CFA Institute

June 30, 2025

Jackson M. Day
Technical Director
Financial Accounting Standards Board
801 Main Avenue (P.O. Box 5116)
Norwalk, CT 06856-5116

RE: File Reference No. 2025-ITC100

Dear Mr. Day:

CFA Institute[1], in consultation with its Corporate Disclosure Policy Council ("CDPC") [2], appreciates the opportunity to comment and provide our perspectives on the Financial Accounting Standards Board's ("FASB" or the "Board") *Invitation to Comment - Agenda Consultation* ("Invitation to Comment" or "ITC").

CFA Institute has a long history of promoting fair and transparent global capital markets and advocating for strong investor protections. An integral part of our efforts toward meeting those goals is ensuring that corporate financial reporting and disclosures and the related audits provided to investors and other end users are of high quality. Our advocacy position is informed by our global membership who invest both locally and globally.

Our response to this ITC is largely based on the results of a survey our members that we conducted in April 2025, and our responses to the Board's previous Agenda Consultation ITCs in 2016 and 2021.[3,4]

We've organized our response to the ITC as follows. In the Summary and Recommendations starting on the next page, we summarize our response and provide both agenda and strategic recommendations to the Board. The key findings from our April 2025 survey are summarized on pages 4-6 which follow. In **Appendix I**, we reproduce our survey questions and answers in full, including all comments we received from respondents. In **Appendix II**, we answer the questions posed to respondents in the ITC.

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1 With offices in Charlottesville, VA; New York; Washington, DC; Hong Kong SAR; Mumbai; Beijing; Shanghai; Abu Dhabi; and London, CFA Institute is a global, not-for-profit professional association of more than 190,000 members, as well as 160 member societies around the world. Members include investment analysts, advisers, portfolio managers, and other investment professionals. CFA Institute administers the Chartered Financial Analyst® (CFA®) Program. For more information, visit www.cfainstitute.org or follow us on LinkedIn and X.

2 The objective of the CDPC is to foster the integrity of financial markets through its efforts to address issues affecting the quality of financial reporting and disclosure worldwide. The CDPC is comprised of investment professionals with extensive expertise and experience in the global capital markets, some of whom are also CFA Institute member volunteers. In this capacity, the CDPC provides the practitioners' perspective in the promotion of high-quality financial reporting and disclosures that meet the needs of investors.

3 Comment Letter on Proposed Invitation to Comment, Agenda Consultation.

4 Comment Letter to FASB's Agenda Consultation.

SUMMARY AND RECOMMENDATIONS

Our survey found that investors' standard setting priorities for the Board are essentially the same priorities we communicated in the Board's first Agenda Consultation nine years ago and what we and investors broadly communicated to the Board in the 2021 Agenda Consultation: statement of cash flows, segment reporting, cohesiveness of financial statements, intangible assets, disaggregation, and financial key performance indicators (KPIs).

CFA Institute Top Priorities

2016 Agenda Consultation	2021 Agenda Consultation	2025 Agenda Consultation

• Enhancing the presentation of primary financial statements
• Segment reporting
• Intangible assets.
	• Financial statement presentation:
	  ○ Statement of cash flows
	  ○ Meaningful disaggregation
	• Enhanced disclosures
	• Segment reporting
	• Intangible assets
	• ESG-related transactions
		• Statement of cash flows
		• Segment reporting
		• Cohesiveness of financial statements
		• Intangible assets
		• Disaggregation
		• Financial KPIs

Investors (broadly) top priorities - 2021 Agenda Consultation[5]
• Disaggregation of financial reporting information • Statement of cash flows • ESG-related transactions or disclosures • Intangible assets • Financial KPIs • Digital assets • Income tax disclosures

Some of the priorities are unchanged despite recent standard setting on them (e.g. segment reporting) because the Board only addressed a portion of the topic (e.g., segment expenses, not segment identification and aggregation). Other priorities like the statement of cash flows, intangible assets, and financial KPIs are still on the Board's research agenda.

Our first recommendation to the Board is to stay focused on investor priorities and avoid getting sidetracked into highly conceptual or niche projects that don't address investors' information needs. We find that most of the projects discussed in the ITC (34 out of 42 projects)

[5] The Board's Agenda Consultation Report, page 6. The Board did not publish a similar report after its 2016 Agenda Consultation.

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are either highly conceptual or niche, many of which have been debated for over twenty years. We recommend that some of these are referred to the Emerging Issue Task Force (EITF) for consideration, while other topics should simply not be addressed at this time.

Our second recommendation to the Board is to form a technology advisory group and/or consider adding Board members with technology expertise that can advise the Board on advances in the production, audit, and use of financial reporting information. Financial reporting technology, like most software, is likely to undergo rapid changes with the advent of artificial intelligence. Advancements in technology may significantly reduce the costs of generating, reporting, auditing, and consuming information, which influences the standard setting process by, for example, the cost-benefit analysis of changing standards. Our survey showed strong investor support for a technology advisory group and Board members with technology expertise.

Our final recommendation is not drawn from our survey but rather from recent trends in capital markets. **We recommend that the Board revisit one of the premises of the *Private Company Decision-Making Framework: A Guide for Evaluating Financial Accounting and Reporting for Private Companies*, specifically "Number of Primary Users and Their Access to Management."** We continue to see rising participation in private company investments by the public and regulator interest in furthering this trend.[6] The line between private and public markets is increasingly blurry, with many private companies today having as many beneficial owners as public companies. The premise that

"…private companies often have fewer financial statement users, those users also may have greater influence on preparers because they tend to provide a larger percentage of resources to private companies when compared with typical users of public companies. As a result, users of private company financial statements have continuous access to management and the ability to obtain financial information throughout the year."[7]

as a justification for private company alternatives to GAAP is simply no longer true. The Board should ideally have "one GAAP" for business entities, and not further increase the hurdle for companies going public by creating private company alternatives that must be unwound if a private company is to go public.

[6] SEC Weighs Further Loosening of Rules Barring Retail Investors From Private Funds - WSJ

[7] *Private Company Decision-Making Framework A Guide for Evaluating Financial Accounting and Reporting for Private Companies*, paragraph DF2.

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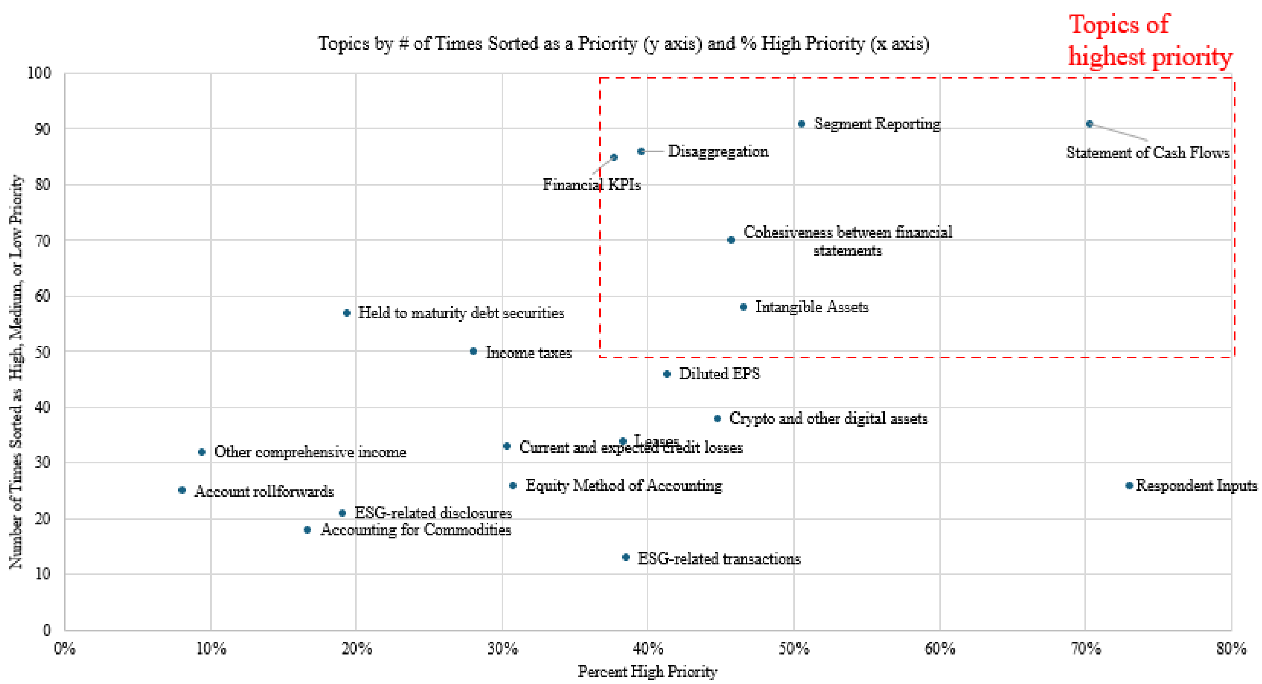
KEY FINDINGS FROM CFA INSTITUTE MEMBER SURVEY

Our member survey queried respondents on their highest and lowest priority financial reporting and accounting topics for standard setters. We did so by asking about the top investor priority topics from the Board's 2021 Agenda Consultation including several sub-topics for each one, 13 other topics from the ITC or our own outreach, and gave respondents the opportunity to input their own topics, which a minority of respondents did.

Towards the end of our survey, we asked respondents to sort all the topics into "high" "medium" or "low" priority buckets. Respondents also had the option to leave topics unsorted if they weren't a priority. The chart below graphs the topics by number of times it was sorted (y-axis) and percentage it was sorted into the "high" priority bucket. **We judge the topics in the top right region of the graph to be the topics of highest priority for investors: statement of cash flows, segment reporting, cohesiveness of financial statements, intangibles assets, disaggregation, and financial KPIs.**



The survey drilled down into sub-topics for several topics. The highest priority sub-topics are shown in the table below. For those topics that did not drill down into sub-topics, the descriptive text of the topic that was provided to respondents is shown.

Topic	Highest Priority Sub-Topics
Statement of cash flows	• Improve disclosures of noncash items • Disaggregate investing cash flows into maintenance and expansion • Define and require disclosure of free cash flow

	• Require targeted supplemental disclosures for entities applying the indirect method, including cash received from customers and cash paid to employees and suppliers
Segment reporting	• More extensive reconciliations to the financial statements • Additional disclosures for each reportable segment, e.g. cash flows • Changing the approach to identifying operating segments to allow for less management discretion
Cohesiveness of financial statements	Require line items on the financial statements to cleanly link together, e.g., reported changes in working capital accounts on the statement of cash flows match changes on the balance sheets.
Intangible assets	New accounting and/or disclosure guidance for internally generated intangibles including R&D.
Disaggregation	• Breakdown of non-recurring income and expenses • Breakdown of cost of sales and SG&A expenses by nature of expense • Effect of business combinations on financial statement line items • Breakdown of revenue and operating income by country
Financial KPIs	• Define financial KPIs or non-GAAP metrics that apply to all entities (e.g. free cash flow) • Define KPIs or non-GAAP metrics on an industry basis (e.g. funds from operations, same-store sales) • Require KPIs or non-GAAP metrics that are presented outside the financial statements to be disclosed in the notes to the financial statements.

