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September 22, 2021

Hillary H. Salo
Technical Director
Financial Accounting Standards Board
401 Merritt 7
PO Box 5116
Norwalk, CT 06856-5116

RE: File Reference No. 2021-004

Dear Ms. Salo:

PricewaterhouseCoopers LLP appreciates the opportunity to provide feedback on the FASB's Invitation to Comment on its future agenda (the ITC). Given the ongoing evolution in the needs of financial statement users, reassessing the Board's priorities is vital to maintaining the relevance of US GAAP-based financial reporting.

We believe relevance underpins standard setting and we used it as a gating criteria in developing our recommendations. Relevance continues to be a top priority for financial statement preparers and users; therefore, improving the relevance of financial reporting should be a foundational objective of all FASB projects. Factors contributing to improving relevance include:

- **Value creation** - There should be a clear linkage between reported information and how the business creates value.
- **Economic substance** - Financial reporting should reflect the economics of transactions.
- **Principles-based standards** - Accounting standards should be articulated in principles versus rules designed around a specific fact pattern or to discourage abuse. Principles allow preparers to apply guidance to their own facts and circumstances and increase the likelihood that preparers will arrive at a conclusion consistent with a standard's intent.
- **Limited exceptions** - We note that exceptions and expedients are sometimes adopted in an attempt to minimize complexity. In practice, we believe this may add to complexity instead and thus exceptions should be allowed sparingly, including for private companies. We acknowledge that in limited circumstances, inherent characteristics of private companies merit tailored accounting, but believe the over use of private company exceptions weakens the effectiveness of a principles-based framework.
- **Convergence** - Stakeholders often look to make cross-border comparisons and consistency improves the decision usefulness of information. In considering new guidance and amendments to existing guidance, we believe the Board should more

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deliberately consider convergence. Further, to the extent that guidance is currently converged (e.g., goodwill accounting), a high bar should be applied before adopting standards that introduce divergence.

Emerging areas in financial reporting

We acknowledge that some issues may require more effort because they are very difficult or complex to resolve, but we believe they should still be prioritized because of their pervasiveness and importance. This may include some of the emerging areas in financial reporting. In the interest of maintaining or increasing relevance, the Board should continue to look for solutions to even the most challenging issues.

As further detailed in the appendix, we support the Board's focus on the following emerging areas:

- Accounting for digital assets, including cryptocurrencies
- Accounting for common ESG-related transactions, such as those related to renewable carbon credits and carbon dioxide sequestration
- Accounting for government grants received by business entities
- Definition of a derivative, to limit when certain contracts linked to operations meet the definition
- Recognition of internally-developed intangible assets

Each of these areas is a current and growing concern that presents challenges for financial statement preparers and users. We believe making these projects priorities among the Board's agenda items and focusing on them in an expeditious manner would provide enhanced relevance to financial statements. In addition, in developing solutions in these areas, we would support continued movement toward increased global alignment.

The appendix contains detailed responses to elements of each of the chapters in the ITC as well as additional suggestions.

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If you have any questions, please contact Heather Horn (heather.horn@pwc.com) or Andreas Ohl (andreas.ohl@pwc.com).

Sincerely,

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP

Appendix

Chapter 1—Disaggregation of financial reporting information

Whether financial statements include sufficient disaggregation is primarily a question for users. However, in our experience, some of the user concerns highlighted in the ITC could be addressed by enhancing comparability and consistency. For example, there is no clear guidance on what constitutes operating versus non-operating income and expenditures or the types of costs to be included in cost of sales, and therefore gross margin. Clarity on how certain types of transactions should be classified would provide investors and other stakeholders with information that would allow more accurate comparisons of core operating performance among companies.

