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June 27, 2025

Via email to director@fasb.org

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

Re: Agenda Consultation (File Reference No. 2025-ITC100)

Dear Mr. Day:

We are pleased to provide our comments on the Board's agenda consultation. We support the Board's process to ensure that its resources are properly allocated to improve financial reporting and address issues identified by stakeholders.

We commend the Board on its significant progress following the 2021 agenda consultation in establishing or updating guidance for emerging areas and in finalizing long-term technical projects. Going forward, we recommend the Board prioritize projects to:

- Clarify the indexation guidance in ASC 815-40 by providing targeted improvements and/or developing a single cohesive accounting model for equity-linked financial instruments. In other words, address known practice issues in the near term, while taking on a broader project in the longer term.
- Simplify the debt modification guidance in ASC 470 by eliminating the troubled debt restructuring model, adding disclosures about financial difficulty, and adding classification guidance for current vs. long-term debt.
- Reduce accounting differences between asset acquisitions and business combinations; for example, by aligning the guidance on accounting for in-process research and development (IPR&D) and clarifying when it is appropriate to analogize to the business combination guidance.
- Develop a single consolidation model that reduces application complexity. While many consolidation conclusions may be consistent with current practice, a single model would mitigate costs for preparers and auditors.

We have elaborated on these recommendations and responded to the questions for respondents in the attached Appendix.

We would be pleased to discuss our comments with the FASB staff. Please direct questions to Angela Newell at (214) 689-5669 or Adam Brown at (214) 665-0673.

Very truly yours,

BDO USA, P.C.

BDO USA, P.C.

Appendix

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.

BDO USA, LLP is the sixth largest public accounting firm in the U.S. by revenues, with the fifth largest assurance practice.[1] We audit a large number of public and private companies of all sizes and industries. As such, our comments are made with that diverse client base in mind.

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 recommend the Board prioritize projects to address the following issues:

- Financial instruments that are within the scope of ASC 815-40. We would support a broad project to develop a single cohesive accounting model for equity-linked financial instruments and/or a project focused on targeted improvements. We believe there is a pervasive need for change in the near term because the existing guidance in ASC 815-40 contains inconsistencies from other U.S. GAAP, is misunderstood and misapplied in practice, and triggers frequent restatements. We provide specific suggestions for improvement in our detailed responses to Questions 13-14 in this Appendix.
- Similarly, we believe ASC 470 should be revised to:
  - eliminate the guidance for troubled debt restructurings
  - clarify aspects of the debt modification literature and add disclosures regarding financial difficulty, such that a single standard applies to all debt amendments
  - provide a consistent principle for classifying debt as either current or long term.

We provide specific suggestions for improvement in our detailed responses to Questions 13, 17, and 18 in this Appendix.

- Reduce differences in the accounting for asset acquisitions and business combinations. We believe that some differences could be eliminated without significant effort, such as the accounting for acquired IPR&D, assembled workforce, and contingent consideration. We provide specific suggestions for improvement in our response to Question 11 in this Appendix. We also believe the Board should consider developing a principle to address when entities should analogize to the business combinations literature for asset acquisitions. A similar practice has been useful under prior guidance when entities analogized to the employee stock-based compensation literature for some nonemployee arrangements.

[1] As reported by Accounting Today's 2024 Top 100 Firms

- Consolidation. We believe stakeholders would benefit from the development of a single consolidation model. We believe there is a pervasive need for change in the near term because the existing guidance in ASC 810—specifically, aspects of the variable interest entity (VIE) model—are complex, challenging, and may require significant time and effort to apply. We provide specific suggestions for improvement in our responses to Questions 50-51 in this Appendix.

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.

As elaborated further in our responses below, we do not believe the Board should prioritize projects on subsequent goodwill accounting (Question 25), cost allocation in multi-element software acquisitions (Question 26), cash equivalents (Question 29), asset retirement obligations (Question 31), guarantees (Question 32), pension gain or loss recognition (Question 36), measurement of equity- and liability-classified share-based payments (Question 37), or revenue recognition (Questions 38-41).

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 ITC has captured the most prevalent issues in practice and would not recommend additional project topics. Refer to our detailed responses on questions that follow.

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

While we defer to investors for feedback on how the equity method of accounting affects their capital allocation decisions, we believe that the equity method rarely provides decision-useful information. Although some investors might find value in recording an equity method investee's share of GAAP earnings, we believe it is often inconsistent with the change in the fair value of the investment. For example, an investee owning real estate and leasing it to third parties may report GAAP losses but have positive cash flows. In that situation, reducing the equity method investment in response to the investee's GAAP losses is inconsistent with the fact that the investment may be performing as expected. Similarly, an investee may be incurring losses from research and development (R&D) activities. However, such activities may be increasing the investment's fair value.

Further, the requirement to continue recognizing losses and reducing the carrying amount of the investor's other investments in the investee often might not reflect the investor's economics in the investments in the investee, especially if the investments are not impaired.

For those reasons, we would support accounting for such investments under ASC 321, as discussed below.

However, to the extent the Board maintains the equity method of accounting, we would support simplifying or eliminating the requirement to account for basis differences. That requirement is a common source of confusion for preparers, with little discernible benefit for users.

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.

Yes, we believe the accounting model in ASC 321 would reduce inconsistencies within U.S. GAAP and provide more decision-useful information, while reducing costs for preparers. We believe the ASC 321 impairment model is sufficient to provide information about impaired investments and that recognizing losses solely because an equity method investee is incurring GAAP losses may often provide information that is not decision-useful (or that is even potentially misleading).

We also recommend that the Board seek investor feedback on whether allowing the proportional amortization method for more investments would provide more decision-useful information. For example, investors in real estate entities may expect to recover their investments through steady, relatively predictable streams of cash flows. Such investors may find that the proportional amortization method provides information that is more decision-useful than either the ASC 321 model(s) or the equity method.

If the FASB retains the equity method of accounting, we recommend that it establish a single threshold for applying the equity method of accounting, regardless of the type of legal entity (and investment). Equity method accounting is required if an investor has significant influence over a corporate investee. However, it is also required for investments in limited partnerships and limited liability companies with specific capital accounts when the investor has more than virtually no influence over an investee, which is a much lower threshold. That distinction is not well understood in practice (for example, when a limited liability company has a complex capital structure but maintains specific capital accounts) and creates additional complexity in GAAP. Therefore, we recommend working with the SEC staff to eliminate the distinction.

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.

If the Board were to require equity method investments to be accounted for under ASC 321, we recommend that it consider the concept of significant influence in the definition of related parties in ASC 850. If the Board were to eliminate the guidance in ASC 323, we recommend defining significant influence in ASC 850 using the existing guidance in ASC 323. Further, we recommend the Board work with PCAOB and SEC staff to identify conforming changes; for example, within PCAOB Auditing Standard (AS) No. 18 and SEC independence rules. Aligning the definitions will reduce confusion and costs for public entities.

