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Consultation: Engagement with Investors and  
Other Stakeholders Vital to Development of  
High Quality Accounting Standards  
(February 22, 2022)



## Statement

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# Statement on the FASB's Agenda Consultation: Engagement with Investors and Other Stakeholders Vital to Development of High Quality Accounting Standards



**Paul Munter**

*Acting Chief Accountant*

**Feb. 22, 2022**

### Introduction<sup>[1]</sup>

In June 2021, the Financial Accounting Standards Board ("FASB") staff published an Invitation to Comment, *Agenda Consultation* ("ITC"),<sup>[2]</sup> to solicit broad stakeholder feedback about the FASB's standard-setting process and its future standard-setting agenda. In addition to feedback sought through the ITC, the development of the ITC itself involved significant outreach by the FASB staff and Board members to a cross-section of stakeholders, approximately one-third of whom were investors or other financial statement users.<sup>[3]</sup>

Over 500 stakeholders responded to the ITC during the comment period, which closed in September 2021. It is encouraging to see the volume of feedback provided to the FASB, with thoughtful responses from a diverse set of stakeholders, including many investors, and to see the FASB's communications regarding how it is considering the feedback received.<sup>[4]</sup>

It is critically important that the FASB, and the Trustees of the Financial Accounting Foundation (the "FAF") in its important oversight role over the FASB, continue to improve processes for obtaining and considering investor and other stakeholder feedback, and for clearly communicating with those stakeholders regarding how that feedback has impacted the standard-setting process. On behalf of Commission staff in OCA, in this statement, we highlight below why engagement with investors and other stakeholders is vital to the FASB's ability to develop high quality accounting and financial reporting standards, and we provide observations on the FASB's standard-setting process, its agenda consultation, and the related ITC feedback from investors and other stakeholders.

### The Importance of Investors and Other Stakeholders to the Standard-Setting Process

The Commission has long recognized the importance of the FASB's role as an independent accounting standard setter.<sup>[5]</sup> Independence, however, does not mean isolation, but rather highlights the need for broad stakeholder

engagement to enable the FASB to improve the accuracy and effectiveness of financial reporting and protect investors consistent with the federal securities laws<sup>[6]</sup> and the objective of general purpose financial reporting.<sup>[7]</sup> For example, an understanding of evolving investor needs can directly contribute to the FASB's ability to keep standards current in order to reflect changes in the business environment, and to promptly consider changes to accounting principles necessary to reflect emerging accounting issues and changing business practices.<sup>[8]</sup>

We continue to encourage all stakeholders to engage with the FASB early and often in the standard-setting process. Since the objective of financial reporting is to provide decision-useful information to investors and other users, we particularly encourage investors to share perspectives on what information is useful to them and how they could use that information. We also believe that investors and other stakeholders are more likely to dedicate the time and resources required to provide thoughtful feedback to the FASB when investors and other stakeholders understand how that feedback is considered by the FASB in its agenda prioritization and development of accounting standards, and the degree to which the resulting standards of the FASB respond to that input.

In this regard, we are appreciative of the FASB and its staff for its work in improving its processes regarding stakeholder, and particularly investor, feedback. We believe it is important that the FASB continue to focus on improvements in this area, including through increased transparency in its communications of:

- The types of investors or investor advocates the FASB engages with, both overall and on specific standards;
- The feedback investors have provided to the FASB, including the extent and nature of diversity in investor views and points where investors are aligned, such as the FASB's recent highlighting of investor feedback regarding the need for more disaggregated information; and
- How the FASB considered investor feedback in making its agenda decisions or developing a standard and the degree to which the standard responds to investor input, for example, through transparent discussion in the basis for conclusions of its Exposure Drafts and Accounting Standards Updates.

This focus on productive engagement between the FASB and investors, preparers, and other stakeholders will continue to be critical to the FASB's ability to produce high quality accounting and financial reporting standards.

### Observations on the FASB's Agenda Consultation

The FASB's recently published summary of feedback received in response to the ITC is an example of its focus on transparent communications of its consideration of input from investors and other stakeholders. Of the respondents who provided broad feedback on the ITC, nearly 30% represented investors or other users.

#### Overall Feedback and Making the Case for Change

As noted in the FASB's summary of feedback, respondents frequently noted that the objective of financial reporting (to provide decision-useful information to investors and other users of financial reports) should be the FASB's focus, and that the FASB should be transparent about how projects would benefit investors and other financial statement users in line with this objective.

In its decisions to add projects to its agenda or make changes to its standards, the FASB should clearly make the case for change, whether through a preliminary yet robust analysis of the need for a project or through an explanation of its consideration of the expected costs and benefits of a change. In the FASB's consideration of what would provide decision-useful information to investors, and in making the case for change, it should consider costs to both preparers and users, including the costs to users from not making needed improvements to accounting and disclosure requirements.

Making the case for change should not be a one-time analysis since the FASB's agenda priorities may change based on the evolving needs of investors and other stakeholders. In other situations, as the FASB progresses on projects it previously identified as a priority, it may find that there is significant diversity in views of investors such

that there is not a clear case for change. The FASB should regularly evaluate whether existing projects on its agenda warrant continued consideration.