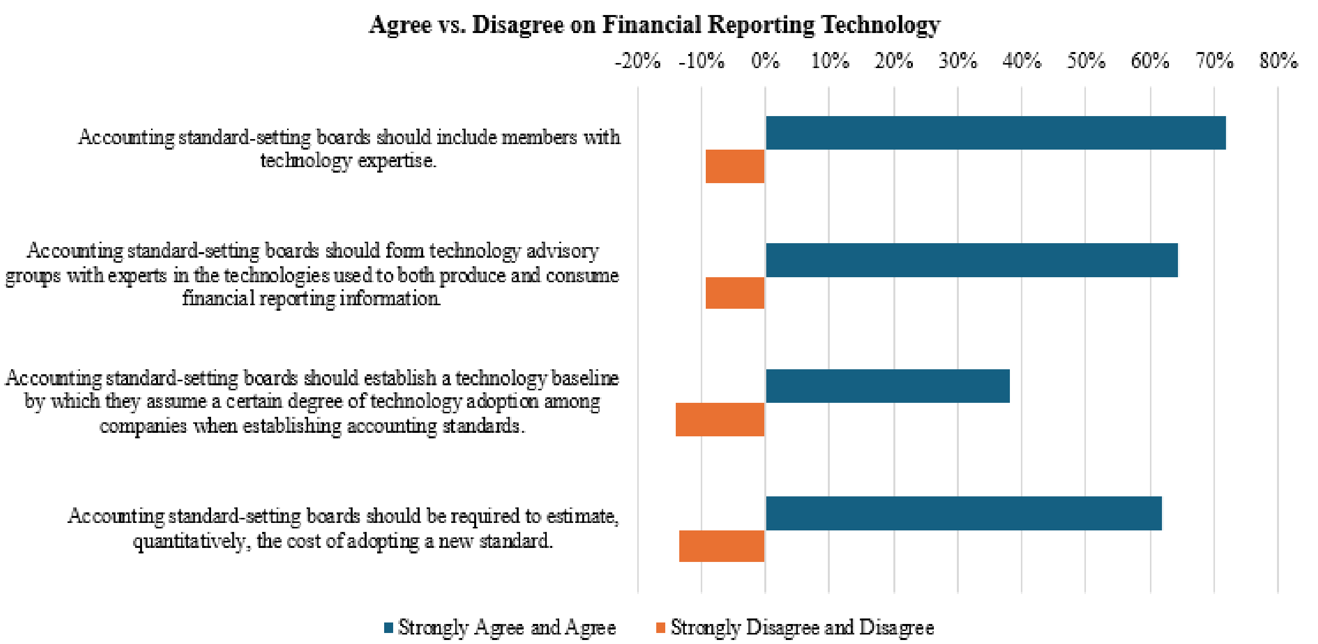
Investors' lowest priorities for standard setters from the survey were, generally, topics related to ESG and more technical topics that are likely to be material to only a subset of entities, such as accounting for commodities. The decline in the importance of ESG topics versus its importance in prior years most likely reflects the broader decline in investor interest in ESG as evidenced by a decline in sustainability-related fund flows, especially in the US.[8] This may

[8] Global Sustainable Fund Flows: Q1 2025 in Review | Morningstar. The first quarter of 2025 marked the 10th consecutive quarter in which United States investors pulled money from sustainable funds.

represent a temporary "retrenchment" following the surge in interest in ESG and assets under management in ESG-focused investment products from 2019-2021 or a more structural trend, which we will continue to monitor closely.

Our survey was designed to be jurisdiction- and standard-setter agnostic, as we intend to use the results to also inform our response to the International Accounting Standards Board ("IASB") request for information on its Fourth Agenda Consultation at the end of 2025.[9] **Virtually all survey respondents indicated that their priorities are the same for the FASB and IASB.**

Finally, at the end of our survey, we queried respondents on several proposals related to standard-setting and financial reporting technology. Financial reporting technology, like most software, is likely to undergo rapid changes with the advent of artificial intelligence. Advancements in technology may significantly reduce the costs of generating, reporting, auditing, and consuming information, which influences the standard setting process by, for example, the cost-benefit analysis of changing standards.



Note: Each row does not add to 100% in this summary chart because the percentage of respondents who answered "Neither agree nor disagree" are not shown. See page 37 for the full data.

Our survey found very strong investor support for accounting standard-setting boards to include members with technology expertise and for the formation of a technology advisory group with experts in the technologies used to both produce and consume financial reporting information.

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[9] IFRS - Fourth Agenda Consultation

If you have any questions or seek further elaboration of our views, please contact Sandra J. Peters at sandra.peters@cfainstitute.org and Matthew P. Winters at matt.winters@cfainstitute.org.

Sincerely,

Sandra J. Peters, CPA, CFA
Senior Head
Global Financial Reporting Policy Advocacy
CFA Institute

Matthew P. Winters, CPA, CFA
Senior Director
Global Financial Reporting Policy Advocacy
CFA Institute

APPENDIX I: CFA INSTITUTE FUTURE OF FINANCIAL REPORTING SURVEY

About the Survey
CFA Institute Market Intelligence invited 24,931 active CFA Institute members around the world in portfolio manager or investment analyst roles on April 3, 2025 to take a survey on the future of financial reporting. The invitation was sent via email and the survey was conducted digitally. The survey closed on April 24, 2025.

We received 212 survey responses (0.85% response rate) and 107 complete responses. 48% of respondents reside in the US. The survey was designed to be jurisdiction and US GAAP/IFRS agnostic. Later in the survey, when we queried whether respondents' financial reporting standard setting priorities differed for the FASB vs. IASB, virtually all respondents answered that their priorities should be the same.

Presentation of Survey Questions and Responses
The survey was presented to respondents across 10 different digital pages ("screens"), with each screen introducing a topic and asking one or more questions about that topic. Respondents could not return to prior screens. The screens were presented as follows:

1. Introduction
2. Statement of Cash Flows
3. Disaggregation of Financial Reporting Information
4. Segment Reporting
5. Financial KPIs or Non-GAAP Metrics
6. Other Topics
7. User Input (Open Ended)
8. Ranking Priorities
9. IFRS vs. US GAAP Priorities
10. Cost and Financial Reporting Technology

Below we present the survey questions and responses we received in the order they were presented to and answered by survey respondents. We first show the question text, followed by graphical depictions of the results and any comments we received (unedited). Our summary of key survey findings is in the body of letter on pages 4-6.

Survey Introduction

The Financial Accounting Standards Board (FASB), which sets US GAAP, is currently conducting a formal consultation to inform its future standard setting agenda. We expect the International Accounting Standards Board (IASB) to do a similar consultation in 2026 for IFRS.

The FASB and IASB last conducted agenda consultations in 2021.

This survey will approach the question "What do you want the FASB and IASB to work on to improve information for investors?" by revisiting investors priorities from the 2021 agenda consultations, topics in the current consultation and others that we've heard in our outreach, and by giving you the opportunity to respond in an open-ended manner.

At the end of the survey, we also ask for your views on the impact of technological changes on financial reporting standards.

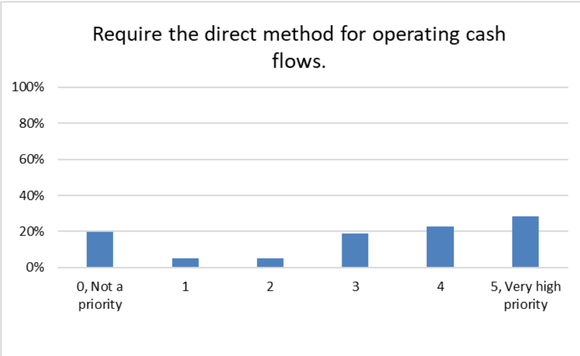
Statement of Cash Flows - Question
A top priority identified in 2021 was improvements to the statement of cash flows.

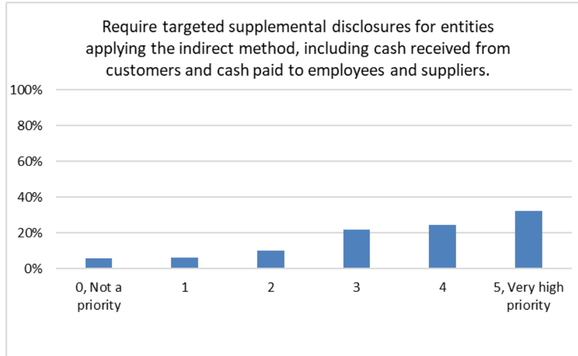
Rate the following proposals related to improving the statement of cash flows from 0 to 5, with 0 being “not a priority” and 5 being a very high priority.

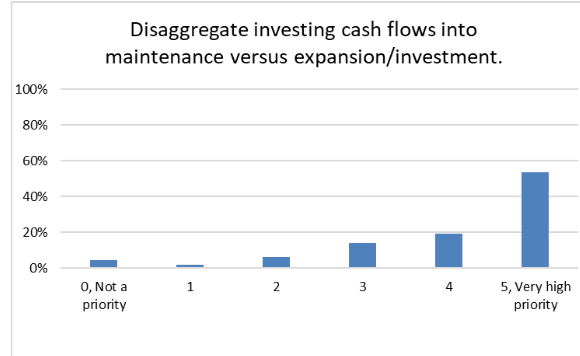
- Requiring the direct method for operating cash flows.
- Requiring targeted supplemental disclosures for entities applying the indirect method, including cash received from customers and cash paid to customers and suppliers.
- Disaggregating investing cash flows into maintenance versus expansion/investment.
- Improving disclosures of noncash items.
- Including more types of highly liquid assets in the definition of “cash equivalents”
- Changing the definitions of “operating,” “investing,” and “financing” categories
- Defining and requiring disclosure of free cash flow
- Creating a new statement of cash flows for financial institutions.