The Board also should consider seeking feedback from users of financial statements on the following topics, and whether the current requirements provide decision-useful information:

- Intra-entity transactions profit or loss recognition — The Board should consider whether to retain the guidance in ASC 323-10-35-10 on not recognizing an investor's share of the intra-entity profit or loss from transactions between the investor and investees until it has been realized in income through transactions with third parties. If the Board retains the guidance, we recommend providing guidance on what transactions are not considered arm's length. While accounting firms have provided interpretive guidance on this point, that guidance is not authoritative.
- Disclosure of summarized financial information — ASC 323-10-50-3(c) requires disclosing summarized financial information about an equity method investee or groups of investees when the investments are material in relation to the reporting entity's financial statements. The Board should consider whether that disclosure requirement should be retained. In doing so, the Board should consider existing disclosure requirements in ASC Topics 275, 440, 450, 460, and 810 because those disclosures explain many explicit and implicit risks about the investor's exposure to the investee. When considering whether to revise the disclosure requirement, we also recommend that the Board seek input from the SEC and consider the requirements in Regulation S-X Rules 3-05, 3-09, 3-14, and 4, as well as Forms 8-K and 11-K disclosure requirements.

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.

The primary challenge in applying the equity method of accounting to renewable energy and similar partnerships relates to applying the subsequent measurement guidance in ASC 323 because such investments entitle the investors to receive tax credits, cash distributions, or both. As discussed in our responses to Questions 5-6, we believe the equity method of accounting often does not provide decision-useful information for investees that provide a predictable stream of cash flows and therefore would recommend eliminating that guidance. Further, for tax equity investors (that is, those investors who recover their investments primarily through receiving tax credits), applying the equity method of accounting can be challenging because the benefits to which they are entitled are not recognized assets of the investee, which are generally flow-through entities for tax purposes.

Regardless of whether the Board retains the equity method, we recommend it codify the HLBV guidance[2] and include illustrative examples in the Codification. If the equity method is retained, the examples should illustrate the identification of basis differences (unless the Board eliminates

[2] From Proposed Statement of Position, Accounting for Investors' Interests in Unconsolidated Real Estate Investments

that concept) and explain how ASC 323 interacts with the requirement to identify deferred tax assets under ASC 740. However, even if the equity method is not retained, HLBV is often used in practice in allocating income between the controlling and noncontrolling interests. Accordingly, codifying such guidance in that context would also be helpful.

Further, we observe that renewable energy partnerships are emerging that provide investors with environmental credits from the projects in which the partnerships are invested. The Board should provide guidance on how to account for such an investment if the only expected return is the receipt of nonmonetary items (which may need to be expensed when received if used for voluntary purposes under Proposed Accounting Standards Update: Environmental Credits and Environmental Credit Obligations, Topic 818).

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 believe the current definition of a business is operable and do not see a pressing need to revise it. However, if the Board decides to pursue a project to revise the definition, we recommend reconsidering whether, to be a business combination an acquired set must include an organized workforce when it does not have outputs. We recommend performing outreach with investors to determine whether acquiring an organized workforce rather than contracts to perform processes is a meaningful distinction.

Also, we support reinstating the guidance on integral equipment within ASC 805. The guidance previously contained in ASC 360-20-55-9 is helpful when determining whether a tangible asset that is attached to another asset cannot be removed and reused without incurring significant cost and therefore whether the two assets must be combined into one when applying the screen test.

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.

Yes, we believe it would be helpful for the Board to define the term “common control” because there may be diversity in practice. We recommend that common control be determined in accordance with ASC 810. In other words, common control can exist only if the entities in question would be consolidated by the same party (or common control group) under either the voting or VIE model in ASC 810. We also believe it would be beneficial for the Board to address what constitutes a common control group. The 1997 SEC Staff speech that addresses this topic could be a good starting point, but it may be appropriate to identify a principle that can be applied to determine whether a common control group exists, rather than identify specific family members to include or exclude in a common control group.

If the FASB defines common control, we believe the definition should be applied consistently throughout U.S. GAAP. For example, when applying the private company accounting alternative to determine whether the VIE model must be applied, the concept of common control is applied more broadly than in other areas of U.S. GAAP. We recommend that any differences be resolved as part of a project to define common control.

Further, many of the issues in determining whether common control exists arise as a result of transfers of assets or businesses between funds in a private equity complex. As such, we recommend that the FASB staff conduct outreach with private equity firms to discuss whether reflecting transfers of assets or businesses between funds at fair value or carrying value would provide more decision-useful information. Depending on the responses, the Board could consider allowing the receiving entity to make an accounting policy election to reflect common control transactions at either fair value or carrying value. Such a policy election could alleviate pressure from the common control analysis if an entity elects to reflect the transaction at fair value. However, we acknowledge that if the reporting entity wants to apply carryover basis, it would still be required to determine whether common control exists, which is often challenging.

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 would support standard setting in all the areas listed for Question 11. As discussed in our response to Question 2, we believe the Board should prioritize aligning the accounting for asset acquisition transactions and business combinations and developing a single consolidation model.

We believe the accounting for asset acquisitions and business combinations could be aligned or could otherwise be improved as follows:

- Align the accounting for IPR&D. We do not believe IPR&D acquired in a business combination is fundamentally different from IPR&D acquired in an asset acquisition. Therefore, we would be supportive of a model that allows capitalizing acquired IPR&D in an asset acquisition regardless of whether the IPR&D has alternative future use.
- Align the accounting for assembled workforce by either requiring it to be recognized as a separable asset in a business combination or disallowing its recognition in an asset acquisition.
- Align the accounting for contingent consideration. We support applying the business combination model to asset acquisitions.
- Allow a measurement period for asset acquisitions.
- We recommend that the Board clarify the scope of ASC 805-50. For example, we are aware of diversity in practice on the accounting for an acquisition of an asset in exchange for share-based payment. Some believe such a transaction is in the scope of ASC 805-50, while others believe it is in the scope of ASC 718. We have also received questions whether the purchase of a loan portfolio is an asset acquisition in the scope of ASC 805-50 or a transfer of financial assets in the scope of ASC 860.
- Establish a principle to address when entities analogize to the business combination guidance in ASC 805 for asset acquisition issues that are not explicitly addressed elsewhere. Alternatively, the Board could prohibit analogies to the business combination guidance in ASC 805. We believe either would be an improvement over existing practice, given that there is no clarity to assist preparers, auditors, and regulators in this regard today.

As discussed in Questions 2, 50, and 51, we believe a single consolidation model would simplify the consolidation guidance and reduce costs for preparers. Developing a single model would also eliminate the need for separate guidance for the initial consolidation of a VIE that is not a business. Alternatively, we would support aligning the accounting for the initial consolidation of a VIE that is not a business with the accounting for other asset acquisitions that do not involve a VIE.

We also believe that narrow-scope projects, potentially led by the EITF, to address the interaction of the consolidation guidance with (1) the guidance on derecognition of nonfinancial assets and (2) the sale and leaseback guidance would improve financial reporting.

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 do not think there is a pressing need for further guidance on pushdown accounting. However, if the Board decides to provide additional guidance in this area, we believe it should address the treatment of transaction costs incurred by an entity other than the accounting acquirer and the presentation of the statement of cash flows when pushdown accounting is applied.

For example, a private equity fund forms a substantive new entity (NewCo) that is the accounting acquirer in a business combination transaction. If the fund incurs transaction expenses on behalf of NewCo's acquirer, we believe NewCo should analogize to ASC 718 or SAB Topic 5.T and recognize the transaction costs in its financial statements. However, there is no explicit guidance in the codification that addresses that.

There also is no explicit guidance for presenting the statement of cash flows in pushdown accounting. As such, we believe there is diversity in practice that could be resolved through standard setting.

