ima® | The Association of Accountants and Financial Professionals in Business

November 7, 2016

Ms. Susan M. Cosper, Technical Director
Financial Accounting Standards Board
401 Merritt 7, P.O. Box 5116
Norwalk, CT 06856-5116

Re: **File Reference No. 2016-290,** Invitation to Comment, *Agenda Consultation*

Dear Ms. Cosper:

The Financial Reporting Committee (FRC or Committee) of the Institute of Management Accountants (IMA) is writing to share its views on the Financial Accounting Standards Board's (FASB or Board) Invitation to Comment (ITC), *Agenda Consultation*.

The IMA is a global association representing over 80,000 accountants and finance team 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 Activity, Financial Reporting Committee).

First and foremost, we believe that the FASB should deploy resources to complete current agenda projects and to support constituent needs for guidance as they implement the new standards stemming from the recently completed joint projects. The Committee emphatically agrees with the Board's stated strategy on page 3 of the ITC that resources should continue to be allocated to existing projects and anticipated implementation issues. This is a critical inflection point for the FASB and its constituents. The absence of any new major projects will provide a period of "calm". Rest assured, for preparers and auditors, the upcoming years will be anything but that as companies prepare for and adopt the new revenue recognition, leases, and financial instruments impairment standards. We are also concerned that the Board's deliberations on any new major proposals would not receive the attention they deserve from very busy preparers and auditors. Users will also be challenged by these major changes. Now is also a time for the Board to take stock and evaluate the progress to date on its current projects and to consider changes for the most effective approach going forward. Below we share our thoughts on the most important existing project and on implementation.

Regarding the potential projects discussed in depth in the ITC, the Committee generally believes that the Board should evaluate the root cause of restatements for liabilities and equity and add a project for this issue to its agenda based on that evaluation. Members of the FRC have differing views on the scope of a potential liabilities and equity project, with some members favoring targeted improvements and others favoring a broader reconsideration of which instruments qualify as equity. Those members who favor a broader reconsideration of what qualifies as equity believe the Board should address certain aspects of performance reporting together with the liabilities and equity project. The Committee does not believe that a fulsome performance reporting and cash flows project should be added to the agenda. However, some members would support targeted projects on intangibles and segments as discussed later in this letter. We also do not believe pensions and postretirement benefit plans should be added to the agenda. We comment on each of the potential projects identified in the ITC below.

Existing Projects

The Committee believes that the Board should take the opportunity to reassess the direction for certain of its existing agenda projects. Given its high ranking by all stakeholders, the Disclosure Framework project should be the Board's focus. Considering the current state of the project inclusive of the feedback received on the recent Exposure Drafts (EDs), we believe that the Board should evaluate whether the objectives of this project are likely to be met if the current approach is maintained.

As we look at the EDs and decisions under the four disclosure topics (pensions, fair value, income taxes and inventory), we see the same pattern of incremental growth in Generally Accepted Accounting Principles (GAAP) disclosures as occurred under the prior disclosure effectiveness initiative in the 1990s. We observe that the safeguard against in the Board's overall approach relies heavily on the entity decision framework to be effective in enabling preparers to omit disclosures that are not important to investors and thus achieve the streamlining and focus that is at the core of this initiative. However, a key question is whether preparers will avail themselves of the discretion provided in the entity decision framework, given the checklist compliance mindset that this approach engenders and preparer concerns of being second-guessed on their disclosure decisions. If the Board's decision process continues to add to the prescriptive disclosure set year by year and the entity decision framework is not highly effective in ensuring appropriate omission of information as provided for in the entity decision process, we expect that concerns about disclosure overload will persist and potentially become more pronounced. In considering the state of the GAAP disclosure model, which gave rise to the need for this project, we have questions regarding the sustainability of this disclosure paradigm over the long term.

We believe that the Board should consider whether the entity decision framework should be augmented with clearly defined disclosure objectives that would provide an alternative means for preparers to meet their disclosure obligations for a particular topic in a manner that is most helpful to investors. We recognize that this solution may not work for all entities, particularly small and medium-sized companies that have limited resources and wish to continue following a prescriptive model. Accordingly, adoption of our recommendation would inevitably require the Board to craft guidance that enables reporting entities to meet their obligations by providing the specific disclosures in each area, by providing alternative disclosures, or a combination of each. We acknowledge that such an approach must involve all stakeholders embracing the concept of disclosure objectives. The good news is that this transition is already well underway in other parts of current GAAP (e.g., the new standard on revenue recognition) that are even more difficult to change in practice. Accordingly, we have confidence that this approach is worthy of the Board's full consideration as a means to achieve the broader goals of the Disclosure Framework project.

We encourage the FASB to work jointly on Disclosure Framework with the Securities and Exchange Commission (SEC) staff in conjunction with their Disclosure Effectiveness Initiative. We also note that there are issues that are likely to be added to the Board's agenda as a result of the SEC's Proposed Rule, *Disclosure Update and Simplification*.

