INVITATION TO COMMENT

Issued: June 24, 2021
Comments Due: September 22, 2021

Agenda Consultation

Comments should be addressed to:

Technical Director
File Reference No. 2021-004

Financial Accounting Standards Board

Notice to Recipients of This Invitation to Comment

The Board invites feedback on all matters in this Invitation to Comment. We request comments by September 22, 2021, by one of the following methods:

a. Submitting comments through the electronic feedback form
b. Emailing comments to director@fasb.org, File Reference No. 2021-004
c. Sending a letter to "Technical Director, File Reference No. 2021-004, FASB, 401 Merritt 7, PO Box 5116, Norwalk, CT 06856-5116."

All comments received are part of the FASB's public file and are available at www.fasb.org.

A copy of this Invitation to Comment is also available at www.fasb.org.

FASB FINANCIAL ACCOUNTING STANDARDS BOARD®

Invitation to Comment

Agenda Consultation

June 24, 2021

Comment Deadline: September 22, 2021

CONTENTS

Purpose of This Invitation to Comment

The purpose of this Invitation to Comment (ITC) is to solicit broad stakeholder feedback about the future standard-setting agenda of the Financial Accounting Standards Board (FASB). The feedback on this ITC is essential in ensuring that the FASB continues to allocate its finite resources to achievable standard-setting projects that fulfill its primary mission of improving financial accounting and reporting standards and addressing topics that are of the highest priority to its stakeholders. The FASB requests feedback on the following:

1. Whether the financial reporting topics described in this ITC are areas for which there is potential for significant improvement.
2. The priority and urgency of addressing each topic.
3. Which potential solution(s) the FASB should consider in addressing each topic.
4. For any potential solution, the expected costs and expected benefits, including:
    a. For investors, how a potential solution would directly influence their decisions and behaviors
    b. For preparers and practitioners, the feasibility of a potential solution.
5. Whether there are other financial reporting topics beyond those described in this ITC that the FASB should consider adding to its agenda and the priority and urgency of those topics.

The FASB staff is issuing this ITC to obtain broad stakeholder feedback. This ITC does not include Board views; the Board will consider the feedback received in response to this ITC when making decisions about potential changes to its agenda. Those decisions include which topics, if any, should be added to the FASB's agenda (and in what order) and whether the current agenda projects described in Appendix A remain a priority to stakeholders or could be reimagined.

This ITC and agenda consultation process are intended to complement the FASB's formal agenda request process; stakeholders are encouraged to continue to submit agenda requests about needed improvements to generally accepted accounting principles (GAAP) as they arise.

Background

In December 2020, FASB Chair Richard R. Jones announced at the American Institute of Certified Public Accountants (AICPA) Conference on U.S. Securities and Exchange Commission (SEC) and Public Company Accounting Oversight Board (PCAOB) Developments (2020 AICPA Conference) that the FASB would undertake an agenda consultation process in 2021 (the 2021 Agenda Consultation) to assist the Board in deciding where to focus its standard-setting efforts going forward. The 2021 Agenda Consultation process is similar to prior efforts in 2016, when the FASB staff issued an Invitation to Comment, *Agenda Consultation* (the 2016 Agenda Consultation), to solicit feedback about the financial reporting topics that the Board should consider adding to its agenda.

Agenda Prioritization Process

As of the issuance of this ITC, the FASB's technical agenda includes 25 standard-setting projects, 6 research projects, 3 post-implementation review (PIR) projects (Appendix A—FASB's Agenda (as of June 2021)), and a project on updates to the FASB's nonauthoritative Conceptual Framework. The objective, timing, and next steps related to each standard-setting project are included on the FASB website. Some include broader changes to GAAP, while others are narrower in scope. Some projects focus on improving recognition and measurement in the financial statements, and others focus on improving the required disclosures in the notes to financial statements. The PIR process is an evaluation of whether a standard is achieving its objective by providing financial statement users with relevant information in ways that justify the costs of providing it. Ultimately, all the projects relate to the mission of the FASB, which is:

> To establish and improve financial accounting and reporting standards to provide useful information to investors and other users of financial reports and educate stakeholders on how to most effectively understand and implement those standards.

At least a majority of the Board must approve any projects that are added to or removed from the technical agenda. When considering whether to add a project to the technical agenda, the Board evaluates potential projects against the following three criteria to ensure consistent agenda prioritization decisions:

1. **There is an identifiable and sufficiently pervasive need to improve GAAP—**What improvement is needed? To what extent does an issue affect investors, preparers, auditors, and others?
2. **There are technically feasible solutions, and the expected benefits of those solutions are likely to justify the expected costs of change—**What are the various alternative ways that an issue could be addressed? What are the expected benefits of the solutions, and can the solutions be implemented?
3. **The issue has an identifiable scope—**Can the FASB effectively identify the scope of a potential project? Can the issue be sufficiently described?

Decisions about whether a project meets those criteria are a matter of judgment by the Board, which is based on research and analysis performed by the FASB staff as well as the diverse experiences of the Board members. The criteria help the Board to use its time and resources efficiently and effectively on the highest priority projects that the Board will be able to complete. When considering the Board's first agenda criterion (that is, there is an identifiable and sufficiently pervasive need to improve GAAP), there are three primary reasons for change:

1. **To provide investors with better, more useful information that will directly influence their decisions and behavior—**The FASB's mission centers on standards that provide investors with decision-useful information, and the FASB is very focused on obtaining investor input at every stage of the standard-setting process, including in the agenda decision process. In meeting the FASB's mission, an investor's desire for more granular information must be balanced with the cost to provide that information. Therefore, an emphasis on cost-benefit analysis throughout the FASB's standard-setting activities is crucial. The FASB strives to clearly identify, understand, and communicate the types of investors that will benefit from any changes and how they will use that information.
2. **To remove unnecessary cost and complexity from the system—**If a transaction is, by its nature, complex, the accounting also may be complex, which is necessary complexity. Conversely, unnecessary complexity and the cost that accompanies it should be minimized because it affects investors and preparers. Unnecessary complexity may convey a level of precision that can be misleading and can reduce the quality of compliance with a standard.
3. **To maintain and improve the *FASB Accounting Standards Codification*®—**Ensuring that the Codification (which is the source of authoritative GAAP recognized by the FASB to be applied to nongovernmental entities) remains relevant to current transactions, addresses practice issues, and narrows unacceptable diversity in practice continues to be important.

Development of This ITC

To begin the 2021 Agenda Consultation process, the FASB staff sought input from numerous stakeholder groups and FASB advisory groups, including the Investor Advisory Committee (IAC), the Financial Accounting Standards Advisory Council (FASAC), the Emerging Issues Task Force (EITF), the Not-for-Profit Advisory Committee (NAC), the Private Company Council (PCC), and the Small Business Advisory Committee (SBAC), to identify priority areas of improvement to financial reporting. Throughout the first half of 2021, the FASB staff and Board members met with more than 200 stakeholders, approximately one-third of which were investors or other financial statement users. In addition to investors, a cross-section of stakeholders participated in that preliminary outreach, including preparers, practitioners, and academics—from public companies, private companies, and not-for-profit entities (NFPs). During those outreach meetings, stakeholders identified more than 40 topics of potential improvements for the FASB to consider as part of its standard-setting efforts.

The feedback was diverse, thoughtful, and insightful. The discussions included within this ITC are based on input received from those stakeholders. When this ITC refers to feedback provided by stakeholders or certain stakeholder groups, such as investors, it does not mean that those views were necessarily heard broadly across all stakeholders or all stakeholders within those groups, but rather is meant to indicate that multiple participants during initial outreach expressed those views.