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 targeted improvements to ASC 815-40 that result in more equity classification conclusions and less diversity in practice for contracts indexed to an entity's own equity. We believe liability classification can be costly, especially for start-up entities that tend to conserve cash for R&D purposes. For example, a start-up entity may issue warrants to avoid paying financing fees in cash only to be required to perform expensive valuations each period for the liability-classified warrants.

Further, we believe financial statement users often do not find the income statement volatility resulting from the changes in fair value of a liability-classified warrant useful and are likely to remove that information from their analysis. We would welcome targeted improvements that address the issues that result in mark-to-market accounting that preparers and users do not find useful.

For instance, many instruments are accounted for as liabilities even though the contractual terms that fail indexation are based on highly improbable scenarios, and the most likely settlement outcome is an issuance of a fixed number of shares. Also, many instruments are accounted for as liabilities even though the potential variation in settlement is nominal (sometimes even less than a penny). We believe that liability accounting for those instruments, especially when they do not contain cash settlement provisions, is often confusing to investors.

While we support making targeted improvements, we think the Board should consider revisiting the debt/equity accounting model broadly. A more holistic approach might be able to identify a single cohesive accounting model for financial instruments or mitigate many of the existing inconsistencies for financial instruments across the guidance in ASC 470, ASC 480, ASC 815, and the SEC's temporary equity guidance in ASC 480-10-S99-3A. The Board may also consider whether a simpler approach to bifurcation similar to the Board's approach in Accounting Standards Update (ASU) 2020-06 *Debt — Debt with Conversion and Other Options (Subtopic 470-20) and Derivatives and Hedging — Contracts in Entity's Own Equity (Subtopic 815-40): Accounting for Convertible Instruments and Contracts in an Entity's Own Equity* (see our response to Question 19) would be beneficial.

We also suggest that the Board consider revisiting the current and noncurrent balance sheet presentation guidance for both equity-linked and debt instruments. We do not believe the issues that led the Board to discontinue its work on the balance sheet classification of debt are insurmountable, even if they result in change for some stakeholders. Further, the lack of on-point guidance regarding the current and noncurrent classification of liability-classified warrants (and stock options) should be resolved. In other words, if an equity-linked contract is expected to be settled in shares, should that result in noncurrent classification (which still implies a future cash outlay)? Or should issuers consider the expected timing of settlement, as well as the party that controls the timing of settlement, in making such determination?

Finally, we believe providing guidance for litigation and R&D funding agreements (see our response to Question 22) will help reduce diversity in practice for those arrangements.

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.

If the Board decides to focus on targeted improvements to ASC 815-40, we suggest developing a list of common issues that fail the equity indexation and/or classification guidance. That list should include issues for which diversity in practice exists to determine potential solutions, as mentioned by the SEC staff.[3]

For instance, the list should include:

- Fundamental transaction clauses in warrant agreements. Many of those agreements include settlement provisions based on Black-Scholes formulas that include prespecified inputs. We are aware of two views for determining whether such fundamental transaction clauses preclude equity classification. Some believe the potential for a settlement at something other than fair value under ASC 820 precludes equity indexation (the fair value view). Others believe that if the prespecified inputs are commercially reasonable, not extraneous to the pricing of a fixed-for-fixed option, and do not introduce leverage, they do not fail indexation (the commercially reasonable view).

We believe the commercially reasonable view is consistent with the EITF working group recommendation that was ultimately incorporated as Step 2 of the indexation model. An EITF 07-5 issue summary acknowledged the consequence of allowing valid option pricing inputs "to 'float' (that is, adjust up or down to offset changes in those variables) in order to mitigate their effects on an equity-linked financial instrument's fair value is that the instrument's strike price is not

[3] See page 11 of our highlights of the 2024 AICPA & CIMA Conference on Current SEC & PCAOB Developments.

fixed….[A]n entity's decision to increase 'settlement amount variability attributable' to a particular pricing input in order to reduce the effects of changes relating to that input on the instrument's overall fair value should not prevent the instrument from being considered indexed to the entity's own stock."[4]

In this context, we believe the Board should revisit the EITF working group recommendation and clarify how an entity should determine if a settlement provision is commercially reasonable in assessing indexation. ASC 815-40-25-17 (which was removed by ASU 2020-06) provided a definition for the term "commercially reasonable means." The Board may want to consider whether a similar definition could be adopted when applying the indexation guidance, given that the indexation standard (EITF 07-5) adopted that phrase without further defining or distinguishing it from the same term that was originally used in the equity classification guidance (EITF 00-19).

Protective provisions. Many warrant agreements have a settlement that varies based on inputs that are extraneous to the pricing of a fixed-for-fixed option on equity shares. However, in some cases, the variation caused by the extraneous input upon settlement is clearly nominal. We believe the Board should consider incorporating guidance that would require an entity to disregard such nominal, protective provisions when assessing indexation. That could be consistent with the scoping language in ASC 718 for contracts that are indexed, "at least in part," to the price of the entity's shares or other equity instruments.[5]

For example, consider a warrant that is exercisable for common shares. However, the holder has an option to exercise for prefunded warrants if exercising in shares would trigger its beneficial ownership limit. The prefunded warrants are substantively similar to common shares. However, because the warrant is indexed to both shares and an equity-linked instrument, we believe that warrant fails indexation. As another example, consider a warrant that is exercisable for a fixed number of shares at an exercise price that is denominated in the reporting entity's functional currency. However, the warrant requires the holder to pay the share's foreign-currency-denominated nominal value upon a cashless exercise. (We understand that some foreign jurisdictions require the payment of the nominal value for any share issuance.) Because the warrant's settlement amount varies as a result of a foreign currency component (albeit nominal), the warrant fails indexation.

- Some contracts must be accounted for under ASC 815-40 before they are legally issued, in accordance with ASC 815-40-15-6. For example, an entity may enter a credit facility that requires it to issue warrants every time it draws down debt. We believe there are inconsistent views in practice on whether such contingently issuable warrants must be accounted for before their issuance.

We believe the Board should clarify how the guidance in ASC 815-40-15-6 should be applied. One potential solution is to require accounting for a financial instrument only when it is issued based on the definition in the ASC Master Glossary that an "equity instrument is issued when the issuing entity receives the agreed-upon consideration, which may be cash, an enforceable right to

[4] See paragraphs 38-39 of the March 2008 – EITF 07-5 Issue Summary 1 Supplement Number 2 from the March 12, 2008 Meeting. See also Example 5A, View C in the same issue summary. In addition, Example 13 of the indexation literature (ASC 815-40-55-38) reflects this concept in the context of interest rate risk.
[5] Another potential solution is an accounting model that requires indexation assessment of only the features of an instrument that are determined to be predominant at the instrument's inception.

receive cash, or another financial instrument, goods, or services." Another potential solution is to require the recognition of a financial instrument only when it meets the definition of both a financial instrument and a firm commitment, similar to the requirements in ASC 815-10-15-4.

- Some contracts have net cash settlement provisions that are triggered only when an event (that an entity initially concludes is not likely) occurs, such as a fundamental transaction. We suggest incorporating a model similar to ASC 718, under which a contract would not be classified as a liability until it is probable it would be settled in cash. We also suggest that the Board consider the following targeted improvements:
  - Broaden the applicability of the limited exception in ASC 815-40-55-3 from change-in-control provisions to other deemed-liquidation-type events. In other words, clarify that the ASC 815-40-55-3 is merely one example of the concept in ASC 815-40-25-8.
  - Clarify how net cash settlement should be applied to legal form equity instruments with a debt host contract. For instance, a convertible preferred stock that is deemed to be debt-like may have a cash redemption feature that is based on the conversion value of the preferred stock. We believe it is unclear how an entity must evaluate whether the redemption feature meets net cash settlement in ASC 815-40. Specifically, is the analysis based on the nature of the host instrument (debt), in which case it meets net cash settlement? Or is it based on the legal form of the instrument (equity); in which case it may not meet net cash settlement if the instrument can only be physically settled?

