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June 27, 2025

Mr. Jackson Day
Technical Director
File Reference No. 2025-ITC100
Financial Accounting Standards Board
801 Main Avenue
PO Box 5116
Norwalk, CT 06856-5116

RE: Invitation to Comment, *Agenda Consultation* (File Reference No. 2025-ITC100)

Dear Mr. Day:

We appreciate the opportunity to comment on the FASB's Invitation to Comment (ITC), *Agenda Consultation.* We believe it is prudent for the Board to periodically take a fresh look at where to focus its efforts in the near and medium term. We believe the Board's outreach to constituents is an important part of this analysis and we are pleased to take part in it.

As the Board evaluates the feedback from this process, we believe it should not limit its decisions to identifying areas where there is a need to improve GAAP, but also consider how to address the related accounting and reporting, which will require, among other considerations, not letting perfect be the enemy of good. In this regard, we encourage the Board to continue to take an incremental (or phased) approach to standard setting. This means addressing pressing matters for which there is an identifiable need and solution as expeditiously as possible, without allowing possible longer-term, but less readily achievable, objectives prevent or delay near-term improvements.

An incremental or phased approach may involve, for example, tackling immediate issues for which there is an identifiable solution first, and tackling others as and when the need either becomes more pressing or an achievable solution emerges. We continue to believe an incremental approach permits the Board to act more quickly on pressing issues but should not preclude additional action on issues that arise, crystallize, or for which suitable solutions are identified, only later. In many of our responses, we have highlighted areas that we believe would be well-suited to an incremental approach.

Recognizing that the Board has limited resources to allocate to more comprehensive projects, we believe an efficient and productive use of its resources would be to focus on the following items as priorities.

- Making targeted improvements to the indexation guidance in Subtopic 815-40 (derivatives and hedging—contracts in an entity's own equity) to address challenges and complexities that lead to unnecessary diversity and inconsistencies in accounting and reporting for instruments with similar settlement outcomes.
- Improving the hedge accounting guidance in GAAP by expanding (1) entities' ability to apply portfolio layer hedging and (2) hedge accounting applicability to certain items/transactions denominated in a foreign currency.
- Amending Topic 606 (revenue from contracts with customers) to explicitly address (1) when an amount paid to an entity's customer's customer is 'consideration payable to a customer' under paragraphs 606-10-32-25 to 32-27, and (2) when, if ever, an entity can or should reclassify net negative revenue from a customer to expense (including, potentially, as a cost of revenue).

- Continuing to expand crypto asset accounting guidance in GAAP by addressing issues related to derecognizing crypto assets that meet the GAAP definition of an 'intangible asset' (crypto intangible assets) and expanding the scope of Subtopic 350-60 to include crypto intangible assets that currently fall outside the scope of Subtopic 350-60 solely because they give the holder the right to another crypto asset that is in the scope of Subtopic 350-60.
- Codifying the hypothetical liquidation at book value (HLBV) method to clarify when and how to use HLBV to recognize equity method earnings or attribute comprehensive income to noncontrolling interests in consolidated financial statements.

In addition, we recommend the Board's limited resources *not* be committed to revisiting:

- the accounting for goodwill;
- principal versus agent considerations in Topic 606; or
- the consolidation model in Topic 810.

Details about why we believe these items should be priorities for the Board's agenda or excluded therefrom are included in our responses to specific questions included in the Appendix.

* * * * *

If you have questions about our comments or wish to discuss the matters addressed in this comment letter, please contact Scott Muir at (212) 909-5073 or smuir@kpmg.com, Kimber Bascom at (212) 909-5664 or kbascom@kpmg.com, or Bob Malhotra at (212) 954-8017 or rbmalhotra@kpmg.com.

Sincerely,

KPMG LLP

KPMG LLP

Appendix – Questions for Respondents

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

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

KPMG LLP is a practitioner/auditor.

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).***

In our cover letter, we highlight the following projects we believe the Board should take on as a priority to improve GAAP. We address our rationale for recommending these projects in the referenced questions.

- Making targeted improvements to the indexation guidance in Subtopic 815-40 (derivatives and hedging—contracts in an entity's own equity) to address challenges and complexities that lead to unnecessary diversity and inconsistencies in accounting and reporting for instruments with similar settlement outcomes (see our response to **Questions 13 and 14**).
- Improving the hedge accounting guidance in GAAP by expanding (1) entities' ability to apply portfolio layer hedging and (2) hedge accounting applicability to certain items/transactions denominated in a foreign currency (see our response to **Question 15**).
- Amending Topic 606 to explicitly address (1) when an amount paid (often characterized as an incentive) to an entity's customer's customer is 'consideration payable to a customer' under paragraphs 606-10-32-25 to 32-27, and (2) when, if ever, an entity can or should reclassify net negative revenue from a customer to a component of expense (including, potentially, as a cost of

revenue) (see our response to **Question 40**).

- Continuing to evolve crypto asset accounting guidance in GAAP by addressing issues related to derecognizing crypto intangible assets and expanding the scope of Subtopic 350-60 to include crypto intangible assets that currently fall outside the scope of Subtopic 350-60 solely because they give the holder the right to another crypto asset that is in the scope of Subtopic 350-60 (see our response to **Question 24**).
- Codifying the hypothetical liquidation at book value (HLBV) method to clarify when and how to use HLBV to recognize equity method earnings or attribute comprehensive income to noncontrolling interests in consolidated financial statements (see our response to **Question 8**).

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 articulated in our cover letter, we believe the Board should not pursue projects related to the following topics in this ITC for reasons articulated in the referenced questions.

- *Goodwill* – see our response to **Question 25**
- *Topic 606 principal versus agent considerations* – see our response to **Question 38**
- *Consolidation for business entities* – see our response to **Question 50**

In addition, we do not see a compelling need for the Board to undertake a project to substantively revise the lease accounting requirements in Topic 842 (leases). Our response to **Question 33** details our recommendation in this regard.

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 the urgency to complete standard setting on this topic (that is, how quickly the issue needs to be addressed)***

There are no additional items, not addressed by Question 2 that we believe the Board needs to prioritize in its agenda setting.

<u>Chapter 1—Combination of Entities</u>

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

We believe financial statement users are best positioned to comment on whether information provided by the equity method of accounting is decision-useful.

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.

Given the complexity in applying the equity method under Topic 323, we believe the Board's consideration of alternative accounting methods may be worthwhile as part of future standard setting. However, we do not believe the Board should prioritize a project to require equity method investments to be accounted for consistently with other equity investments under Topic 321 at this time. The equity method of accounting is well-established and familiar to most stakeholders. In addition, we believe financial statement users in certain industries find the equity method of accounting provides decision-useful information for some investment arrangements because it more faithfully depicts the economic benefits of the equity investment as compared to Topic 321 (see our response to **Questions 7 and 8**). Consequently, we believe a change in accounting requirements may provide modest benefit compared to the complexity and cost associated with applying the fair value or measurement alternative models under Topic 321. Cost-benefit considerations of applying Topic 321 rather than Topic 323 include, but are not limited to, the following:

- Determining fair value may be challenging for private investments that do not have observable quotes or data to establish reliable assumptions and future estimations of fair value.
- The Topic 321 measurement alternative may not provide decision-useful information for investors because it may be less responsive to changes in the investors' economic interest in the investee's operations and results.
- Applying the Topic 321 measurement alternative to an investment in a loss-making entity may result in more frequent impairments under Topic 321 than Topic 323 (i.e. under its other-than-temporary impairment model). Topic 321 impairments are not recoverable unless an observable transaction occurs. Conversely, an investor's recognition of its economic participation in an investee's losses may be more timely under Topic 323, thereby reducing the need for impairment recognition.

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.

Following our response to **Question 6**, if the Board were to eliminate the equity method of accounting, we believe it would be necessary for the Board to develop guidance that differs from Topic 321 to address certain industry investment structures, including the following.

- *Asset manager accounting for incentive-based capital allocations*

  Some asset managers are compensated for providing asset management services through an incentive-based capital allocation in the form of a carried interest in a partnership or similar structure. Based on SEC staff views at the April 2016 meeting of the Transition Resource Group for Revenue Recognition, we have observed that entities account for these incentive-based fees under one of the following two models (as an accounting policy election to be consistently applied):

  - the revenue recognition guidance in Topic 606; or
  - an equity ownership model using the guidance in Topic 323, Topic 810 (consolidation) or other relevant guidance.

  Currently, asset managers that apply an ownership model generally account for such arrangements as equity method investments under Topic 323. We believe the Board should evaluate whether the effects of applying Topic 321 instead of Topic 323 would result in decision-useful information about asset managers' performance considering:

  - Equity investments with embedded incentive-based capital allocations typically do not have a readily determinable fair value.
  - Fair value measurement of incentive-based capital allocations may result in recognition of gains (economic benefits) for asset management services not yet performed.
  - Under the Topic 321 measurement alternative, subsequent measurement changes would be limited to impairment or observable price changes and would *not* include equity method earnings or losses that more closely align with the asset manager's economic stake in the investment.

— *Real-estate projects*

Some investors in real-estate project entities also operate the income-producing real estate assets. We have observed that investor-operators generally account for their investments under the equity method to recognize their economic interest and share of investee operations. Fair value or the measurement alternative under Topic 321 may provide less decision-useful information about such investor-operators than the equity method.

— *Renewable energy and similar partnerships*

As further explained in our response to **Question 8**, investors in renewable energy and similar partnerships invest to receive returns primarily in the form of income tax benefits. These investors are exposed to different risks and rewards and therefore returns in the form of income tax benefits are typically allocated differently than the investor's percentage equity share in the investee.

Currently, there are three methods under which these investors account for their equity investments: (1) at fair value under the option permitted by Topic 825 (financial instruments); (2) the equity method of accounting, typically using the HLBV method to recognize their share of the investee's profit or loss; or (3) using the proportional amortization method (PAM) in Subtopic 323-740. There is also linkage between the accounting under Topic 323 to the accounting for the tax credits received by the investor under Topic 740 (income taxes) that would need to be considered, as described in our response to **Question 8**.

— *Investments in extractive oil & gas entities*

Oil & gas entities generally account for their investments in other extractive oil & gas entities as equity method investments when those investments do not meet the requirements for proportionate gross financial statement presentation because of the legal nature of the investee. These investments are operationally and economically similar to investments in oil & gas unincorporated legal entities or undivided interests, both of which are typically presented on a proportionate gross basis. Oil & gas companies generally manage oil & gas activities and reserves held in equity method investees consistently with consolidated subsidiaries and include the proportionate interests in reserves held by equity method investees in their disclosures of oil & gas reserves. We understand that fair value accounting or the Topic 321 measurement alternative may not provide decision-useful information for such oil & gas investments as compared to either (1) the one-line presentation that results from the equity method of accounting or (2) gross financial statement presentation under proportionate consolidation. For example, fair value measurement under Topic 321 may result in significant swings in profit and loss due to changes in oil & gas market prices compared to the historical cost models applied to operationally and economically similar investments as described above.