Stakeholder input on the FASB's future standard-setting activities generally fell within one of the following types of projects:

1. Greater disaggregation and granularity of financial reporting information are needed, either on the face of the financial statements or the notes to financial statements, to provide investors with better, more useful information that will directly influence their decisions and behaviors (Chapter 1—Disaggregation of Financial Reporting Information).
2. Emerging transactions need to be considered, such as in cases in which there is no specific topical authoritative accounting or disclosure guidance[1] or the current accounting outcomes are not intuitive, to reduce diversity in practice, and to retain the relevancy of the Codification (Chapter 2—Emerging Areas in Financial Reporting).
3. Specific areas of existing GAAP need to be reevaluated to reduce unnecessary cost and complexity (Chapter 3—Reduction of Unnecessary Complexity in Current GAAP).
4. Enhancements to, and education on, certain FASB standard-setting processes would help increase transparency and communication (Chapter 4—Improvements to FASB Standard-Setting Processes).

While some stakeholders provided a variety of suggestions on where the FASB should focus its efforts, other stakeholders expressed that there is no compelling need for any major changes to GAAP at this time.

Although this ITC is primarily about topics that the FASB should consider adding to its agenda, the stakeholder feedback from the first half of 2021 emphasized the importance of the FASB continuing to allocate resources to address a wide range of stakeholder concerns, which include:

---

[1]For example, in some cases, a company may be required to apply general guidance that was developed to address a broad range of transactions instead of guidance that was specifically developed for the emerging transactions.

1. Completing critical projects currently on the agenda that are designed to reduce diversity in practice, improve financial reporting information for investors, and address other practice issues (for example, segment reporting, the subsequent accounting for goodwill, disclosures about supply-chain financing, and the accounting for asset acquisitions and business combinations)
2. Addressing time-sensitive stakeholder concerns in a timely manner as they arise and are brought to the FASB's attention through agenda requests (such as the FASB's recent standard-setting activities in response to the COVID-19 pandemic and reference rate reform)
3. Monitoring implementation of the recently completed major projects, addressing related practice issues in a timely manner, and educating stakeholders about the new guidance (for example, the PIRs on revenue from contracts with customers, current expected credit losses, and leases).

The remainder of this ITC describes topics for improvement that were suggested during the outreach conducted when developing the content of this ITC. The feedback included within this ITC is not exhaustive, and the FASB welcomes feedback on other topics that are of the highest priority to stakeholders for the Board to consider.

IFRS Standards

In March 2021, the International Accounting Standards Board (IASB) published the Request for Information, *Third Agenda Consultation,* which asks stakeholders to comment on several evolving areas. The FASB staff will continue to monitor feedback received on the IASB's Request for Information and intersections with feedback received on this ITC.

Overall Questions for Respondents

Individuals and organizations are invited to comment on all matters in this ITC, particularly on the issues and questions that are specifically asked in this document. General questions about the FASB's technical agenda are included below, and questions on a specific area or topic are included in each chapter. Appendix B contains a comprehensive list of the questions for respondents.

While it would be helpful to receive feedback on all the questions in this ITC, the FASB staff welcomes comments from those who are only interested in a specific topic or topics described in this ITC. Comments are most helpful if they are as specific as possible, identify and clearly explain the topic or question to which they relate, and are specific to financial accounting and reporting.

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. Lender
    10. Long-only focus
    11. Long/short focus
    12. Other
c. NFP organization preparer
d. Practitioner/auditor
e. Private company preparer
f. Public company preparer
g. Regulator
h. Standard setter
i. Other.

Question 2: Which topics in this ITC should be a top priority for the Board? Please explain your rationale, 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 potential project scope, objective, potential solutions, and the expected costs and benefits of those solutions)
c. What the urgency is of the Board completing a project on this topic (that is, how quickly the issues need to be addressed).

Question 3: Are there topics in this ITC that the Board should not address as part of its future standard-setting efforts? Please explain your rationale, 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.

Question 4: Are there any financial reporting topics beyond those in this ITC that should be a top priority for the Board to address? Please describe:

a. The nature of the topic
b. The reason for the 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 potential project scope, objective, potential solutions, and the expected costs and benefits of those solutions)
e. What the urgency is of the Board completing a project on this topic (that is, how quickly the issues need to be addressed).

Question 5: The objective of this ITC and the related 2021 Agenda Consultation process is to ensure that the FASB continues to allocate its finite resources to standard-setting activities that fulfill its primary mission of improving financial accounting and reporting standards and that are of the highest priority to its stakeholders. Therefore, feedback on the prioritization of projects on the FASB's technical agenda (see Appendix A) would be helpful. Do you have any feedback on the FASB's technical agenda, including the following:

a. Which projects on the FASB's agenda should the Board prioritize completing? Please explain.
b. Which projects, if any, should the Board deprioritize or consider removing from the agenda? Please explain.
c. Which projects, if any, need to be redefined to improve the objective and/or scope? Please explain.

Chapter 1—Disaggregation of Financial Reporting Information

Overall

Investors and other financial statement users cited a general need for greater disaggregation and granularity of a range of financial reporting information—in the income statement, in the statement of cash flows, or in the notes to financial statements. They explained that this information is needed to better understand the performance of the company and assess future operating results, cash flows, and risks (such as risks relating to earnings, legislation, reputation, income taxes, and foreign currencies).

Specifically, investors requested more granularity and disaggregation about the following types of financial reporting information (in alphabetical order):

- Breakdown of cost of sales (COS) and selling, general, and administrative (SG&A) expense to understand a company's cost structure by nature (such as labor) and/or further by function (such as selling expenses separate from general and administrative expenses)
- Breakdown of income tax information to better assess global tax risk
- Breakdown of operating results by regulatory jurisdictions and product lines to understand geographical and jurisdictional risks
- Defined intermediate operating measures for NFPs to promote better consistency across entities
- Defined subtotal for operating income and a designation of whether income and expense items (such as restructuring costs) are recurring or nonrecurring to increase comparability across reporting periods and companies
- Effects of business combinations to compare a company pre- and post-acquisition
- Effects of environmental, social, and governance (ESG) matters on financial statement line items
- Effects of foreign currencies on financial statement line items
- Operating results, cash flows, and balance sheet information of partially owned subsidiaries and equity method investments
- Operating results and cash flows attributable to noncontrolling interests
- Types of research and development expenditures.

To help the FASB in considering a potential project or projects on disaggregation of financial reporting information, it would be helpful to receive feedback from investors about how specific information would directly influence their decisions and behaviors. In addition, it would be helpful to receive feedback from preparers and practitioners about the costs of providing such information. That feedback will help the FASB in the agenda prioritization process and in determining, for example, whether there are technically feasible solutions, and whether the expected benefits of those solutions are likely to justify the expected costs of change.

Question 6: Greater disaggregation and granularity of the types of financial reporting information described in Chapter 1 have been identified as decision useful to investors. The following insights would be helpful to the FASB when considering this area:

a. Investors and other financial statement users—Which, if any, of the areas described in Chapter 1 should be a top priority for the FASB to consider requiring greater disaggregation—on the income statement, the statement of cash flows, or the notes to financial statements? Would this information be most useful in the financial statements or in the notes to financial statements? How would this information be used to analyze a company and make capital allocation decisions?
b. Preparers—What requests or questions does your company receive from analysts on the areas described within Chapter 1? Please explain any requests or questions your company has received.

The following summarizes the feedback received before the issuance of this ITC on this topic (in alphabetical order), as well as how the FASB may have previously considered (or is currently considering) certain topics on its technical agenda.

Business Combinations

Investors observed that it is difficult to understand organic growth versus acquired growth in a company's financial statements after an acquisition. Investors suggested that the Board explore additional business combination disclosures, such as a reconciliation from preacquisition book value to the acquisition date fair values. Investors also observed that limited information is available for certain types of acquisitions, especially when a company enters into multiple immaterial acquisitions that are material in the aggregate, which makes it difficult to understand the effect of those acquisitions on future operations and cash flows.

ESG-Related Disclosures

Stakeholders provided feedback that disclosures about ESG matters and the effect on financial statements would provide decision-useful information for investors and other financial statement users. Investors noted that there is inadequate information currently being disclosed on climate risk and when climate risk would have a material effect on an impairment analysis, fair value calculation, or estimate of expected credit losses. However, some stakeholders observed that it would be operationally difficult to differentiate whether (and which) ESG matters have a direct (or indirect) effect on financial statements because of the broad nature of those matters and the challenges in distinguishing the effects of an ESG-related matter and other changes affecting a company's financial statements. Additionally, stakeholders noted that certain information requested by investors and other financial statement users related to ESG matters are broader than information contained in the financial statements.