We also believe the FASB should reconsider its approach to certain existing expense disclosure requirements. Business models in many industries increasingly create economic value from investments in intangible assets, such as brands, technology, and customer relationships. In the absence of a more comprehensive model related to the disclosure or recognition of intangible assets (as discussed in our comments on Chapter 2), disclosing more information about amounts expensed related to investments intended to drive future value creation (like the ASC 730, *Research and Development*, requirement to disclose research and development expense) would be more useful than narrow, specific operational expense disclosures (such as the ASC 720, *Other Expenses*, required disclosure of advertising expense).

With regard to the statement of cash flows, the Board notes that investors believe the indirect method provides insufficient information about operating cash flows. Without abandoning the indirect method, we believe users' information needs could be addressed by requiring additional cash flow-related disclosures, such as cash from customers, which was noted in the Board's outreach as the most important metric provided by the direct method. In addition, a requirement to discuss the cash flow impact of significant transactions, as well as key judgments or estimates and classification decisions supporting development of the cash flow statement, would also likely improve the usefulness of the statement.

Chapter 2—Emerging areas in financial reporting

In the Board's outreach, stakeholders identified emerging areas that should be addressed now to maintain and improve the relevance and usefulness of financial reporting. We note that time is of the essence in addressing these matters as preparers are already grappling with the accounting without sufficient guidance. A lack of authoritative guidance results in diversity in practice, which creates costs for users. Further, the longer that there is no formal guidance, the more difficult the transition for financial statement preparers and users. We encourage the FASB to address the following topics as priority projects, and in doing so to target resolution in a timely manner.

Projects to develop new guidance

- *Digital assets*

  As noted in Chapter 2, certain crypto assets do not meet the definition of cash or a financial asset under the existing GAAP framework and are generally considered intangible assets. The existing accounting model for intangible assets—measure at cost and periodically test for impairment without an ability to reflect upward changes in fair value—does not reflect the underlying economics of cryptocurrencies and their use in commerce and for other business purposes. These assets differ from other intangible assets in that a unit of a specific cryptocurrency is fungible, likely traded on exchanges, may be designed to be accepted as payment for goods and services, can be subject to significant volatility, and, while not backed by a central bank, in some cases can be readily sold for fiat currency.

  We believe that a fair value measurement model, with both realized and unrealized changes reflected in the income statement, would best represent the economics associated with holding digital assets for which there is an active market. This could be achieved through a new model specific to digital assets that measures digital assets with readily determinable fair values at fair value. Alternatively, the intangibles model could be amended to more closely align with IFRS. Under IFRS, intangible assets are initially measured at cost. However, a company may elect to subsequently measure an intangible asset at fair value when fair value can be determined by reference to an active market.

- *ESG-related transactions*

  With the increased focus on ESG priorities, and the increased prevalence of ESG-linked financing, there has been and will continue to be an increase in ESG-related transactions for which there is no definitive, specific accounting guidance. While there are multiple work streams worldwide evaluating broader disclosure of ESG risks, opportunities, and metrics, the FASB can contribute to this dialogue by addressing the accounting for the direct and indirect impacts on the financial statements.

  The FASB should add a project to its agenda to develop additional guidance that would elicit more decision-useful information about the impact of ESG matters on the amounts and disclosures in the financial statements. The scope of the project should consider which accounting model to apply to certain activities and transactions related to ESG, and whether new models need to be developed. For example, what is the appropriate accounting to recognize and measure renewable energy credits (RECs) and do plans to sequester carbon dioxide in abandoned oil wells impact the useful lives of active wells?

Such a project should also address the accounting for investments in tax credit structures, which are sometimes used to provide ESG-related credits to investors, but can also be used for other types of credits. Definitive guidance in this area would be helpful in creating consistency in how such investments and related credits are reported.

- *Government grants for business entities*

  The lack of explicit guidance under US GAAP for business entities to account for government assistance was highlighted during the COVID-19 pandemic and may become more prevalent as the government increasingly focuses on expenditures in the areas of infrastructure and ESG. Companies receiving government assistance not in the scope of specific US GAAP either apply a gain contingency model under ASC 450, *Contingencies*, which is not well-designed for this purpose, or identify an available analogy: generally IAS 20, *Accounting for Government Grants and Disclosure of Government Assistance*, or ASC 958-605, *Not-for-Profit Entities—Revenue Recognition—Contributions*. The differences between the two standards applied by analogy create the risk for diversity among business entities accounting for the same government program.