Implementation Issues

We believe that implementation issues for the new revenue recognition, leases, and financial instruments impairment standards deserve prompt, timely attention to ensure consistent application. The FASB must provide sufficient resources for implementation efforts for these standards. Continued focus on convergence through the adoption and implementation of the revenue recognition standard must continue to be a priority. We also believe issues are likely to arise as industry groups compare entity specific implementation interpretations.

The FRC has spent considerable time with the FASB staff on specific lease implementation issues that we have identified. However, we are concerned that what we learn will not be widely available and, further, that the some of the guidance published by major accounting firms is conflicting. We suggest that the Board consider a Transition Resource Group for the new lease standard.

Liabilities and Equity

Of the four potential areas in the ITC, we are in favor of the Board improving the guidance for liabilities and equity because this area results in the largest number of financial statement restatements. We believe the Board should study the restatements and try to determine the root cause. What is the size of companies with restatements? Was the restatement caused by lack of resources, failure to understand the accounting literature, incomplete knowledge of the terms of financial instruments or some combination of factors?

We sense that at least some of the restatements occur because the accounting literature is fragmented and difficult to apply, and certain decisions (such as whether an embedded derivative should be separated from the host contract) require a significant amount of judgment. Therefore, simplification of the guidance needs to be addressed.

While the Committee generally agrees that additional work in this area is necessary, some are concerned that in the past the Board has spent significant time and resources on this project with little to no success. Some question whether the current Board will be any more successful given the inherent difficulty of the subject. Therefore, some Committee members believe that the Board is likely to have more success with targeted improvements to simplify the readability of the guidance along with making certain changes to the guidance. However, others believe that the only realistic way to improve the guidance on this topic is to holistically address the issues and select appropriate concepts that will be followed with exceptions being rare. This holistic approach would need to include certain aspects of performance reporting. If the Board does take up a major project in this area, we believe the focus should be on what the cause of restatements, what is important to users and whether the Board's approach would be practicable for preparers.

Intangible Assets (including Research and Development)

The Committee is not supportive of adding a broad project on intangible assets to the agenda. We do not believe the accounting for expenditures on research requires reconsideration. Such costs should continue to be expensed as incurred due to concerns about the uncertainty of future benefits and the inability to reliably measure the benefits of such costs. Further, we do not believe the accounting for other types of internally-developed intangible assets, such as customer relationships, should be reconsidered.

However, some members are in favor of adding a project targeted on the accounting for development costs, which are generally incurred with the specific objective of creating a product that will generate future revenues and which may be material to the reporting entity. In that regard, those members believe that the FASB should consider alignment with the guidance in International Accounting Standard (IAS) 38, *Intangible Assets*. The guidance in IAS 38 has been applied for many years by companies complying with International Financial Reporting Standards (IFRS). IAS 38 requires the application of judgment and two entities in the same line of business may capitalize development costs starting at different points, but those differences should, in theory, be reflective of differences in the development process followed by the entities.

We are not in favor of recognizing all internally-developed intangible assets at fair value, as we believe such an approach would be needlessly complex and time-consuming. In addition, we have concerns about the reliability of fair value estimates for internally-developed intangible assets. Finally, we do not believe such a model would be an improvement over the existing model. It is our experience that investors are more concerned with how much a company is spending on research activities and the actual return on that spending. Introducing fair value recognition would obfuscate that information. Accordingly, we strongly believe the costs of fair value recognition would outweigh any perceived benefits.

Performance Reporting and Cash Flows

The Committee generally does not believe the Board should add a project on performance reporting and cash flows to its agenda. The Committee notes that the Board, through the Emerging Issues Task Force, has made targeted improvements to the cash flow statement and believes that this is the approach the Board should continue to take in the future.

If the Board were to add a project in this area to its agenda, we recommend it make targeted improvements to the segment disclosure guidance on the information used by the chief operating decision maker (CODM) to emphasize the different forms of information that the CODM receives and uses. That topic gives rise to a significant number of SEC staff comments on reviews of filings and appears to be an area of confusion in practice that could benefit from further clarification. We do not believe a number of the issues identified in the ITC, such as the aggregation of segments, are standard setting issues, but are compliance issues. As such, we do not believe standard setting will improve matters.

The Association of Accountants and Financial Professionals in Business

Pensions

Of the four areas in the ITC, the Committee does not believe a comprehensive project for defined benefit plans and other retirement benefit plans is an area of priority. The population of these plans is decreasing, and the current accounting and disclosures are generally well-understood.

****

In addition to working with the SEC staff as noted above, we encourage the Board to work with the International Accounting Standards Board and other standards setters to leverage research and share outreach findings. We would be pleased to discuss our comments with the FASB or its staff at your convenience.

Sincerely,

Nancy J. Schroeder, CPA
Chair, Financial Reporting Committee
Institute of Management Accountants
nancy@beaconfinancialconsulting.com