While ESG matters cover a broad range of topics well beyond the topics covered by financial accounting and reporting standards, the FASB staff observes that many current accounting standards require a company to consider changes in its business and operating environment when those changes have a material direct or indirect effect on the financial statements and notes to those statements. That is often the case in areas of accounting that require management judgment and estimation. Additional information is included in the FASB Staff Educational Paper, *Intersection of Environmental, Social, and Governance Matters with Financial Accounting Standards*. The FASB staff developed the Educational Paper to provide investors and other interested parties with an overview of the intersection of ESG matters with financial accounting standards. The Educational Paper also provides examples of how a company may consider the effects of certain material ESG matters when applying current accounting standards, similar to how a company considers other changes in its business and operating environment that have a material direct or indirect effect on the financial statements.

The SEC created the Climate and ESG Task Force to identify any material gaps or misstatements in issuers' disclosure of climate risks under existing rules. Additionally, the SEC requested public input from investors, registrants, and other market participants on climate change disclosures. There also has been continued international interest in this area, including being identified as a recent area of strategic focus for the IFRS Foundation Trustees and for environmental-related activities of the European Financial Reporting Advisory Group.

Suggestions on ESG-related disclosures that are of most interest to the FASB staff are those that are within the context of financial accounting and reporting and have a direct link to specific financial statement line items.

Income Tax Disclosures

Investors observed that the existing income tax disclosures do not provide sufficient detail to assess global tax risk. To better understand a company's exposure to potential changes in tax legislation and the global tax risk companies may face, investors suggested a variety of possible enhancements, including requiring disclosure of the amount of cash taxes paid by jurisdiction or geographical segment and disaggregation of the types of taxes paid, such as the global intangible low-taxed income (GILTI) tax and the base erosion and anti-abuse tax

(BEAT), to help them better understand what global tax risk companies may face. Investors stated that a requirement for companies to break out operating results by regulatory jurisdictions would help investors gain greater insight into income tax risks.

The FASB's technical agenda includes an income tax disclosures project. The FASB staff is in the process of performing research and outreach on disaggregated income tax information and other disclosure enhancements as part of that project.

Partially Owned Subsidiaries and Equity Method Investments

Investors requested more transparency into the details of operations and cash flows (as well as certain balance sheet information, such as cash and debt) of partially owned subsidiaries and equity method investments, such as joint ventures. For example, investors would like to better understand profitability and key metrics, such as the earnings before interest, taxes, depreciation, and amortization (EBITDA) and cash flows from operations generated from partially owned subsidiaries and equity method investments.

One suggestion to improve decision-useful information about equity method investments is to permit an investor to elect to apply the fair value option for an equity method investment if its fair value becomes readily determinable. Currently, an equity method investor generally can elect to apply the fair value option to an equity method investment only upon initial acquisition of the investment.

Performance Reporting—Disaggregation of Performance Information

Investors and other financial statement users suggested that the Board prioritize improvements to require that companies disaggregate certain income statement items, such as those described at the beginning of Chapter 1, to increase transparency and allow investors to adjust the information for their own analyses. For example, greater insight into a line item, such as SG&A expense or COS, would allow an investor to better understand a company's cost structure, operating results, and future cash flows. Furthermore, they noted that additional information about personnel expenses, including health care and retirement benefits, would help an investor understand a company's expenditures for wages and salaries. Several investors also were interested in creating a more uniform income statement presentation, such as through a requirement for a defined subtotal for operating income and a designation on the income statement of whether income and expense items (such as restructuring costs) are recurring or nonrecurring, to increase comparability across reporting periods and companies. Investors said this additional income statement information would be sufficient if it was included in the notes to financial statements. Another suggestion was to require separate presentation on the income statement of costs related to future development, which would help investors better understand costs of intangible assets that are not recognized on the balance sheet.

Some preparers and practitioners indicated that further disaggregation of the income statement may require new systems and changes in control processes.

The FASB has previously attempted broad-sweeping improvements to performance reporting and encountered many challenges because of polarized views among stakeholders, such as the feasibility of solutions to provide greater disaggregation and the expected costs and expected benefits of those solutions. As a result of the feedback received on the 2016 Agenda Consultation ITC, the Board has projects on its research and technical agendas on financial performance reporting for for-profit entities and segment reporting. The financial performance reporting projects have been put on hold pending further progress on the Board's segment reporting project. Some stakeholders expressed concern that if the IASB's proposal on its primary financial statements project is finalized, those proposed changes have the potential to create significant noncomparability in the financial statement presentation between GAAP and IFRS Standards. Many stakeholders, particularly academics, practitioners, and investors, emphasized the importance of GAAP and IFRS Standards being comparable in financial statement bases.

Intermediate Operating Measures for NFPs

The Board has a project on its research agenda to consider whether to require a measure of operations and whether and how to define a measure of operations for NFPs. NFP stakeholders indicated that a project on intermediate operating measures may be worth pursuing because comparability across NFPs in a specific industry and consistency within a specific organization would be meaningful to financial statement users. However, those stakeholders noted the potential difficulty in defining and mandating such a measure. Suggested solutions for intermediate operating measures for NFPs included defining items to be excluded from an intermediate operating measure, providing industry-specific measures, and creating a measure that would allow for flexibility and judgment.

Presentation of the Statement of Cash Flows

Investors provided feedback that greater insight from a company's statement of cash flows is needed to project future operating results and cash flows. Some investors stated that the indirect method, which most companies utilize today to report cash flows, is not intuitive and does not provide sufficient decision-useful information. For example, some investors noted that the most decision-useful cash flow information, such as cash collected from customers, is only available in a statement of cash flows prepared using the direct method, which companies rarely utilize. Some investors explained that there is variability in how the indirect method of reporting cash flows is presented across companies and industries, which makes comparability and analysis more difficult. Specifically, investors observed that presentation of noncash items is inconsistent between companies.

Other investors provided suggestions to improve the indirect method, including a more detailed breakdown of certain line items to help investors gain a better understanding of a company's core operations and greater consistency in presentation of certain cash flow items within the operating and financing sections.

Preparers countered those suggestions by observing that both implementation and ongoing costs associated with changes to the statement of cash flows could be significant and would require major changes to systems and control processes. Some preparers agreed with investors that greater clarity is needed on how to present certain noncash items in cash flows from operations.

Separately, some investors specifically questioned the relevance of the statement of cash flows for financial institutions. Additionally, some investors suggested requiring separate cash flow information for significant financial subsidiaries of a parent company to allow investors to make better comparisons of those financial subsidiaries with other similar financial organizations and to gain a better understanding about the core business performance of the parent company.

> **Question 7:** Investors and other financial statement users—What cash flow information, if any, required for your analysis is missing in a statement of cash flows prepared using the indirect method? How would this information influence your decisions and behavior? Please explain.

> **Question 8:** Preparers—What requests or questions, if any, does your company receive from analysts on cash flow information? Please explain.

Chapter 2—Emerging Areas in Financial Reporting

Overall

Stakeholders, including investors, preparers, practitioners, and academics, cited a need for the Board to maintain and improve the relevance of GAAP by addressing financial reporting for several emerging areas. Those areas include accounting for transactions for which there is currently no specific topical authoritative guidance, as well as transactions for which current GAAP results in accounting that some stakeholders say does not reflect the underlying economics of the transactions. Stakeholders urged the Board to consider those emerging areas now so that it has sufficient time to complete its due process and provide timely and necessary guidance.

Specifically, stakeholders identified the following emerging areas for the FASB to address through financial reporting (in alphabetical order):

- Definition of a derivative
- Digital assets
- ESG-related transactions, such as renewable energy credits and emissions allowances
- Financial key performance indicators (KPIs) or non-GAAP metrics
- Intangible assets, including software
- Recognition and measurement of government grants for business entities.