  As noted in our cover letter, we support efforts to improve global convergence, and therefore suggest the FASB consider IAS 20 (including changes that may result from a contemplated IASB project) as a potential model for a new standard. However, we acknowledge that this would result in differences in the models for not-for-profit and business entities that apply US GAAP.

Project to improve existing guidance

- *Definition of a derivative*

  We agree with the stakeholder view articulated in Chapter 2 that the definition of a derivative often captures transactions that, in our view, were not originally intended to be accounted for as derivative instruments. We believe this sometimes occurs due to the guidance that (1) the occurrence or non-occurrence of a specified event (such as a scheduled payment under a contract) can be an underlying and (2) a payment provision can qualify a contract as a derivative even in the absence of a notional amount.

  Numerous contracts, including research and development funding arrangements, revenue arrangements with variable consideration provisions, and agreements with payments contingent on ESG objectives (e.g., greenhouse gas emission goals), require payment based on the occurrence or non-occurrence of specified events. As such, they may meet the definition of a derivative. However, we do not believe that mark-to-market accounting is the best reflection of the economics for these types of contracts. While some of these contracts may qualify for existing scope exceptions, it is often challenging to evaluate qualification for scope exceptions that do not explicitly address these arrangements. Performing and documenting these assessments is often time-consuming and costly. While these types of provisions are already quite common, we anticipate that the accelerating focus on ESG will increase their frequency. We expect ESG target-linked payments, which are already included in certain types of lending and compensation agreements, to be included in a variety of other types of contracts as they become more prevalent as they become more prevalent.

We suggest the FASB consider adding a scope exception for underlyings indexed to a company's own operations unrelated to financial asset-related or market-indexed risks. This would essentially be an expansion of the current scope exception for underlyings indexed to specified volumes of sales or service revenues of one of the parties to the contract.

In addition, we believe the ability to change the hedged risk in interest rate cash flow hedging is an aspect of the hedge accounting guidance that should be clarified. We observe significant confusion regarding the circumstances when the guidance can be applied. As global reference rate reform continues, there may be changes to transactions beyond the scope of ASC 848, *Reference Rate Reform,* which may result in an increased focus on the application of that guidance; clarification would enable reference rate reform to progress more smoothly.

Project to improve relevance

- *Internally-developed intangible assets*

  Current accounting guidance does not always recognize the value created by intangibles, either on the balance sheet or in the footnotes. Investments in internally-generated intangibles are generally expensed as incurred. As a result, for some companies, the most valuable assets may not appear on their balance sheet. To enhance the relevance of financial statements prepared in accordance with US GAAP, we believe greater insight is needed into intangible investments.

  There are a wide range of alternatives that would provide more decision-useful information to investors, which could include recognition of all or some intangibles, whether at cost or fair value, or disclosure of key intangibles in addition to or instead of recognition. We encourage the FASB to consider these and other suggestions received in response to this ITC or in its outreach to stakeholders.

Chapter 3—Reduction of unnecessary complexity in current GAAP

We agree with the FASB that unnecessary complexity in GAAP and the resulting cost of applying those standards affects investors and preparers and should be minimized. We also understand and appreciate that the complexity of many transactions may result in unavoidable complexity in the related accounting. However, we have observed that complexity sometimes results from guidance that departs from principles (e.g., the list of specific assets and liabilities acquired/assumed in a business combination that are measured at something other than fair value, the overarching measurement principle in ASC 805, *Business Combinations*). We agree that each of the technical topics listed in Chapter 3 have elements of unnecessary cost and complexity, but in many cases, this results from the addition of exceptions and scope carve outs (e.g., in ASU 2020-06 on distinguishing liabilities and equity). We believe new projects and amendments to existing guidance should include a focus on how best to remove exceptions, improve the articulation of the foundational principles, and faithfully represent the economics of the underlying transactions.