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.

As discussed in our response to **Question 7**, renewable energy and similar partnerships hold investments in projects that generate tax credit benefits and have complex capital allocation structures. Current GAAP does not prescribe how an investor should recognize its share of investee activity when the allocation of earnings differs from the allocation of cash from operations or in liquidation. As a result, we have observed diversity in practice under the equity method when investors determine their share of investee profit or loss for such investments. Many such investors use the HLBV method based on the guidance in the AICPA's Proposed Statement of Position, *Accounting for Investors' Interests in Unconsolidated Real Estate Investments*, which was never finalized. We have also observed that parent-sponsor entities of these partnerships often use the HLBV method to attribute comprehensive income between controlling and noncontrolling interests due to a similar lack of guidance in current GAAP.

We believe the HLBV method provides decision-useful information to financial statement users when renewable energy and similar partnerships have complex capital allocation structures. Therefore, we recommend that the Board consider a project to clarify when and how to use the HLBV method to recognize equity method earnings or to attribute comprehensive income to noncontrolling interests in consolidation. As part of such a project, we believe it would be important for the Board to gather information from constituents about how the HLBV method is currently applied in practice given the wide variety of complex capital allocation structures.

In addition to adding guidance on the HLBV method to GAAP, we also recommend that the Board expand the availability of the proportional amortization method (PAM) currently codified in Subtopic 323-740 so that it is applicable to a more complete population of investments for which the return relates primarily to income tax benefits. We believe the Board can accomplish this by (a) eliminating the significant influence criterion in paragraph 323-740-25-1(aa), (b) revising the quantitative tests in paragraphs 323-740-25-1(aaa) and 25-1(b) to be less restrictive, and (c) requiring amortization under the PAM to be allocated between income tax expense and pre-tax income in proportion to the investment's expected tax and non-tax benefits unless substantially all of the expected benefits are tax benefits and the investment's projected yield based solely on the tax benefits is positive. As discussed in ASU 2023-02, *Accounting for Investments in Tax Credit Structures Using the Proportional Amortization Method (a consensus of the Emerging Issues Task Force)*, expanding the availability of PAM may simplify an investor's accounting for a more diverse population of tax equity investments. We believe this would provide users of the financial statements of investors in renewable energy and similar partnerships that hold tax equity investments more decision-useful information about the investors' interests in these complex tax-driven capital allocation structures.

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

We do not believe the Board should pursue a project to further revise the definition of a business. We believe the existing model generally works as intended by ASU 2017-01, *Clarifying the Definition of a Business*. In our view, most challenges arise from the accounting differences between a business combination and an asset acquisition, as detailed in our response to **Question 11**. Further, as described in paragraphs BC22-24 of ASU 2017-05, *Clarifying the Scope of Asset Derecognition Guidance and Accounting for Partial Sales of Nonfinancial Assets*, the Board used the definition of a business to appropriately scope the derecognition guidance in Subtopic 610-20 (gains and losses from the derecognition of nonfinancial assets). For example, the definition of a business appropriately excluded most real estate transactions, which ensured they fall in the scope of Subtopic 610-20. We are concerned that changes to the definition of a business would have unintended consequences regarding the scope of Subtopic 610-20.

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.

In practice, we believe companies generally refer to the guidance in Topic 810 (consolidation) when identifying whether entities are under common control and there are not significant issues in practice related to that determination. Therefore, while defining common control may be useful, we do not believe it should be a Board priority at this time. That said, if the Board decides to define common control, we recommend that the Board:

— specify for purposes of identifying common control that control generally has the same meaning as a controlling financial interest used for assessing whether a reporting entity should be consolidated under Topic 810; this amendment would be consistent with our observation above about current practice; and

— consider the SEC Observer comments from EITF Issue No. 02-5, *Definition of Common Control in Relation to FASB Statement No. 141*, which provided examples of situations where common control exists.

Further, we recommend that the Board appropriately consider uses of the term common control elsewhere in GAAP to avoid unintended consequences. Accordingly, we believe the Board can clarify the guidance in a way that generally aligns with current practice, which would limit the cost, complexity and disruption of any changes.

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.

Accounting for the initial consolidation of a business (a business combination) and the accounting for asset acquisitions

We do not believe the Board should prioritize a project to align the accounting for business combinations and that for asset acquisitions at this time. We believe such a project would require a long-term time commitment and a holistic review of the accounting for business combinations and asset acquisitions, as well as the derecognition guidance for assets and businesses. If the Board decides to undertake this project, we believe its goal should be to substantially align the two models. This would eliminate the need to (1) maintain separate models for business combinations and asset acquisitions and (2) further develop the asset acquisition model to address practice issues, such as those discussed in the lead-in to this question in the ITC.

Recognition and measurement requirements for acquisitions of VIEs

We recommend that the Board undertake and prioritize a project to align the guidance for acquisitions of VIEs that do not meet the definition of a business with the requirements for other asset acquisitions. To accomplish this, we recommend that the Board require application of Subtopic 805-50 to all asset acquisitions, including acquisitions of VIEs that do not meet the definition of a business. However, we recommend that the Board retain the existing guidance in paragraph 810-10-30-3 that requires recognition at carryover basis for assets and liabilities that the acquirer recently transferred to the VIE because it would continue to prevent the acquirer from recognizing gains or losses selectively by transferring assets and/or liabilities to a nonbusiness VIE.

In addition, we believe eliminating a separate accounting model for acquisitions of VIEs that do not meet the definition of a business would align with the proposals in the current Board project, *Determining the Acquirer in the Acquisition of a VIE*, which aims to improve the comparability between business combinations involving VIEs and those not involving VIEs.

We believe the Board can implement these changes without undertaking a comprehensive project on the accounting for asset acquisitions – see “Accounting for the initial consolidation of a business (a business combination) and the accounting for asset acquisitions” above.

Interaction of the consolidation guidance and guidance for derecognition of nonfinancial assets (in Subtopic 610-20, Other Income—Gains and Losses from the Derecognition of Nonfinancial Assets), specifically, the accounting for distinct nonfinancial assets when an entity ceases to hold a controlling financial interest in a legal entity (1) that does not meet the definition of a business, (2) for which substantially all of the fair value of its assets is concentrated in nonfinancial assets, and (3) in which the reporting entity retains a repurchase option for the nonfinancial assets

We do not recommend the Board undertake a project in this area. We are not aware of diversity in practice in the accounting for nonfinancial assets that the reporting entity is unable to derecognize under Subtopic 610-20. We believe the guidance in paragraph 610-20-55-16 is sufficient as it illustrates the accounting when an asset is not derecognized due to a repurchase obligation. That guidance indicates that an entity does not derecognize the asset and recognizes a financial liability related to the cash or other consideration received. Consequently, we do not believe a change in GAAP is warranted.

Interaction of the VIE guidance and the accounting for a sale and leaseback transaction

We are not aware of significant issues in this area such that changes to Topic 810 (consolidation) or Subtopic 842-40 (sale and leaseback transactions) should be a priority in the near term.

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

In general, and other than as highlighted in the next paragraph, we are not aware of challenges in applying the pushdown accounting guidance in Subtopic 805-50 (business combinations—related issues). We further observe that any potential challenges are mitigated because pushdown accounting is optional. Therefore, we do not think changes in GAAP or additional guidance is needed.

As enumerated in our May 18, 2020 Agenda Request – Pushdown of Parent's Basis in a Common Control Transaction, a challenge may arise in common control transactions when pushdown accounting has not been applied in determining the parent's basis in a transferred entity. Paragraph 805-50-30-5 requires the receiving entity in a common control transaction to record the net assets received at the parent's historical basis. We believe this requirement is inconsistent with the optional nature of the pushdown accounting model because the parent's basis may be different than the transferred entity's basis. We previously outlined this issue and other issues about when and how to apply this paragraph in our aforementioned agenda request.

Chapter 2—Financial Instruments

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 believe the Board should prioritize targeted improvements to the indexation guidance in Subtopic 815-40 (derivatives and hedging—contracts in entity's own equity) that would (1) address the current complexities and uncertainties in evaluating settlement adjustments and (2) result in more equity classified instruments. Significant changes to current financial reporting outcomes from such improvements would be beneficial to both preparers and financial statement users if such changes provided a coherent and concise framework that (1) could be consistently applied and (2) aligns the financial reporting with the economic substance and expected form of settlement of the arrangement.

In addition, we believe it is important for GAAP to include *all* classification guidance. We note in this regard that SEC registrants are required to classify certain instruments in 'temporary' or 'mezzanine' equity based on guidance that is not currently codified in GAAP. In 1979, SEC Accounting Series Release No. 268, *Presentation in Financial Statements of "Redeemable Preferred Stocks"* (ASR 268), created temporary (or mezzanine) equity on the balance sheet as a 'stop-gap' measure while the Board continued working toward providing GAAP guidance on classifying issued financial instruments as liabilities or equity. As part of any targeted improvements to Subtopic 815-40, we recommend the Board consider incorporating ASR 268 into GAAP.

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

We believe improvements to Subtopic 815-40 should include significant changes to Step 2 of the indexation guidance, for which current complexities in application create diversity and inconsistency in financial reporting outcomes for similar instruments. The current indexation guidance does not contemplate the economic intention, compulsion or probability of potential settlement adjustments, which can lead to financial reporting outcomes that do not align with the most likely settlement outcome for the instrument. We believe targeted changes could allow an instrument to be equity classified as long as settlement adjustments are not unrelated to the entity's operations and are not affected by variables that are extraneous to the pricing of an option or forward on the entity's own stock.

We note the additional criteria for equity classification in Subtopic 815-40 do not allow for an evaluation of the likelihood that an event would trigger cash settlement. We believe targeted changes could eliminate those additional criteria and allow an instrument to be equity classified as long as cash settlement alternatives are remote. In addition, as outlined in our response to **Question 13**, we recommend that the Board incorporate the guidance in ASR 268 into GAAP. After the adoption of ASU 2020-06, *Accounting for Convertible Instruments and Contracts in an Entity's Own Equity*, which resulted in amendments to the additional equity classification guidance in Subtopic 815-40, there remains inconsistency between GAAP and ASR 268 when evaluating the impact of an eliminated condition (e.g. an issuer's ability to settle an instrument in unregistered shares) because ASR 268 was not similarly amended. Absent standard-setting to address this inconsistency, equity-linked instruments for which settlement in registered shares is required may be classified in temporary or mezzanine equity, rather than permanent equity, by SEC registrants.