Several of those emerging areas have been previously discussed and considered by the Board as part of its standard-setting efforts, are on the Board's research agenda, or are being monitored by the FASB staff. However, there currently are no projects on the FASB's technical agenda related to any of those areas. Stakeholders observed that improvements do not need to be broad and far-reaching to be effective and that starting with a specific subset would be a way to make progress in areas in which the Board has historically encountered many challenges.

For those emerging areas, it would be helpful to receive specific feedback from stakeholders on how the Board should address the areas. For example, it would be helpful to receive feedback on whether the Board should initially address the areas narrowly by making incremental improvements or by addressing the area more broadly and holistically. The FASB staff acknowledges that stakeholder views on how the Board should address these emerging areas may vary, considering both the pervasiveness and the urgency of the transactions. Therefore, stakeholder feedback will help the FASB in the agenda prioritization process and in determining, for example, whether a potential project has an identifiable scope and feasible, cost-effective solutions.

Definition of a Derivative

Stakeholders provided feedback that the definition of a derivative and the related derivative scope exceptions in Subtopic 815-10, Derivatives and Hedging—Overall, should be reevaluated to consider whether the guidance continues to capture the intended types of instruments, especially because the nature of transactions have evolved since the June 1998 issuance of FASB Statement No. 133, *Accounting for Derivative Instruments and Hedging Activities*. Stakeholders stated that the definition of a derivative often captures transactions that, in their opinion, were not originally intended to be accounted for as derivative instruments. An example that some stakeholders provided is research and development funding arrangements.

> **Question 9:** What challenges, if any, are there in applying the guidance on the definition of a derivative and the related derivative scope exceptions in Subtopic 815-10? Please explain the challenges and whether and how they could be addressed through standard setting.

Digital Assets

Digital assets, such as crypto assets, generally meet the definition of intangible assets and are accounted for under Topic 350, Intangibles—Goodwill and Other, which means that, generally, they would be initially measured at cost and then tested for impairment (other than a digital asset that meets the definition of a security, as well as certain industries that apply different measurement guidance, such as investment companies). When accounted for as intangible assets, the carrying amount of digital assets does not reflect increases in price. Stakeholders stated that this accounting treatment may not be reflective of the underlying economics and that recurring fair value measurements would provide more decision-useful information, although there may be challenges in determining fair value. Additionally, investors observed that there are limited disclosures provided on digital assets.

The Board received several agenda requests on accounting for crypto assets. In October 2020, the Board considered those requests and decided not to add a targeted project because of a lack of pervasiveness, but it directed the FASB staff to continue monitoring this area. Stakeholders continue to urge the Board to provide guidance for digital assets considering that their use could become more prevalent in the future and that a project on digital assets may take the Board several years to complete. However, stakeholders acknowledged that there are challenges in identifying the scope of potential guidance.

Stakeholders suggested that the Board could provide short-term improvements by permitting a company to irrevocably elect to apply the fair value option for certain digital assets if the fair value is readily determinable. Other stakeholders suggested that there is a broader need to improve the overall accounting for all nonfinancial assets, including digital assets. Investors also suggested that disclosures about the purpose, type, and amount of digital asset holdings would be decision useful in addition to or in lieu of digital assets being measured at fair value on the balance sheet.

Question 10: Investors—How significant are holdings in digital assets, such as crypto assets, in the companies you analyze? What type of financial reporting information about holdings in digital assets do you use in your analysis of a company? How does that information influence your decisions and behaviors? If there is other financial reporting information about digital assets that would be decision useful, what is that information and why would it be decision useful?

Question 11: Preparers and practitioners—Does your company (or companies that you are involved with) hold significant digital assets, such as crypto assets? What is the purpose of those holdings?

Question 12: If the Board were to pursue a project on digital assets, which improvements are most important, what types of digital assets should be included within the scope, and should this guidance apply to other nonfinancial assets?

ESG-Related Transactions

Stakeholders provided feedback that there is a lack of clarity on how to account for certain environmental transactions, which has resulted in diversity in practice. That includes the accounting for investments in emissions allowances, carbon offsets, renewable energy credits, and wind farms. For example, there are questions about what GAAP companies should follow to account for those transactions because existing guidance does not specifically refer to environmental-related transactions or provide examples. Additionally, practitioners stated that applying an existing area of GAAP, such as the guidance on intangible assets or inventory, has raised some questions and issues because the Board did not contemplate those unique transactions in developing the existing guidance. The Board has previously discussed the accounting for environmental allowances and credits—most recently in 2019 when the Board voted not to add a project to its technical agenda on the accounting for emissions allowances.

Stakeholders also provided feedback that there are questions about how to account for financing and compensation arrangements that are linked to ESG metrics and goals, such as green bonds.

Stakeholders suggested that it would be helpful if the Board provided guidance and education to increase awareness and comparability around those types of transactions.

> **Question 13:** Are there common ESG-related transactions in which there is a lack of clarity or a need to improve the associated accounting requirements? Please describe the specific transactions and why standard setting is needed.

Financial KPIs or Non-GAAP Metrics

Stakeholders observed an increasing focus from investors and preparers on non-GAAP financial metrics, such as financial KPIs. Investors and other stakeholders expressed concern about that focus because there are no parameters around the metrics, such as EBITDA and free cash flow (FCF). Because of that, investors and practitioners noted that those metrics often are not comparable across companies or even across reporting periods for a company, which can lead to difficulty in discerning what is included within a specific metric. That creates complexity for investors that look to adjust the metrics for their own analyses.

Stakeholders acknowledged that it could be challenging to capture all financial KPIs and metrics because many are industry specific and they evolve over time. Stakeholders suggested that the Board focus on defining and standardizing certain prevalent financial metrics, such as EBITDA and FCF, and incorporate those various financial metrics into the audited financial statements to allow for greater comparability across companies and reporting periods.

Preparers expressed concerns about a standardized approach, arguing that companies view adjustments differently across industries and prefer presenting information consistent with management’s view. Preparers noted that even if the FASB were to standardize certain financial KPIs, companies would continue to provide their own non-GAAP metrics to tell their financial story for the reporting period. For example, if EBITDA were defined, companies may continue to present an “adjusted EBITDA” metric outside the financial statements, which could lessen the benefits of the standardization of this metric within GAAP. Stakeholders discussed whether any potential standardized financial KPIs or metrics would be required or optional. Investors were concerned that if standardized metrics were optional, certain companies that currently provide this information would exclude those metrics to reduce costs, which would reduce information available to investors and other financial statement users.

Investors observed that if the Board were to require further disaggregation of income statement and cash flow information (see Chapter 1), it could lessen the need for companies to provide standardized non-GAAP metrics because investors would be able to use the disaggregated information from the financial statements to create their own metrics or adjustments.

Question 14: Are there common financial KPIs or metrics—either widely applicable to all companies or industry specific—that would provide decision-useful information if they were defined by the FASB? Please explain.

Question 15: If the FASB were to define certain financial KPIs or metrics, should all companies be required to provide those metrics or should providing those metrics be optional?

Recognition and Measurement of Government Grants for Business Entities

GAAP does not provide specific topical authoritative guidance on how business entities should recognize and measure grants received from a government. The lack of specific guidance has recently been highlighted by stakeholders following the significant increase in government grants as part of the global response to the COVID-19 pandemic. In lieu of specific guidance, business entities typically analogize to either the guidance in Subtopic 958-605, Not-for-Profit Entities—Revenue Recognition, or the guidance in IAS 20, *Accounting for Government Grants and Disclosure of Government Assistance*. Stakeholders observed that the lack of specific guidance on the recognition and measurement of government grants has created diversity in practice and suggested that the Board provide accounting guidance for government grants to ensure comparability between companies and across industries. Stakeholders suggested solutions ranging from permitting companies to adopt the guidance in IAS 20 to developing an entirely new model within GAAP.

