accounting to cost-less-impairment accounting simply by exchanging an in-scope crypto asset for another that is essentially the same but out-of-scope results in less decision-useful information and more operational burden for financial reporting purposes. Amending criterion (b) in paragraph 350-60-15-1 to capture these assets would reduce inconsistencies in measurement and prevent recognition of artificial redemption gains when previously impaired out-of-scope crypto assets are exchanged for their fair value in-scope equivalent crypto assets.

Question 25: The FASB has previously encountered challenges in identifying improvements to the subsequent accounting for goodwill that are cost beneficial. If the FASB were to pursue a project on the subsequent accounting for goodwill, what improvements should be considered? Please provide specifics on how those improvements would be more cost beneficial than the current impairment model.

We believe the FASB should consider the following alternative methods of accounting for goodwill:

- Extend to PBEs the Private Company Council alternative that allows private companies to evaluate goodwill impairment triggering events as of the end of a reporting period rather than throughout the reporting period. We believe this alternative, combined with additional disclosures, would generally satisfy investor needs while also reducing compliance costs for preparers.
- Recognize goodwill as a component (reduction) of equity, rather than as an intangible asset, and provide enhanced recurring disclosures about the acquisition. Such an approach would eliminate the need for subsequent remeasurement (either amortization or impairment testing), while potentially satisfying investor needs by requiring recurring disclosures about the entity's return on investment (as defined by management, or as prescribed by the FASB following investor outreach).
- Remove the concept of reporting units from goodwill impairment testing and allow goodwill to be tested for impairment at the segment or reporting entity level. Allowing goodwill to be tested for impairment at a more aggregated level would simplify the accounting and reduce costs. However, depending on the level of aggregation, this more simplified approach could result in more instances of loss recognition upon the acquisition of a business if the consolidated book equity is greater than the entity's market value.

Question 26: While this issue was raised by NFP stakeholders, do other types of entities (such as public and private for-profit entities) have similar challenges? For multi-element software arrangements, what challenges, if any, do customers encounter in allocating the costs among the individual elements for accounting purposes? If there are challenges, how could the guidance be improved? Please explain.

Due to the limited authoritative and interpretive guidance available to address a customer's allocation of costs associated with multi-element software arrangements, we have observed diverse accounting practice in this area, which is not limited to not-for-profit entities. The challenges generally arise in identifying the standalone price for each element of the contract. Identifying the standalone price for each element in a contract can be particularly challenging when the vendor does not advertise a separate price for each component of the contract and when the same or substantially the same products or services are not available in the market for comparison. We believe the accounting requirements in paragraph 350-40-30-4 could be clarified and improved with implementation guidance and illustrative examples. However, we would not prioritize such a project over other potential projects discussed in this letter as an entity's allocation generally does not have a material impact on the overall accounting.

Question 27: Should the FASB consider a project to permit public business entities to elect a similar practical expedient and accounting policy election for current accounts receivable and contract assets arising from transactions accounted for under Topic 606? Please explain.

As noted in our response to the FASB's proposed ASU, *Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses for Accounts Receivable and Contract Assets for Private Companies and Certain Not-for-Profit Entities,* we believe the scope of any final ASU should include all reporting entities, including PBEs and all not-for-profit entities.

We agree with the private companies and not-for-profit entities who indicated that identifying, analyzing and documenting macroeconomic data to develop reasonable and supportable forecasts can have a significant cost and generally does not materially affect the allowance for expected credit losses for short-term receivables. We also agree with stakeholders who noted that the ability to consider collection activity after the balance sheet date in estimating expected credit losses would significantly reduce complexity for preparers while still providing financial statement users with decision-useful information. However, we believe that these observations are true of all reporting entities, not just private companies and certain not-for-profit entities. Although PBEs generally have greater resources and controls to comply with the provisions of Subtopic 326-20, we believe the cost of compliance outweighs the benefits, if any, in these instances.

Question 28: Should the FASB consider a project to expand the practical expedient and accounting policy election to other short-term assets? If so, which types of assets? Please explain.

We believe the proposed practical expedient and accounting policy election should be extended to other short-term receivables, whether originated or acquired in a business combination or asset acquisition.

For example, we believe insurance premium receivables and contributions receivable in employee benefit plans should also be in scope. These short-term receivables are typically collected before the entity's financial statements are available to be issued. Losses from employee and employer contribution receivables generally do not occur, and collection risk is low in the insurance industry because past due premiums allow the insurance provider to cancel the customer policy. Allowing entities to apply the proposed practical expedient and accounting policy election would simplify application of Subtopic 326-20 to these assets without compromising the decision-usefulness of the information provided to financial statements users.

In addition, we believe that the proposed amendments should also apply to current accounts receivable and current contract assets acquired in a business combination accounted for under Topic 805, *Business Combinations*, as well as current accounts receivable arising from transactions accounted for under Subtopic 610-20*, Other Income—Gains and Losses from the Derecognition of Nonfinancial Assets*. We believe extending the proposed practical expedient and accounting policy election for assets acquired in a business combination should be permitted, irrespective of whether the Board decides to pursue the proposed amendments under the separate project on *Financial Instruments – Credit Losses (Topic 326) - Purchased Financial Assets*.

Question 29: Should the FASB reconsider the definition of cash equivalents and consider including other assets that are easily liquidated? If so, what types of assets should be added to the definition of cash equivalents? Please explain.