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 support the FASB chair's decision at the March 26, 2025 meeting to add hedge accounting to the Board's research agenda. We look forward to engaging with the FASB staff on that project, including by providing feedback on the planned Preliminary Views document.

We continue to believe hedge accounting should more accurately reflect the economics of an entity's risk management activities, and to that end we encourage the Board to continue making progress toward permitting more portfolio-hedging by expanding the ability to apply portfolio layer hedging to liabilities. Before the issuance of ASU 2017-12, *Targeted Improvements to Accounting for Hedging Activities,* the guidance in Topic 815 on portfolio hedges reflected an underlying premise that hedge accounting generally should be applied to individual assets or liabilities or portions of individual assets or liabilities. Because of this limitation, prepayment risk was required to be assessed at an individual asset level because it had a significant effect on the fair value of fixed rate prepayable financial instruments. By allowing the portfolio layer method in ASU 2017-12, the Board permitted entities to consider prepayment risk at the portfolio level. More specifically, it allowed entities to designate as the hedged item a stated amount anticipated to remain in a closed portfolio of prepayable assets after considering the expected effects of prepayments, defaults and other factors affecting the timing and amount of cash flows. We believe that a similar concept is applicable to portfolios of certain fixed rate liabilities, such as brokered CDs, that are either puttable by the holder or contingently puttable. That is, we understand that entities would be able to estimate a stated amount of a portfolio of fixed rate brokered CDs that are anticipated to remain in a closed portfolio after considering the expected effects of put rights and other factors affecting the timing and amount of cash flows. We also understand that, for risk management purposes, entities often economically hedge the portion of portfolios of brokered CDs expected to be outstanding and that those hedges are highly effective economically. Allowing hedge accounting for these relationships would therefore further align the accounting and risk management practices for those entities.

In addition, we believe the Board should consider expanding when hedge accounting may be applied for hedged items or transactions with exposures that could affect reported earnings. For example, this would include expanding hedge accounting to items or transactions denominated in a foreign currency where the impact on reported earnings is *indirect* (e.g. hedges of forecasted issuances of foreign-currency denominated debt, forecasted purchases of foreign-currency denominated debt instruments, or foreign-currency purchase consideration to be paid for a forecasted acquisition of a business). To illustrate, in a hedge of a forecasted issuance of foreign-currency denominated debt, there is no earnings impact from any remeasurement of the debt under Topic 830 (foreign currency matters) before its issuance. However, if the issuer's objective is to lock-in the functional currency equivalent debt proceeds, any changes in foreign exchange rates between hedge inception and debt issuance would affect the foreign currency amount that needs to be borrowed. Left unhedged, this foreign currency exposure, in turn, has the potential to affect reported earnings due to variability in the functional currency equivalent interest payments.

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

We believe the Board should work with preparers and financial statement users to determine what hedge accounting disclosures would best portray the economics of an entity's risk management activities and provide decision-useful information.

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.

To better organize our response to this question, we have reproduced the parts below and rearranged the order, followed by our responses that address each.

- ***How often is the TDR guidance in Subtopic 470-60, Debt—Troubled Debt Restructurings by Debtors, applied?*** Issuers often need to evaluate the applicability of the troubled debt restructuring (TDR) guidance under Subtopic 470-60 because the guidance must be analyzed first when debt is modified or exchanged. Analyzing whether such transactions are in the scope of the TDR guidance is often complex; evaluating whether the borrower is experiencing financial difficulty can be subjective and evaluating whether the lender granted a concession can be challenging to apply.
- ***Does the TDR guidance for borrowers continue to be relevant and provide decision-useful information to investors?*** When transactions are in the scope of the TDR guidance, we believe TDR accounting does not provide relevant, decision-useful information because it does not always result in accounting recognition of the economic substance of the ongoing relationship. For example, when the carrying amount of the debt is greater than the undiscounted cash flows of the restructured debt, a gain is recognized for the difference and no interest expense is recognized in future periods even if the restructured debt is interest-bearing.
- ***Are there alternatives to improve the TDR guidance for borrowers that should be considered?*** The Board has eliminated TDR recognition and measurement guidance for lenders. We encourage the Board to similarly consider overhauling the corresponding guidance for borrowers. This might include eliminating the recognition and measurement guidance but maintaining or developing appropriate disclosures. We believe for a restructuring that currently meets the TDR criteria, the Subtopic 470-50 (debt modifications and extinguishments) extinguishment model should be applied, which would result in recognizing (1) the restructured debt initially at fair value and (2) a potential gain for the difference between the fair value and the existing carrying amount of the debt. Initially recognizing the restructured debt at fair value would result in recognizing interest expense over the remaining term (thereby resolving the issue of circumstances under the current guidance where borrowers may not recognize interest expense on the debt from the restructuring date to its maturity).
- ***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?*** We believe there could be challenges to measuring restructured debt at fair value. Paragraph 470-60-55-8 provides factors when evaluating whether a debtor is experiencing financial difficulty. One such factor is that the debtor cannot obtain funds from sources other than existing creditors at an effective interest rate equal to the current market rate for similar debt for a nontroubled debtor, which is often a relevant factor for debt restructurings to be in the scope of Subtopic 470-60. Difficulties arise in practice in trying to

establish what the appropriate market rate would be for the borrower in these circumstances. An absence of market data would create challenges and complexities when determining the fair value of the debt and likely result in Level 3 categorization of the debt under Topic 820's fair value hierarchy. That said, we do not believe this fair value determination would be significantly more complex than for other, similar Level 3 measurements encountered in practice.

Further, paragraphs 820-10-35-16B and 35-16D indicate that when there is no quoted price for a similar liability and another party holds the identical item as an asset, an entity measures fair value based on the perspective of a market participant that holds the identical item as an asset. We can foresee (1) challenges for the debtor in estimating fair value from the perspective of the creditor and (2) the potential that such troubled debt arrangements may have significantly lower than par-amount value to the creditor due to the risk of nonperformance by the debtor in such circumstances.

Despite the challenges identified above, we believe recognizing restructured debt initially at fair value may best depict the economics of the transaction.

<u>Additional considerations</u>

Above, we express support for *initial* measurement of restructured debt at fair value. However, *subsequent* Topic 820 fair value measurement each reporting period would involve additional costs and effort for preparers. In addition, if the debt is measured at amortized cost before restructuring and is measured at fair value after restructuring, we believe the Board should consider providing guidance on how the change in measurement basis – and how subsequent changes in fair value – should be recognized. For example, should the difference be recognized in AOCI (for the instrument-specific credit risk component) similar to when an entity designates a financial liability under the fair value option?

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.

As discussed in our response to **Question 17**, we believe requiring troubled debt restructurings to be measured subsequently at fair value could lead to additional cost and complexity. However, if the Board requires restructured debt to be measured at fair value, we believe there is current practice to consider regarding the related interest expense. Currently, when the fair value option in Topic 825 is elected for debt, interest is generally recognized in earnings together with changes in fair value; however, we have observed some entities disclose interest expense separately from other changes in fair value.

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

In providing our response below, we have assumed that the Board will complete its current projects on derivative scope refinements and hedge accounting improvements and address stakeholder issues identified in those projects; therefore, items we expect to be addressed therein are not included below.

Written options

Paragraph 815-10-S99-4 includes the SEC staff's long-standing view that written options that do not qualify for equity classification should be reported at fair value and subsequently marked to fair value through earnings. Due to lack of clarity on when the SEC staff's view should be applied, there is diversity in practice in accounting for written options that do not meet the definition of a derivative under Topic 815. We recommend that the Board consider clarifying the scope of the guidance on accounting for written options that do not meet the definition of a derivative and incorporating the guidance in Topic 815. If the Board clarifies this guidance, we believe it would be beneficial to require consistent application across public and nonpublic entities.

Financial guarantee contracts

The financial guarantee scope exception has been narrowly interpreted in practice. As a result, certain financial guarantee contracts do not qualify for the derivative scope exception and are remeasured at fair value through earnings. We believe it would be better financial reporting to expand the financial guarantee scope exception because certain financial guarantee contracts are economically similar to other contracts that are not accounted for as derivatives. Therefore, we believe they should also not be subsequently measured at fair value through earnings.

We have identified certain features in financial guarantee contracts that result in the contracts not meeting the financial guarantee scope exception that could be addressed if the scope exception were expanded.

- First, to qualify for the scope exception under current guidance, the contract must provide for payments to be made solely to reimburse the guaranteed party for the debtor's failure to make a payment. This results in contracts not qualifying for the scope exception when they require payments to be made to the guaranteed party if the debtor files for bankruptcy because the debtor filing for bankruptcy does not necessarily mean the debtor has failed to make a payment.
- Second, the guaranteed party must be exposed to the risk of nonpayment on the referenced asset, both at inception of the financial guarantee contract and over its life. Therefore, the scope exception may not be met when the reference assets are not static (e.g. a revolving pool of loans that still exposes the creditor/beneficiary to the same/similar credit risk that the guarantee contract protects against).

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

If the FASB were to undertake a project on derivative modifications, we recommend that the Board clarify that any change in timing and/or amount of cash flows is treated as a termination of the old instrument and recognition of a new instrument (versus a continuation of an existing instrument). When an entity modifies a contract in a manner that changes either the timing or amount of cash flows, this recommendation would result in entities evaluating whether:

- the new instrument meets the definition of a derivative in its entirety;
- there is an embedded derivative requiring bifurcation if the new instrument does not meet the definition of a derivative in its entirety (e.g. because it does not meet the initial net investment characteristic); or
- the classification in the statement of cash flows should be changed (e.g. because there is an 'other than insignificant' financing component in the new instrument).

We believe our recommendation is consistent with how entities generally treat derivative modifications in practice and will be less burdensome to preparers from a cost and complexity perspective than performing a 'significance test' to determine whether there is a new instrument. This is because designing and performing a quantitative 'substantially different' test may be challenging for derivatives that (1) may be assets and/or liabilities over their term depending on how their fair values change in response to changes in the underlying and (2) do not have an effective interest rate.

However, we are open to the Board exploring other alternatives, provided those alternatives serve financial statement users' needs and can be adopted and applied cost effectively and operably by financial statement preparers.

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

We have not seen a prevalence of these scenarios in practice and are not aware of significant issues related to accounting for them. Therefore, we do not believe a project to develop new or additional guidance should be a Board priority in the near term.

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.

In our experience, practice is well established in distinguishing between transactions in the scope of Subtopic 730-20 on R&D funding arrangements and Subtopic 470-10 on sales of future revenue. However, the Board may want to codify this practice, under which a probable cash flow stream at contract inception typically falls under the sales of future revenue guidance, even if the investor is funding R&D.