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 are sympathetic to the observation that hedge accounting is rules-based, complex, and potentially punitive (such as the documentation requirements). Further, that accounting may not reflect management's strategies that are developed and executed entity wide. For those reasons, we would support the Board if it were to add a project to comprehensively update hedge accounting. That could include allowing entities to either or both:

- Apply hedge accounting on an entity-wide basis, consistent with hedge accounting under IFRS. For example, financial institutions with portfolios of fixed- and floating-rate financial assets and liabilities have economic hedges managed on an entity-wide basis that often do not qualify for hedge accounting under U.S. GAAP.
- Designate more hedges for accounting by removing the requirement that a hedge relationship be highly effective. Appropriate supplemental disclosures related to the results of hedging strategies (for example, through disclosure of the change in fair value of the hedged and hedging instruments in a fair value hedge) would provide users with relevant information about how successful an entity is in its hedging strategy and efforts to mitigate financial risks.

If instead the Board were to take on a narrow-scope project, we would also support targeted improvements such as permitting entities to designate interest rate or price risk as the hedged risk of held-to-maturity debt securities. We believe those risks are relevant to an entity's hedging strategies even when debt securities meet the held-to-maturity classification requirements, including positive intent and ability to hold a security to maturity, under ASC 320, *Investments —*

Debt Securities, which are not substantively different from an entity's ability to hedge loans held for investment.

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.

The ASC 815 disclosure requirements provide significant but fragmented information to users of financial statements that may result in information that is difficult to understand and may not provide a holistic view about an entity's hedging activities. Accordingly, we would support a project on enhancing the disclosure requirements related to hedging. See our response to Question 15 for suggested disclosures if the Board were to undertake a broad project on updating hedge accounting.

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.

Determining whether a debt restructuring is within the scope of ASC 470-60 is frequently required in practice. However, in our experience, most restructurings do not result in TDR accounting. We have observed that TDR accounting occurs more frequently during economic downturns when lenders are more likely to grant concessions (for example, during COVID).

We believe disclosure about an entity's financial situation is more relevant than the accounting that can result from a TDR. In our experience, most restructurings are accounted for prospectively as modifications under ASC 470-50, which is similar to prospective accounting for a modification of terms under ASC 470-60. If a restructuring gain occurs and the entity no longer recognizes interest expense, we do not believe the model is well understood by users. Further, the unit of account may not be consistent between ASC 470-60 and ASC 470-50, which creates complexities for preparers and practitioners when a lender has provided more than one loan. In other words, a literal read of ASC 470-60-15-4 suggests each legally distinct payable is a separate unit of account, whereas entities often perform analyses of multiple payables aggregated into a single unit of account at the lending relationship level under ASC 470-50. For those reasons, we believe a single model under ASC 470-50 would simplify the accounting for debt restructurings, and that model together with comprehensive disclosures about the entity's financial distress (when relevant), would provide the information investors need to make decisions.

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.

We believe that if borrowers were required to measure restructured debt at fair value, then a model similar to extinguishment accounting under ASC 470-50 should be applied, in which a new effective interest rate is calculated and any debt discount/premium and issuance costs are amortized using that rate under ASC 835-30. We believe that is an appropriate accounting premise because borrowers and lenders both routinely evaluate the effective interest rate of debt, for example, as reflected in times-interest-earned calculations and other covenants.

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.

Under current guidance, embedded features are often bifurcated from hybrid instruments. We suspect a majority of those features have nominal value at inception and over the life of the hybrid instrument. However, entities still incur time and cost to evaluate those embedded features. Accordingly, we believe the Board should consider whether a simpler accounting model would be beneficial for embedded features that are not directly settled in cash. For instance:

- The Board could revisit the conclusions originally reached in DIG Issue B-38, such that the delivery of a note to settle an embedded redemption feature is deemed to represent physical (rather than net) settlement.
- The FASB could also clarify that for a share to be considered readily convertible to cash, the share must represent a Level 1 fair value measurement under ASC 820. That would eliminate the potentially difficult judgments about sufficient trading volume that are required under the conclusions reached in DIG Issue A-12.

While we appreciate the concerns about potential abuse that led to the requirement to assess embedded features for bifurcation,[6] the Board addressed in ASU 2020-06 a similar issue regarding the usefulness of multiple accounting models for the issuance of convertible debt.

Over time, multiple recognition models had been developed to separate a debt instrument into components, which was a source of complexity in GAAP and confusing for users. Paragraph BC23 in that ASU indicates:

- The Board received feedback that most financial statement users did not find the historic separation models for convertible instruments useful and relevant because they generally view and analyze those instruments on a whole-instrument basis.
- Comprehensive disclosures about the terms and features of convertible instruments are more important and useful than maintaining multiple different accounting models.
- Most financial statement users said that to perform their analysis, they prefer a simple recognition, measurement, and presentation approach with sufficient disclosures for convertible instruments to have a simplified and consistent starting point across entities.

Therefore, the Board may want to consider whether financial statement users would prefer the same simplicity in accounting for other embedded features of an instrument. Additional disclosures could be required to give users adequate information about the potential cash flow changes that could result from those features.

Separately, diversity in practice exists on how an entity applies the offsetting guidance in ASC 815-10-45-5 through 45-7 on variation margin for exchange-traded futures contracts and centrally cleared interest rate swaps.

[6] Statement 133, *Accounting for Derivative Instruments and Hedging Activities*, BC 293.

The variation margin for exchange-traded futures contracts settles daily and is treated as a legal settlement of the contract. In practice, the settlement of the variation margin is typically treated as same-day settlement (therefore, no outstanding balance is shown on the balance sheet, but the notionals, gain and loss activity, and carrying value of the futures are disclosed in the footnotes).

The variation margin on centrally cleared interest rate swaps is accounted for as a legal settlement and typically settles on a one-day lag. Because of that lag in settlement, the fair value at the end of a reporting period will typically equal the change in fair value from the second to last and last days of the reporting period.

We have observed diversity in practice in the accounting for variation margin that is accounted for as legal settlement. To address that diversity, we suggest the Board clarify how the offsetting guidance should be applied for exchange-traded futures contracts and centrally cleared interest rate swaps.

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.

We believe contract modifications of freestanding derivative instruments should be accounted for at fair value, which is consistent with existing practice and other areas of U.S. GAAP. In most cases, derivative contracts are not modified; instead, the old contract is terminated and the parties enter a new contract with new terms. Current guidance focuses on the legal form, so the modification of a derivative in a hedge relationship requires de-designation and redesignation, which is operationally burdensome and costly.

We suggest the Board consider a model that distinguishes a modification from an extinguishment, similar to the model in ASC 470-50. Contracts that meet the modification threshold would forgo reevaluating the hedge designation for derivatives assuming the relationship is expected to continue to be highly effective. For contract modifications that are deemed the extinguishment of an old instrument and issuance of a new instrument, we suggest the Board consider clarifying how an entity should evaluate whether the new instrument is a derivative. For example, the counterparties to an interest rate swap might decide to exchange an existing swap for a new swap for a number of reasons. No guidance exists on how an entity should evaluate whether the new swap meets the initial net investment criterion. We are aware of a view that considers the existing swap’s fair value at the exchange date as the initial net investment of the new swap.