Although the definition of "cash equivalents" is generally understood and operable, we have observed some inconsistencies in practice that have developed since the guidance was issued in 1987. As a result, we would support a project to add additional implementation guidance that further clarifies the elements of the definition, including adding more examples of investments that either meet or don't meet the requirements of a cash equivalent.

For instance, the ASC Master Glossary gives investments in money market funds as an example of an investment that meets the definition of a cash equivalent. Rather than simply referring to money market funds, the Board should consider describing the characteristics of a money market fund that make it a cash equivalent, including whether the fund should be subject to regulation similar to SEC Rule 2a-7 under the Investment Company Act of 1940.

We understand that some stakeholders believe that an investment in a term deposit with a bank (or an insured depository institution) with a stated maturity of greater than three months meets the definition of a cash equivalent if the deposit can be withdrawn early without a significant economic penalty (e.g., foregone interest). If capital preservation is paramount to the cash equivalent definition, then such an investment would seem to qualify despite the Board's basis for conclusions in paragraph 53 of Statement of Financial Accounting Standards No. 95 that states:

> [i]n developing the guidance in paragraph 8 of this Statement, the Board noted that the objective of enterprises' cash management programs generally is to earn interest on temporarily idle funds rather than to put capital at risk in the hope of benefiting from favorable price changes that may result from changes in interest rates or other factors. Although any limit to the maturity of items that can qualify as cash equivalents is somewhat arbitrary, the Board decided to specify a limit of three months or less. The Board believes that that limit will result in treating as cash equivalents only those items that are so near cash that it is appropriate to refer to them as the "equivalent" of cash.

If the Board agrees that capital preservation and ability to readily convert the investment to cash is key to the cash equivalent definition, then the Board should clarify its intention and indicate that even an investment with a remaining term to maturity at the time of investment greater than three months would qualify as a cash equivalent if the investment can be put back to the issuer at any time and the investor is able to at least recover the full amount of the principal invested.

We understand some vendors classify cash that is in transit from a credit or debit card payment processor as cash equivalents if the settlement of such cash in transit occurs over a relatively short period (typically within five business days). Although there are elements of these arrangements that meet the definition of a cash equivalent, it's unclear how such amounts due from a credit or payment processor represent "investments" or why they should be classified differently than equally short-term receivables due directly from high-credit-quality customers resulting from the same type of sale of goods or services.

Credit quality is not an explicit criterion for classifying investments as cash equivalents, although it is implied in part by, among other things, the examples of cash equivalents provided in the Codification. It would be helpful to provide non-investment-grade debt securities (so-called junk bonds) as an example of investments that would not qualify as cash equivalents because such investments put capital at risk in

exchange for a higher return, rather than sacrificing investment return in exchange for preserving the principal amount invested.

The definition of cash equivalents refers to short-term highly liquid investments, which implies that the investments should have active markets that can rapidly absorb the quantity held by the entity without significantly affecting the price. As a result, a centralized cash management arrangement among entities under common control in which an entity's excess cash is swept into a pool with cash of their affiliates generally would not qualify as cash equivalents. Such investments are generally classified as related party loans receivable within the lending entity's separate standalone financial statements. We believe addressing the accounting for this common scenario in the Codification would be helpful.

Examples of other investments that typically do not meet the "short-term" criterion of the definition of cash equivalents include auction rate securities and variable rate demand obligations that have maturity dates of three months or greater when purchased and are not puttable back to the issuer prior to the instrument's stated maturity date. Some entities mistakenly classify such investments as cash equivalents when third-party intermediaries stand ready to provide market liquidity by purchasing investments from investors on interest reset dates, even though such transactions do not result in the extinguishment of the issuer's obligations. Adding investments with the characteristics described above to the Codification's implementation guidance would further clarify the restrictive nature of the cash equivalents designation.

Question 30: What challenges, if any, do entities face in the absence of specific initial recognition guidance for inventory and other nonmonetary assets? Please explain, including the pervasiveness of these challenges.

We have not observed any pervasive issues with either the application of the recognition guidance in Topic 330, *Inventory*, or that related to other nonmonetary assets.

Question 31: Should the FASB revisit the initial recognition and measurement guidance for AROs (in Subtopic 410-20)? If so, please explain, including what recognition criteria should be considered and how an ARO should be measured (such as expected cost, fair value, or another measure).

We do not believe it is necessary for the FASB to revisit the initial recognition and measurement guidance for AROs in Subtopic 410-20. While the challenges of estimating the fair value of an ARO varies by industry and is entity specific depending on contractual terms and conditions and products or services offered, in our experience, fair value provides a reasonable and understandable measure for the expected obligation. However, we acknowledge that the estimation process can be very complex and data intensive.

AROs are inherently complex and involve forward-looking considerations. Consequently, the estimation process may also be intricate and require significant judgment. Whether entities possess internal expertise for estimation and modeling or rely on third-party specialists, the procedure for determining fair value must be applied consistently. Additionally, data and assumptions should be updated regularly to reflect changes in facts, circumstances and events that may affect the future settlement amount of the ARO.

Based on the guidance in paragraphs 410-20-35-3 and 35-8 and what we have observed in practice, as the ARO nears settlement, updates made throughout its term should minimize any significant gain or loss upon final settlement.