We believe a related issue the Board should consider is the application of the sales of future revenue guidance in Subtopic 470-10. This guidance contemplates recognition of the funding received as either debt or deferred income. However, we have observed that, in practice, entities are rarely able to overcome the rebuttable presumption that proceeds from the investor should be accounted for as debt, even though a plain English interpretation of the factors may suggest that deferred income treatment is appropriate. This is often because the continuing involvement factor ("the entity has significant continuing involvement in the generation of the cash flows due the investor") has been interpreted very broadly in practice; even involvement in collecting the future revenue cash flows is often considered significant continuing involvement. Therefore, we believe the Board should consider whether that and/or other nearly 40-year old factors in paragraph 470-10-25-2 should be updated. However, we do not believe the Board needs to pursue a project related to R&D funding arrangements more broadly.

If the Board were to pursue a project on sale of future revenue arrangements, an example arrangement the Board should consider is one of royalty monetization. In these arrangements, an entity typically sells its intellectual property royalty rights to another party for a lump-sum payment. The Board should clarify when the sale of future revenue guidance in Subtopic 470-10 applies to these arrangements versus either (1) the derecognition of nonfinancial assets guidance in Subtopic 610-20 or (2) the transfers of financial assets guidance in Topic 860.

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 believe the requirements in Topic 860 for determining whether to account for a transfer of financial assets as a sale are generally appropriate, however the Board could consider a project to 1) clarify the participating interest guidance and 2) address inconsistencies between Topic 860 and Topic 805-50.

We believe there are opportunities to improve the participating interest guidance in a manner that would reduce complexity and diversity in practice. For example, the board could consider clarifying:

- Whether transfers of portions of equity investments are eligible to apply the participating interest guidance;
- Whether, and if so how, servicer decision-making must be considered when evaluating whether the rights of the participating interest holders have the same priority; and
- Whether one party can be given the right to pledge or exchange the entire financial asset via consent from the other participating interest holders in the transaction agreements that created the participation interests or, alternatively, whether such consent must be obtained at a later date, such as when the party intends to exercise the right.

We believe there is currently an inconsistency between the Topic 860 initial measurement guidance for acquired financial assets (for the transferee) and that in Subtopic 805-50 for other assets (for the acquirer). Under Topic 860, a transferee initially measures a purchased financial asset at fair value (which as an exit price does not include transaction costs), unless the guidance for purchased financial assets with credit deterioration applies. By contrast, under Subtopic 805-50, an acquirer initially measures an acquired asset based on its cost to the entity. To remedy this inconsistency and eliminate the corresponding diversity in practice, we recommend entities initially measure financial assets purchased in a transaction other than a business combination at their transaction price plus transaction costs (i.e. consistent with the guidance in Subtopic 805-50). This would codify the most common approach used in practice. In addition, when the asset is not subsequently measured at fair value through earnings, this measurement (1) results in transaction costs being recognized through earnings via a yield adjustment and (2) avoids an immediate ('Day 1') gain or loss caused by differences between transaction price and fair value.

Chapter 3—Intangibles

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.

In our comment letter to the proposed ASU*, Intangibles – Goodwill and Other – Crypto Assets (Subtopic 350-60) Accounting for and Disclosure of Crypto Assets*, we expressed our support for what became ASU 2023-08, *Accounting for and Disclosure of Crypto Assets*, as an important first step toward improving the accounting for this emerging and evolving asset class. We expressed support for the deliberate approach taken in ASU 2023-08 of focusing primarily on areas where there was effectively consensus that the amendments therein would represent improvements to GAAP.

At that time, we also encouraged the Board to be open to additional crypto asset standard-setting when and if similar consensus emerged around additional improvements to GAAP for crypto assets. Below, we outline two improvements for which we believe there is a broad consensus that they would reduce cost and complexity and achieve more intuitive (and therefore more decision-useful) accounting outcomes. Lastly, we highlight a principle that we encourage the Board to continue to apply as it contemplates further crypto asset standard-setting.

Derecognition of crypto intangible assets

Presently, crypto assets that meet the GAAP definition of an 'intangible asset' ('crypto intangible assets') are derecognized when 'control' transfers under the guidance in Subtopic 610-20 (gains and losses from the derecognition of nonfinancial assets) or Topic 606 (revenue from contracts with customers). Sales of crypto intangible assets to customers and noncustomers are in the scope of Topic 606 and Subtopic 610-20, respectively; while derecognition in any other scenario is governed by paragraph 350-10-40-1, which incorporates the derecognition guidance in Subtopic 610-20 or Topic 606 by reference. Under the Subtopic 610-20 and Topic 606 guidance, control of an asset does not transfer when the entity has the substantive right or obligation to repurchase that asset (or a substantially equivalent asset – e.g. a fungible crypto intangible asset) via a call option or forward.

An inherent feature of many crypto intangible asset transfer transactions is a right or option of the transferring entity to the future return (at a date certain or on-demand) of that crypto intangible asset. For example (not exhaustive), this is the case in crypto asset lending transactions (whether between two counterparties or via a decentralized finance ('DeFi') protocol), DeFi trading protocols or 'liquid staking' platforms. There are two divergent views on derecognition in these scenarios.

- *Derecognition precluded.* Many have concluded that a strict reading of the above-referenced GAAP guidance makes it inappropriate to derecognize the transferred crypto intangible assets in these and other scenarios on the basis that the return right precludes it, even though the transferee may take possession of the asset (e.g. in its digital asset wallet) and have the right and ability to direct its use until it must be returned to the transferor.
- *Derecognition not precluded.* Others – typically influenced by remarks of the SEC staff at the 2022 AICPA & CIMA Conference on Current SEC and PCAOB Development on lenders' accounting for crypto asset loans – have concluded that the right to the return of the crypto intangible asset in

one, more or all of these (and other similar scenarios) is *not* a repurchase agreement of the nature contemplated by Topic 606, and therefore does *not* preclude derecognition of the transferred asset.

This diversity in practice and in interpretation has led to cost and complexity for preparers and financial statement users.

Many believe the accounting outcome that results from the entity not derecognizing the transferred crypto intangible asset is counter-intuitive and confusing to financial statement users. In many transactions of the nature described, which are continuing to grow in prevalence, the transferring entity receives another crypto asset (e.g. a 'receipt token') in exchange for the one transferred. The received crypto asset often has its own functionalities (e.g. use on additional or alternative blockchains or the ability to be 'staked' or posted as collateral) and marketability (e.g. sold on an exchange or in an OTC transaction without redeeming the transferred crypto asset). If the transferred crypto intangible asset cannot be derecognized, many stakeholders believe they must recognize *both* crypto assets (i.e. the one transferred and the one received), even though there is no scenario under which the entity has a present right to the economic benefits of both concurrently. In addition, because there is no accounting transfer of the original crypto asset, entities generally conclude they must recognize a liability to return the newly received asset, even though they may have no obligation to *ever* return that asset (e.g. they may be able to sell or transfer the new crypto asset, at which point they also relinquish their right to the return of the crypto asset they originally transferred). In transactions that do not involve a receipt token (or similar), stakeholders similarly find counter-intuitive a conclusion to continue to recognize a crypto intangible asset that another entity presently 'controls'.

We agree with those who believe that the repurchase agreements guidance in Topic 606 never contemplated the types of crypto intangible asset transactions described in the preceding paragraphs. We also agree with those who believe that the continued recognition accounting described in the preceding paragraph is not representationally faithful of the transferring entity's financial position or that entity's true rights and obligations. We believe GAAP could be meaningfully improved by codifying guidance clarifying that the repurchase agreements guidance in Topic 606 does not apply to crypto intangible asset transactions *of the nature described above*; that is, transactions in which the transferor has the right to the return of its transferred crypto intangible asset(s) only by redeeming another crypto intangible asset or a crypto intangible asset receivable with an equivalent fair value. We believe paragraphs BC425 and BC427 in ASU 2014-09 provide an existing, conceptually supportable basis for this position.

However, we believe the transfer of control *principle* in Topic 606 (see paragraph 606-10-25-25) *does* provide a relevant basis upon which to determine when to derecognize a crypto intangible asset. Its application, independent of the repurchase agreements 'overlay', would generally lead to reasonable and appropriate derecognition conclusions in our view. We believe an entity applying the Topic 606 control principle would often appropriately conclude that 'control' of a crypto intangible asset has transferred to the receiving entity; for example, a borrower may be able to, upon receipt, deploy a borrowed crypto intangible asset as it sees fit and obtain its current remaining benefits (e.g. sell it and receive cash or other assets equivalent to its then-current value) despite its obligation to *later* return an equivalent asset. Similarly, we believe the control principle would often lead entities to appropriately conclude derecognition should not occur if the transferee does not obtain the right or ability to direct the use of the transferred crypto asset (e.g. to sell, lend or otherwise transfer or rehypothecate it).

Crypto intangible assets that give the holder a right to a crypto intangible asset in the scope of Subtopic 350-60

We appreciate the Board's considerations when deciding, in redeliberations of ASU 2023-08, to retain criterion (b) in paragraph 350-60-15-1, including the evolving nature of transactions that give rise to entities holding crypto assets that give them the right to other crypto assets. Such assets may be referred to as 'wrapped tokens' in some cases or 'receipt tokens' in others. 'Receipt token' commonly refers to a digital asset received in exchange for transferring (or depositing) a crypto intangible asset to (with) a DeFi protocol – e.g. a lending, trading or liquid staking protocol. In general, receipt tokens *exist* to permit an entity to redeem crypto intangible assets it has transferred to another entity or protocol.

Transactions involving these types of tokens have continued to proliferate since mid-2023, and we believe it is counter-intuitive for an entity to exchange an in-scope (i.e. of Subtopic 350-60) crypto intangible asset like ETH for a receipt token that merely entitles the entity to ETH upon redemption and 'flip' from fair value measurement of the ETH to cost-less-impairment measurement of the ETH receipt token. Given the proliferation of these types of scenarios and relevant experience around this described outcome, we encourage the Board to revisit criterion (b) to scope into Subtopic 350-60 crypto intangible assets that currently fall outside the scope of Subtopic 350-60 solely because they give the holder the right to another in-scope crypto intangible asset (e.g. 1 receipt token entitles the holder to 1 ETH).

We believe such an amendment would reduce the cost and complexity that comes from being required to swap between, and materially apply, in-scope and out-of-scope measurement models. This amendment would also eliminate odd, uneconomic one-time redemption gains – i.e. that do not reflect a real-time increase in economic value to the entity – that may result when the carrying amount of the redeemed receipt token is less than the fair value of the in-scope crypto intangible asset for which it will be exchanged.