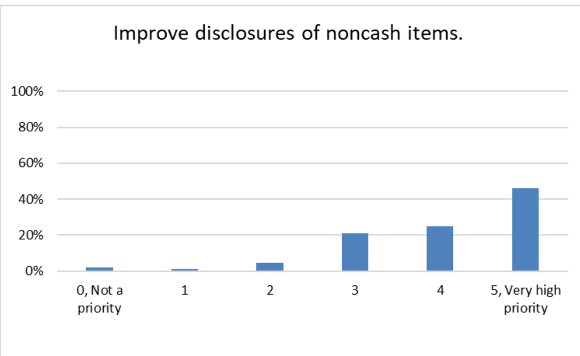
Are there any other topics related to the statement of cash flows that you would add as a priority?
[Comment box]

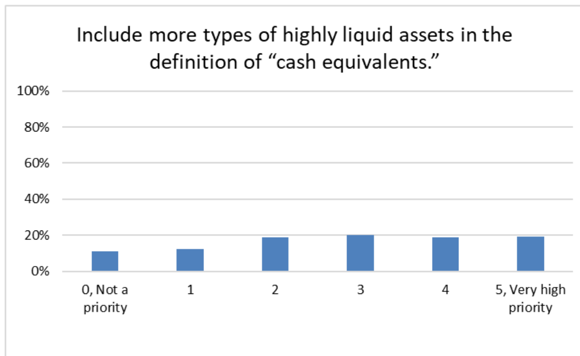
Statement of Cash Flows – Results (1/3)[10]

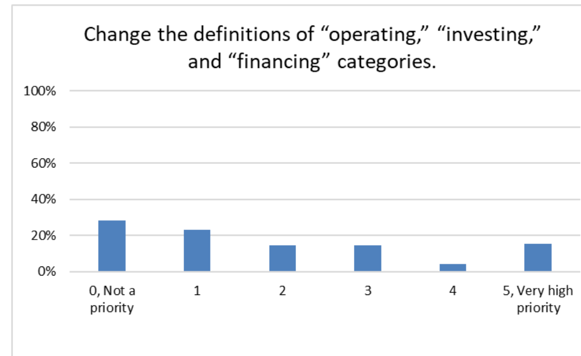


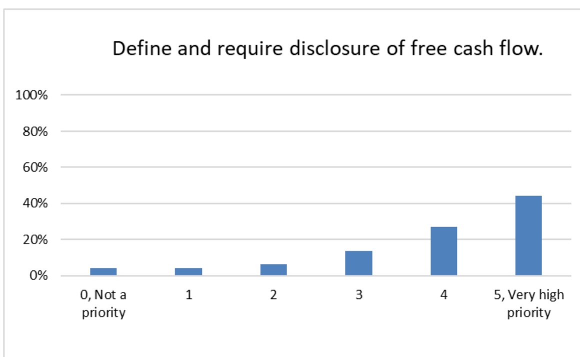


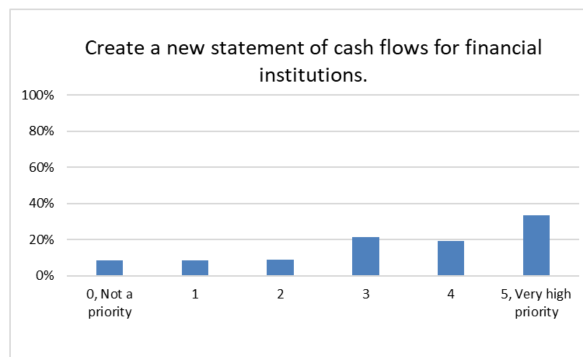






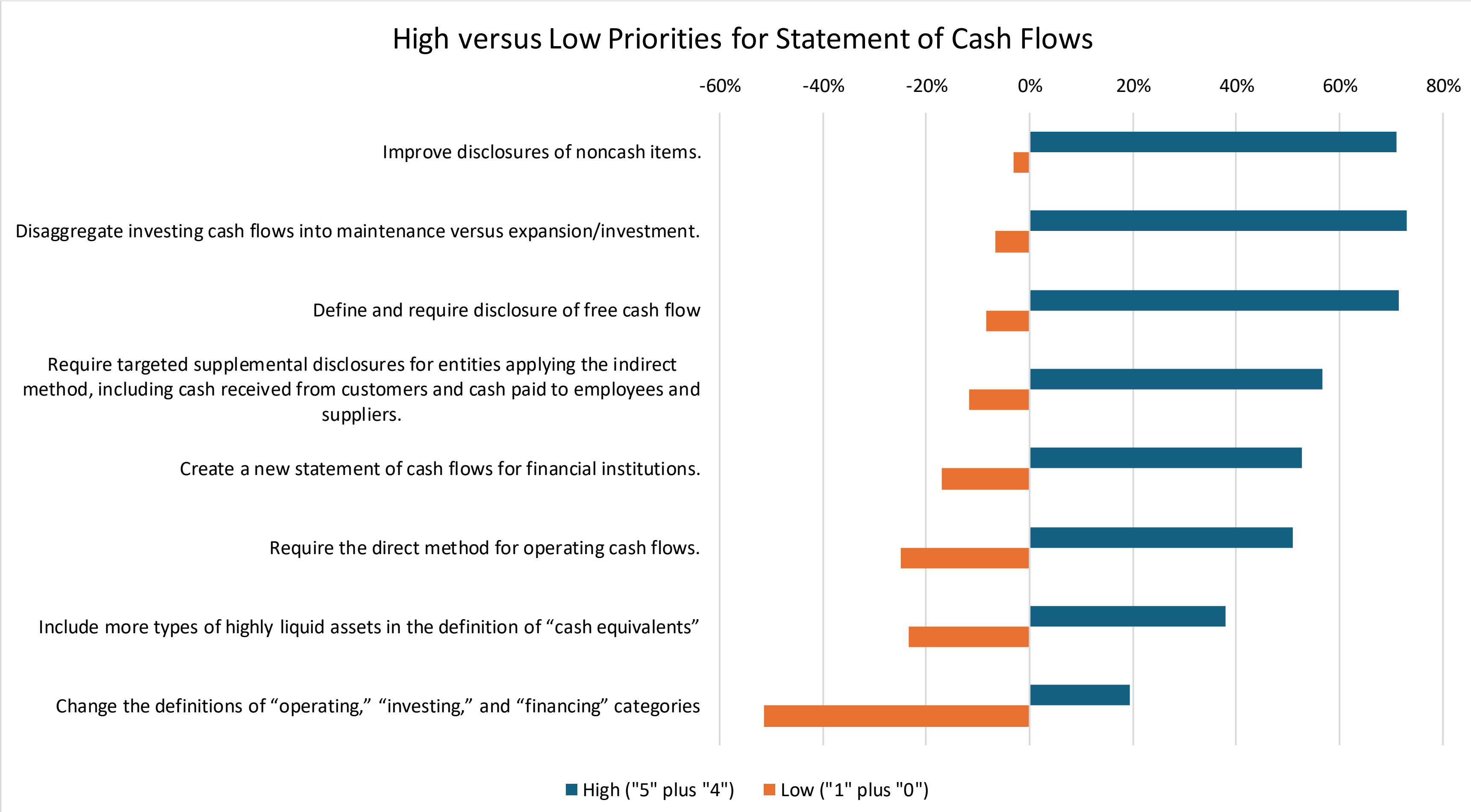






[10] N=212 – 188. We did not observe material differences in US vs. Non-US respondents' responses to these proposals so we present global results.

Statement of Cash Flows – Results (2/3)



Note: Each row does not add to 100% in this summary chart because the percentages of respondents who answered "2" or "3" are not shown. See the prior page for the full data.

Statement of Cash Flows – Results (3/3)

- Yes, standardise and converge the treatment of cash flow items (dividends paid, interest paid/received, etc) across US GAAP and IFRS - similar to how revenue recognition has been standardised. There are far too many differences that exist between these standards, making cross-company analysis for investors more time consuming and prone to misinterpretations. Another topic of priority is showing the movement of working capital items on the face of the cash flow statement, which is currently not the case under IFRS and can be stowed away in the notes.
- Anything that makes it easier to understand
- For financial institutions, are you serious? You would have to create a rule for required regulatory and financial risk capital. Is that what you are suggesting to do?
- I think that more granular disclosures would be helpful. For example, a breakdown of the components of amortization of intangibles. Creating a new SCF for financial institutions would be great, if the Board or stakeholders can come up with a meaningful alternative.
- Stock Comp should be under Financing!
- Sometimes acquisitions occur as opposed to maintenance capex. Watch out for intangible purchases.
- Amortisation of intangibles should be split into real amortisation and goodwill proxy amortisation
- Separate and state working capital investment as a separate figure
- Require loan payment should be under operating cash flow instead of financing
- Deduct sbc from fcf concept
- Identify cash flows wasted on DEI and ESG initiatives.
- Move stock based comp out of operating and into financing cash flow. Improve disclosure of stock based compensation details
- Maintenance capex cashflow,owners earnings
- Require cash interest paid and cash taxes paid to be disclosed quarterly - preferably in a Supplemental Information table.
- Report working capital investment separately.
- "IFRS has begun to allow operating cash flows in CF Fin segment (lease repayments), under no circumstances can this creep into US GAAP.The positive value for Share Based Comp should be removed from CF Ops and treated as a capital increase within CF Fins. All associated taxes should be included as a negative within CF Ops. The current presentation allows companies to 'hide' the capital increases within the CFS."
- Align IFRS with GAAP on capitalisation of software
- Incorporate cash flow sensitivity to revenues by giving effect of +or - 10% increase or decrease of revenue on cash flow
- Require interest expense to flow through financing cash flow line
- be more standardized on leases and interest payments
- Better disclosure on restricted cash vs unrestricted
- 1st - Require the direct method for operating cash flows.
- Require companies to put interest payments, received interest and lease payments into operating cash flow.Indirect cash flow method is much easier for analysts to model than direct method.
- More clearly define cash repurchases/buybacks as net of taxes or not
- Contingencies impact

Disaggregation of Financial Reporting Information – Question

Disaggregation of financial reporting information on the face of financial statements or in the notes was rated as a top priority by most investors.

There has been standard setting on this topic since 2021:

US GAAP, *Disaggregation of Income Statement Expenses* (effective in 2027)

- Disclose the amounts of (a) purchases of inventory; (b) employee compensation; (c) depreciation; (d) amortization; and (e), depletion included in each income statement expense line. No total across income statement line items is required. (e.g., total employee compensation, depreciation and amortization will not be required to be provided.)
- Separately, require management to define "selling expenses" and disclose the total amount of selling expenses.

IFRS 18, *Presentation and Disclosure in Financial Statements* (effective in 2027)

- Defines and requires the presentation of operating profit and profit before financing and income taxes
- Disclose total amounts of (a) employee benefits including share-based payments; (b) depreciation; (c) amortization; (d) impairments; (e) write-downs and, for each of those, the amount in each income statement line

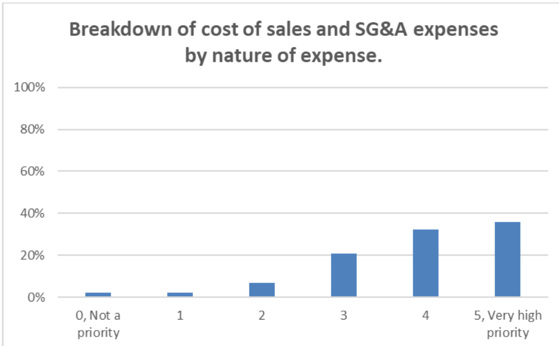
Rate the following proposals related to improving the disaggregation of financial reporting information from 0 to 5, with 0 being "not a priority" and 5 being a very high priority.