The FASB's agenda includes a project to consider disclosures by business entities about government grants (final guidance is expected to be issued in the third quarter of 2021). Historically, there have been differing views on what constitutes a government grant (that is, cash grants, forgivable loans, and property tax abatements) in the government grants disclosure project. Similar challenges would be expected in identifying the scope for recognition and measurement guidance in that area. To overcome that, stakeholders suggested that the Board provide recognition and measurement guidance for a specific subset of transactions that are widely understood as government grants, such as cash grants. Addressing the recognition and measurement for a specific subset of government grants, rather than attempting to address the entirety of what could be considered government grants and financial support, could be a first step and represent an incremental improvement.

As part of its March 2021 Request for Information*, Third Agenda Consultation*, the IASB asked stakeholders whether certain provisions of IAS 20 should be reconsidered, including the existence of an accounting policy choice to present grants related to income as either separate income or an offset to a related expense. Any potential IASB project to update IAS 20 could be considered as part of a potential FASB project on the recognition and measurement of government grants, particularly if stakeholders express an interest in convergence in that area.

> **Question 16:** If the Board were to pursue a project on the recognition and measurement of government grants, should the FASB leverage an existing grant or contribution model (such as the models in IAS 20 or Subtopic 958-605) or develop a new model? If you prefer leveraging an existing model, which would be most appropriate and why? If the FASB were to develop a new model, what should the model be?

> **Question 17:** The FASB has encountered challenges in identifying a project scope that can be sufficiently described for government grants. If the Board were to pursue a project on the recognition and measurement of government grants, what types of government grants should be included within the scope and why (for example, narrow or broad scope)?

Intangible Assets, Including Software

Stakeholders provided feedback that for many companies there is a significant difference between book value and market capitalization for companies with significant intangible assets.

Existing GAAP for intangible assets is fragmented, and there are varying requirements for recognition and measurement depending on the type of intangible asset being accounted for. Specifically, some stakeholders said that the differences in accounting for research and development (R&D) that is internally developed (expensed as incurred) and in-process research and development (IPR&D) acquired in a business combination (capitalized at fair value on the acquisition date) create significant noncomparability between companies that grow organically and those that grow through acquisitions. Furthermore, stakeholders provided feedback that differences in accounting for IPR&D between the acquisition guidance for assets and businesses create unnecessary complexity.

Chapter 1 of the 2016 Agenda Consultation ITC discussed internally developed intangible assets, including research and development. As a result of the feedback received on the 2016 ITC, a research project on developing qualitative disclosures about intangible assets was added to the Board's agenda in September 2017. In December 2020, the objective and scope of that research project was expanded to consider the accounting for and disclosure of intangible assets, including internally developed intangible assets. That research is in an early stage, and a project scope and objective have not yet been set.

Certain stakeholders indicated that recognizing more internally developed intangible assets on the balance sheet could add more cost to the system than benefit to investors, considering that capitalization thresholds are often extremely judgmental and subjective, and that the costs that would be capitalized are often not reflective of the economic value of a company's intangible assets. However, other stakeholders indicated that some incremental capitalization of internally developed intangible assets, such as R&D, could make the balance sheet more reflective of a company's market capitalization. Stakeholders suggested starting with aligning the guidance for internally developed R&D and IPR&D acquired through an asset acquisition and a business combination as a first step toward improving the intangibles guidance.

Stakeholders suggested that the Board should consider requiring additional qualitative and quantitative disclosures about intangible assets, such as disclosures about research and development (including details about the employees involved in those efforts) and disclosures about intangible assets that are driving a company's market capitalization.

Stakeholders provided feedback that the technological feasibility capitalization threshold in Subtopic 985-20, Software—Costs of Software to Be Sold, Leased, or Marketed, requires a significant amount of judgment and ultimately results in very little capitalization of software costs, especially considering the evolution of the software market. Similarly, stakeholders expressed concerns about the guidance on capitalizing costs incurred to develop internal-use software in Subtopic 350-40, Intangibles—Goodwill and Other—Internal-Use Software. Stakeholders urged the Board to consider whether the software capitalization models in Subtopics 350-40 and 985-20 continue to be relevant and to reevaluate the costs and benefits of applying the guidance. Suggested solutions from stakeholders ranged from changing the capitalization thresholds so that companies can capitalize more software costs to allowing companies an option to expense all software costs as incurred. Stakeholders suggested that the guidance for software capitalization costs should be consistent regardless of whether the software is internally used or to be sold, leased, or otherwise marketed.

> **Question 18:** The FASB has encountered challenges in identifying a project scope that can be sufficiently described for intangible assets. If the Board were to pursue a project on intangible assets, what types of intangible assets should be included within the scope and why? Within that scope, should a project on intangible assets be primarily focused on improvements to recognition and measurement or to disclosure?

> **Question 19:** What challenges, if any, exist in applying the capitalization thresholds in Subtopics 350-40 and 985-20? What improvements, if any, could be made to the software capitalization guidance to overcome those challenges? Should there continue to be a capitalization threshold when accounting for software depending on whether it is for internal use or whether it is to be sold, leased, or otherwise marketed? Please explain.

Chapter 3—Reduction of Unnecessary Complexity in Current GAAP

Overall

Stakeholders provided feedback that there are specific areas of current GAAP that should be revisited to reduce unnecessary cost and complexity in the system. Those topics included (in alphabetical order):

- Balance sheet classification
- Consolidation
- Debt modifications
- Distinguishing liabilities from equity
- Materiality considerations for disclosures.

If a transaction is, by its nature, complex, the accounting also may be complex, which is necessary complexity. Conversely, unnecessary complexity and the cost that accompanies it should be minimized because it affects investors and preparers. Unnecessary complexity may convey a level of precision that can be misleading and can reduce the quality of compliance with a standard.

To help the FASB evaluate a potential project or projects on reducing unnecessary complexity in current GAAP, it would be helpful to receive feedback on the priority, urgency, and potential solutions to reduce unnecessary complexity, for example, whether potential solutions should be targeted improvements or a holistic, clean-sheet approach. It also would be helpful to understand whether certain areas within the guidance are particularly challenging and unnecessarily complex and whether the Board should focus any standard-setting efforts on those areas to provide resolution on a timelier basis than a broader long-term project. That feedback will help the Board in the agenda prioritization process and in determining, for example, the scope of a potential improvement.

Balance Sheet Classification

A project on simplifying the balance sheet classification of debt was added to the technical agenda in August 2014 as part of the Board's Simplification Initiative. The objective of that initiative was to identify, evaluate, and improve areas of GAAP for which cost and complexity can be reduced while maintaining or improving the usefulness of the information that a company is required to report. Stakeholders told the Board that the guidance on determining whether debt should be classified as a current liability or a noncurrent liability in a classified balance sheet is overly complex.

In April 2021, the FASB removed that project from its agenda, in part because the proposed debt classification principle was different from the general principle in GAAP on how to determine the classification of liabilities. The proposed principle was based on contractual terms that exist at the balance sheet date, whereas the guidance on the classification of liabilities is based on expectations about the use of current assets. When the Board removed the project from the agenda, the Board directed the FASB staff to solicit input from investors and other stakeholders, as part of this ITC, on the need for and prioritization of potential improvements to current versus noncurrent classification of assets and/or liabilities in a classified balance sheet.

> **Question 20:** Should the Board prioritize a potential project on current and noncurrent classification of assets and/or liabilities in a classified balance sheet? If yes, what should be the scope? Please explain.

Consolidation

Stakeholders provided feedback that applying the consolidation guidance in Topic 810, Consolidation, for variable interest entities (VIEs) is unnecessarily complex and difficult to explain and understand, even after several targeted improvements that the FASB has made to the consolidation guidance over the past few years. They noted that this often results in misapplication of the guidance for determining whether a reporting entity has a controlling financial interest in a VIE and should consolidate that entity (making the reporting entity the primary beneficiary). Some stakeholders stated that this complexity also includes determining whether an entity should apply the VIE model or the voting interest entity model. Stakeholders questioned the decision usefulness of the VIE model if it cannot be understood without a deep understanding of the nuances of the associated consolidation guidance.