For modifications of hybrid contracts, we suggest the Board clarify whether the embedded derivatives should be reassessed for bifurcation and how subsequent bifurcation affects the accounting for the host contract. Similarly, we suggest the Board clarify how a previously bifurcated embedded derivative affects the accounting for the host contract.

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.

U.S. GAAP does not provide direct guidance on whether a not-for-profit (NFP) entity should account for the benefit of a below-market or interest free loan as a contribution. The AICPA Accounting and Auditing Guide for Not-for-Profit Entities, paragraph 5.170, states:

> *Interest expense and contribution revenue should be reported in connection with loans of cash to NFPs that are interest free or that have below-market interest rates. … Those contributions should be measured at fair value. FinREC believes that the difference between the fair value of the loan at a market interest rate and the fair value of the loan at its stated rate is one method of determining the fair value of the contribution.*

The AICPA guide provides examples in paragraphs 5.171 through 5.172. However, that guidance is not consistently applied in practice, so diversity exists. We believe an NFP should account for the benefit of a below-market or interest-free loan from a nongovernmental entity as a contribution in accordance with ASC 958-605, consistent with the AICPA interpretation. We suggest FASB refine the scope guidance in ASC 958-605 to include those benefits and develop related recognition and measurement guidance, which would improve comparability. We would support the FASB incorporating the AICPA interpretation into GAAP. Also, limiting the guidance to loans from nongovernmental entities would be consistent with the existing scope exception in ASC 835-30-15-3(e) and the scope of the recent proposal on accounting for government grants by business entities.

We also believe an NFP should treat some forgivable loans as contributions when specified conditions are met. For example, some NFPs receive from governmental housing or agricultural agencies loans that will be forgiven if specified conditions are met. We recommend that an NFP account for those loans before forgiveness in accordance with existing debt guidance, but that upon forgiveness (that is, the conditions are substantially met), the NFP recognize a contribution in connection with debt forgiveness.

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.

While the language in ASC 730-10-15-1 is clear that arrangements in the scope of the R&D funding guidance must involve activities that meet the definition of R&D in ASC 730-10, ASC 470-10-15 does not include specific scoping guidance related to sales of future revenue. Historically, we have interpreted the scoping guidance in ASC 730-20-15 to require assessing a funding arrangement in which the underlying project or product is still in development as an R&D funding arrangement. Therefore, we have only considered funding arrangements related to developed products to be assessed under the sale of future revenue guidance. However, given the lack of clear scoping guidance in ASC 470-10, we suggest clarifying the scoping guidance for sales of future revenue.

Also, it is common for an R&D funding arrangement in the scope of ASC 730-20 not to result in liability treatment, typically because no payments are required if the project is unsuccessful. While ASC 730-10-25-8 states that if a project's financial risk has been transferred, "*the entity shall account for its obligation as a contract to perform research and development for others*," we observe that in practice many entities recognize the cash received as a reduction in R&D expenses. Further ASC 730-20 does not address how and when an entity should recognize any payments made under such an arrangement when the project is ultimately successful. Therefore, we believe it would be helpful for the Board to consider a narrow-scope project, potentially led by the EITF, to provide subsequent accounting guidance on R&D funding projects that do not represent a repayment obligation under ASC 730-20-25-1 through 25-7.

We also believe it would be beneficial to clarify that ASC 606 applies to streaming agreements in the mining industry when those agreements provide for the transfer of goods (such as precious metals) rather than cash to repay the investor. Those contracts have become more prevalent in recent years. While they represent a form of financing for early-stage mining entities, we believe the guidance on significant financing components in ASC 606 applies, rather than the sales of future revenue guidance. That confusion is at least partly a result of the limited scoping guidance in ASC 470-10-15.

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.

We have not encountered significant challenges in applying the guidance in ASC 860.

Although we have not experienced any issues related to securities lending arrangements with our client base, we are aware of long-standing issues arising from "securities for securities" lending arrangements and encourage the FASB to seek relevant stakeholder input.

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.

Lending transactions are common in today's crypto asset market. For example, an entity might transfer crypto assets in decentralized finance protocols used for lending/trading or staking platforms or to a bank that uses those crypto assets as collateral for a loan the entity received from the bank. In those transactions, the transferor of crypto assets has a right to the future return of those assets. Some view that right of future return as a repurchase feature that precludes derecognition of the crypto asset under ASC 606-10-55-66 and 55-68, even though the entity has transferred control of the asset to the counterparty. In other words, the counterparty has the right and ability to direct the use of the crypto assets until the assets must be returned to the entity.

Others do not believe ASC 606 contemplated such crypto asset lending transactions and therefore do not view the right of future return as a substantive repurchase feature that on its own precludes derecognition of the crypto asset. Instead, they refer to the SEC staff's remarks at the 2022 AICPA & CIMA Conference on Current SEC and PCAOB Developments in which the staff did not object to the derecognition of the crypto asset with an offsetting recognition of a loan receivable initially and subsequently measured at the fair value of the crypto assets lent to the counterparty.

We believe it would be helpful for the Board to clarify the application of repurchase features in ASC 606-10-55 66 through 55-68 to crypto lending transactions to reduce diversity in practice for these lending transactions. Further, because there is no guidance on those commodity lending transactions, we believe it would be beneficial if the Board were to consider a project to provide relevant guidance.

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 do not believe addressing the subsequent accounting for goodwill should be prioritized because it has been difficult to reach a consensus on the appropriate model and there are other more pressing projects. However, if the Board does decide to address the subsequent accounting for goodwill, we would support an amortization model for its simplicity and lower application cost.

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.

We are not aware of major challenges in allocating costs across a multi-element software arrangement. We believe preparers generally understand how to allocate costs between assets and services, so we do not believe a standard-setting project on this issue is necessary.

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.

The Board tentatively decided at its March 26, 2025, meeting to allow all entities to elect the practical expedient. We believe that considering collection activity that occurs after the balance sheet date and before the financial statements are available to be issued when estimating expected credit losses is intuitive and better represents an entity’s credit exposure to users of the financial statements, regardless of whether the entity is privately held. Therefore, we agree that all entities should be allowed to elect the accounting policy.

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 would not object to the Board expanding the scope of the practical expedient and accounting policy election to include all short-term receivables to which ASC 326 applies, regardless of how they arise and their level of credit risk. However, we acknowledge that other short-term financial assets with exposure to credit losses may be less prevalent for many entities compared to current accounts receivable and contract 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.

We are not aware of pervasive practice issues related to the definition of cash equivalents. ASC 230 provides guidance and examples of cash equivalents such as treasury bills, commercial paper, and money market funds. While the composition of cash equivalents may differ across entities depending on their accounting policies, that difference is necessary to accommodate each entity's common cash management practices and business and operations (for example, a bank versus a commercial entity), and the accounting policy must be disclosed. We would be concerned by an expansion of the definition to include other highly liquid assets that do not have a maturity date, which we believe are better reflected as activities in the statement of cash flows. For example, we do not believe it would be appropriate to include investments in publicly traded shares as cash equivalents. Therefore, we would not support a project to reconsider the definition of cash equivalents to include other assets that are easily liquidated but do not have a maturity.