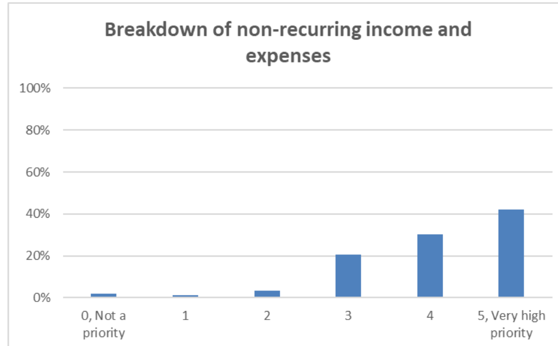
- Breakdown of cost of sales and SG&A expenses by nature of expense.
- Breakdown of non-recurring income and expenses
- Breakdown of revenue and operating income by country
- Effects of business combinations on financial statement line items
- Effects of climate change on financial statement line items
- Greater disclosure of the nature, amounts and purpose of R&D costs and activities

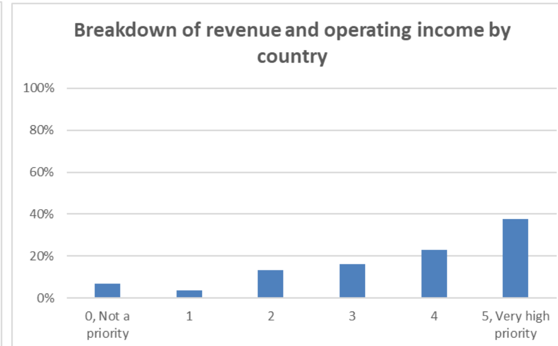
Are there any other topics related to disaggregation of financial reporting information that you would add as a priority?
[Comment box]

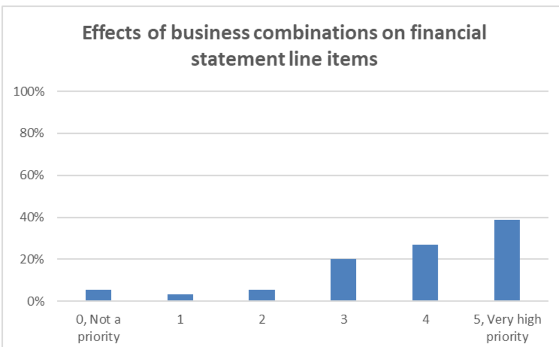
APPENDIX I

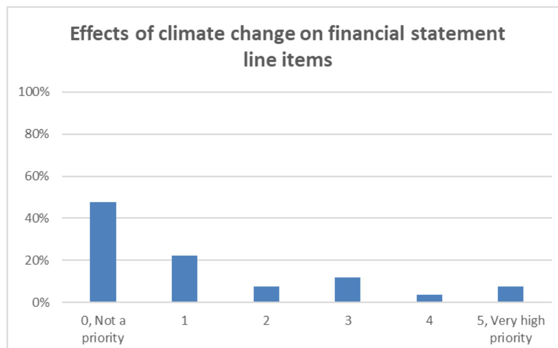
Disaggregation of Financial Reporting Information – Results (1/3)[11]

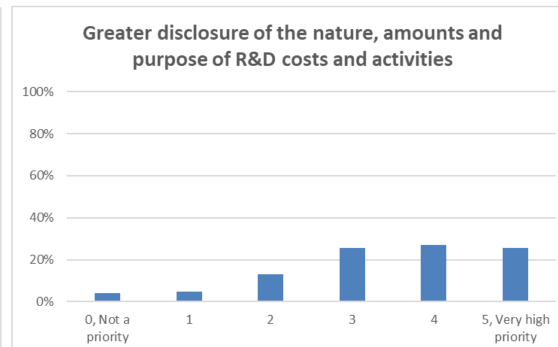






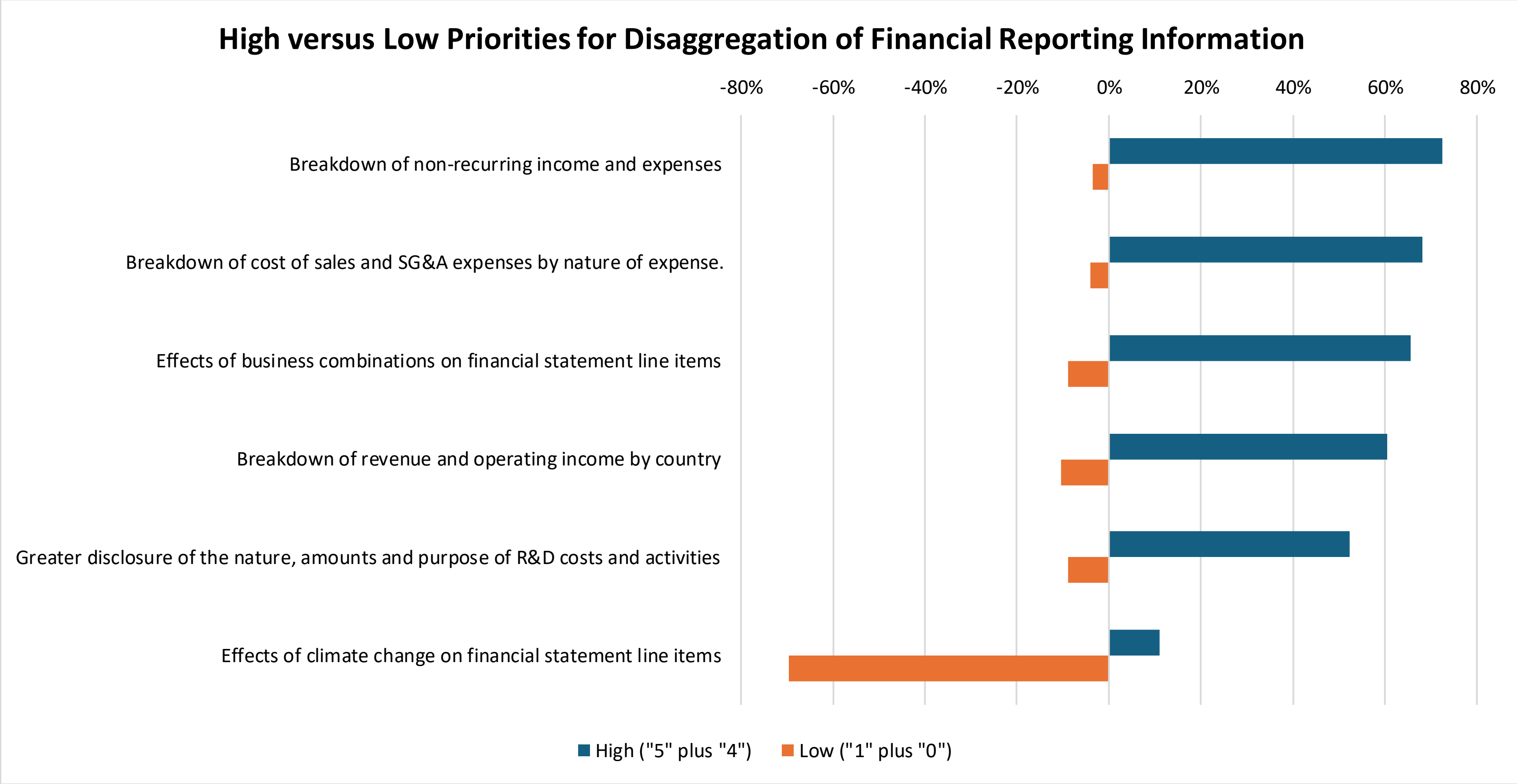






[11] N=145. We did not observe material differences in US vs. Non-US respondents' responses to these proposals so we present global results.

Disaggregation of Financial Reporting Information – Results (2/3)



Note: Each row does not add to 100% in this summary chart because the percentages of respondents who answered "2" or "3" are not shown. See the prior page for the full data.

Disaggregation of Financial Reporting Information – Results (3/3)

- A breakdown of cost-to-cost recons, that is additions, disposals, impairments, in PPE can greatly enhance the understanding of true cost capex incurred.
- Esg is dumb so knock it off
- By and large, I view forecasting financial statements as a sophisticated "back of the envelope" exercises. I can work effectively with the information that is already provided. Rather than break down income statement line items into various components, I would prefer greater disaggregation of IS, BS and CF line items that help me understand how the financial statements are interconnected for financial modeling purposes.
- Spend on consultants should be disclosed
- "Effects of climate change" is an immeasurable item that is incongruous with the purpose of standardized financial reporting and would mark a setback in progress toward clearer, more objective financial statements.
- Revenues from government bodies, payments to governments, politicians and political parties
- More stock based compensation details
- Stricter requirements to count operating units as reporting segments
- Too many companies are allowed to wait too long to disclose segment results. They can hide behind the current wording of the standard (the CFO can ask to formally review larger groupings, but be aware of disaggregated results). This standard should change to whatever the auditors believe is reasonable for investors. Eg it took Google too long to separate YouTube and cloud from search advertising, which are all very different revenue streams with different margins.
- allocation of SBC to each expense line of income statement
- Gross profit for individual segments disclosed
- Breakdown of cogs so is easier to compare gap and ifrs with things like shipping

Segment Reporting – Question

Improving segment disclosures was rated a top by most investors in the IASB's 2021 Agenda Consultation.