Suggested solutions include providing additional implementation guidance for VIEs, developing a new simplified single consolidation model that would be applicable to both the voting interest entity model and the VIE model, or replacing the guidance with the single consolidation model prescribed in IFRS 10, *Consolidated Financial Statements*.

The FASB did not include consolidation as a topic of discussion in the 2016 Agenda Consultation ITC because the Board had recently added a research project to its agenda to potentially reorganize and clarify the consolidation guidance in Topic 810. In the Board's view, clarifying and reorganizing the overall guidance might address many of the concerns raised by stakeholders. In September 2017, the FASB issued proposed Accounting Standards Update, *Consolidation (Topic 812)—Reorganization*, and in June 2018, the Board discussed feedback received on the proposed Update. At that meeting, the Board asked the FASB staff to consider whether nonauthoritative educational materials about difficult VIE concepts could be developed to support and supplement reorganized authoritative consolidation.

> **Question 21:** Should the Board prioritize a potential project to simplify the consolidation guidance in Topic 810? Please explain why or why not. If yes, should the approach focus on targeted improvements or a holistic review of Topic 810?

Consolidation of NFPs

Separately, NFP stakeholders provided feedback that there is diversity in practice in how NFPs apply the consolidation guidance in Subtopic 958-810, Not-for-Profit Entities—Consolidation. Those stakeholders were supportive of improvements to that guidance. The guidance, centered on control and economic interest, has been largely unchanged since the mid-1990s.

Debt Modifications

Stakeholders provided feedback that accounting for debt modifications is unnecessarily complex and time consuming. Specifically, those practitioners expressed that applying the 10 percent cash flow test to determine whether the debt should be accounted for as modified or extinguished is arbitrary and difficult to understand. Those stakeholders questioned whether 10 percent continues to be appropriate and whether there should be a bright-line percentage at all. One suggestion was to provide an accounting alternative to allow private companies to account for debt modifications as an extinguishment of a liability. Stakeholders expressed support for that alternative because it would simplify the accounting for private companies by allowing those companies to avoid the complexity of performing the 10 percent cash flow test.

> **Question 22:** What challenges, if any, exist in accounting for debt modifications in accordance with the guidance in Subtopic 470-50, Debt—Modifications and Extinguishments? Please explain the challenges and how they could be overcome through standard setting.

Distinguishing Liabilities from Equity

Stakeholders provided feedback that the liabilities and equity guidance is unnecessarily complex and that outcomes often are not intuitive. The FASB has previously attempted broad improvements to the liabilities and equity guidance and encountered many challenges because of polarized views among stakeholders, such as the feasibility of solutions and the expected costs and expected benefits of those solutions, as well as diversity in what information various investors find most decision useful about financial instruments with characteristics of equity.

As a result of the feedback received from the 2016 Agenda Consultation ITC, the Board decided to pursue more narrow improvements. In August 2020, the Board issued Accounting Standards Update No. 2020-06, *Debt—Debt with Conversion and Other Options (Subtopic 470-20) and Derivatives and Hedging—Contracts in Entity's Own Equity (Subtopic 815-40): Accounting for Convertible Instruments and Contracts in an Entity's Own Equity*, which eliminated certain accounting models for convertible instruments. The amendments in Update 2020-06 simplified the accounting for convertible instruments, reduced complexity for preparers and practitioners, and improved the decision usefulness and relevance of the information provided to financial statement users. Although the amendments in Update 2020-06 made significant improvements to the liabilities and equity guidance, practitioners noted that significant challenges still remain in accounting for financial instruments with characteristics of equity. In particular, those challenges relate to evaluating complex contracts under the derivative scope exception for contracts in an entity's own equity.

The FASB's technical agenda includes the Distinguishing Liabilities from Equity Phase 2 project—a spin-off from the guidance issued in Update 2020-06. That project is intended to improve and align the two existing indexation models (in Topic 480, Distinguishing Liabilities from Equity, and Subtopic 815-40, Derivatives and Hedging—Contracts in Entity's Own Equity) used to evaluate financial instruments with characteristics of equity by developing an indexation principle to reduce inconsistencies across GAAP. Academics and some practitioners, including practitioners that serve private companies, suggested that the Board instead should reevaluate the liabilities and equity guidance holistically using a clean sheet approach to replace the current guidance. Other practitioners suggested that the Board focus solely on improving the derivative scope exception for contracts in an entity's own equity.

> **Question 23:** Stakeholders noted many challenges in applying the liabilities and equity guidance, but they had mixed views on how the Board should improve the accounting for financial instruments with characteristics of equity. The Distinguishing Liabilities from Equity Phase 2 project is intended to align the two existing indexation models in Topic 480 and Subtopic 815-40. Should the Board continue pursuing this project in its current scope and objective, or does the Board need to reevaluate this project? Please explain why or why not and if the project scope and objective need to be reevaluated, what should the approach be?

Materiality Considerations for Disclosures

Stakeholders provided feedback that preparing disclosures that are irrelevant or immaterial to a company's financial statements creates unnecessary complexity in the financial statements to preparers, practitioners, and investors. Those stakeholders suggested that the FASB provide guidance to assist preparers in evaluating whether a disclosure is immaterial to a company's financial statements. For example, a stakeholder suggested that it would be helpful if each Disclosure Section in the Codification repeated the materiality guidance in paragraph 105-10-05-6 that "the provisions of the Codification need not be applied to immaterial items" to remind companies that they can consider materiality in preparing disclosures.

> **Question 24:** How helpful would it be in evaluating disclosure materiality if the materiality guidance in paragraph 105-10-05-06 that "the provisions of the Codification need not be applied to immaterial items" was repeated in the Disclosure Section of each Codification Subtopic? Please explain.

Chapter 4—Improvements to FASB Standard-Setting Processes

Overall

Stakeholders provided feedback that enhancements and education about certain FASB standard-setting processes would be helpful to increase transparency and communication. That feedback included (in no particular order):

- Improving the understandability and navigability of the Codification
- Developing a transparent and thorough cost-benefit analysis framework, including using innovative ways to perform outreach
- Establishing a new interpretive process to respond to stakeholder questions that do not require amendments to the Codification but that would be published and retrievable
- Standardizing language used to describe transition requirements of new guidance.

Question 25: Which, if any, of the FASB processes described in Chapter 4 of this ITC could be improved? Please explain your rationale for each, including the following:

a. Why that process needs improvement
b. How the FASB should improve that process
c. What the urgency is of that process improvement.

Codification Accessibility

Stakeholders provided feedback that the Codification is difficult to search and navigate. Those stakeholders suggested that the FASB take on an initiative to increase the Codification's accessibility and understandability. Stakeholders expressed concerns that nonauthoritative guidance—such as the Board's basis for conclusions in final or proposed amendments to the Codification, Board meeting materials and minutes, Transition Resource Group meeting minutes and materials, FASB Q&As, and FASB Staff Educational Papers—that is important in applying and interpreting GAAP is not incorporated into the Codification. For example, stakeholders suggested that it would be helpful if the Board's basis for conclusions was included in the Codification so that the Board's rationale for a specific accounting requirement could easily be identified to help in understanding how to better apply the requirement.

Cost-Benefit Analysis Framework

Throughout all stages of a project, the FASB's procedures and due process are specifically designed to generate feedback about expected costs and benefits of a proposed change to GAAP. An associated principle guiding the FASB is to change GAAP only when the expected improvement in the quality of the information provided to investors—the benefit—justifies the cost of making that change, including the cost to prepare, provide, and understand that information. The FASB considers costs and benefits in the system as a whole; for example, if accounting is unnecessarily complex, it can reduce the quality of compliance with a standard and create additional costs for investors. The FASB strives to improve financial reporting in the most cost-effective manner. Further information about the FASB's cost-benefit process is available here.

Preparers suggested that the Board develop a more transparent and thorough cost and benefit framework to provide stakeholders with greater insight into how the Board analyzes costs and benefits throughout its due process.