Question 32: What are the types of guarantees, if any, that lead to uncertainty about whether to apply the guidance for guarantees or revenue recognition? How pervasive are these guarantees? How should an entity account for these guarantees? Please explain.

We believe that the types of guarantees that may lead to uncertainty about whether to apply the guidance for guarantees or revenue recognition are those that are generally included as part of a service level agreement. A service level agreement generally defines the metrics that must be met by an entity when providing services and often includes penalties owed to a customer or forfeited revenue if those metrics are not met. An example of this would be a cloud service provider that promises that their online services will be up 99% of the time and for each day the uptime metric is not met, they will make a specific payment to the customer. While the scope of Topic 606 excludes guarantees (other than a product or service warranty) within the scope of Topic 460, the guarantees within a service level agreement are considered a guarantee or indemnification of an entity's own future performance. In accordance with paragraph 460-10-15-7(i), this type of guarantee is excluded from the scope of Topic 460.

While the noted scope exception in Topic 460 is generally clear for most types of service level arrangements, it can be more convoluted when there is at least one other entity providing or assisting in providing the service guaranteed by the entity. In those situations, questions arise as to whether the entity is guaranteeing its own performance or the performance of a third party. The determination of whose performance the entity is guaranteeing may be a complex exercise depending on the level of influence or direction the entity has over the third party's performance or other activities performed by the entity that appear to support the guaranteed performance metrics. In the scenario where the entity is guaranteeing the performance of a third-party (rather than its own), it does not meet the scope exception in paragraph 460-10-15-7(i), and therefore it would be accounted for as a guarantee under Topic 460. Adding to the complexity of the accounting for these arrangements are situations in which it appears the entity is guaranteeing both its own performance and the performance of a third party. These situations, while not as pervasive, may be viewed as requiring the bifurcation of the guarantee between Topic 606 and Topic 460 components.

While service level arrangements exist in various industries, we have observed that they are more prevalent in industries such as healthcare, given the nature of that industry (third-party payors, etc.) and its increased focus on what it has termed "managed care contracts" and cost efficiency. We believe some of the more significant third-party payors have developed various iterations of managed care contracts in the last five to ten years, which include provisions for loss or profit sharing based on certain care or cost metrics. Because the characteristics of the managed care contract oftentimes make it necessary to enter into subcontracts with a variety of different healthcare providers to provide the required healthcare services to the customers subject to the managed care, the scoping issues described above may be present in certain iterations of these contracts.

Overall, given the potential complexity inherent in determining whose performance an entity is guaranteeing in the situations described above, we would propose adding guidance on how to apply the scope exception in paragraph 460-10-15-7(i) in situations where the performance being guaranteed involves multiple parties. There are likely already concepts in Topic 606 that could assist in that, such as the first two principal versus agent indicators in paragraph 606-10-55-39.

Additionally, we believe that a conclusion to bifurcate the performance guarantee in situations in which an entity is involved with some (but not all) aspects of the guaranteed performance creates overly complex accounting requirements that may not provide information that is relevant to users based on the differing requirements between Topic 460 and Topic 606. Therefore, we recommend adding explicit guidance that

an entity should identify the party that is primarily responsible for the performance being guaranteed. Once the entity is identified, either Topic 460 or Topic 606 would be applied to the entire performance guarantee rather than attempting to bifurcate it. Our recommendation is consistent with various past decisions by the Board to alleviate the complexity of accounting for the bifurcation of a single item. For example, consider the Board's decision related to the sales-based or usage-based royalty exception that an entity should not account for a single royalty in accordance with two different models because doing so would be overly complex (paragraph BC76 of ASU 2016-10).

Question 33: What is the prevalence of these types of lease transactions? Is incremental accounting guidance needed to specify how share-based lease payments should be recognized and measured (both initially and subsequently)? Please explain.

We defer to other stakeholders' views as to whether incremental accounting guidance is needed to specify how share-based lease payments should be recognized and measured because we do not have experience with the types of transactions described in the ITC.

Question 34: How pervasive are repurchase obligations for ESOPs? Should additional disclosures be required and, if so, what type (for example, quantitative, qualitative, or both types of disclosures)? Please explain.

Under federal income tax regulations, employer securities that are held by an Employee Stock Ownership Plan and its participants and not readily tradable on an established market, or subject to trading limitations, must include a put option potentially obligating the plan sponsor to repurchase the securities. To quantify the expected cash flows under these repurchase obligations over the next five years, a sponsor entity would be required to estimate the retirement dates of its workforce or other dates of terminations (or turnover) of participants who may become eligible to receive vested benefits. Further, future amounts would be subject to changes in the fair value of the shares allocated as of the balance sheet date that are subject to a repurchase obligation. Given the significant management judgment and subjectivity involved in developing such estimates, we are concerned that the costs and time required to develop such quantitative estimates may outweigh the potential benefits to the users of the financial statements. However, we agree that qualitative disclosures about the terms of the repurchase obligations and how management plans to satisfy those obligations would be helpful to financial statement users.

Question 35: How should the accrual of and future distributions to current and former members of a partnership be accounted for? Are there other challenges related to applying partnership accounting that the FASB should consider addressing? Please explain.

Topic 272, *Limited Liability Entities,* clarifies that the presentation of the financial statements of a limited liability company shall be similar in presentation to those of a partnership and provides certain general presentation and disclosure guidance. However, accounting for distributions to current or former members is not explicitly addressed in that guidance.