Digital asset 'form' should not affect an entity's GAAP accounting

We have previously articulated (in our response to the ASU 2023-08 proposed ASU), and continue to encourage the Board, *not* to create different (potentially conflicting) accounting guidance around transactions for which there is already established GAAP solely because:

— the asset or instrument is 'tokenized' or otherwise created, tracked, recorded or traded on a blockchain (or other distributed ledger technology); or
— the transaction (e.g. an IP license or services arrangement) is effected through a blockchain-based smart contract versus another form of contract.

For example, we believe (1) stablecoin crypto assets that meet the GAAP definition of a financial asset should be accounted for under the GAAP applicable to any other financial asset, and (2) entities should account for non-fungible tokens (NFTs) based on the underlying rights and obligations sold or received.

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 the Board should undertake another goodwill subsequent accounting project given the challenges encountered in previous attempts. We are not aware of any substantive change in circumstances since the Board ended its previous project (June 2022), such as an emerging stakeholder consensus, that would suggest a high likelihood of a successful outcome at this time. Accordingly, we believe the Board's resources are best devoted to other projects.

However, if the Board were to pursue a project on the subsequent accounting for goodwill, we refer to our response to the FASB's July 2019 ITC: *Identifiable Intangible Assets and Subsequent Accounting for Goodwill*. As outlined therein, our preference would be an approach that includes both amortization and impairment testing if it improves the cost-benefit equation. If re-introducing amortization to the subsequent accounting for goodwill does not result in sufficient simplification, we would recommend the project focus on simplifying the impairment test under an impairment-only model. We continue to not support an amortization-only model because we believe goodwill, like all other assets in GAAP, should be subject to impairment testing.

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.

The issues entities encounter with respect to multi-element software arrangements are not unique thereto. Similar complexities in identifying components and determining whether stand-alone (selling) prices exist, for example, in lease arrangements (as lessee and as lessor) and revenue arrangements (i.e. identifying performance obligations and stand-alone selling prices).

However, we also observe that Subtopic 350-40 leverages language, definitions and concepts from Topic 842 (leases). For example, contract consideration is allocated to multiple elements based on 'relative **stand-alone prices**' under paragraph 350-40-30-4. Consequently, we believe the Board could consider a practical expedient to allow entities, or perhaps just a subset of entities (e.g. private and/or not-for-profit entities) to combine software and non-software components of a contract into a software element, much as lessees are permitted to do under Topic 842 (leases). Consistent with the Topic 842 lessee practical expedient, in a scenario involving a software license and associated services (e.g. PCS or hosting) paid for over time, the entity's software intangible asset and related liability recorded under paragraph 350-40-25-17 would include both the license and non-license fees. As in Topic 842, this ability to avoid discrete identification of, and allocation of contract consideration to, all the components of the contract could reduce cost and complexity.

We do not believe the Board should consider a practical expedient that would not result in accounting for the combined component as a combined *software* component for the same reasons the Board decided not to permit lessees to account for combined lease contract components as non-lease components. It would be inappropriate, in our view, not to recognize software assets and related liabilities (if any – e.g. because the fees are paid over time for the software license asset transferred upfront), because those assets and liabilities meet the FASB conceptual framework definitions thereof in Chapter 4 of Concepts Statement No. 8.

Chapter 4—Other Assets and Liabilities

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.

We agree with the Board's March 26, 2025 decision to expand the scope of the practical expedient provided in Proposed ASU, *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses for Accounts Receivable and Contract Assets for Private Companies and Certain Not-for-Profit Entities*, to all entities. We believe the practical expedient would reduce complexity by codifying what many entities are doing in practice.

However, as observed in our comment letter dated January 17, 2025, we believe the accounting policy election proposed should also be extended to all entities. We believe applying the alternative afforded by the accounting policy election would provide more decision-useful information to financial statement users.

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 agree with the Board's decision at the March 26, 2025 meeting to clarify that the guidance in the proposed ASU referenced in **Question 27** should apply to current accounts receivable and current contract assets acquired in a business combination. However, as stated in our comment letter response to Questions 2 and 3 of Proposed ASU, *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses for Accounts Receivable and Contract Assets for Private Companies and Certain Not-for-Profit Entities*, we believe the amendments in that proposed ASU should also be extended to (1) current accounts receivable and current contract assets arising from transactions accounted for under Topic 610 and (2) current employee benefit plan contributions receivable.

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 do not believe financial reporting would be significantly improved by reconsidering the definition of cash equivalents to include other assets that are easily liquidated. Assets that are easily liquidated may not qualify as cash and cash equivalents under the current definition, for example, because they present a risk of change in value that is more than insignificant. Including such assets in the definition of a cash equivalent may require significant revision to this longstanding definition that is generally well-understood and broadly consistent with its counterpart under IFRS® Accounting Standards. Instead of amending this definition, we believe it would be possible to provide relevant information related to easily liquidated assets through separate presentation or disclosure in the financial statements.

We believe maintaining consistency between GAAP and IFRS Accounting Standards for an accounting concept as fundamental as what constitutes cash and cash equivalents is key to providing decision-useful information to financial statement users. For this reason, we encourage the Board to monitor both (1) the International Accounting Standards Board's statement of cash flows project about what qualifies as cash and cash equivalents under IAS 7 (statement of cash flows) and (2) any interpretative issues that may be indirectly raised under GAAP as preparers implement the recent amendments to IFRS 9 (effective in 2025) related to electronic cash transfers.

The preceding notwithstanding, we encourage the Board to monitor the evolution and proliferation of digital asset "stablecoins" and other highly liquid digital assets. We believe the Board's objective here should be to ensure that, as (if) these continue to grow in usage as a medium of exchange and a form of liquidity, the financial statements, in particular the statement of cash flows, remain relevant and useful to financial statement users.

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 are not aware of significant challenges or diversity in practice regarding the initial recognition of inventory and other nonmonetary assets. In our experience, entities applying GAAP generally recognize inventory on the date legal ownership is established. This is inconsistent with the control model in Topic 606 and the practice of entities applying IFRS Accounting Standards, which generally recognize inventory on the date the entity obtains control of it. Given well established practice under GAAP, we do not believe the Board needs to undertake a project on the initial recognition of inventory or other nonmonetary assets.

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

We do not believe the Board should revisit the initial recognition and measurement guidance for AROs in Subtopic 410-20 at the present time. We believe the current guidance is well established and generally understood and effectively applied and audited by preparers and practitioners, respectively, as evidenced by the relatively small number of application/interpretive questions we receive on the topic in practice. Therefore, we believe the Board's resources are best directed toward other projects.

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.

When a performance guarantee involves an entity's own future performance, it is not in the scope of Topic 460 (guarantees). Instead, it is typically accounted for as variable consideration under Topic 606 (revenue from contracts with customers) *when the arrangement is with a customer*. We have observed uncertainty among preparers and practitioners in evaluating whether these performance guarantees reflect a guarantee of an entity's own performance, especially when the guarantee appears to involve the performance of third-party service providers. Challenges can arise in determining whether the guarantee is solely, or in part, a guarantee of the entity's own performance in the arrangement and/or a guarantee of the third-party provider's performance. These types of arrangements are most commonly observed in banking, healthcare and platform entities. However, we believe the determination of whether a guarantee is of an entity's own future performance should be based on an established concept that focuses on the substance of the overall arrangement rather than its form.

For example, entities enter into arrangements with health insurance plans to provide certain administrative support and the coordination of healthcare services to a specific population of insured members, whereby the entity coordinates healthcare services for such members with third-party healthcare providers. These arrangements are designed to improve the quality of care and achieve targeted cost savings for the insurance plan. However, they often involve the entity providing a guarantee to the insurance plan that a benchmark of cost savings will be achieved. Because such costs of delivering healthcare services are derived from claims incurred by third party healthcare providers, there can be uncertainty about whether the guarantee (targeted cost savings) is reflective of performance by the entity itself or by the third-party healthcare providers, or a combination thereof. Refer to our response to **Question 38** for further description of these types of arrangements and their evaluation under Topic 606.

An evaluation of whether a guarantee is related to an entity's own performance arises in a variety of different arrangements and business models (e.g. platform companies, FinTech arrangements, warranty services). The evaluation can be difficult in cases where the guarantee is related in some way to the entity's performance (e.g. they are an agent to an underlying service) but it is not the entity's performance itself that is being guaranteed (e.g. a ticket broker that indemnifies the buyer of a ticket against cancellation). Commercial entities may provide these types of guarantees as an incentive to their customers.

Because Topic 606 is a residual standard (i.e. an entity first looks to other guidance before applying Topic 606), Topic 460's scoping guidance on entities guaranteeing their own performance is evaluated first. Because there is no guidance in Topic 460 about what constitutes 'own performance', we believe entities should look to Topic 606 to determine the nature of their promise to their customers and whether they are the principal or an agent with respect to the specified services based on whether they control the specified services. See our response to **Question 38**, which discusses control versus economic risk when making principal versus agent determinations. This analysis will assist in determining what constitutes 'own performance' for purposes of applying Topic 460 scoping. For example:

- An agent that concludes its promise is to connect a buyer and seller but nonetheless provides a guarantee related to the good or service of the seller may conclude it has a Topic 460 guarantee.
- An entity that determines it controls the delivery of that good or service between the seller and the buyer and provides a guarantee of that delivery concludes it does not have a guarantee in the scope of Topic 460 but rather the guarantee is part of the accounting in Topic 606 (e.g. variable consideration for refunds, additional performance obligations).

Based on our experience, after determining whether the feature within the arrangement is a guarantee of an entity's own performance, the application of the accounting guidance in Topic 606 and Topic 460 is clear and should not lead to diversity in practice.

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.

To date, we have not observed a prevalence of lease agreements in which the lessee agrees to pay the lessor by transferring noncash consideration in the form of a share-based payment, and we have not received technical questions about the accounting for them. Therefore, we do not see a present need for the Board to amend GAAP for them, even if the Board decides to address other aspects of lease accounting after completing its Topic 842 post-implementation review.

With respect to lease accounting in general, we do not believe there are substantive issues that presently warrant the Board undertaking a project to revise Topic 842. In our experience, lease accounting questions have continued to decrease, reflecting a growing comfort with, and understanding of, Topic 842. At present, a majority of the questions we receive pertain to new transaction types (e.g. certain arrangements arising from 'green' initiatives) or more complicated arrangements (e.g. sale-leaseback transactions and build-to-suit arrangements). This is broadly consistent with the predominant nature of practice questions during the final years of Topic 840.

As discussed at the FASB's September 2020 public roundtable, we believe that meaningful revisions to Topic 842 would, at this point, mostly generate costs for entities in the form of needed system and process changes that would outweigh the benefits therefrom. It is also possible that any such changes would result in new divergences from IFRS Accounting Standards (e.g. if the Board were to amend the definition of a lease or change guidance pertaining to lease reassessments or modifications), which we believe would not benefit dual-reporters or financial statement users.