In 2023, the FASB made limited amendments to its segment reporting standard (effective in 2025), requiring entities to disclose:

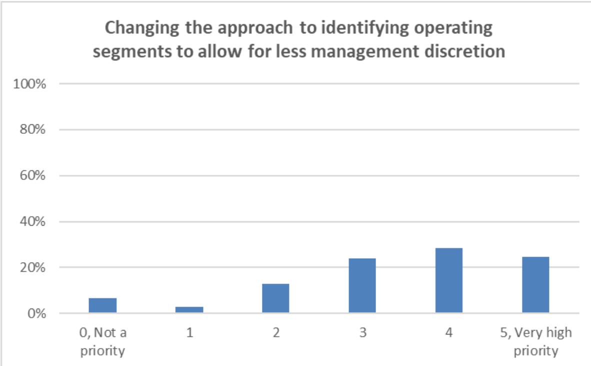
- Significant Expenses – significant segment expenses that are regularly provided to the chief operating decision maker (CODM) and included within each reported measure of segment profit or loss. These amounts are not required to agree to the income statement. Total segment expenses is not required to be provided.
- Interim Disclosures - all annual disclosures about a reportable segment's profit or loss and assets are required to be disclosed in interim periods as well.
- The Name of the Chief Operating Decision-maker (CODM)- the title and position of the CODM and an explanation of how the CODM uses reported measure(s) of segment profit or loss

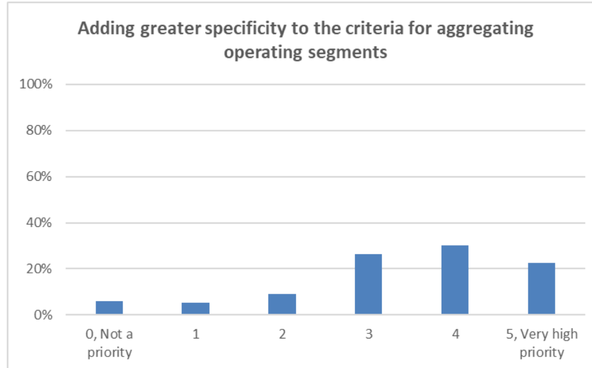
Rate the following proposals for improving **segment reporting** from 0 to 5, with 0 being "not a priority" and 5 being a very high priority

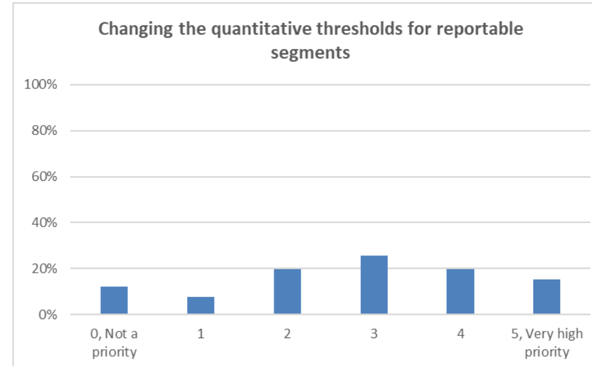
- Changing the approach to identifying operating segments to allow for less management discretion
- Adding greater specificity to the criteria for aggregating operating segments
- Changing the quantitative thresholds for reportable segments
- Additional disclosures for each reportable segment, e.g. cash flows.
- Limits on the frequency of changes to the composition of reportable segments
- More extensive reconciliations to the financial statements

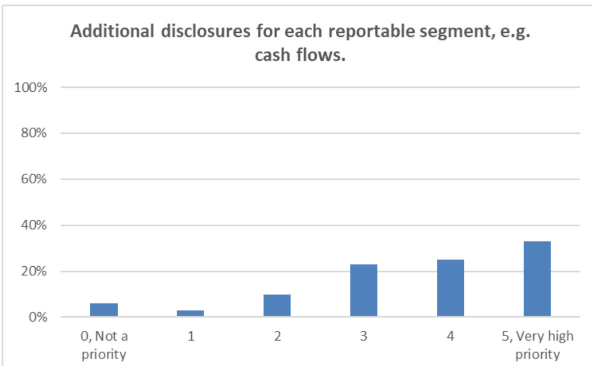
Are there any other topics related to **segment reporting** that you would add as a priority?
[Comment box]

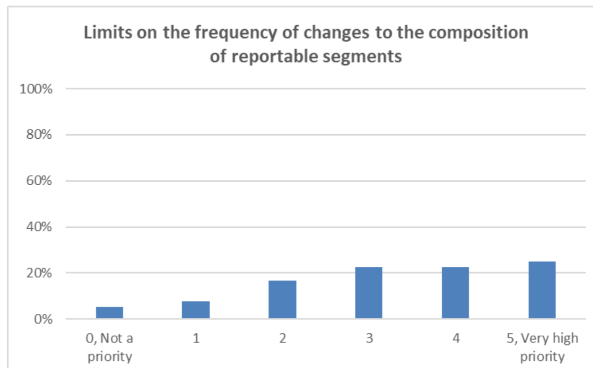
Segment Reporting – Results (1/3)[12]

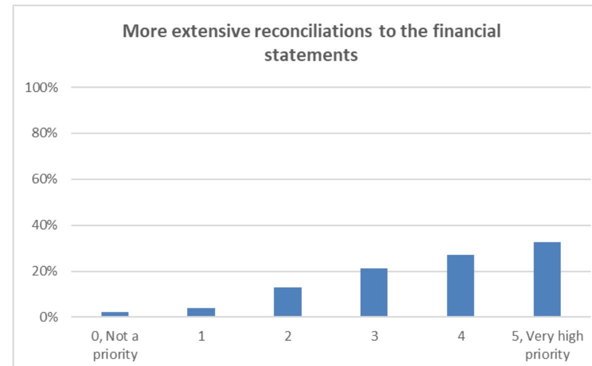






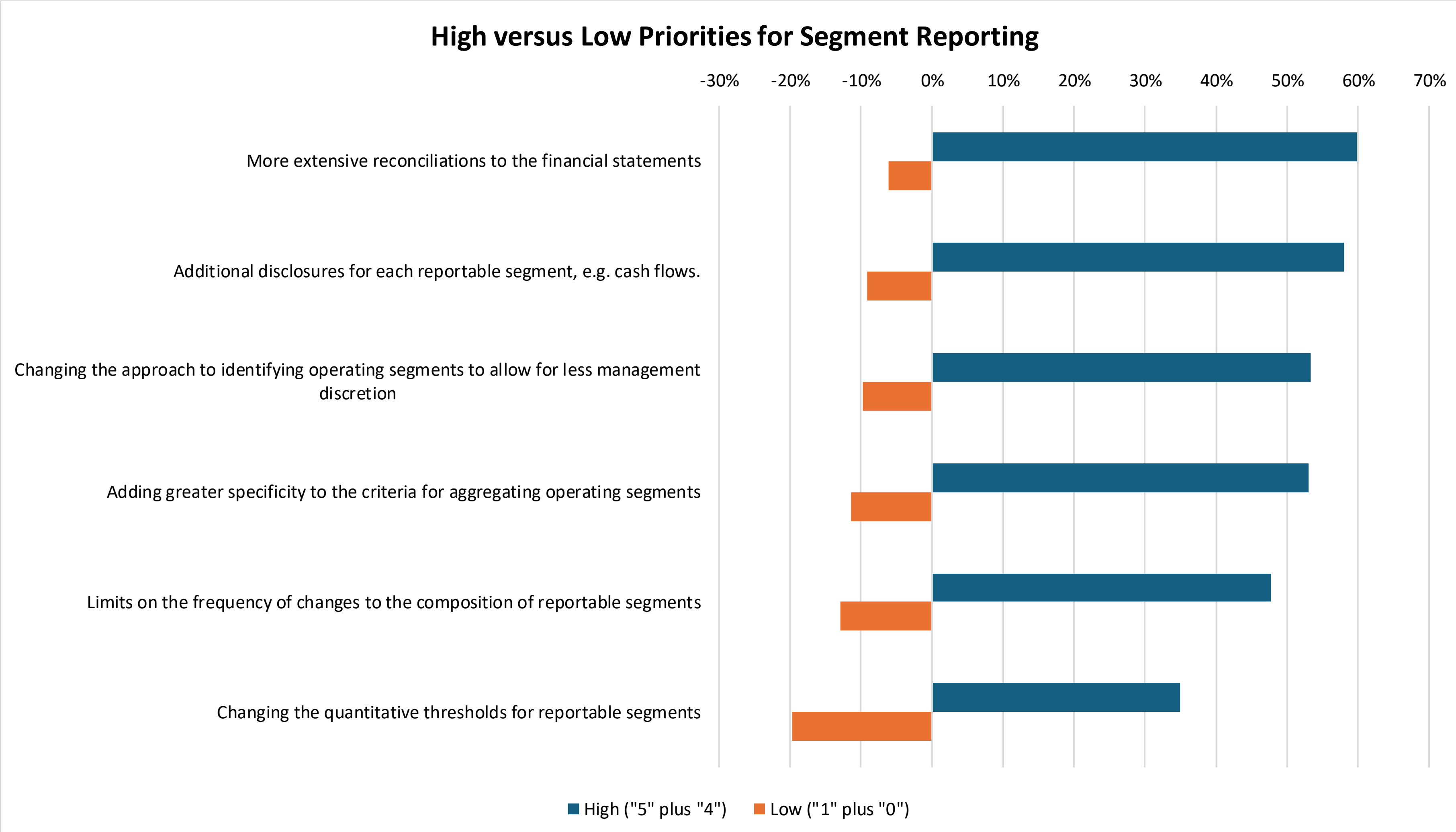






[12] N = 132.

Segment Reporting – Results (2/3)



Note: Each row does not add to 100% in this summary chart because the percentages of respondents who answered “2” or “3” are not shown. See the prior page for the full data.

Segment Reporting - Results (3/3)

- Yes, show a high-level breakdown of segment assets and liabilities, not just hidden in a total asset or liabilities line item.
- Based upon how it is actually being applied, I think the eliminating the management approach in favor of a GAAP-based presentation that connects more closely to the consolidated financial statements is preferable.
- Require at least two years of quarterly backcasting of segment disclosure to be provided with the first quarter that includes a change in segmenting.
- Many companies just list revenue by segment, particularly on a geographic basis..not that helpful
- For segments reporting working capital position, ocf and capex attributable (disclose method for allocating if just a general prorating across segments)
- Anything that forces companies to change reporting (forces companies to re segment) is negative. Theoretical long term gains for significant near term disruption in process for analysts. Academics might like it but practitioners will hate it
- Standardize corporate/unallocated costs in segment breakdowns

Financial KPIs or Non-GAAP Metrics – Question

The FASB has an ongoing pre-standard setting research project on financial KPIs or non-GAAP metrics after it was rated a high priority by investors.

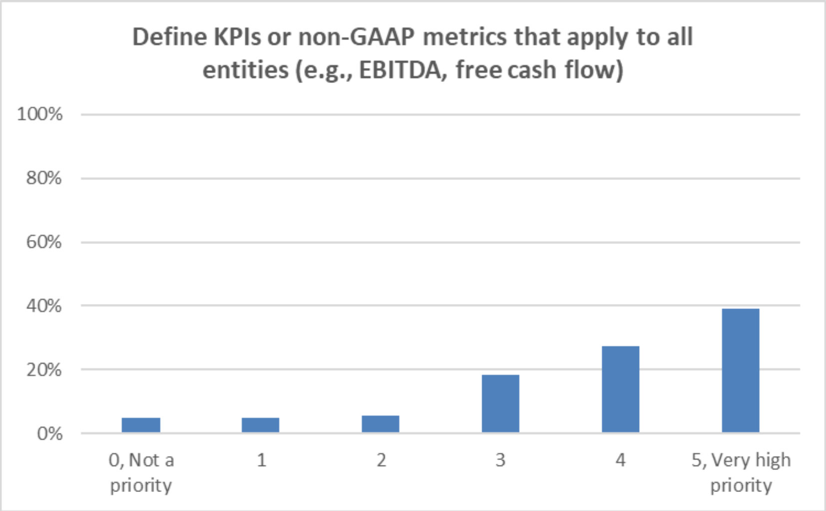
The IASB has done standard setting recently on this topic. IFRS 18, *Presentation and Disclosure in Financial Statements* (effective in 2027) requires the disclosure of certain types of financial KPIs (called "management-defined performance measures") in the notes to the financial statements if they meet certain criteria.