Some partnerships where the partners actively participate in the business operations pay those partners a salary that is recognized as an expense. Other partnerships consider all amounts that are paid to partners to be distributions that are charged against the equity accounts. This practice is considered appropriate under the view that all transactions with the partners are considered capital transactions (i.e., no revenue or expense should be recognized in transactions with owners). Also, because the partners are owners of the business, the interest and salaries may not represent objectively determined amounts.

The concept of “former” member (or former partner) would seem to imply that the member has separated from the partnership (voluntarily or not). Upon separation, the member’s interest in the partnership (e.g., invested capital, allocated undistributed earnings) are typically paid to the former member or reclassified and reflected as a liability on the partnership’s balance sheet until payment is made. However, some partnerships continue to report some, or all, the amounts owed to the former member within partnership equity until paid or until there are no associated contingencies or uncertainties.

Given the diversity in practice for the matters described above, including matters that involve forms of share-based compensation, we would support a project to provide additional recognition, measurement and presentation guidance. At a minimum, enhanced disclosure requirements may help users of these financial statements better understand and reconcile the differences in accounting practices.

Question 36: Should the FASB require entities to immediately recognize gains and losses associated with defined benefit plans in the period they arise? Additionally, should the FASB require entities to disaggregate the net gains or losses recognized between those arising from investment activities related to the plan assets and those arising from changes in actuarial assumptions? Please explain.

Conceptually, we believe that immediate recognition of gains and losses resulting from a change in the value of either the projected benefit obligation or the plan assets of an entity’s defined benefit plan is preferrable to delayed recognition (smoothing). However, immediate recognition of gains and losses would result in a change in practice for many entities and increase earnings volatility. We defer to investors as to whether the change would provide more decision-useful information about a pension plan’s performance. Should the Board decide to require immediate recognition of these gains and losses, we recommend that the net gains or losses arising from investment activities be disaggregated from those resulting from changes in actuarial assumptions.

Question 37: If the FASB were to pursue a project to align the initial and subsequent measurement of share-based payment awards, how should the awards be initially and subsequently measured? Please explain, including the objective of the measurement and whether and how changes to the subsequent measurement of share-based payment awards would improve the decision usefulness of the information provided to investors.

We understand that some investors would prefer that both equity- and liability-classified share-based payment awards be remeasured at fair value as of each reporting date until settlement because they believe it would provide better information about the economics of those awards. However, we note that requiring all share-based awards to be remeasured at fair value each reporting period would increase compliance costs, particularly for private entities that do not have readily available share price information. Also, requiring equity-classified share-based awards to be subsequently remeasured at fair value would be inconsistent with how other equity-classified instruments are generally reflected in the financial statements.

Question 38: What challenges, if any, do entities encounter in evaluating whether they are acting as a principal versus an agent? Are there instances where the accounting does not appropriately reflect the economics of the transactions? Please explain, including the pervasiveness of those challenges, the industries and transactions for which the accounting could be improved, and whether and how those challenges and improvements could be addressed through standard setting.

We believe that evaluating whether an entity is acting as a principal versus agent is one of the more difficult aspects of Topic 606 due to the significant judgment that is often required for this principle-based guidance. We find the guidance is particularly challenging to apply under:

- Arrangements for new technologies or services (e.g., software licenses or software as a service, environmental credits)
- Arrangements that provide services or intangible goods (e.g., software as a service, digital assets)
- Arrangements with more than three parties and those for which the entity is providing goods or services to multiple parties (e.g., payment processors, regulated operations with environmental credits, manufacturers and resellers of equipment)

However, we acknowledge that this was also a difficult aspect of accounting to apply under legacy guidance, and we would attribute the continued difficultly primarily to the complexity of the arrangements that are required to be evaluated rather than the changes in the guidance that resulted from ASU 2014-09 — *Revenue from Contracts with Customers (Topic 606)*. Therefore, despite identifying the three more challenging circumstances listed above, we do not believe the guidance needs to be fundamentally changed. Instead, as further discussed below, we would suggest adding guidance or clarifying application of the existing guidance for certain of the above circumstances.

Arrangements for new technologies or services

For arrangements involving the sale of new technologies or services to customers, we believe that the application of the principal versus agent guidance could be simplified by standard-setting, particularly through providing additional relevant examples in Section 606-10-55.

In software arrangements, it is often difficult to understand how certain aspects should be evaluated in relation to the concept of control and the indicators outlined in paragraph 606-10-55-39. The examples in Topic 606, which primarily focus on product sales or simple service offerings, do not address the typical fact patterns in these new scenarios. This makes comparisons with the current examples difficult. For instance, in certain software platform arrangements, it is difficult to apply the indicators to the various ways in which software provided by third parties is embedded in an entity's offering or how the software is accessed by the customers. Such considerations are frequently crucial to the principal versus agent analysis, and Topic 606 does not provide any examples for reference. We acknowledge that non-authoritative examples relevant to newer technologies, such as software as a service, have been published by other sources; however, we believe practice would benefit from updated examples from the FASB that walk through whether and how the indicators of control would apply to these fact patterns.