Chapter 5—Retirement and Other Employee Benefits

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.

We are not aware of this being a pervasive practice and therefore do not think the Board needs to address disclosures related thereto.

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 acknowledge there is diversity in practice in this area for private investment managers. However, we do not view this as an item the Board needs to prioritize. We are also not aware of other significant or prevalent challenges the Board should prioritize related to 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.

We acknowledge there is optionality in the guidance. However, we do not view this as an item the Board should prioritize and would defer to both preparers and financial statement users on this item.

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 believe the initial and subsequent measurement models in Topic 718 are well understood and we do not view this as an area of GAAP the Board needs to revise. We defer to financial statement users to explain what measurement of share-based payment awards would be most decision-useful to them if not the current model.

Chapter 6—Income and Expenses

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.

Assessing whether an entity is acting as a principal or an agent in a transaction under Topic 606 can be challenging, often driven by the complexity of the transaction. The judgmental nature of this assessment can lead to similar (sometimes only *seemingly* similar) transactions being treated differently due to differences in facts and circumstances that are not readily apparent to financial statement users. The assessments can be particularly challenging when the control principle is not clearly met and the indicators of control are mixed. Challenges faced by entities in making this assessment were acknowledged in the very first meeting of the Transition Resource Group for Revenue Recognition and drove the changes to Topic 606 made in ASU 2016-08, *Principal versus Agent Considerations (Reporting Revenue Gross versus Net)*.

The application of the requirements is challenging across a wide range of services and business models, including resellers, online platform businesses, payment processing services, digital advertising, and growing or developing areas such as value-based healthcare arrangements. However, we believe the change from a risks and rewards indicator approach under legacy GAAP to the control principle-based guidance under Topic 606 has resulted in improvements and more consistency when making principal versus agent determinations. We have observed that some challenges or differences that are characterized as principal versus agent guidance complexities really are questions about (1) appropriately determining the nature of the entity's promise to the customer (Step 2 of the Topic 606 revenue model), (2) appropriately determining the entity's customer or (3) applying the consideration payable to a customer guidance in Step 3 of the Topic 606 model.

We have considered whether the Board should re-examine the principal versus agent considerations guidance in Topic 606. Because most companies have now reached conclusions under the existing requirements, in the absence of a 'silver bullet', or a credible alternative model (noting one alternative model – based on risks and rewards – *was* tried in the past under legacy GAAP), we are concerned about the costs to stakeholders of amending the guidance and the risk of unintended consequences. Even a small change to the guidance designed to address a specific class of transactions could require preparers to revisit a wide range of previous conclusions. Therefore, we recommend that the Board retain the current guidance.

Our insights and observations on some of the challenges we have observed in practice are provided below. We recommend that the Board consider whether additional disclosures may provide users with more insight about the judgments, conclusions and financial statement effects of the application of the principal versus agent guidance and, therefore, be warranted.

Economic risk versus control

Before the issuance of ASU 2016-08, some stakeholders questioned whether control should always determine whether an entity is a principal or an agent, recalling the risks and rewards principle under legacy GAAP. In ASU 2016-08, the Board made clear that the assessment under Topic 606 is based on control of the specified good or service and not exposure to risks or rewards, noting that exposure to risks and rewards can be a helpful factor to consider in determining when an entity has obtained control, but such exposure does not override the control principle.

ASU 2016-08 removed credit risk as an indicator of control to reduce complexity, with the Board noting that risk is less (or not) relevant to a control-based analysis. Paragraph BC18 of ASU 2016-08 observed that the credit risk indicator in legacy GAAP (Subtopic 605-45) had been problematic from the perspective of entities trying to use exposure to credit risk to override stronger evidence of agency. We believe the Board made clear in its deliberations that an entity can have economic risk but not be the principal in an arrangement.

We have observed transactions in which an entity assumes economic risk beyond just credit risk but does not reach a conclusion that it is the principal because it does not control the underlying goods or services (e.g. when an entity provides a guarantee of the third party's performance). We do not believe this is a flaw in Topic 606's principal versus agent guidance but instead reflects either or both (1) that some entities will expose themselves to risks unrelated to their own performance (in which case, the risks are reflected in the accounting as guarantees under Topic 460) or (2) that entities are *appropriately* defining their performance obligation under Topic 606. See **Question 32** related to the challenges in determining whether a guarantee is solely, or in part, a guarantee of an entity's own performance or a guarantee of the third-party provider's performance.

Value-based healthcare risk arrangements

Healthcare companies enter into arrangements with health insurance plans (e.g. a Medicare

Advantage payor) and the Center for Medicare Services whereby they are accepting various levels of risk associated with the total cost of care for a specific population (e.g. disease- or zip code-based). A common industry view is that these arrangements are like insurance contracts and therefore should receive similar accounting treatment – gross presentation of revenue and costs for the risk assumed under the arrangement. However, if the company is not an insurance entity, then it does not apply insurance accounting under Topic 944 even if the arrangements are similar economically. These arrangements are not to provide the underlying healthcare services and, typically, the at-risk company does not have arrangements with the healthcare providers (e.g. specialists, hospitals) that represent a significant portion of the healthcare costs.

For example, a company enters into an arrangement with a health insurance plan to target a population of chronically ill patients to deliver intervening care coordination services based on an algorithm's patient risk score. These services may include coordination with the patients' third-party primary care physicians or disease specialists, as well as coordinating with patients themselves to ensure preventative and managed care is being provided to improve health outcomes and reduce overall costs. Coordinating care for this high-cost population is expected to reduce the overall healthcare costs for the health plan's Medicare Advantage population. Therefore, the company guarantees a level of cost savings for the health plan's entire Medicare Advantage population. As a result of this arrangement, the company is entitled to a percentage of cost savings under a benchmark and if costs exceed the benchmark, the company owes the health insurance plan under the guarantee.

In this example, the company determines the nature of its promise is to provide care coordination services. The company controls its own coordination and healthcare services but does not control the healthcare services provided by third-party physicians or specialists. The company accounts for the risk associated with the guarantee under Topic 460 and the potential cost savings as variable consideration under Topic 606. This accounting does not result in the gross presentation of revenue and costs for the risk assumed under the arrangement, which is different from insurance company accounting.

We have observed a wide variety of value-based healthcare risk arrangements, including technology companies that may offer ways to identify and target at-risk, high-cost patients or incentivize them to improve their overall health behaviors. While these arrangements may be similar in their broad objectives to incentivize healthcare providers and patients to reduce the costs of care and improve health outcomes, they vary in many important ways. Some of these differences include the level of risk assumed, whether the entity has a direct contractual relationship with the payor (e.g. Medicare), the nature of the services provided by the healthcare entity (or non-healthcare entity), the percentage of the population to which services are provided and the contractual or employment relationships with primary care physicians or other medical practice networks. These differences have resulted in some entities concluding they are a principal for the population of healthcare services because they believe they control the healthcare services and integrate them into an overall care coordination service being provided to patients. However, in our experience, it is generally very difficult to conclude an entity has control over healthcare services unless they employ or have direct contractual arrangements with the healthcare providers.

We observe that insurance entities may also engage in similar activities themselves to reduce their risk and present revenue and healthcare costs on a gross basis. However, their gross presentation of healthcare costs is a result of the financial risk model under Topic 944. Because Topic 606 addresses the accounting for services provided to customers, the presentation of these healthcare costs is based on the services they control and not the financial risk assumed. The scoping of Topic 944 and the application of Topic 606 generally do not allow for these services provided by an insurance entity and a non-insurance entity to be accounted for similarly. While similar economically, the nature of their promises to their customers are different.

We do not believe these types of arrangements require the Board to revisit the principal versus agent guidance in Topic 606. To do so, we believe, would require a fundamental altering of the control principle, which would disrupt practice more broadly and conflict with the Board's previous conclusions about economic risk versus control when making principal versus agent determinations. Instead, the

Board may consider providing clarifications about determining the nature of an entity's promise when a guarantee is being provided and how to evaluate the scope of Topic 460 related to guaranteeing one's own performance. See our response to **Question 32**.

Similar business models, different relevant facts

We have observed that arrangements or business models that *appear* similar based on publicly available information may have important factual differences that give rise to different principal versus agent conclusions. Those relevant factual differences may not be readily apparent to financial statement users.

For example, a platform company providing delivery services may conclude, based on the specific promises it makes to the users or independent agents on its platform, that the nature of its promise is to connect users of its platform to independent delivery agents. Another platform company, or even the same platform company, may have arrangements in which it accepts responsibility for the delivery service (i.e. it is required to ensure delivery if the independent agent fails). In these cases, the platform company considers its ability to control delivery, which may include the existence of its own delivery employees or contracts with delivery companies, when determining whether it is the principal to the specified delivery service. It may appear that these two businesses are similar, but the nature of the promises made in the arrangements and how the arrangements are or can be fulfilled by the company affects the principal versus agent conclusion.

We observe that it is becoming more common for platform companies in particular to be considered an agent for some of the specified goods and services in an arrangement and the principal for others due to the terms and conditions of the arrangements, as well as jurisdictional and local law differences. If the Board views this as problematic, instead of changing the accounting guidance, we recommend that it conduct outreach with financial statement users to determine whether existing disclosure requirements provide sufficient decision-useful information when an entity is both a principal and an agent. For example, it may be helpful to financial statement users if entities separately disclose revenue recognized on a net basis and that recognized on a gross basis, particularly when the entity has both net and gross basis revenue for similar underlying goods or services. Such disclosure could provide users with more decision-useful information when comparing entities with *outwardly* similar business models, products or services but whose specific, *relevant* facts and circumstances not immediately evident to the entity's financial statement users result in different principal versus agent conclusions.

We use platform companies broadly as an example above, but the same observations can be made about other arrangements including (not exhaustive) payment processing and digital advertising. The instantaneous nature of some of these services increases the level of judgment that is required to reach appropriate principal versus agent conclusions and may also make it more difficult for financial statement users to understand what relevant fact differences drive sometimes disparate conclusions.

As a further observation around platform companies, we note that there is often diversity in these companies' conclusions about their 'customer(s)'. Platform companies may reach different conclusions about whether one or multiple parties, or which party, is the company's customer. This affects the company's revenue accounting under Topic 606 and can result in different gross versus net revenue and expense conclusions. These diverse conclusions are sometimes mischaracterized as diverse principal versus agent conclusions but are not, in fact, diverse applications of the principal versus agent guidance. **Question 40** expands on issues related to consideration payable to a customer.

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

We believe financial statement users are best positioned to comment on what information would be better for their analyses. However, we do not believe the Board should undertake a project to change the Topic 606 variable consideration (including constraint) guidance, including by expanding the royalties recognition constraint that currently applies only to licenses of IP.