Stakeholders suggested that the FASB utilize innovative ways to perform outreach and better understand costs and benefits. One suggestion was to utilize surveys to access a greater volume of stakeholders, specifically investors, that traditionally do not participate in the comment letter process for potential new standards. Other suggestions were to perform earlier field testing to allow companies an opportunity to participate in a trial run for potential new guidance and more frequently host roundtables with a cross-section of stakeholders, including both preparers and investors, to consider the nature and extent of information used by management and whether and how investors will use information provided in their capital allocation decisions.

Interpretive Process

Stakeholders suggested that the FASB establish a process that would provide timely interpretations of existing GAAP that would not require amendments to the Codification. Stakeholders stated that the IFRS Interpretations Committee has a clear process to assist stakeholders that are seeking interpretations of IFRS Standards, particularly in circumstances in which a stakeholder is merely seeking a confirmatory answer rather than a formal change to current guidance. One suggestion was to utilize the FASB's EITF in a manner similar to the IFRS Interpretations Committee's role in which the EITF would publicly address interpretative questions in a consistent, timely, and transparent manner. Such an interpretive process would allow for time-sensitive interpretations to be answered without having to go through the lengthier full due process in issuing new guidance. Those stakeholders observed that it would be helpful if those interpretations were directly linked to relevant areas of the Codification so they could easily be accessible by all stakeholders.

Transition Requirements

Stakeholders suggested that the FASB simplify transition requirements for the adoption of a change to GAAP. For example, applying a modified retrospective transition can be complex to understand and explain because depending on the standard, the Board may have different methods to apply that guidance and transition guidance across standards is not consistent.

Appendix A—FASB's Agenda (as of June 2021)

This appendix summarizes the projects on the FASB's agenda as of June 2021. Further details on each project can be found at www.fasb.org/technicalagenda.

Project Name	Project Description
Standard Setting—Recognition and Measurement Projects	
Identifiable Intangible Assets and Subsequent Accounting for Goodwill	The objective of this project is to revisit the subsequent accounting for goodwill and identifiable intangible assets broadly for all companies. That includes considerations for improving the decision usefulness of the information and rebalancing the cost-benefit factors.
Accounting by a Joint Venture for Nonmonetary Assets Contributed by Investors	The objective of this project is to reduce diversity in practice in the accounting for contributions made to a joint venture upon formation in a standalone joint venture's financial statements.
Codification Improvements (formerly Technical Corrections and Improvements)	A standing project on the FASB's agenda to address feedback received from stakeholders about the Codification.
Codification Improvements—Amendments to Remove References to the Concepts Statements	The objective of this project is to remove the references to various Concepts Statements from the Codification.
Codification Improvements—Financial Instruments—Credit Losses (Vintage Disclosure: Gross Writeoffs and Gross Recoveries)	The objective of this project is to clarify the intent of the vintage disclosures of gross writeoffs and gross recoveries.
Codification Improvements—Hedge Accounting	The objective of this project is to make certain Codification improvements raised by stakeholders on the amendments in Accounting Standards Update No. 2017-12, *Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities*.
Consolidation Reorganization and Targeted Improvements	The objective of this project is to reorganize the guidance in Topic 810 to make it easier to navigate and assist practitioners and preparers in its application.

Project Name	Project Description
Distinguishing Liabilities from Equity Phase 2	The objective of this project is to improve and align the two existing indexation models in Topic 480 and Subtopic 815-40 that are used to evaluate financial instruments with characteristics of equity by developing an indexation principle to reduce inconsistencies.
Fair Value Hedging—Portfolio Layer Method	The objective of this project is to expand the existing last-of-layer fair value hedging method from a single-layer model to a multiple-layer model and clarify the accounting for and disclosure of basis adjustments.
Fair Value Measurement of Equity Securities Subject to Contractual Sale Restrictions	The objective of this project is to reduce diversity in practice on measuring the fair value of equity securities that are subject to contractual sale restrictions.
Improving the Accounting for Asset Acquisitions and Business Combinations (Phase 3 of the Definition of a Business Project)	The objective of this project is to improve the accounting for asset acquisitions and business combinations by narrowing the differences between the two acquisition models (the accounting for acquisitions of assets and for the acquisitions of businesses).
Leases (Topic 842)—Discount Rate for Lessees That Are Not Public Business Entities	The objective of this project is to provide more flexibility for lessees that are not public business entities by allowing them to make a risk-free discount rate accounting policy election by class of underlying asset.
Leases (Topic 842)—Lease Modifications	The objective of this project is to consider targeted improvements to Topic 842 related to lease modification accounting.
Leases (Topic 842): Lessors—Leases with Variable Lease Payments	The objective of this project is to make targeted improvements to Topic 842 related to lessor accounting for certain leases with variable lease payments.
PCC Issue No. 2018-01, "Practical Expedient to Measure Grant-Date Fair Value of Equity-Classified Share-Based Awards"	The objective of this project is to consider a practical expedient for nonpublic entities for measuring the current price input for purposes of determining grant-date fair value of equity-classified share-based payment awards.
Recognition and Measurement of Revenue Contracts with Customers under Topic 805	The objective of this project is to address issues and diversity in practice related to the accounting for acquired revenue contracts with customers in a business combination.

Project Name	Project Description
Reference Rate Reform—Fair Value Hedging	The objective of this project is to monitor reference rate reform initiatives around the world to identify areas of GAAP that may need to be amended in response to those initiatives.
Standard Setting—Presentation and Disclosure Projects	
Disclosure Framework: Disclosure Review — Income Taxes	The objective of this project is to review the income tax disclosures in Topic 740, Income Taxes, for improvement, as part of the Board's disclosure framework project and its consideration of the effects of changes in the tax law.
Disclosure Framework: Disclosure Review—Inventory	The objective of this project is to review the inventory disclosures in Topic 330, Inventory, for improvement, as part of the Board's disclosure framework project.
Disclosure Framework: Disclosures—Interim Reporting	The objective of this project is to improve the effectiveness of disclosures in notes to financial statements at interim periods by facilitating clear communication of the information required by GAAP.
Disclosure Improvements in Response to the SEC's Release on Disclosure Update and Simplification	The objective of this project is to determine whether and how SEC disclosure requirements referred to the Board as part of the SEC's Disclosure Update and Simplification Initiative should be incorporated into the Codification.
Disclosure of Supplier Finance Programs Involving Trade Payables	The objective of this project is to develop disclosure requirements that enhance transparency about the use of supplier finance programs involving trade payables.
Disclosures by Business Entities about Government Assistance	The objective of this project is to develop disclosure requirements about government assistance that improve the content, quality, and comparability of financial information and financial statements.
Financial Performance Reporting—Disaggregation of Performance Information	The objective of this project is to improve the decision usefulness of the income statement through the disaggregation of performance information.
Segment Reporting	The objective of this project is to improve segment disclosures to provide users with more decision-useful information about the reportable segments of a public entity.

Project Name	Project Description
Framework Projects	
Conceptual Framework: Elements	The objective of this project is to amend the concepts for elements to develop an improved conceptual framework that provides a sound foundation for developing future accounting standards. The elements are assets, liabilities, equity (net assets), revenues, expenses, gains, losses, investments by owners, distributions to owners, and comprehensive income.
Conceptual Framework: Measurement	The objective of this project is to amend the concepts for measurement to develop an improved conceptual framework that provides a sound foundation for developing future accounting standards.
Conceptual Framework: Presentation	The objective of this project is to amend the concepts for presentation to develop an improved conceptual framework that provides a sound foundation for developing future accounting standards.
Post-Implementation Review (PIR) Projects	
Credit Losses	The objective of the PIR projects is to determine whether a standard is accomplishing its stated purpose, to evaluate the standard's implementation and continuing compliance costs and related benefits, and to provide feedback to improve the standard-setting process.
Leases	
Revenue Recognition	
Research Projects	
Accounting for and Disclosure of Intangibles	The objective of the research is to consider potential ways to improve the accounting for and disclosure of intangibles, including internally developed intangibles and research and development.
Agenda Consultation	The objective of this project is to solicit broad stakeholder feedback about the future standard-setting agenda of the FASB.