Arrangements that provide services or intangible goods

For the sale of services and intangible goods, such as providing for the right of use or access to intellectual property, it can be challenging to apply each of the indicators for the principal versus agent evaluation when it is unclear whether the entity obtains control of the service or good before providing it to

the customer. Specifically, we find that when evaluating whether the entity has inventory risk as described in paragraph 606-10-55-39(b), the only relevant consideration is whether the entity obtained the specified good or service before obtaining a contract with a customer. However, as described in Example 46A in paragraphs 606-10-55-324A through 55-324F, when the entity obtained the right to provide the service is less of an indicator as is the ability to direct the right to provide the service to another customer, which is a concept also discussed in paragraph 606-10-55-37A(b). While we do not disagree with the guidance in Example 46A, we question whether attempting to mold the "inventory risk" indicator to arrangements for intangible goods and services is more confusing than helpful. When analyzing the inventory risk indicator for the provision of services, some entities may incorrectly conclude that there is no inventory risk due to the absence of inventory, or they may assume there is risk because of delayed payment terms. To avoid confusion, we believe it may be beneficial to change the description of the control indicator from "inventory risk" to a more broadly applicable term, such as "economic risk of loss."

Alternatively, the Board may consider removing the reference to services in paragraph 606-10-55-39(b) and add the explanatory language currently within paragraph 606-10-55-39(b) to paragraph 606-10-55-37A(b). This would effectively remove consideration of the inventory risk indicator from arrangements for services. Additionally, the guidance in paragraph 606-10-55-37A(b) could be amended to incorporate the right to use or access intangible goods (e.g., licenses to intellectual property) given the prevalence of these types of arrangements and their commonalities with service arrangements.

We see no unintended consequences from these proposed amendments, as they primarily serve to clarify rather than change application of existing requirements. Additionally, these amendments may reduce the need to evaluate the indicators in paragraph 606-10-55-39 for these arrangements because there would be more discussion about the assessment of control. If there are any overlooked aspects of the "inventory risk" indicator that apply to sales of services or intangible goods, we believe those aspects should be addressed by adding relevant application guidance to the criteria in paragraph 606-10-55-39(b).

Arrangements with more than three parties and those for which the entity is providing goods or services to multiple parties

When arrangements involve more than three parties, and the entity provides goods or services to multiple parties, it becomes particularly challenging to determine whether the entity is acting as a principal or agent due to the difficulty in identifying the customer(s) in the arrangement. That is because the definition of a customer in Topic 606 is intentionally broad and does not provide clear guidance for distinguishing whether the parties receiving the goods or services are customers, vendors or collaborators. Other factors can make identifying the customer(s) in these scenarios especially difficult, including when pricing for the goods or services is primarily established by the marketplace or when one or more parties pays noncash consideration to the entity. To help entities make proper accounting determinations in these scenarios, including identifying performance obligations, determining the customer(s), and assessing how each of the parties not identified as customers should be analyzed from the perspective of the reporting entity, we recommend that the FASB provide additional implementation guidance, including illustrative examples.

Question 39: Should the FASB consider requiring entities to recognize variable consideration when the underlying triggers have been reached? If so, should that change apply to all entities or a subset of entities (for example, entities that earn commission-based revenue)? Would this provide better information for investors' analyses? Please explain.

We believe that the FASB should consider requiring entities to recognize variable consideration when the underlying triggers have been reached. The scope for this change should only consider a subset of entities, such as those entities that earn commission-based revenue. We believe the scope should be limited because this type of change is inconsistent with the key principles in Topic 606, namely, to recognize revenue when (or as) an entity satisfies a performance obligation to its customer. We are aware that when the Board originally attempted to expand the scope or develop a general principle for consideration in the form of sales-based or usage-based royalties, there were unintended consequences to both efforts, such that they would have either been too broadly scoped or created more complex guidance to follow (see paragraphs BC417 through BC421 of ASU 2014-09). We believe those unintended consequences would continue be relevant.

We believe the appropriate scope for this issue is entities that earn commission-based revenue in exchange for satisfying performance obligations primarily because those arrangements share many of the same characteristics as entities with sales- or usage-based royalty arrangements (e.g., in exchange for licensing intellectual property). As noted in paragraph BC415 of ASU 2014-09, both users and preparers of financial statements indicated that it would not be useful for an entity to recognize a minimum amount of revenue for a license to intellectual property for which the consideration is based on the customer's subsequent sales or usage. The rationale provided was that without the exception, an entity would be required to report, throughout the life of the contract, significant adjustments to the amount of revenue recognized at inception of the contract due to changes in circumstances unrelated to the entity's performance. Additionally, in paragraph BC421 of ASU 2019-09, the Board noted while the guidance in paragraph 606-10-55-65 (related to sales- or usage-based royalties) is an exception to the principle of recognizing some or all of the estimate of variable consideration, they decided that this disadvantage was outweighed by the simplicity of the guidance, as well as by the relevance of the resulting information for this type of transaction.

