



The Association of
Accountants and
Financial Professionals
in Business

via email

To: director@fasb.org

April 8, 2024

Ms. Hillary H. Salo, Technical Director
Financial Accounting Standards Board
801 Main Avenue
P.O. Box 5116
Norwalk, CT 06856-5116

Re: File Reference No. 2023-ED700, *Proposed Statement of Financial Accounting Concepts, Concepts Statement 8 — Conceptual Framework for Financial Reporting — Chapter 6: Measurement*

Dear Ms. Salo:

The Financial Reporting Committee (FRC or Committee) of the Institute of Management Accountants (IMA) is writing to share comments on FASB's proposed Statement of Financial Accounting Concepts, *Concepts Statement No. 8, Conceptual Framework for Financial Reporting — Chapter 6: Measurement* (Proposal).

The IMA is a global association representing over 140,000 accountants and finance professionals. Our members work inside organizations of various sizes, industries, and types, including manufacturing and services, public and private enterprises, not-for-profit organizations, academic institutions, government entities, and multinational corporations. The FRC is the financial reporting technical committee of the IMA. The Committee includes preparers of financial statements for some of the largest companies in the world, representatives from the world's largest accounting firms, valuation experts, accounting consultants, academics, and analysts. The FRC reviews and responds to research studies, statements, pronouncements, pending legislation, proposals, and other documents issued by domestic and international agencies and organizations. Additional information on the FRC can be found at www.imanet.org (About IMA, Advocacy, Financial Reporting Committee).

Overall, the FRC is supportive of the Board's continued efforts to update and improve its Conceptual Framework for Financial Reporting (Framework) so it reflects the views of the Board and is most helpful for the Board's use in future standard setting. FRC continues to believe the Framework provides the Board, both current and future iterations, with critical cornerstones to draw upon for decision-making at the standards level. We also acknowledge the Framework can

be used to help preparers understand existing standards and, in the rare cases when there is no guidance, help them develop an appropriate accounting policy.

Specific to the Proposal Chapter 6: Measurement, we support the Board’s efforts to update and enhance the Framework’s guidance on measurement. Overall, we agree and support the Proposal’s underlying premise anchored in observable prices. Observable prices between unrelated entities in exchange transactions provide a verifiable and relevant basis to measure assets and liabilities. Additionally, we believe that measurement based on observable prices (or estimates derived from observable prices) generally provides predictive value to users of general purpose financial statements while providing a cost-efficient manner for preparers to produce general purpose financial statements. However, some Committee members observed this may only be the case when an asset is expected to be sold rather than held. For example, does it make sense to mark a loan that an entity intends to hold to fair value? We observe this outcome may not provide users predictive value because the change in fair value does not reflect the ultimate cash flows the reporting entity expects to collect.

Despite our support of the core principle, we are unsure whether the Proposal outlines an approach that is understandable and operable for its intended purpose. Specifically, we question how the measurement systems discussed in the Proposal will be operationalized in the standard-setting process. We observe in the structure of the Board’s Accounting Standards Codification (Codification) that the Board delineates initial measurement from subsequent measurement requirements and we believe that distinction is important at the Framework level. Consistent with other commentators, we encourage the Board to reevaluate the structure of the Proposal to align to the Codification measurement framework, which we believe appropriately differentiates initial measurement from subsequent measurement rather than focusing on entry and exit price systems. If the Board prefers to continue with its entry price and exit price systems, we believe it would be critical for the Board to clarify how an entry price and exit price system applies to the concepts of initial measurement and subsequent measurement to make the guidance operational for the standard-setting process.

As noted, we are unsure whether the Proposal will be operable for its intended purpose without further clarification. For example, the Proposal contemplates an “entity-specific” exit price, which is not intuitive from the lens of real world market transactions. In our attempts to understand the objectives, we evaluated a fact pattern that considered the measurement considerations for an entity that owns a parcel of land. This land parcel is not unique as there are other contiguous parcels of land that surround the entity’s specific parcel. The entity has not made any specific improvements to the parcel of land and is considering how to measure its holding of land at the end of a reporting period. There are multiple options for how to put the land to use, including agriculture, commercial development, residential development, or exploring for natural resources. Each of these different options may result in a different entity-specific exit price based on the entity’s expected future cash flows related to each option. Would these entity-specific amounts override any market participant exit price inputs, such as sales of comparable properties in the

area? Or should the entity use an entry price? The Proposal is not clear and we believe that if this concept is retained, then additional discussion and potentially examples of the entity-specific exit price system is necessary to avoid confusion and clarify the Board's intent.

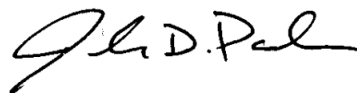
We also have some confusion about measuring liabilities. More specifically, we question how the Proposals would measure debt issued by a reporting entity or an interest rate swap in a liability position. For example, a fair value measurement or the Proposals "market-based exit price" would typically incorporate the value a reporting entity's own credit risk into its liability measurement. When a liability is measured in this manner, it conveys to a user a "value" that may not be the settlement value and we question its predictive value. We encourage the Board to discuss these outcomes with users to determine what would be most useful and beneficial to their analysis.

Additionally, FRC observes the specificity and detailed nature of the Proposal, including the detailed explanations of entry price and exit price measurement systems described in the proposed chapter. While we support enough detail to ensure the Board's intent is clear and therefore consistently evaluated by the Board in standard setting, we think in part the specificity of the Proposal may create confusion and operational challenges. We also wonder, depending on the answers to our issues, how useful the information would be to the Board's constituents. We believe it preferable to seek a more appropriate balance between enough guidance to enhance and set direction of the Framework and detailed, specific requirements more representative and appropriate when setting standards.

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We would be pleased to discuss our comments with you or your staff at your convenience.

Sincerely,

A handwritten signature in black ink, appearing to read "J. D. Paul", written in a cursive style.

Josh Paul
Chair, Financial Reporting Committee
Institute of Management Accountants