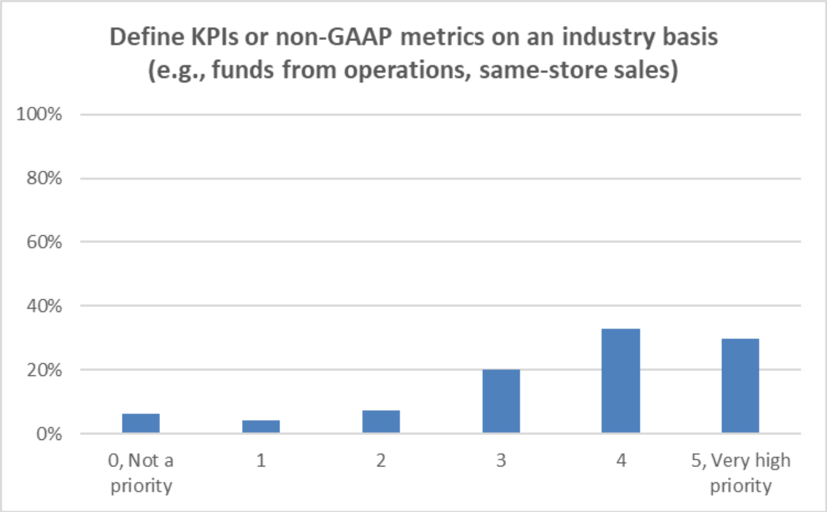
Rate the follow proposals for improving **financial KPIs or non-GAAP metrics** from 0 to 5, with 0 being "not a priority" and 5 being a very high priority.

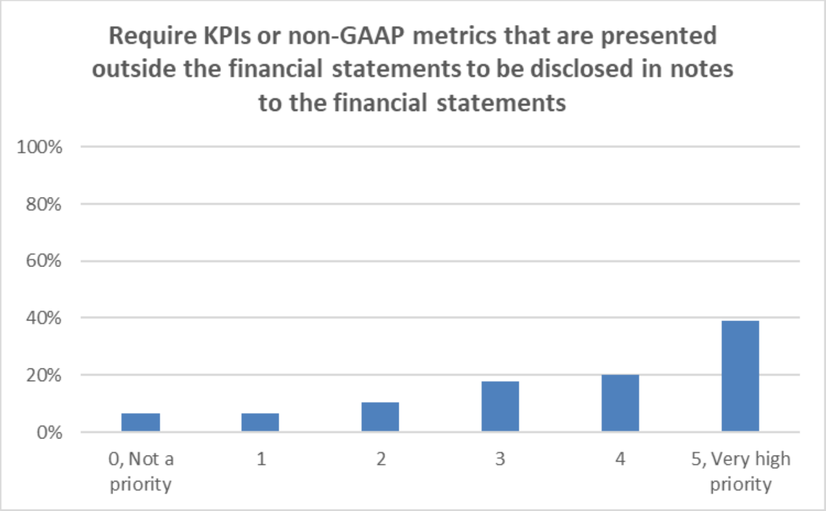
- Defining KPIs or non-GAAP metrics that apply to all entities (e.g., EBITDA, free cash flow)
- Defining KPIs or non-GAAP metrics on an industry basis (e.g., funds from operations, same-store sales)
- Requiring KPIs or non-GAAP metrics that are presented outside the financial statements to be disclosed in notes to the financial statements

Are there any other topics related to **financial KPIs or non-GAAP metrics** that you would add as a priority?
[Comment box]

Financial KPIs or Non-GAAP Metrics – Results (1/3)[13]

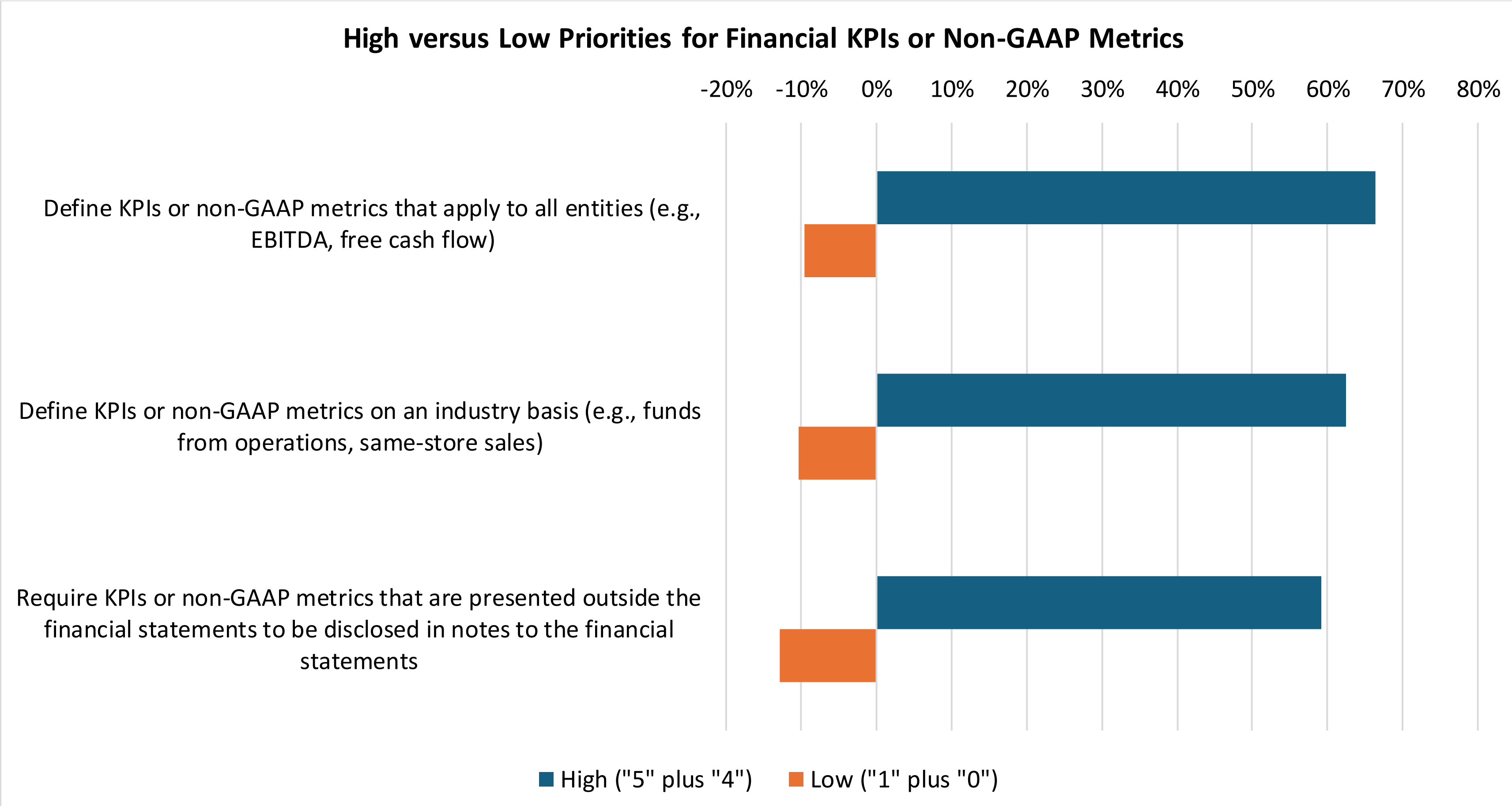






[13] N = 125. We did not observe material differences in US vs. Non-US respondents' responses to these proposals so we present global results.

Financial KPIs or Non-GAAP Metrics – Results (2/3)



Note: Each row does not add to 100% in this summary chart because the percentages of respondents who answered “2” or “3” are not shown. See the prior page for the full data.

Financial KPIs or Non-GAAP Metrics – Results (3/3)

- Yes, a separate KPI note showing the return on equity and the return on investment versus the firm's cost of capital estimate each year.
- not that familiar with
- I think that there is too much variation in practice (both industry- and economy-wide) to standardize definitions, even for a limited number of KPIs, like EBITDA and free cash flow. I believe that FASB (in collaboration with SEC) should publish a "best practices" guide that would help preparers in formulate KPIs and users in understanding them and evaluating their relevance..
- Disallow stock based compensation as an add back item
- Quarterly disclosure in either MD&A or footnotes of a complete reconciliation from Net Income to EBITDA and then (if used) to Adjusted EBITDA. Should include a list of and the nature of any adjustment components greater than 10% of the adjustment line item.
- non GAAP metrics should be extremely limited in financial reports - analysts should make their own adjustments

Other Topics – Question

Below we list proposed projects sourced from the FASB's Agenda Consultation and from our outreach with very brief descriptions. Please select the topics that are a priority. If you'd like to provide any comments, please share them in the box below.

Balance Sheet

- *Cryptocurrencies and other digital assets* - Specific authoritative recognition, measurement, and disclosure guidance for all types of digital assets.
- *Intangible assets* - New accounting and/or disclosure guidance for internally-generated intangibles including R&D.
- *Equity method of accounting*- Remove equity method of accounting, replace with cost or fair value, similar to how smaller equity investments are accounted for.
- *Accounting for commodities* - Allow entities other than broker-dealers to apply the fair value option to physical commodities.
- *Leases* - Revert to the prior accounting for operating leases, maintain disclosures.

Income Statement

- *Other comprehensive income* - Remove other comprehensive income, present all items on the face of the income statement and within earnings.
- *Income taxes* - Greater transparency about income tax expense, cash paid for income taxes, and deferred tax assets/liabilities, for example by jurisdiction.
- *Diluted EPS* - Require RSUs to be included in the computation of diluted EPS without an adjustment for unrecognized compensation expense.