We acknowledge that significant judgment may be involved in estimating variable consideration for many arrangements, including commission-based arrangements. Commonly, this arises because (1) the variability in the contract consideration is susceptible to factors outside the entity's influence and (2) the uncertainty related to the variable consideration is resolved only over an extended period of time.

However, the Board conducted extensive deliberations when developing Topic 606 on the requirements to estimate and constrain variable consideration and to limit the transactions to which the royalties recognition constraint in paragraph 606-10-55-65 would apply (paragraphs BC416 through BC421 of ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*, and paragraph BC78 of ASU 2016-10, *Identifying Performance Obligations and Licensing*); commission-based arrangements and others that require significant judgment to estimate variable consideration were contemplated by the Board as part thereof. In those deliberations, the Board considered and rejected:

— expanding the royalties recognition constraint to all estimates of variable consideration that depend on customers' future actions because this would have prevented an entity from recognizing revenue upon the transfer of goods or services even in situations where the entity could reasonably estimate and appropriately constrain variable consideration; and

— developing a general principle that could be applied to all contracts, including those currently subject to the royalties exception, on the basis that the royalties exception was appropriately narrow to a specific circumstance of significant complexity.

The Board also considered how historical data could be useful in reasonably estimating variable consideration across a variety of scenarios and, in particular, historical information is often available and used to manage a commissions-based business.

The variable consideration guidance in Topic 606 reflected a significant change from legacy GAAP, which had been criticized for its 'fixed or determinable' approach to revenue recognition that many believed reflected neither the economics of an arrangement nor the consideration the entity expected to obtain for its performance. We do not believe there have been significant changes to (1) these arguments, (2) the types of arrangements that give rise to variable consideration (including commission-based arrangements) or (3) the complexities involved in estimating and constraining variable consideration since the Board deliberated the existing requirements. Therefore, we do not see a compelling case to change Topic 606 either for commission-based arrangements or more broadly.

In addition, we believe convergence with IFRS 15 in this fundamental area of the model is very important for consistency and comparability. In its recently completed IFRS 15 post-implementation review (PIR), the IASB did not identify the variable consideration model as an area for action. Therefore, we believe any changes to Topic 606 may not be matched with corresponding changes to IFRS 15, breaking convergence in this important area of the revenue recognition model.

Instead of pursuing a project to change Topic 606, we believe the Board could conduct outreach with financial statement users to determine whether additional disclosures are necessary to provide them with decision-useful information related to management's judgments in estimating and constraining variable consideration.

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.

The consideration payable to a customer guidance can be complicated to apply – and there is existing diversity in practice – when payments are made to a customer's customer outside of the direct distribution chain, which may be the case when an entity is an agent connecting a buyer and seller. The question is whether these payments (which are often incentives) should reduce revenue or be presented as expenses. The diversity in practice primarily arises due to a lack of clarity about payments made to a customer's customer outside the direct distribution chain and the judgment often required to identify an entity's customer(s) in certain arrangements.

This issue is relevant to a wide range of businesses, including food ordering platforms, ride/home sharing platforms, online ticket sellers and online marketplaces. These platform business models have become much more prevalent since the Topic 606 transaction price requirements were developed. Some companies incorporate platform models into their existing principal business whereby they sell goods or services directly to customers as a principal and facilitate the sale of a third-party's goods or services to end-customers. We observe that the types of goods and services sold through a platform business model continue to broaden, from vehicles and industrial manufacturing products to legal and healthcare services.

A common platform example is an entity operating a food ordering platform on which an end-user can order food. The food will be prepared by one of many restaurants that can be selected via the platform. The platform entity identifies the restaurants (sellers) as its customers and determines that it acts as an agent. The entity also pays incentives to the end-users (buyers) to encourage the use of the platform to purchase food. The entity does not consider the end-users to be its customers because it does not believe promises of performance have been made to the end-users.

— If the entity takes a narrow view of the application of the consideration payable to a customer guidance (i.e. that they are not payments in the distribution chain, and therefore the consideration payable to a customer guidance does not apply), then it would treat the incentives paid to end-users as a marketing expense with no impact on its revenue. This would be the case even if the entity plays a significant role in the overall value chain and the incentives paid are significant in comparison to the revenue earned on transactions with the restaurants, which the incentives are designed to promote.

— If the entity takes a broader view of the application of the consideration payable to a customer guidance, it may view the incentives as payments on behalf of its customer (the restaurant/seller). In that case, the entity may apply the consideration payable to a customer guidance and reduce revenue for the payments made because the payments are not for a distinct good or service from the end-user.

— However, if the end-users were also identified as a customer of the food ordering platform, then it would be clear that the incentives are consideration payable to a customer that would reduce revenue if not being made for a distinct good or service priced at fair value.

The FASB/IASB Joint Transition Resource Group discussed whether payments to a customer's customer outside the distribution chain constitute consideration payable to a customer. TRG Agenda Paper No. 37 addressed this issue, with most TRG members concluding that the guidance does apply more broadly to these fact patterns. The TRG observed that regardless of whether an entity concludes that the end-user is also a customer of the entity, a payment to a customer's (seller's) end-customer that was contractually required based on an agreement between the entity and the seller (i.e. the principal to the sale of the specified good or service to the end-user) would represent consideration payable to a customer. However, we observe that it is often the case that there is no contractual obligation to the seller to provide incentives to the end-user (buyer) but that providing incentives to end-users is common and understood by the seller to be occurring and therefore a benefit of the platform.

The SEC staff have addressed similar fact patterns and expressed their views at the 2021 AICPA & CIMA Conference on Current SEC and PCAOB Developments. They noted that if an agency service provider that connects a seller and an end-user concludes it has a single customer (i.e. the seller), the agency service provider cannot simply conclude that any incentive payments it makes to the end-user are payments to a noncustomer and, therefore, marketing expense. Before that conclusion can be reached, it is important to consider whether the agency service provider has an explicit or implicit promise to provide incentives to the end-user on the seller's behalf, or whether it is in fact offering that incentive as an in-substance price concession to the seller. This may be the case if the seller, based on all the information available, has a valid expectation that the agency service provider would grant incentives to the end-user. In these cases, contractual or implied promises to provide sales incentives to the end-user or provide an in-substance price concession to the seller would result in those sales incentives being recorded as a reduction of revenue.

We understand the SEC staff believes, in general, that an implied promise for an entity to make payments (i.e. fund discounts) to buyers (end-users) that purchase from the entity's customers exists if the entity's incentive promotion or program is known or reasonably knowable to the entity's customers. Based on discussions with the SEC staff, an incentive promotion or program may be reasonably knowable to a customer when the benefit is visible to the customer (e.g. via a platform app, website, e-mails or other forms of communications that are accessible by the customer) such that the customer is reasonably aware that end-users of the entity's platform are receiving benefits on purchases and therefore has a reasonable expectation that incentives will be provided to end-customers.

Due to the growing prevalence of platform companies providing these types of agency services for a wide variety of goods and services, the significance of the incentives provided to end-users on these platforms and the diversity noted, we believe the Board should take on a project to clarify how the consideration payable to a customer guidance is applied to these fact patterns. A potential solution is to codify the SEC staff's views. The Board could also consider providing further guidance related to what the entity considers when determining who its customer(s) is (are) when the entity is facilitating a transaction between two parties. We observe some entities may take a more legal view of terms and conditions with end-users, concluding there are no legal obligations or promises to the end-users and therefore they are not customers, and others may view practice and end-user expectations as significant to concluding an end-user is their customer. Respondents to the IASB's IFRS 15 PIR publicly shared the same concern over the clarity of the consideration payable to a customer guidance as this business model has become more common globally.

Negative revenue

Under Topic 606, unless a payment to a customer is in exchange for a distinct good or service, an entity accounts for the payment as a reduction of revenue. In some situations, the amount of consideration payable to a customer could exceed the cumulative amount of consideration the entity expects to receive or has received from a customer, resulting in 'negative revenue'. Topic 606 does not explicitly address whether it is appropriate to reclassify negative revenue to expense, and as a result we have observed diversity in practice.

We believe entities typically record consideration payable to a customer as a reduction of revenue, even when it results in negative revenue, except in limited circumstances, such as in situations where (1) the customer relationship has been terminated or (2) there is both no existing customer contract and a high degree of uncertainty about obtaining a future contract with that customer. However, we have observed some entities reclassify negative revenue in other situations; these other situations include reclassifying negative revenue related to a single transaction even though the reason for the transaction giving rise to negative revenue is the entity trying to incentivize future sales with the customer.

We observe that negative revenue on a transaction or contract-level basis is not uncommon when an entity is selling new technology or starting a business, where sales incentives are important to generating future revenue. Platform companies are a prime example; they often offer significant incentives to end-users (buyers), regardless of whether they are determined to be the entity's customer or its customer's (seller's) customer.

Given the diversity in practice and the absence of clear guidance on the treatment of negative revenue, we recommend that the Board develop guidance to define when, if ever, net negative revenue should be classified as an expense (i.e. rather than contra-revenue). If the Board determines there are circumstances in which negative revenue should be classified as an expense, it should also specify the level at which the expense versus contra-revenue classification assessment should be made – i.e. whether it should be performed at the transaction/contract level, customer level or a broader level (e.g. revenue from related customer contracts). Lastly, we believe any such new guidance should address how to apply it to payments to customers' customers outside the direct distribution chain (e.g. how such payments and customer determinations by platform companies affect whether a negative revenue scenario exists, and whether negative revenue arising from such payments is considered differently than negative revenue arising from other circumstances).

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

We understand that some believe the outcome of applying the consideration received from a vendor guidance in Subtopic 705-20 can give rise to uneconomic outcomes. For example, in the airline industry, when an aircraft is grounded because of equipment issues, the aircraft manufacturer and the aircraft owner may reach a settlement under which the airline receives payment for economic losses (i.e. lost revenues for grounded planes). In general, this payment is then recognized as a reduction to the cost basis of the affected aircraft and, therefore, is taken to income over the aircraft's remaining useful life. There are other examples involving aircraft and other long-lived assets.

The above result occurs because Subtopic 705-20 requires an entity to account for consideration received from a vendor as a reduction to the cost basis of the goods or services acquired (e.g. a purchased aircraft) unless the consideration is (1) in exchange for a distinct good or service that the entity transfers to a vendor, (2) a reimbursement of costs incurred by the entity to sell the vendor's products or (3) consideration for sales incentives offered to customers by manufacturers. However, preparers (and at least some financial statement users) are concerned about having to recognize the income effect of a settlement with a vendor over an extended period of time, through reduced depreciation expense that does not align with the time period used to determine the amount of the vendor payment to the entity.