We do not believe that providing an exception to the variable consideration guidance in paragraphs 606-10-32-11 through 32-14 (similar to the sales- and usage-based royalty exception) to entities with commission-based revenue would have a significant effect on financial reporting for these entities. Under current GAAP, entities generally perform a significant amount of work to estimate the variable consideration at contract inception, and then also evidence why the variable consideration needs to be significantly constrained. The conclusion to significantly constrain the variable consideration estimate is primarily due to the characteristics of the contingent consideration, such as the consideration being highly susceptible to actions outside the entity's influence or there being a large and broad range of possible consideration amounts. Due to the application of the variable consideration constraint, entities generally do not recognize a significant portion of the variable consideration for the commission-based revenue until the underlying triggers have been reached. An example of an arrangement where recognition of variable consideration is significantly constrained until the underlying triggers have been met is an entity that identifies individuals eligible to be part of a class action lawsuit and receives payment contingent upon whether the individual signs on to the lawsuit and the outcome of the lawsuit. Receiving payments for providing leads (i.e., potential borrowers) to lending institutions in exchange for payment contingent upon a percentage of the total amount loaned to those leads is another example. If these types of arrangements were subject to an exception similar to the sales- and usage-based royalty exception, the

financial reporting for the arrangements would likely be very similar to how they are reported currently. However, the costs incurred to arrive at that accounting outcome would be greatly reduced.

The disclosures under Topic 606 require an entity to provide information about variable consideration if it applies an exemption pursuant to paragraph 606-10-50-14A. These disclosures should be required if any exception or exemption is provided to entities with commission-based revenue. We acknowledge that the proposed exception would be another departure from the general principle of recognizing variable consideration under Topic 606; however, we believe any perceived detriment to allowing another exception would be more than offset by the simplicity of the guidance and the continued relevance of the financial information reported.

Question 40: What challenges, if any, are there in applying the consideration payable to customers guidance? Should the FASB consider clarifying this guidance? Please explain.

We believe that applying the consideration payable to customers guidance is relatively straightforward for most types of arrangements. However, we are aware of a few scenarios in which the guidance has historically been difficult to apply with consistency.

The first scenario is where an entity may inappropriately conclude that they are receiving something of value, like a service, from the customer in situations in which no good or service is transferred to the entity (e.g., fees paid to retailer customers for prominent placement in the retailer's stores – slotting fees). Another scenario is where the customer is offering a service such as advertising or marketing that is not well defined in the contract. In these instances, it may be difficult to determine the fair value of the service being provided, especially when the advertising or marketing promised is significantly intertwined with the customer's advertising or marketing for their own products or services.

We do not believe either of these scenarios necessitate a change to the guidance on accounting for consideration payable to customers; however, providing implementation guidance or illustrative examples that address the situations described above (e.g., for digital advertising received from the customer) would clarify the application of the guidance.

Question 41: Should the FASB consider amending the accounting for customers' settlement agreements with vendors to resolve disputes about various aspects of the vendor's performance? Please explain.

We believe the FASB should consider amending the accounting for customers' settlement agreements with vendors to resolve disputes about various aspects of the vendor's performance because recording the settlement as a decrease to the asset's cost basis does not always accurately reflect the underlying economics of the transaction. We believe the accounting for the settlement should be based on the specific facts and circumstances of each individual case.

For example, if the intention of the settlement is to compensate the customer for lost revenue or higher direct costs attributed to the performance of the asset that are not expected to be repeated in the future, we believe the payment should be immediately recognized in earnings. Conversely, if the settlement is intended to compensate the customer for the reduced useful life or performance of the asset, then that payment should be recognized as a reduction of the cost basis of the asset. In this instance, the benefit of the settlement would be reflected in the customer's future earnings as reduced depreciation expense resulting from the reduced cost basis of the asset. For those circumstances where the settlement agreement encompasses both scenarios described above, the customer will need to allocate the

settlement amount. We would recommend allocating amounts first to those costs or lost revenues that are more objectively verifiable, with the remainder being allocated to the other element of the settlement.

Question 42: How should interest income for loans within the scope of Subtopic 310-20 be subsequently recognized? Please explain.

Conceptually, we believe that financial reporting would be improved if entities were permitted in all instances to consider expected cash flows (both amount and timing) rather than only contractual payment terms when recognizing interest income (including discounts and premiums) under Subtopic 310-20. This could be accomplished by either leveraging the guidance in Subtopic 325-40 or any of the interest methods described in paragraph 97 of FASB Concepts Statement 7 that users of the financial statements believe provides the most decision-useful information. We defer to the preparers of financial statements as to the challenges and costs that migrating to such an interest income recognition model would introduce to their financial reporting process.

Question 43: Should the FASB provide derecognition guidance for transferable tax credits within Topic 740 beyond the guidance currently provided in Topic 606 and Subtopic 610-20? If so, what guidance or criteria should an entity consider in determining whether to derecognize these transferred tax credits? Please explain.

We would support a project to clarify the derecognition requirements for transferable tax credits within the scope of Topic 740. For transferable tax credits that are not refundable (i.e., the entity is not eligible for tax credits in excess of their taxable income in the tax jurisdiction), we have observed that entities generally apply by analogy the derecognition guidance in Topic 606 (for transfers involving customers) or Subtopic 610-20 (for transfers involving noncustomers) because the tax credits typically do not represent financial assets. In those cases where the transferable tax credits are also refundable, entities tend to apply by analogy the guidance in International Accounting Standards 20, *Accounting for Government Grants and Disclosure of Government Assistance*, or Topic 958 for not-for-profit entities.

We recommend that the FASB amend the guidance in Topic 740 to either incorporate specific derecognition requirements for transferable tax credits or to direct entities to relevant guidance within other Codification topics, which would promote more consistent accounting outcomes across reporting entities.