In addition, we appreciate that taking on new projects means reconsidering the allocation of limited FASB resources. At this time, we believe the FASB should focus on projects that have the potential to make a meaningful improvement to the decision-usefulness and relevance of financial statements. We also believe projects focused on recognition and measurement should be prioritized over those that solely address presentation and disclosure. As a result, we would support discontinuance of the following projects:

- Joint Venture Formations
- Consolidation Reorganization and Targeted Improvements
- Conceptual Framework: Elements
- Conceptual Framework: Measurement
- Conceptual Framework: Presentation

Specific to the Conceptual Framework, we are unclear on the business case for continuing to refine the existing framework, which appears to have served the Board well in its current state. We have not observed impactful changes or noticeable improvements as a result of prior amendments to the conceptual framework and believe further work in this area may only serve to undermine the foundation supporting existing standards.

Chapter 4—Improvements to FASB standard-setting processes

We recommend the Board consider the following opportunities to enhance the effectiveness of its standard-setting process or responsiveness to emerging practice issues.

- **Basis for conclusions:** We agree with the stakeholder view included in the ITC that the basis for conclusions helps in understanding how to better apply the requirements of a given standard. We find that in practice, the basis for conclusions is referenced frequently and encourage the Board to make it more accessible. If its lack of authoritative status prevents it from being included in the Codification, we believe the Board should evaluate other options, such as a separate publication, that would allow this guidance to be found more easily. In addition, we believe the Board should reconsider what information is included in the basis for conclusions versus in the text of a standard. Examples and descriptions about the intended application of guidance are often very informative, but lack authority when included in the basis and may be more useful if codified. In all cases, given the extent of its use, we believe the basis of conclusion should be subject to the same level of transparency and due process as the standards themselves.
- **EITF scope:** We would support using the EITF to evaluate certain inquiries submitted to the FASB staff in a manner similar to how the IASB leverages the IFRS Interpretations Committee. The IFRS Interpretations Committee issues agenda decisions to address why technical inquiries do or do not require the issuance of additional guidance and often includes explanatory information intended to aid preparers in the consistent application of IFRS. Applying a similar model would allow the EITF to publicly address interpretive questions that require a degree of judgment in a consistent, timely, and transparent manner with input from stakeholders.
- **Referrals to the EITF:** We would also support the use of a similar process to provide greater transparency on decisions not to refer agenda topics to the EITF. We suggest that the FASB formally document their consideration and related conclusion. A reasonable screen could be established for proposals that are unrealistic or inoperable, similar in nature to the SEC's no-action rules when deciding not to include unreasonable shareholder proposals in proxy filings (e.g., the proposal is self-serving, of questionable relevance, or the company lacks the authority to implement).
- **Public meeting materials:** We believe stakeholder feedback could be enhanced through greater transparency throughout the standard setting process. We would support providing the same materials to the board and the public in advance of the public meetings. Private educational sessions serve an important purpose, but we believe it is important for the Board to engage in meaningful debate about the issues in public session. Openness in the public discussions facilitates understanding of the "why" behind each decision, thus facilitating better feedback on due process documents and providing

better rationale for preparer and auditor judgments when implementation issues arise. This may serve to reduce both the number of technical inquiries and diversity in practice.

- **Cost/benefit considerations:** Consistent with the views of preparers cited in the ITC, we support the Board's continued focus on developing a more transparent and thorough cost and benefit framework. We believe such a framework should ensure adequate input from financial statement users and should consider not only the direct costs of preparation, but also the indirect costs (e.g., development or purchase of new ERP systems or modules). Costs should also consider whether US GAAP guidance is converged with IFRS as lack of convergence can add costs for multinational companies when separate accounting is required for local IFRS reporting versus US GAAP.