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 observed challenges in the initial recognition for inventory on consignment and inventory for which there is a put or call right with the seller. We have also seen disputes between customers and vendors related to minimum purchase commitments when there are mixed indicators of control under ASC 606; for example, physical possession versus legal title. We believe that determining which party controls the inventory has become more subjective following the adoption of ASC 606, which is based on indicators of control, unlike the criteria in SAB 104, which were based primarily on title transfer.

We would support a project to define when to recognize inventory based on a control model that would align symmetrically with the accounting by the seller under ASC 606. See also our response to Question 11 regarding the scope of the asset acquisition guidance; we would recommend clarifying whether a purchase of inventory is within the scope of ASC 805-50 versus ASC 330.

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 are not aware of significant practice issues associated with recognition or measurement of AROs to justify prioritizing a standard-setting project. While ASC 410-20 requires an entity to recognize the fair value of an ARO when incurred (if a reasonable estimate of fair value can be made), the fair value is typically determined using an expected present value technique that incorporates assumptions related to timing and amounts of costs, as well as the probabilities of various scenarios. The amount initially recognized also is subject to reassessment each reporting period, which allows for subsequent measurement adjustments for changes in estimates of timing and/or amounts. Said differently, the ARO amount initially recognized does not become stale because an entity must update its measurement for changes in expected timing and/or amounts as time passes and uncertainty diminishes.

Also, while there are circumstances in which sufficient information to estimate the fair value of an ARO may be unavailable, such as when the asset has an indeterminate useful life, ASC 410-20 requires entities to reassess those circumstances and recognize an ARO when there is sufficient information to estimate the obligation. The circumstances under which an ARO's fair value is unavailable must be substantiated and are audited, and the entity must provide appropriate disclosures. Thus, an entity cannot avoid recognizing an ARO at its discretion.

Accordingly, we do not believe the two issues raised as potential concerns require standard setting.

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.

ASC 460-10-15-4(a) states that contracts that "require a guarantor to make payments ... to a guaranteed party based on changes in an underlying that is related to an asset, a liability, or an equity security of the guaranteed party" are in the scope of ASC 460. However, ASC 460 scopes out guarantees of an entity's own performance. In some cases, it may be challenging to determine whether a payment relates to an entity's own performance when a third party is involved with the asset that the reporting entity sells to the guaranteed party.

For example, consider a scenario in which an entity uses a subcontractor for a portion of a project and passes through a warranty issued by the subcontractor. If the entity also guarantees the subcontractor's performance, it may be unclear whether that guarantee is within the scope of ASC 460 or a distinct promise within the scope of ASC 606. While we have encountered issues in this area, we do not believe they surface frequently.

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 have not observed a significant number of lease transactions in which the lessee agrees to pay the lessor in the form of share-based noncash consideration over the lease term. However, we believe issues like those identified and addressed in Issue 2 of the FASB's current project on derivatives scope refinements could exist for lessors under ASC 842. Accordingly, we would not object to a similar narrow-scope project on lessor accounting. If the FASB adds a standard-setting project, there may be additional application questions to address under ASC 842 to consider the interaction or differences between ASC 606 and ASC 842, such as the estimation and allocation guidance for variable payments.

There also could be lessee accounting issues related to payments to a lessor in the form of share-based payments. For example, questions may arise regarding the interaction of ASC 718 and ASC 842, such as regarding the timing of a grant's measurement (grant-date under ASC 718 versus commencement date of the lease under ASC 842) or the remeasurement requirements (such as when a lease is not modified but the lessee must remeasure the lease for other reasons under ASC 842). Accordingly, the Board might want to consider performing outreach to identify significant issues associated with share-based payments in lease transactions by lessees.

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.

Repurchase obligations for ESOPs are pervasive because private entities sponsoring an ESOP have a legal obligation to buy back stock distributed to ESOP participants. Those repurchase obligations can have a significant impact on an entity's current and future cash flows, especially as an ESOP matures and because vested participant account balances typically increase in value. Current ESOP disclosure requirements allow a financial statement user to understand the maximum repurchase obligation exposures but do not provide further information about the timing of payments.

We suggest the Board consider outreach with investors to understand the information they believe necessary to better understand the effects repurchase obligations put on the plan sponsors because further estimating the timing of repurchase obligations often requires an entity to engage an actuary or a valuation specialist to project the future cash flows using a detailed model. We also ask the Board to consider whether quantitative disclosures should be limited to mature ESOPs because such disclosures might not be useful to investors in early-stage ESOPs. Plus, the assumptions used in deriving the quantitative disclosures would be more challenging to accurately derive in newer ESOPs. In this context, private entities are typically in close contact with their owners and ESOP lenders, which are often their primary financial statement users. As such, we believe the potential cost of additional disclosures should be weighed against the access those users already have to management.

Separate from repurchase obligations, we are aware of diversity in practice on whether ESOP debt should be recognized in standalone financial statements of the plan sponsor's subsidiary (that is, whether the debt should be "pushed down" to the subsidiary's financial statements). One view is that the debt should be recognized in the subsidiary's financial statements if the subsidiary's employees are covered by the ESOP and the subsidiary, as the operating entity, is the only funding source of the debt. Another view is that the subsidiary is not the primary obligor for the ESOP debt and thus should not recognize the debt in its standalone financial statements. Those questions become more challenging when multiple operating subsidiaries participate in a single ESOP at the sponsor level. Given the diversity in practice, we suggest the Board consider outreach with preparers to understand the diversity in the presentation of these loans and possibly a standard-setting project.

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.

We do not frequently receive questions on the guidance in ASC 272, Limited Liability Entities, and, as such, are not aware of diversity in practice. We defer to other stakeholders on challenges associated with partnership accounting.

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.

Generally, we believe the immediate recognition of gains and losses associated with defined benefit plans in the period they arise would simplify the current model. The delayed recognition (or smoothing) approach is inconsistent with other GAAP, including the accounting for other investment gains and losses and other liabilities measured at fair value. However, the existing model is well understood and provides optionality. Further, we do not think this issue is pervasive, given that most entities have phased-out defined benefit plans. We believe there are other projects, including those suggested in this agenda consultation, that are higher priority.

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 generally do not support a project to align the initial and subsequent measurement of equity- and liability-classified share-based payment awards. The distinction is a long-standing and well-understood core principle of the share-based payment guidance. Changes would likely: (a) require substantial time and investment by the Board and stakeholders; and (b) affect other aspects of the share-based payment guidance. Therefore, we suggest the Board focus on other higher priority projects. However, if the Board elects to pursue such a project, we recommend performing outreach to investors. In our experience, stock compensation charges often are eliminated from non-GAAP measures used to assess an entity's performance; thus, changing the value of the compensation cost recognized may not provide significant benefits.

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 agree that applying the principal versus agent guidance can be challenging and subjective, and that it results in frequent consultations. However, we agree with the observation in the ASC 606 post-implementation review report that often, the challenges in applying the principal versus agent guidance relate to increased complexities of emerging business models and evolving technologies. For example, arrangements related to technology platforms, digital advertising, payment processing, managed healthcare, and digital assets are often complex and involve three or more parties, making the arrangements difficult to understand and analyze. Further, given the complexity of many arrangements, there may be diversity in accounting for economically similar transactions.