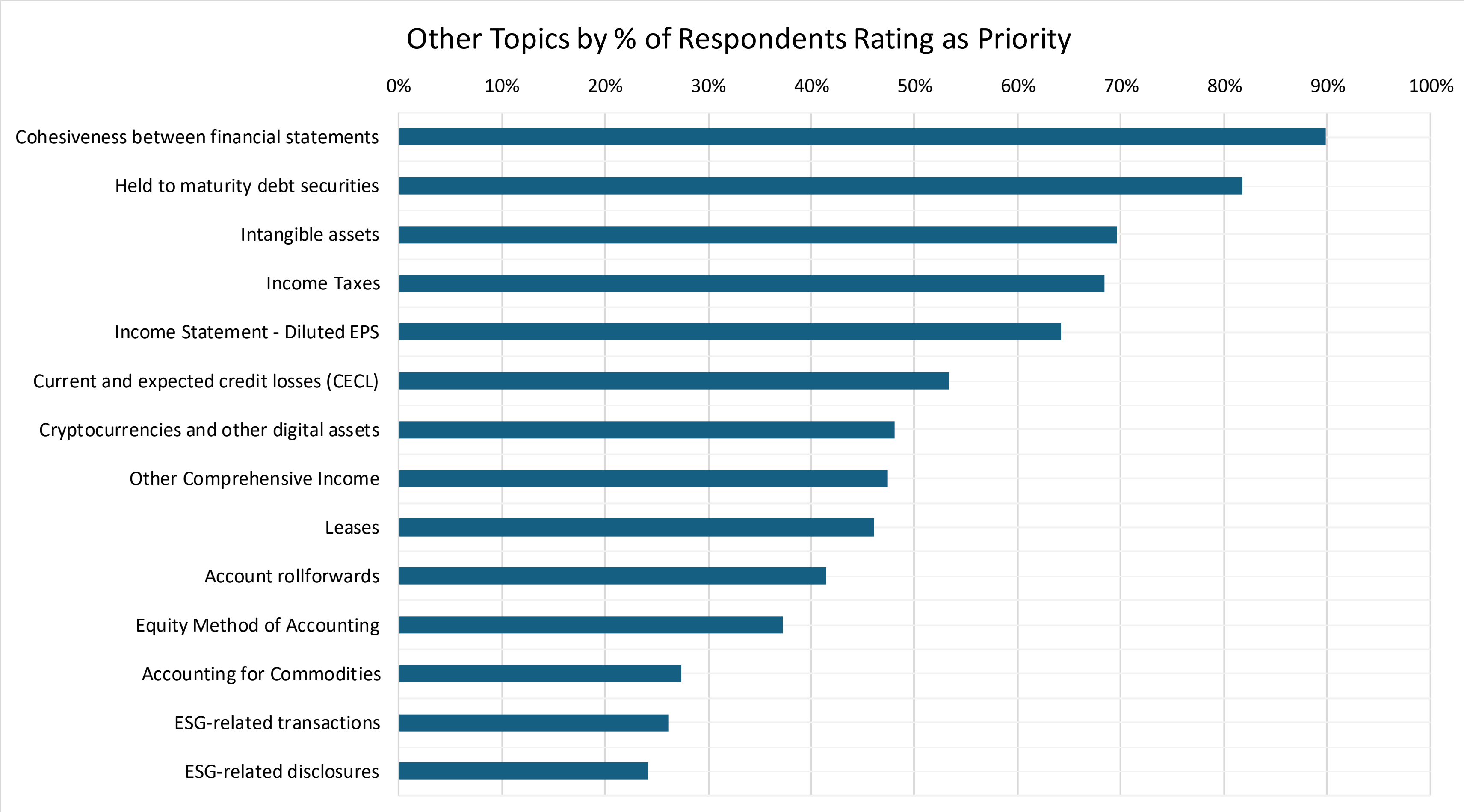
Financial Instruments

- *CECL* - With five years' experience with the CECL model (i.e., where all expected losses are recognized upfront) reevaluate the decision usefulness of this model for investors.
- *Held to maturity debt securities* - With insights from the 2023 banking failures such as Silicon Valley Bank, eliminate the "held-to-maturity" classification for debt securities (i.e., where fixed maturity securities are measured at amortized cost) and require those securities to be measured at fair value.
- *ESG-related transactions* - Specific accounting guidance for environmental credit programs, renewable energy tax credits, emissions allowances, etc.

Presentation and Disclosure

- *Cohesiveness between financial statements* - Require line items on the financial statements to cleanly link together, e.g., reported changes in working capital accounts on the statement of cash flows match changes on the balance sheets.
- *Account rollforwards* - Require rollforwards of certain balance sheet accounts in the notes to the financial statements.
- *ESG-related disclosures* - New disclosures related to the effect of climate change on the financial statements, total costs and composition of human capital, etc.

Other Topics – Results (1/2)[14]



[14] N = 108. We did not observe material differences in US vs. Non-US respondents' responses to these proposals so we present global results.

Other Topics - Results (2/2)

- I believe that the FASB's agenda should limit changes to existing accounting standards and focus on improving disclosures.
- ESG reporting to include government and political party interactions
- Eliminate ESG and DEI reporting.
- Proper disclosure on the use of factoring and/or supply chain finance
- Cohesiveness btw financial statements; back in the day, was straightforward..today, less and less connection..specifically re working capital..Balance sheet shows A/R going up but cash flow statement says it was a source of cash inflows...makes no sense
- Disclose a reconciliation if the prior years financials have been revised

User Input (Open Ended) - Question

Are there other areas of financial reporting that need improvement?

Please provide your views in the comment boxes. Please be as specific as possible as this provides us with the greatest ability to provide actionable input to the standard setters.

[Comment box – Title] [Comment box – Description]

[Comment box – Title] [Comment box – Description]

[Comment box – Title] [Comment box – Description]

User Input (Open Ended) - Results (1/3)

Title	Description
Normalize accounting across industries	To the extent possible, make equal across industries what is: revenue, expenses versus capitalized/amortized/written off.
SG&A breakdown	Selling expenses which are classified within SG&A should be broken out seperately. Goal is to help analysts determine whether the unit economics are changing. Software companies provide expensive services to customers and lump it under SG&A rather than COGS.
Disclosure of cash tax rates	Current tax disclosures often focus on effective tax rates derived from accounting profits, which may not reflect the actual cash taxes paid. Requiring companies to disclose cash tax rates would enhance transparency by revealing the real tax burden and improving comparability across firms and jurisdictions. This would help investors assess long-term sustainability of true after-tax cash flows.
Management compensation	Breakdown of the KPIs for incentive compensation of middle and top management.
Corporate welfare	All payments received from government organization
Factoring	Properly disclose the amount of factoring used at balance sheet date and average throughout the quarter/year. Same for supply chain finance
Require disclosure of anti-dilutive shares	Some companies (Urogen is one) don't disclose the number of anti-dilutive shares. If they were to become profitable, all shares would be in the fully diluted share count. We don't know if Urogen's real market cap is $200M or $200B.
Cash flow sensitivity	I believe that profit and cash flow sensitivity to revenue is a key factor in assessing financial strength and project potential. This should be as simple and straightforward as-forward as possible in order to give first order effects of changes in revenue
Leases	Ifrs16 is creating an issue where leases are undervalued leading to overvaluation of companies. The problem is the expense is treated as if it's discrete when in most case unless the business is being liquidated it is continuous. Understand it's a current project but it's very important.
Restatements and re-segmenting	Require quarterly income statement historicals including main kpis — at least one year preferably multiple

User Input (Open Ended) - Results (2/3)

Title	Description
Sharia compliant business reporting	Encourage companies to disclose revenue and profit exposure to the following lines of business. -Pornography -Alcohol -Adult entertainment
Normalize accounting regarding M&A	Equalize treatment of Assets whether M&A has happened or not. Capitalize organic R&D, and other expenses that have long term payoffs, and subject those assets to recoverability
Change cash flow classification for SBC	Treat cash flows from share-based compensation as financing rather than operating cash flows, akin to stock offerings or buybacks. Goal is to prevent companies from flattering their reported FCF by paying employees in monetiziable stock instead of paying them in money.
Management changes	Separate segment disclosure in the Notes to the accounts for tenures of existing key C-level officers of the company. In case of an open position, clearly stated that existing officer is temporary and the company is actively looking to fill the role.
Capitalization	Increase the bar for capitalization of internally generated intangibles. Some companies are playing around with this number to meet remuneration targets
Time value of money	Let each company set a cost of capital hurdle. For recoverability, all assets and liability expected cash flows get discounted at that hurdle rate.
Non recurring expenses	Require 5 year non-revised disclosure of broken down non-recurring expenses - footnotes to better understand should not be required but encouraged
Disclosure for operating and financial leases	What is cash expense What is total expense with non cash component What flows through opex vs interest in the period What is contractual minimum for future periods
IFRS 10: Investment Entities	Limit the discretion of management to apply fair value estimates to their subsidiary holdings, especially under Level III holdings. There is far too much subjectivity in firms that apply IFRS 10: Investment Entities, and it is a useless standard for investor interpretation given the lack of disclosures that is associated with this standard (merely fair value movements from one year to the next). Companies must show their calculations and future assumptions in more detail, so as to give investors insights into the reasonability thereto.

User Input (Open Ended) - Results (3/3)

Title	Description
Separation of Financial Debt from Leases	Leases, especially under current accounting standards (e.g., IFRS 16/ASC 842), are often included within total debt, which can obscure a company's true financial leverage. Separating financial debt (e.g., loans, bonds) from lease obligations would provide a clearer view of funding structures and improve analysis of credit risk and capital structure. This distinction is crucial for stakeholders evaluating solvency and financing strategy.
Corruption exposure	Payments to politicians, political parties and related persons
Employee numbers	Require disclosure in notes to financial statements on employee numbers
Disclosure for Converts	Require more clean and easy to use disclosure on regular basis What is conversion price What is face and book value of converts
Capital Allocation Transparency	Investors often struggle to understand how management is deploying capital—be it in M&A, R&D, dividends, or buybacks. Detailed disclosures on capital allocation decisions and returns on investment by category would allow for better assessment of management quality and strategic direction.
Stock Based Compensation	In the notes to the financial statements, a "dilution factor" should be calculated based on annual SBC. It could be a simple one line in a table format. Although technically possible to calculate currently, some companies do not disclose this clearly enough.

Ranking Priorities - Question

Please drag and drop each topic into one of the boxes: High Priority, Medium Priority, or Low Priority. Any topics left unsorted will be considered not a priority.