As a current example of the need for such an ongoing analysis, we note the significant diversity in views expressed by investors and other stakeholders regarding the FASB's Identifiable Intangible Assets and Subsequent Accounting for Goodwill project—particularly regarding whether goodwill should be amortized. We emphasize the importance of a robust process and analysis to make the case for any changes in the accounting for goodwill, which would include, among other things, the extent to which international convergence in this area is necessary or appropriate in the public interest.

In making the case for change, we also believe the FASB should be careful not to place undue reliance on analyses performed under another framework such as the Private Company Decision-Making Framework, or related guidance issued by consensus of the Private Company Council, in its standard-setting process for standards applicable to public companies.

### **Disaggregation of Financial Reporting Information**

Another area of frequent comment by investors and other financial statement users was the disaggregation of financial reporting information. We note there was general alignment among commenting investors that greater disaggregation of financial reporting information—in the income statement, in the statement of cash flows, or in the notes to financial statements—should be among the FASB's top priorities. We believe that the FASB, through responses to the ITC and other outreach, has received significant information on investor needs in this area and that prompt consideration of investor and other stakeholder input is merited to identify potential targeted improvements to financial reporting.

The FASB has an existing project that contemplates the disaggregation of certain income statement expenses, and the feedback provided by investors underscores the importance of making achievable, meaningful progress on this project in the near-term. In that regard, we note the FASB held its most recent public discussion on disaggregation in February 2022.

The process of determining an effective path forward on this project should consider how to balance timely, meaningful action while ensuring due process. It will also necessarily include an assessment of the costs to preparers of producing disaggregated information. We note that one important consideration for that assessment is that issuers are required by law to make and keep books, records, and accounts, which, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the issuer.<sup>[9]</sup> Importantly, we note that feedback from preparers provided in years past regarding the cost of producing disaggregated information from such books, records, and accounts may be less relevant today, given technological advances. As such, we appreciate the continued efforts of the FASB to understand current feedback on the ITC and to perform additional outreach to preparers and other stakeholders regarding the current expected costs of both implementation and ongoing application of potential financial performance disaggregation proposals.

### **Climate-Related Transactions and Disclosures**

Respondents to the ITC acknowledged that climate-related transactions may be limited currently, but urged the FASB to continue to monitor the business environment and suggested certain targeted issues for potential standard setting along with requests for broader disclosures regarding the impact of climate-related issues on the financial statements. Recently, the FASB added a project to its research agenda to explore accounting for and disclosure of financial instruments with climate-linked features,<sup>[10]</sup> and added a project to the Emerging Issues Task Force's agenda related to the accounting for investments in certain tax credit structures including renewable energy tax credit investments.<sup>[11]</sup>

Taking into account feedback received over the past year, we believe there may be opportunities for the FASB to take thoughtful action on targeted areas of accounting, disclosure, and financial reporting that are consistent with the objective of general purpose financial statements, in response to the evolving business environment,

transactions, and investor needs regarding climate-related issues. For example, the near-term time horizon for financial statement disclosure requirements about risks and uncertainties<sup>[12]</sup> could be an additional area for consideration.

We encourage the FASB to continue to perform outreach with investors and other stakeholders and to monitor development of climate-related accounting and financial reporting issues. We also note the importance of clearly defining the scope of any standard-setting projects that emerge from the FASB's current research project or other climate-related efforts to ensure that standard setting is separated into meaningful yet achievable phases.

### **Digital Assets**

A significant number of respondents identified digital assets as a priority for the FASB to consider. Many of the respondents suggested that the FASB should permit or require issuers to account for certain digital assets at fair value. Investors and preparers alike commented that digital assets are expected to increase in significance in the coming years, as evidenced by a rise in market participants holding digital assets, which has accelerated the pace at which publicly-traded companies have become involved in digital assets and blockchain technology.<sup>[13]</sup>

In response to feedback received, the FASB added a project to its research agenda on the accounting for exchange-traded digital assets and commodities.<sup>[14]</sup> Continuing stakeholder engagement and monitoring of the business environment will be crucial to the FASB's ability to both properly scope any standard-setting projects in this area, and determine the accounting and disclosures that would provide the most useful information to investors, particularly as the digital asset landscape continues to evolve. While digital assets raise a number of critical issues under the federal securities laws, and the industry continues to change at a rapid pace, we believe there may be opportunities for targeted changes to accounting or disclosure guidance that could provide useful information to investors.

### **Other Areas of Feedback**

As the FASB considers feedback on other topics, we believe it should keep in mind the considerations noted above, including the importance of: 1) making the case for change; 2) appropriately scoping projects to make timely, meaningful, and achievable changes while ensuring appropriate due process is used throughout the standard-setting life cycle; and 3) continuing to seek investor and other stakeholder input.