Question 44: Should the FASB consider any additional disclosures in any of the above areas? If so, how would that information better inform investment decisions? If these or similar disclosures are currently required outside of the financial statements, why should or shouldn't they be included in the financial statements? Are there other areas that need additional disclosures? Please explain.

We defer to investors and other users of financial statements for consideration of any additional disclosures that would provide decision-useful information.

Question 45: Are there current disclosure requirements that do not provide meaningful information about an entity? If yes, please explain which disclosures are not decision useful and whether those disclosures should be removed or how they should be improved.

We defer to investors and other users of financial statements for consideration of the decision usefulness of disclosed information and consideration if any currently required disclosures should be removed or improved.

Question 46: Should the treasury stock method be modified to include RSUs in the computation of diluted EPS under the treasury stock method? Please explain.

We defer to users and preparers of financial statements as to whether the treasury stock method should be modified to include restricted stock units in the computation of diluted earnings per share without an adjustment for unrecognized compensation expense.

Question 47: Should the FASB consider amending the Master Glossary term *public business entity*? If the FASB were to reconsider the Master Glossary term *public business entity*, which type of entities should be included or excluded and why? Please explain.

We recommend that the FASB work with the SEC to reconsider what constitutes a PBE. Because non-issuer broker-dealers registered with the SEC under the 1934 Act are required to file a complete set of audited financial statements with the SEC on at least an annual basis, they meet the definition of a PBE. As such, these entities are subject to more complex and expansive accounting and disclosure requirements.

We believe that non-issuer broker-dealers should be scoped out of the PBE definition and should be able to elect private company accounting alternatives when they are closely held (which is the case in the majority of instances) because, other than the owner and management of the non-issuer broker-dealer entity, the primary user of the financial statements is the SEC's Division of Trading and Markets.

Broker-dealers are required to file their audited annual financial statements with the SEC to help the regulator assess the entity's compliance with certain net capital and customer protection rules,[2] not to assist investors or creditors in making capital allocation decisions. It is also important to note that these entities' complete set of audited financial statements filed with the SEC are generally not made publicly available because they are permitted "confidential treatment" if the broker-dealer also files an audited statement of financial condition in a format that is consistent with Form X17A-5, Part II or Part IIA, and meets certain other administrative requirements. In our experience, virtually every eligible non-issuer broker-dealer files for confidential treatment. For these reasons, we are concerned that the costs incurred by non-issuer broker-dealers to comply with PBE GAAP requirements may often outweigh any incremental benefits to the financial statement users.

[2] To assist with their oversight, broker-dealers are also separately required to provide the SEC with other non-GAAP information about the nature of their business activities and operations.

Question 48: What complexity, if any, results from multiple definitions of a public entity and a nonpublic entity in GAAP? Should the FASB prioritize a project that seeks to reduce the number of definitions of a public entity and a nonpublic entity throughout GAAP? If the FASB were to pursue a project to reduce the number of definitions of a public entity and a nonpublic entity, should the FASB consider replacing the definitions of a public entity with the public business entity definition? Please explain.

Using multiple definitions for the same terms throughout GAAP seems unnecessary and is inherently confusing. However, we are not aware of any significant instances where it has led to misapplication of GAAP. Although a project focused on reducing the number of definitions for public and nonpublic entities is worth considering by the FASB, we do not believe it should be prioritized over other potential projects mentioned in the ITC, except as noted below.

Rather than simply replacing the existing public entity definitions with the PBE definition, we believe the definition of a PBE, including the definitions of a public entity, should be amended to scope out entities such as non-issuer broker-dealers registered with the SEC. See our response to Question 47 for further explanation. Alternatively, the scope of Codification Topics linked to those definitions should be amended to exclude such entities.

Question 49: Is there certain implementation guidance in Topic 274 that should be updated? If yes, what is the pervasiveness of individuals (or groups of related individuals) that prepare GAAP-compliant personal financial statements? How should assets be measured? Are there additional disclosures that should be required in personal financial statements and, if so, how would they be decision useful? Please explain.

In our experience, preparation of GAAP-compliant personal financial statements is not a common occurrence. As a result, we are not aware of any pervasive practice issues associated with the implementation guidance in Topic 274. However, conceptually, we agree with stakeholder feedback that amending the guidance in that Topic to require assets to be measured at fair value, rather than their "current estimated value," would likely result in more decision-useful information and greater consistency in reporting across entities, given the extensive implementation guidance available in Topic 820, *Fair Value Measurements*.

Question 50: Should the FASB prioritize a project to develop a single consolidation model? If yes, should the FASB leverage the guidance in IFRS 10, the VIE model, or the voting interest entity model as a starting point? If the FASB should not prioritize a single consolidation model, should the FASB make targeted improvements to better align the current voting interest entity and VIE guidance, including simplifying the determination of whether an entity is a VIE or a voting interest entity? Please explain.

We believe the FASB should prioritize a project to develop a single consolidation model that is similar to IFRS 10, *Consolidated Financial Statements*; but we are not advocating convergence with IFRS 10. Among other things, IFRS 10 does not allow for industry-specific exceptions and is too principle-based to promote the type of comparability and consistency in reporting that both preparers and users of financial statements expect in the United States. However, a single consolidation model like IFRS 10 that incorporates more implementation guidance and examples to address certain issues, such as the treatment of potential voting rights and consideration of decision maker's fees; allows for industry-specific

consolidation exceptions; and permits subsidiaries to have different accounting policies from the parent could simplify the accounting and move GAAP closer to convergence with IFRS.