Despite the challenges that exist in practice, we do not recommend additional standard setting because of the potential for broad and unintended consequences, as well as the costs of implementing a change. Instead, we recommend the Board use the EITF to discuss emerging transactions and the application of the principal versus agent guidance. EITF members are generally familiar with emerging transactions and application issues, and their expertise could help address issues more quickly. Similar to the Transition Resource Group discussions on multiple revenue implementation matters, which highlighted alternative and appropriate views, public deliberations by the EITF could be a source of interpretive guidance on the appropriate application of the standard.

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 agree that applying the guidance on variable consideration can be challenging; preparers and auditors continue to expend significant resources estimating and auditing variable consideration. However, we do not support broad revisions to the variable consideration model at this time. We would support narrower changes to reduce costs and complexity. For example, we would support expanding the sales and usage-based royalties exception beyond licenses of intellectual property. If the Board were to move forward with such a project, the term "usage" should be better defined. For example, is a bonus tied to early completion of a bridge considered usage-based, given that the bridge cannot be used until it is completed?

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 agree that applying the guidance on consideration payable to a customer can be challenging and subjective and results in somewhat frequent consultations. However, as with our response to Question 38, we believe the difficulty often arises because of the complexity of transactions and involvement of three or more parties rather than the guidance itself. Therefore, we do not recommend broad changes to this guidance.

However, we would be supportive of targeted changes. We regularly observe application challenges when a vendor reimburses its customer for advertising costs. Determining whether advertising is distinct from the sale of goods or services to the customer is judgmental, especially with digital advertising. While we do not think this is a high-priority issue, we would support narrow changes, such as adding or updating examples of when, if ever, advertising or marketing are legitimately distinct services provided by a customer. BC256 of ASU 2014-09, *Revenue From Contracts With Customers (Topic 606)*, indicates that the conditions in ASC 606-10-32-26 to recognize a customer incentive as an expense (versus a revenue reduction) were intended to be similar to the conditions in EITF Abstract 01-9, Issue 1. However, the advertising market has changed drastically in recent years. In today's environment, it can be difficult to discern whether a vendor obtains a distinct benefit from advertising methods that rely on a digital platform or are linked to a large distributor's customer base (for example, a "big box" retailer's mailing to its customers), rather than the newspaper advertisement examples in EITF 01-9.

Finally, we recommend codifying the guidance in EITF 01-9 to confirm that negative revenue is reclassified to an expense on the income statement.

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.

Because the guidance in ASC 705-20 currently aligns with the guidance in ASC 606-10-32 on consideration paid to a customer, we do not support amending ASC 705-20.

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

We do not believe the Board should incorporate the subsequent measurement guidance for beneficial interests in determining the subsequent recognition of interest income on loans because it would be complex to apply that model to large portfolios of loans and require some entities to develop or outsource additional modeling capabilities, which would result in incremental costs. We believe the characteristics in ASC 310-20-35-30 used in determining whether the lender holds a large number of similar loans for purposes of estimating prepayments are relevant and should be retained. Were the Board to remove those characteristics or loosen the exception on large volume of loans for which prepayments are probable, that might result in imprecise interest income, which would be more difficult to audit. However, if the Board were to align the interest income model with the guidance on beneficial interests in ASC 325-40, we believe it should consider making that change optional for all entities and retain the factors in ASC 310-20-35-30.

Separately, if the Board maintains two distinct consolidation models (see our response to Questions 50 and 51) we believe it could make narrow improvements to the accounting by consolidated variable interest entities (trusts) in which repayment of financial liabilities is expected solely from payments, including prepayments, on financial assets the entity holds. Under ASC 470, an entity cannot consider expected prepayments on financial assets in determining the expected life of its financial liabilities when applying the interest method. We believe aligning the financial liabilities' accounting with the expected timing of repayments on financial assets the entity holds would provide more useful information to users because it would align with the entity's purpose and design. If the FASB were to undertake such a narrow-scope project, we believe it should offer an accounting policy limited to consolidated VIEs to consider prepayments on financial assets in determining the expected life of financial liabilities when repayment of such liabilities is expected solely from repayment, including prepayments, from the VIE's financial assets.

We also would support a narrow-scope project, potentially lead by the EITF, to address how to determine interest income when the timing and/or amount of interest to be received is not certain. For example, ASC 470-10 provides guidance to the borrower on calculating interest expense related to sales of future revenues, but ASC 310-20 does not provide similar guidance to the lender. Given the lack of authoritative guidance, there is diversity in practice.

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.

Current GAAP does not provide explicit guidance on the accounting for tax credits. While we generally agree with developing derecognition guidance for transferable tax credits, given the recent expansion of tax credits, we recommend a more holistic approach. We also agree with the recent proposal to include refundable tax credits in the scope of the proposed government grants model. However, we would support a broader project to develop a complete accounting model for tax credits (including transferable credits). For example, some entities analogize to IAS 20 or another grant or contribution model to account for nonrefundable transferrable tax credits, while others account for them in accordance with ASC 740, resulting in diverse accounting and presentation. We suggest the Board consider a project to clarify the scope, recognition, derecognition, initial and subsequent measurement, and presentation of tax credits.

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 users of financial statements for potential needs on additional disclosures and commend the FASB for its continued outreach activities with stakeholder groups to timely identify incremental information needs. Once implemented, recent accounting standards updates, such as ASU 2024-03, *Income Statement — Reporting Comprehensive Income — Expense Disaggregation Disclosures (Subtopic 220-40): Disaggregation of Income Statement Expenses*; ASU 2023-09, *Income Taxes (Topic 740): Improvements to Income Tax Disclosures*; and ASU 2023-07 — *Segment Reporting (Topic 280): Improvements to Reportable Segment Disclosures*, will provide users with much more detailed and disaggregated information about an entity's activities and operations. Accordingly, we believe the FASB should wait to consider additional disclosure needs once those and any related ASUs are adopted, and users digest the incremental disclosures. Lastly, refer to our recent comment letter on proposed narrow-scope improvements to interim reporting for suggestions depending on how the Board finalizes the proposed ASU.

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 generally defer to users of financial statements for disclosure requirements that might not provide meaningful information. However, we believe the FASB could consider undertaking a project to look at potentially outdated disclosure requirements due to passage of time or changes in the business, technological, or regulatory environments, like the approach the SEC took in Release No. 33-10532, Disclosure Update and Simplification. That could include:

- Streamlining the various debt and equity disclosures that are a combination of standards developed across several decades and included in various ASC topics.
- Reviewing the necessity of ASC 810 disclosure requirements with respect to distinctions between interests in voting interest entities and VIEs and the related exceptions from such disclosures (such as in ASC 810-10-50-3 distinguishing some VIEs that are businesses). Over time, the number and type of entities determined to be VIEs and businesses has changed significantly because of ASU 2015-02, *Consolidation (Topic 810): Amendments to the Consolidation Analysis*, and ASU 2017-01, *Business Combinations (Topic 805): Clarifying the Definition of a Business*. Meanwhile, most of the ASC 810 disclosures were created before those ASUs, stemming from legacy accounting guidance such as Accounting Research Bulletin 51: *Consolidated Financial Statements*, and FASB Interpretation No. 46 (revised Dec. 2003), *Consolidation of Variable Interest Entities*, which have not been holistically revisited or updated. We believe any updates to the ASC 810 disclosure provisions should be informed by the requirements in other parts of the codification, for example, ASC 275, ASC 450, ASC 460, as well as by the presentation of restricted cash, which may achieve many of the same objectives with respect to an investor's risks and exposures from involvement with other entities.