Project Name	Project Description
Effect of Sale Restrictions on Fair Value Measurements	The objective of the research is to study the types of restrictions that exist in practice on the sale of certain assets; to study whether there is diversity in practice in interpreting and applying the guidance within Topic 820, Fair Value Measurement, related to sale restrictions; and to consider whether additional standard setting is necessary.
Financial Performance Reporting: Financial Statements of NFP Entities and Structure of the Performance Statement	The objective of the research is to consider whether to require a measure of operations and whether and how to define a measure of operations for both NFP entities and business entities.
Hedge Accounting—Phase 2	The objective of the research is to consider ways to further align hedge accounting with risk management activities.
Targeted Improvements to the Statement of Cash Flows	The objective of the research is to consider ways to reduce existing diversity in practice in how certain cash receipts and cash payments are presented in the statement of cash flows under Topic 230, Statement of Cash Flows, and other Topics.

Appendix B—Questions for Respondents

Overall

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. Lender
    10. Long-only focus
    11. Long/short focus
    12. Other
c. NFP organization preparer
d. Practitioner/auditor
e. Private company preparer
f. Public company preparer
g. Regulator
h. Standard setter
i. Other.

Question 2: Which topics in this ITC should be a top priority for the Board? Please explain your rationale, 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 potential project scope, objective, potential solutions, and the expected costs and benefits of those solutions)
c. What the urgency is of the Board completing a project on this topic (that is, how quickly the issues need to be addressed).

Question 3: Are there topics in this ITC that the Board should not address as part of its future standard-setting efforts? Please explain your rationale, 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.

Question 4: Are there any financial reporting topics beyond those in this ITC that should be a top priority for the Board to address? Please describe:

a. The nature of the topic
b. The reason for the 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 potential project scope, objective, potential solutions, and the expected costs and benefits of those solutions)
e. What the urgency is of the Board completing a project on this topic (that is, how quickly the issues need to be addressed).

Question 5: The objective of this ITC and the related 2021 Agenda Consultation process is to ensure that the FASB continues to allocate its finite resources to standard-setting activities that fulfill its primary mission of improving financial accounting and reporting standards and that are of the highest priority to its stakeholders. Therefore, feedback on the prioritization of projects on the FASB's technical agenda (see Appendix A) would be helpful. Do you have any feedback on the FASB's technical agenda, including the following:

a. Which projects on the FASB's agenda should the Board prioritize completing? Please explain.
b. Which projects, if any, should the Board deprioritize or consider removing from the agenda? Please explain.
c. Which projects, if any, need to be redefined to improve the objective and/or scope? Please explain.

Chapter 1—Disaggregation of Financial Reporting Information

Question 6: Greater disaggregation and granularity of the types of financial reporting information described in Chapter 1 have been identified as decision useful to investors. The following insights would be helpful to the FASB when considering this area:

a. Investors and other financial statement users—Which, if any, of the areas described in Chapter 1 should be a top priority for the FASB to consider requiring greater disaggregation—on the income statement, the statement of cash flows, or the notes to financial statements? Would this information be most useful in the financial statements or in the notes to financial statements? How would this information be used to analyze a company and make capital allocation decisions?

b. Preparers—What requests or questions does your company receive from analysts on the areas described within Chapter 1? Please explain any requests or questions your company has received.

Presentation of the Statement of Cash Flows

Question 7: Investors and other financial statement users—What cash flow information, if any, required for your analysis is missing in a statement of cash flows prepared using the indirect method? How would this information influence your decisions and behavior? Please explain.

Question 8: Preparers—What requests or questions, if any, does your company receive from analysts on cash flow information? Please explain.

Chapter 2—Emerging Areas in Financial Reporting

Definition of a Derivative

Question 9: What challenges, if any, are there in applying the guidance on the definition of a derivative and the related derivative scope exceptions in Subtopic 815-10? Please explain the challenges and whether and how they could be addressed through standard setting.

Digital Assets

Question 10: Investors—How significant are holdings in digital assets, such as crypto assets, in the companies you analyze? What type of financial reporting information about holdings in digital assets do you use in your analysis of a company? How does that information influence your decisions and behaviors? If there is other financial reporting information about digital assets that would be decision useful, what is that information and why is it decision useful?

Question 11: Preparers and practitioners—Does your company (or companies that you are involved with) hold significant digital assets, such as crypto assets? What is the purpose of those holdings?

Question 12: If the Board were to pursue a project on digital assets, which improvements are most important, what types of digital assets should be included within the scope, and should this guidance apply to other nonfinancial assets?

ESG-Related Transactions

Question 13: Are there common ESG-related transactions in which there is a lack of clarity or a need to improve the associated accounting requirements? Please describe the specific transactions and why standard setting is needed.

Financial KPIs or Non-GAAP Metrics

Question 14: Are there common financial KPIs or metrics—either widely applicable to all companies or industry specific—that would provide decision-useful information if they were defined by the FASB? Please explain.

Question 15: If the FASB were to define certain financial KPIs or metrics, should all companies be required to provide those metrics or should providing those metrics be optional?

Recognition and Measurement of Government Grants for Business Entities

Question 16: If the Board were to pursue a project on the recognition and measurement of government grants, should the FASB leverage an existing grant or contribution model (such as the models in IAS 20 or Subtopic 958-605) or develop a new model? If you prefer leveraging an existing model, which would be most appropriate and why? If the FASB were to develop a new model, what should the model be?

Question 17: The FASB has encountered challenges in identifying a project scope that can be sufficiently described for government grants. If the Board were to pursue a project on the recognition and measurement of government grants, what types of government grants should be included within the scope and why (for example, narrow or broad scope)?

Intangible Assets, Including Software

Question 18: The FASB has encountered challenges in identifying a project scope that can be sufficiently described for intangible assets. If the Board were to pursue a project on intangible assets, what types of intangible assets should be included within the scope and why? Within that scope, should a project on intangible assets be primarily focused on improvements to recognition and measurement or to disclosure?

Question 19: What challenges, if any, exist in applying the capitalization thresholds in Subtopics 350-40 and 985-20? What improvements, if any, could be made to the software capitalization guidance to overcome those challenges? Should there continue to be a capitalization threshold when accounting for software depending on whether it is for internal use or whether it is to be sold, leased, or otherwise marketed? Please explain.

Chapter 3—Reduction of Unnecessary Complexity in Current GAAP

Balance Sheet Classification

Question 20: Should the Board prioritize a potential project on current and noncurrent classification of assets and/or liabilities in a classified balance sheet? If yes, what should be the scope? Please explain.

Consolidation

Question 21: Should the Board prioritize a potential project to simplify the consolidation guidance in Topic 810? Please explain why or why not. If yes, should the approach focus on targeted improvements or a holistic review of Topic 810?

Debt Modifications

Question 22: What challenges, if any, exist in accounting for debt modifications in accordance with the guidance in Subtopic 470-50, Debt—Modifications and Extinguishments? Please explain the challenges and how they could be overcome through standard setting.

Distinguishing Liabilities from Equity

Question 23: Stakeholders noted many challenges in applying the liabilities and equity guidance, but they had mixed views on how the Board should improve the accounting for financial instruments with characteristics of equity. The Distinguishing Liabilities from Equity Phase 2 project is intended to align the two existing indexation models in Topic 480 and Subtopic 815-40. Should the Board continue pursuing this project in its current scope and objective, or does the Board need to reevaluate this project? Please explain why or why not and if the project scope and objective need to be reevaluated, what should the approach be?

Materiality Considerations for Disclosures

Question 24: How helpful would it be in evaluating disclosure materiality if the materiality guidance in paragraph 105-10-05-06 that “the provisions of the Codification need not be applied to immaterial items” was repeated in the Disclosure Section of each Codification Subtopic? Please explain.

Chapter 4—Improvements to FASB Standard-Setting Processes

Question 25: Which, if any, of the FASB processes described in Chapter 4 of this ITC could be improved? Please explain your rationale for each, including the following:

a. Why that process needs improvement
b. How the FASB should improve that process
c. What the urgency is of that process improvement.