We believe the Board could consider a narrow-scope project to add an exception to Subtopic 705-20 for compensation received for inadequate performance or nonperformance by a vendor concerning a long-lived asset that is not expected to continue affecting the operation of the asset for most of its useful life (for example, compensation related to a six-month maintenance issue on an asset with a 20-year life). We do not believe the Board needs to undertake a project to revise Subtopic 705-20 more broadly.

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

We believe the current requirements for recognizing interest income on loans in the scope of Subtopic 310-20 are appropriate and, therefore, do not believe the Board should undertake a project to revise them.

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

We do not believe derecognition guidance for transferable tax credits within Topic 740 is necessary. Entities are consistently applying the derecognition guidance in Topic 606 and Subtopic 610-20 to the sale of transferable tax credits and we believe that derecognition guidance provides entities with sufficient guidance on accounting for sales of transferable tax credits.

Chapter 7—Presentation and Disclosure of Financial Reporting Information

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 believe financial statement users are best positioned to comment on what new financial statement disclosures, if any, would provide them additional decision-useful information both (1) in relation to the specific topics listed that precede this question and (2) more broadly (i.e. outside of those enumerated topics).

We acknowledge the Board's recent efforts with respect to enhanced disclosures through the following recently issued ASUs:

- ASU 2021-01, *Government Assistance (Topic 832): Disclosures by Business Entities about Government Assistance*
- ASU 2022-04, *Liabilities – Supplier Finance Programs (Subtopic 405-50): Disclosure of Supplier Finance Programs*
- ASU 2023-06, *Disclosure Improvements: Codification Amendments in Response to the SEC's Disclosure Update and Simplification Initiative*
- ASU 2023-07, *Segment Reporting (Topic 280): Improvements to Reportable Segment Disclosures*
- ASU 2023-08, *Intangibles – Goodwill and Other – Crypto Assets (Subtopic 350-60): Accounting for and Disclosure of Crypto Assets*
- ASU 2023-09, *Income Taxes (Topic 740): Improvements to Income Tax Disclosures*
- ASU 2024-03, *Expense Disaggregation Disclosures (Subtopic 220-40): Disaggregation of Income Statement Expenses*

We encourage the Board to reevaluate financial statement users' needs *once these new requirements are fully implemented*.

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 believe financial statement users are best positioned to comment about whether current disclosure requirements provide meaningful entity-specific information and what disclosures, if any, can or should be eliminated or improved.

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

We acknowledge that RSU awards do not result in an entity receiving cash proceeds, which may raise questions about how to apply the treasury stock method to determine the diluted EPS impact of those awards. However, we do not believe RSU awards should be treated differently than other share-based payment awards for EPS purposes.

In applying the treasury stock method to awards accounted for under Topic 718, the awards may be antidilutive even when the average market price of the underlying share exceeds the exercise price, and no incremental shares would be included in the denominator, even while being 'in-the-money'. This is because the current principle in paragraph 260-10-45-29 requires compensation cost attributed to future services and not yet recognized to be included as a component of assumed proceeds in applying the treasury stock method for share-based payments awards. These additional proceeds may contribute to a result of more shares being theoretically repurchased than issued, and no incremental shares added to the denominator.

The guidance in paragraph 260-10-45-29 is relevant to all types of instruments granted as share-based payment awards regardless of whether there is a stated exercise price. Therefore, conceptually, we do not believe there is any difference between an RSU award where there is no stated exercise price (i.e. exercise price equals zero) and an option award with a very low stated exercise price.

This can be illustrated by comparing an RSU to an unvested penny warrant with an exercise price as low as $0.0001. Those instruments are the same in concept, but not in their legal form. We are aware of penny warrants being an alternative to awarding RSUs. We do not believe a very minimal exercise price should result in a different method to calculate EPS for RSUs and penny warrants. If the RSU would not be dilutive because of the amount of unrecognized compensation cost, then the same rationale would apply to the penny warrants.

Considering this, and assuming the Board plans to keep the principle described in paragraph 260-10-45-29, we do not recommend that the Board undertake a project to create an exception for RSUs.

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

We encourage the Board to obtain and consider feedback from users of non-issuer broker-dealer financial statements and other types of entities that meet the definition of a public business entity (PBE) but do not have publicly traded securities regarding whether they are benefiting from the application of the relevant applicable standards for all PBEs in line with the Board's objective to require entities to disclose information that would be decision-useful to financial statement users.

For example, non-issuer broker-dealers are required to register with the SEC, and Rule 17a-5 of the Securities Exchange Act of 1934 requires these entities to file audited financial statements with both the SEC and their examining authority. These requirements exist because the financial statement users (i.e. the SEC, regulators and customers) are primarily concerned with investor safety and sound capital financial statement metrics. However, we believe non-issuer broker-dealers are fundamentally different from other for-profit entities based on the needs of their financial statement users.

Further, we have observed instances where non-issuer broker-dealers undertook business activities for the sole purpose of complying with new or amended accounting standards. For example, as part of adopting ASU 2023-07, *Segment Reporting (Topic 280): Improvements to Reportable Segment Disclosures*, some non-issuer broker-dealers had to pass board resolutions to establish a Chief Operating Decision Maker (CODM). Similarly, we believe the Board should consider feedback from broker-dealer financial statement users about whether they will benefit from the application of other recently issued accounting standards, such as ASU 2023-09, *Income Taxes (Topic 740): Improvement to Income Tax Disclosures* and ASU 2024-03, *Disaggregation of Income Statement Expenses*.

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.

Given our response to **Question 47** specific to non-issuer broker dealers, we urge the FASB to not replace the definition of a public entity with the PBE definition unless such definition is amended, as this could unintentionally result in non-issuer broker dealers being considered public entities.

More broadly, we are not aware of significant complexities around having multiple definitions of public entity and nonpublic entity in GAAP. However, we believe it would be a best practice to streamline and reduce terms that may cause confusion to financial statement users wherever possible.

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 are not aware of significant issues such that the Board should amend GAAP in this area.

Chapter 8—Current Research Agenda Projects

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.

No. We do not recommend that the Board prioritize a project to develop a single consolidation model.

As noted in our response to the 2021 FASB Invitation to Comment Agenda Consultation and in our comment letter on the August 2017 proposed ASU on Reorganizations, although the consolidation guidance is complex, the cost for many organizations to revise their accounting documentation to align with a single consolidation model could be significant and may provide only modest benefits given that the existing Topic 810 guidance is well established and familiar to most stakeholders.

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.

No. We are not aware of pervasive uneconomic accounting outcomes resulting from application of the existing GAAP consolidation guidance.

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.

We recommend that the Board first prioritize completion of its statement of cash flows targeted improvement project for financial institutions. Second, we suggest that the Board explore providing additional GAAP or interpretive/educational guidance to promote cash flow statement consistency and comparability because we continue to observe practical challenges around, among others:

- the classification of certain cash flows between operating, investing and financing (see our government grants example below);
- disclosures of noncash transactions;
- presentation of constructive receipts and disbursements;
- derivative financial instruments; and
- cash held for others.

Lastly, we suggest that the Board explore whether modest presentation improvements to the statement of cash flows could achieve some of the objectives of a potential financial KPIs project and make the statement more relevant for users. For example, adding certain subtotals or standardizing the presentation of certain cash flows (e.g. capital expenditures) or reconciling noncash items (e.g. depreciation and amortization) could improve financial statement users' ability to calculate non-GAAP liquidity or performance metrics such as free cash flows or EBITDA.

We believe financial statement users are best positioned to comment on the usefulness of the direct method of cash flow statement presentation. In our experience, the direct method is rarely used in practice. While it may be possible to calculate certain direct cash flows indirectly (e.g. cash from customers can be indirectly obtained by adjusting revenue for the change in trade receivables), the information necessary to apply the direct method to all operating activities may not be readily available such that adopting this method could require preparers to adapt their systems, processes and controls. Therefore, any FASB project that might mandate the direct method would require significant outreach to financial statement preparers and users to appropriately weight costs versus benefits.

Example of practical classification issues – government grants

In our experience, there is diversity in practice regarding the classification of government grant proceeds in the statement of cash flows. To determine the appropriate classification, entities may consider factors such as the grant conditions, their accounting policy elections applied to recognize a grant on the balance sheet and/or the timing of receipt of grant proceeds compared to the expenditures for which a grant is providing compensation. These different approaches may result in similar grants being classified differently in the statement of cash flows.

In paragraph BC44 of Proposed ASU, *Accounting for Government Grants by Business Entities*, it is unclear what is meant by 'classifying cash flows from government grants on the basis of the nature of the grant' and how this may affect existing practice. The nature of the grant could be interpreted to refer to the underlying activities for which the entity is being compensated or the type of grant (i.e. asset or income). We recommend that the Board develop comprehensive guidance on the classification of cash flows from government grants either (1) as part of finalizing its current accounting for government grants project or (2) as part of a statement of cash flows project. We observe that the Board currently has a narrowly targeted statement of cash flows project on its technical agenda, and a broader improvements project on its research agenda; either may serve as an appropriate project vehicle for the government grants cash flow guidance we recommend.

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

We believe all entities, including financial institutions, should be permitted to elect the fair value option for physical commodities held for trading purposes. We explain our rationale for that position and provide additional thoughts on such a project in 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.

We believe all entities that hold physical commodities for trading purposes should be permitted to elect the fair value option for those commodities. Permitting entities to elect fair value measurement for physical commodities held for trading will allow entities to better reflect the economic effects of their trading operations and their financial position, especially when the commodities are expected to be bought and held principally for the purpose of selling them in the near term.

We believe the fair value option should be limited to commodities held for trading purposes; it should not be available when an entity intends to sell or use a commodity for other purposes. Further, we believe an entity should be prohibited from electing the fair value option if it demonstrates a history of designating commodities as trading for purposes of applying the fair value option and subsequently using the commodities for other purposes (including, but not limited to, using them in the production of goods to be sold to customers). We acknowledge that the distinction between trading and non-trading may be more challenging if an entity holds commodities both as part of a trading business and for other purposes. However, we believe the distinction is important and the election should be limited to commodities held for trading purposes.

If the Board decides to move forward with a project to permit use of the fair value option, we believe the project will need to address (1) what constitutes a ‘commodity’ for purposes of the guidance, (2) when a commodity is held for trading purposes and (3) whether gains and losses on commodities for which the fair value option has been elected should be presented gross or net in the income statement. With respect to scope, we believe there may be a range of potential scope alternatives for the Board to consider. These may include (not exhaustive): limiting the election to (1) only commodities (or contracts on those commodities) traded on an established exchange, or (2) instruments that are readily convertible to cash (using established guidance in Topic 815 on derivatives and hedging).