Under this project, the Board could consider introducing a disclosure principle together with level of aggregation (disaggregation) considerations, along the lines of those in ASC 606, ASC 842, or ASU 2020-06.

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 generally do not support a project that narrowly focuses on changes to EPS guidance for RSUs in the computation of diluted EPS under the treasury stock method. Instead, if the Board pursues a project to amend the diluted EPS guidance, we believe it should exclude all unrecognized compensation expense from the calculation for all share-based compensation. Treating the unrecognized compensation as proceeds, while theoretically supportable, is not well understood in practice and results in counterintuitive results.

Further, because questions arise commonly, particularly for RSUs that participate in dividends prior to vesting, we believe the Board should consider a project to add guidance on calculating diluted EPS under the two-class method. The FASB provided additional guidance on the model in its proposed Staff Position No. FAS 128-a, *Computational Guidance for Computing Diluted EPS Under the Two-Class Method*; however, while the proposed model is often applied in practice, there is diversity in practice because the proposed staff position was not finalized.

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.

One of the primary objectives for adding the Master Glossary Term "public business entity" (PBE) in ASU 2013-12 — *Definition of a Public Business Entity — An Addition to the Master Glossary*, was to consistently identify the types of entities that could in future FASB deliberations qualify for financial accounting and reporting alternatives within U.S. GAAP (namely, private company accounting alternatives). The definition of a PBE is also now used to determine effective dates. While the definition is generally clear and might not result in significant practice issues, we believe criterion (a) could be revised to clearly distinguish entities that are considered PBEs solely because their financial statements or financial information must be or are included in a filing (such as equity method investees whose financial statements or information are provided in the financial statements of another PBE under Rule 3-09 or Rule 4-08(g) of Regulation S-X) from entities that are PBEs based on their own filings. In other words, to facilitate decisions about providing potential relief, the FASB could consider dividing criterion (a) into two groups of entities: (1) entities that are PBEs based on their own filing requirements and (2) entities that are PBEs solely because their financial information is included in a filing of another PBE. The SEC staff has provided exceptions for the latter group of entities from the other PBE requirements, including with respect to adopting ASC 606 and ASC 842. Also, BC12 of ASU 2013-12 states that the FASB included those latter entities in the definition of a PBE because their financial statements must be prepared using the same accounting principles as the PBE in which their financial statements are included. For recent and potential future accounting standards focused solely on disclosures by PBEs, such as ASU 2024-03, the Board could consider potential disclosure relief for such entities.

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.

While having multiple definitions in U.S. GAAP results in additional complexity (such as having three definitions for the term "public entity" and five definitions for the term "nonpublic entity)", we do not believe standardizing the definitions across various ASC topics should be a Board priority.

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.

We do not frequently receive questions on the application of ASC 274, Personal Financial Statements, and therefore defer to others on challenges associated with GAAP-compliant personal financial statements. However, we do not believe it should be a Board priority.

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.

Yes, as discussed in our response to Question 2, we believe the Board should prioritize the development of a single consolidation model to reduce costs and complexity for preparers. Determining whether an entity is a VIE is time consuming. Further, while the disclosure or measurement requirements under the VIE and voting interest entity models differ, the consolidation conclusion under both is often the same.

We recommend that the Board use the concept of the primary beneficiary in the VIE model for identifying which party, if any, controls a legal entity. The Board can leverage the concept of purpose and design and the power and benefits guidance in ASC 810-10-25-38A through 25-38J, as well as guidance on kick-out and participating rights in ASC 810-10-15-14(b)(1) to develop a single model that does not depend on an entity's status (VIE versus voting entity). We acknowledge this would lead to more instances of consolidation, since participating rights prevent a reporting entity from consolidating a legal entity under the voting interest model under current GAAP. However, this would be an improvement over the inconsistent outcomes today that result solely from having two different accounting models rather than from different underlying economics. Similarly, relevant guidance on identifying variable interests, such as the guidance on fees paid to decision makers, can be incorporated into the benefits assessment.

Even if the Board does not revisit the control models, we believe it should revisit the differences in the initial measurement requirements (as discussed in our response to Question 51) and disclosure requirements for consolidated and unconsolidated entities and develop requirements that apply regardless of whether the entity is a VIE. That would eliminate the cost of determining whether an entity is a VIE when it is clear that the reporting entity controls the entity under both models. When developing the disclosure requirements, we recommend that the Board consider the disclosure requirements in ASC 275, ASC 405-40, ASC 440, ASC 450, and ASC 460, which require the disclosure of many of the risks associated with an entity's investments, contingencies, and commitments.

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.

In practice, the consolidation conclusion under the VIE and voting interest entity (VOE) models differs in the scenarios described below. However, the difference in accounting outcomes is not necessarily driven by a difference in the comparative economic exposure that each party has to the entity (relative to the other).

- Under the VOE model, a majority shareholder (or limited partner with a majority of kick-out rights through voting interests) does not have a controlling financial interest in the VOE if other shareholders or limited partners have substantive participating rights. Conversely, under the VIE model, a reporting entity consolidates a legal entity if it unilaterally directs a single activity that most significantly affects the legal entity's economic performance if the other most significant activities are subject to shared power.
- When two related parties share power over a VIE, one party must consolidate the VIE. However, under the VOE model, neither party consolidates.
- The initial consolidation of a VIE versus VOE differs when the entity contains only assets, as opposed to being a business as defined under ASC 805.

As a result, the difference between whether an entity is a VIE or VOE, which may be the result of the timing or nature of financing (including third-party financing) and thus whether the entity has sufficient equity at risk, might drive the consolidation outcome.

Also, when an entity initially consolidates a VIE that is not a business, the VIE's assets and liabilities are measured in accordance with ASC 805-20, similar to the accounting for a business combination (although without the recognition of goodwill). Conversely, an entity that acquires a group of assets held in a legal entity that is a VOE would apply the guidance in ASC 805-50 for an asset acquisition. As discussed in our response to Question 11, these distinct accounting models yield differences, for example, in the treatment of transaction costs, IPR&D, or contingent consideration. We do not believe the legal entity's VIE status should affect the accounting outcomes, measurement, or disclosure requirements. Considerable effort often is expended in determining whether an entity is a VIE or VOE for such purposes (or to comply with the disclosure requirements, as discussed in our response to Question 50), even when the consolidation conclusion is clear.

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 flows or limited to certain entities or industries? Please explain.

Generally, we suggest that the FASB pursue a targeted approach applicable to all entities to improve the guidance on the statement of cash flows. In doing so, the FASB could focus on specific issues for which there is either no or limited guidance (such as on the concept of constructive cash flows) or there is diversity in practice. Outreach could be performed to identify and prioritize such cash flow issues. The Board also might want to consider other narrow-scope improvements to address users' information needs, such as requiring disaggregation of some line items in the cash flow statement or supplemental information in the notes. A targeted approach would require fewer resources than if the Board were to undertake a clean sheet and reimagined approach, while still timely addressing any stakeholder needs in a cost-beneficial manner.

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.

Yes. See our response to Question 54.

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.

Yes. We support allowing all entities holding physical commodities for trading purposes to apply the fair value option. We believe that would better reflect the nature and economics of physical commodities and therefore would provide decision-useful information to users of the financial statements. We are aware that other industries (for example, mining and coffee companies) hold physical commodities for trading purposes; however, those commodities are rarely measured above cost based on ASC 330-10-35-15. As such, we support allowing all entities to apply the fair value option rather than limiting it to financial institutions only.