Some of the other topics highlighted in the ITC and in stakeholder feedback include intangible assets (including software costs and human capital costs), consolidation guidance, and hedging—all of which are currently on the FASB's standard-setting or research agendas. Hedging has been an area where the FASB has already made a number of changes to improve the guidance. In deciding whether to make any proposed changes to hedging, we encourage the FASB to consider whether this topic is a priority for investors and engage in additional outreach to make the case for any such proposed changes, and in particular, to clearly understand what information would be most useful to investors to understand an entity's related risk exposure and risk management.

Certain issues, including hedging, may require significant time and resources due to the complexity of the arrangements or the existing guidance. Any prioritization of such projects should also consider the need to retain the capacity required to promptly address other emerging issues, including those identified through the FASB's post-implementation reviews ("PIRs"), to improve the operability of existing standards. The FASB's PIR process is a critical component of its standard-setting and implementation process, and addressing high-priority application challenges, including issues noted in the current PIR on revenue, is important to the FASB's ability to develop high quality standards.

### **Conclusion**

The financial reporting system's collective objective of providing investors with high quality financial reporting demands that all stakeholders seek ways to improve and better address the needs of investors. In that regard, it is important that both the FAF and FASB focus on continued improvement in the fulfillment of their respective roles

and responsibilities in the financial reporting system—especially in their efforts to more promptly address significant and evolving investor needs within the context of the financial statements. Doing so will clearly demonstrate that providing useful information to investors and other users is of foremost importance in the FAF's and FASB's work.

We are grateful for the efforts of the FAF and FASB, including the significant outreach performed through its ITC process to date, and we look forward to continued progress and improvements in these areas as the FASB continues to consider and incorporate investor and other stakeholder feedback in its standard-setting process.

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[1] This statement represents the views of the staff of the Office of the Chief Accountant (“OCA”). It is not a rule, regulation, or statement of the Securities and Exchange Commission (“SEC” or the “Commission”). The Commission has neither approved nor disapproved its content. This statement, like all staff statements, has no legal force or effect: it does not alter or amend applicable law, and it creates no new or additional obligations for any person. “Our” and “we” are used throughout this statement to refer to OCA staff.

[2] See FASB, *Invitation to Comment—Agenda Consultation* (Jun. 24, 2021), available at [https://www.fasb.org/jsp/FASB/Document\\_C/DocumentPage?cid=1176176828145](https://www.fasb.org/jsp/FASB/Document_C/DocumentPage?cid=1176176828145).

[3] *Id.*

[4] See FASB Press Release, *FASB Holds First Discussion on Agenda Consultation Feedback* (Dec. 15, 2021), available at [https://www.fasb.org/cs/ContentServer?c=FASBContent\\_C&cid=1176179121674&d=&pagename=FASB%2FFASBContent\\_C%2FNewsPage](https://www.fasb.org/cs/ContentServer?c=FASBContent_C&cid=1176179121674&d=&pagename=FASB%2FFASBContent_C%2FNewsPage); see also FASB, *Feedback Summary on the 2021 Invitation to Comment, Agenda Consultation* (Dec. 15, 2021), available at [https://www.fasb.org/cs/ContentServer?c=Document\\_C&cid=1176179121187&d=&pagename=FASB%2FDocument\\_C%2FDocumentPage](https://www.fasb.org/cs/ContentServer?c=Document_C&cid=1176179121187&d=&pagename=FASB%2FDocument_C%2FDocumentPage).

[5] See SEC, *Policy Statement: Reaffirming the Status of the FASB as a Designated Private-Sector Standard Setter*, Release No. 33-8221 (Apr. 25, 2003) [68 FR 23333 (May 1, 2003)], available at <https://www.sec.gov/rules/policy/33-8221.htm>.

[6] 15 U.S.C. 77s(b)(1).

[7] The objective of general purpose financial reporting is to provide financial information about the reporting entity that is useful to existing and potential investors, lenders, and other creditors in making decisions about providing resources to the entity. See par. OB2 of FASB Statement of Financial Accounting Concepts No. 8 (As Amended), *Conceptual Framework for Financial Reporting—Chapter 1, The Objective of General Purpose Financial Reporting*.

[8] See *supra*, at n. 6.

[9] See Section 13(b)(2)(A) of the Securities Exchange Act of 1934.

[10] See FASB's “Objectives of Research Projects” webpage, available at [https://www.fasb.org/cs/ContentServer?c=FASBContent\\_C&cid=1176169433424&d=&pagename=FASB%2FFASBContent\\_C%2FProjectUpdatePage](https://www.fasb.org/cs/ContentServer?c=FASBContent_C&cid=1176169433424&d=&pagename=FASB%2FFASBContent_C%2FProjectUpdatePage).

[11] See FASB's “Project Update: EITF 21-A, Accounting for Investments in Tax Credit Structures Using the Proportional Amortization Method” webpage, available at [https://www.fasb.org/jsp/FASB/FASBContent\\_C/ProjectUpdateExpandPage&cid=1176177658835](https://www.fasb.org/jsp/FASB/FASBContent_C/ProjectUpdateExpandPage&cid=1176177658835).

[12] See FASB Accounting Standards Codification Topic 275, *Risks and Uncertainties*.

[13] See *supra*, at n. 4.

[14] See *supra*, at n. 10.



*Modified: Feb. 22, 2022*

## NOTES

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