Also, a single consolidation model that is similar to IFRS 10 would likely produce accounting outcomes similar to those resulting from application of Topic 810, but without requiring the determination of whether the entity in question is a voting interest entity or a VIE. That is because under both the voting interest model and VIE model, the important concepts are the ability to direct the most important activities of the entity and exposure to variable returns based on exercise of that ability. Accordingly, if the Board decides not to prioritize a single consolidation model, we question whether it is necessary to determine whether the entity under question is a VIE or a voting interest entity.

The VIE consolidation guidance in Topic 810 is complex and difficult to apply. While it may be possible to make further targeted improvements to that guidance, we believe those improvements likely only would simplify application of the guidance by experts on the topic, who only comprise a small percentage of those applying Topic 810 in practice. As such, we believe the Board should undertake a holistic review of Topic 810.

Question 51: Are there pervasive accounting outcomes resulting from the application of the consolidation guidance that are inconsistent with the underlying economics of the transaction? If so, please provide examples.

We are not aware of any pervasive accounting outcomes resulting from the application of the consolidation guidance that are inconsistent with the underlying economics of the transaction.

Question 52: Should the FASB pursue a project on the statement of cash flows? If yes, which improvements, if any, are most important? Should the FASB leverage the current guidance in Topic 230, Statement of Cash Flows? If yes, would it be preferable to retain the direct method, the indirect method, or both? Should this potential project be a broad project applicable to all entities that provide a statement of cash flows10 or limited to certain entities or industries? Please explain.

We do not view a project on the statement of cash flows as a priority for the FASB. However, if the FASB decides to undertake such a project, we recommend targeted improvements based on investor feedback. We also believe the existing indirect method should be retained as an option, at least for private companies. Creditors, regulators and other stakeholders of private companies have access to management if the information provided by the statement of cash flows is not sufficient for their purposes. Mandating use of the direct method or some similarly detailed statement of cash flows would add undue cost to the financial reporting process for these entities.

Before deciding on a project for Topic 230, the Board should consider feedback from its Invitation to Comment on Key Performance Indicators (KPIs). If the Board permits use of KPIs related to cash flows within financial statements prepared under GAAP, they may offer additional insights that critics of the current statement of cash flows seek, potentially making significant updates to Topic 230 unnecessary.

Question 53: Should financial institutions that hold physical commodities for trading purposes be permitted to apply the fair value option? Please explain, including whether and how providing an option would provide decision-useful information.

We believe financial institutions should be permitted to apply the fair value option (FVO) to physical commodities held for trading purposes. This change would promote consistency with existing fair value accounting for trading activities and more faithfully reflect the economics of these positions.

Alignment with business model

Many financial institutions engage in commodity trading as part of integrated market-making and risk management activities. These positions are economically similar to trading financial instruments, which are already carried at fair value. Measuring commodities at cost or the lower of cost or market introduces accounting mismatches and may distort the underlying economics in an entity's financial statements.

Reduction of accounting mismatches

Physical commodities are frequently hedged with derivatives such as futures or swaps, which are measured at fair value through earnings. Without FVO eligibility, this creates artificial volatility that obscures an entity's true risk exposure.

Enhanced transparency and relevance

Fair value is the most relevant measurement basis for assets held for trading. Investors, analysts and other financial statement users benefit from seeing current market valuations rather than outdated carrying amounts.

Operational feasibility

Financial institutions already have the infrastructure, controls and valuation methodologies to support fair value measurement. Extending those processes to physical commodities would represent an incremental adjustment—not a systemic burden.

Question 54: Beyond financial institutions, are there other entities or industries that hold physical commodities for trading purposes that should be permitted to apply the fair value option to physical commodities? Please explain, including which types of entities or industries and whether and how providing an option would provide decision-useful information.

Energy companies, agricultural traders, and metals and mining firms are some non-financial institutions that routinely acquire physical commodities for trading purposes and use derivative instruments to hedge those exposures. Allowing these entities to apply the FVO to physical commodities could obviate the need to apply hedge accounting to manage the volatility in earnings that otherwise result from the mixed measurement requirements.

Energy, agriculture and metals sectors

- Energy companies and commodity merchants frequently trade oil, gas and electricity as part of integrated trading and risk management operations.
- Agricultural firms trade grain, coffee and other commodities, often using futures or forwards to hedge market exposure.

- Metals and mining entities hold inventories of copper, aluminum or precious metals for arbitrage and market-making.

In each case, current measurement requirements for these physical commodities (e.g., cost or lower of cost or market) creates mismatches with related derivatives measured at fair value, which may distort the financial reporting of an entity's performance and risk.

Benefits of extending the FVO

- Reduces accounting mismatches between physical commodities and derivative positions
- Improves transparency into an entity's trading results and risk management practices
- Enhances comparability across all entities, regardless of industry
- Aligns with international financial reporting practices (e.g., IFRS 9)

We encourage the FASB to extend the FVO to all entities (irrespective of industry) that hold physical commodities for trading purposes so that accounting outcomes better reflect what the entity expects to realize.

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 Joseph Cascio at 212.372.1139.

Sincerely,

RSM US LLP

RSM US LLP