Statement of cash flows
Disaggregation of financial reporting information
Segment reporting
Intangible assets
Financial KPIs or non-GAAP metrics
ESG-related transactions and disclosures
Cryptocurrencies and other digital assets
Intangible assets
Equity method of accounting
Accounting for commodities
Leases
Other comprehensive income
Income taxes
Diluted EPS
Current and expected credit losses (CECL)
Held to maturity debt securities
ESG-related transactions
Cohesiveness between financial statements
Account rollforwards
ESG-related disclosures
User input

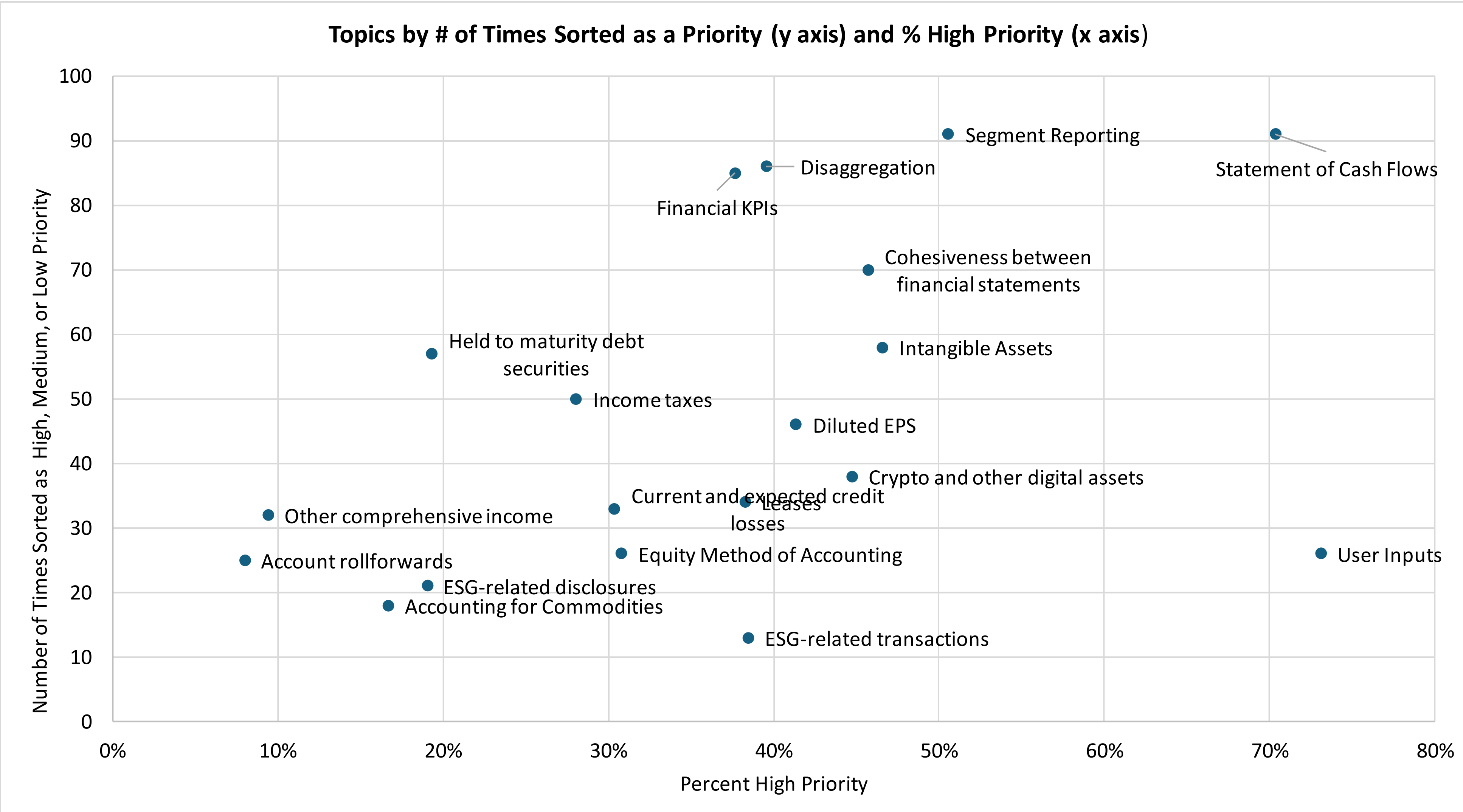
High priority

Medium priority

Low priority

APPENDIX I

Ranking Priorities – Results



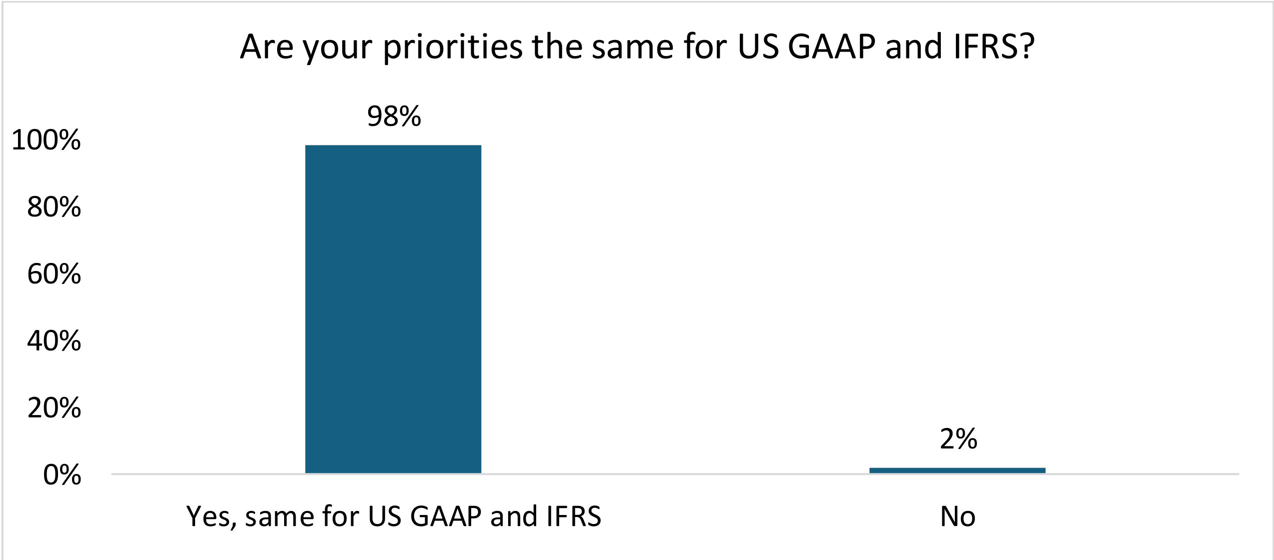
IFRS vs. US GAAP Priorities – Question

Are your priorities the same for US GAAP and IFRS?

- Yes, same for US GAAP and IFRS
- No

If no, please explain.
[Comment box]

IFRS vs. US GAAP Priorities – Results



Comments (2):

1. US GAAP is for US only, we don't use it
2. I primarily only deal with US GAAP financial statements.

Cost and Financial Reporting Technology - Question

Preparers of financial statements (e.g., CFOs and controllers) often object to changes in accounting standards for reasons of cost. Many times, that is cost related to technology.

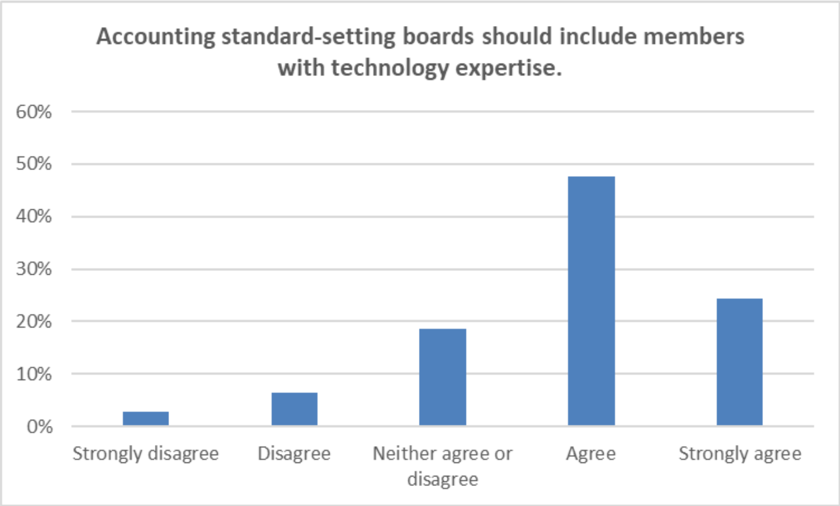
For example, preparers objected to a requirement to report cash flows from operating activities using the direct method in 1987 when the FASB first required a statement of cash flows due to the cost of collecting that information. Similarly, when the new leasing standards were being debated, there were objections because of an inability to gather and read all the lease contracts.

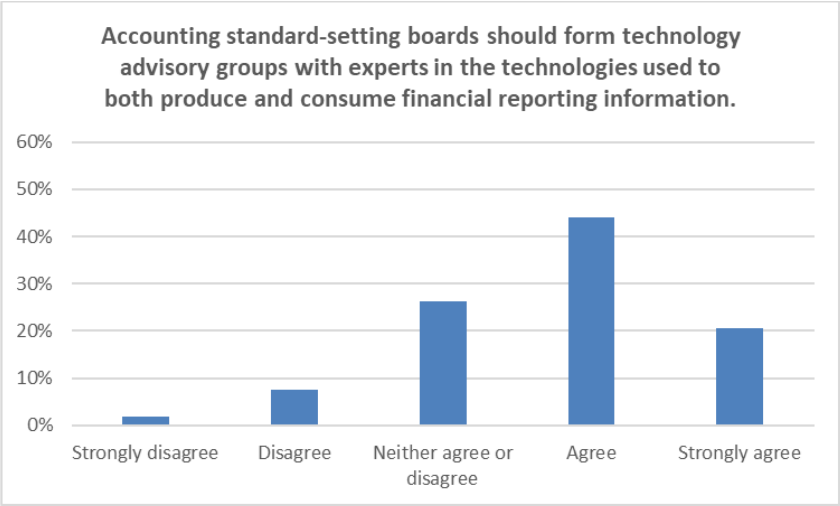
We are interested in your thoughts regarding how technology specifically and costs more broadly should be incorporated into the standard setting process. Below, please provide your level of agreement with the following statements.

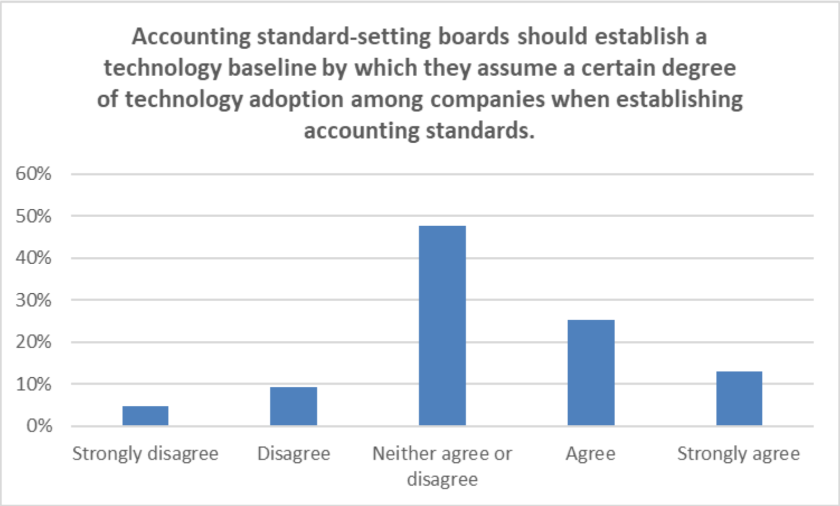
- Accounting standard-setting boards should include members with technology expertise.
- Accounting standard-setting boards should form technology advisory groups with experts in the technologies used to both produce and consume financial reporting information.
- Accounting standard-setting boards should establish a technology baseline by which they assume a certain degree of technology adoption among companies when establishing accounting standards.
- Accounting standard-setting boards should be required to estimate, quantitatively, the cost of adopting a new standard.

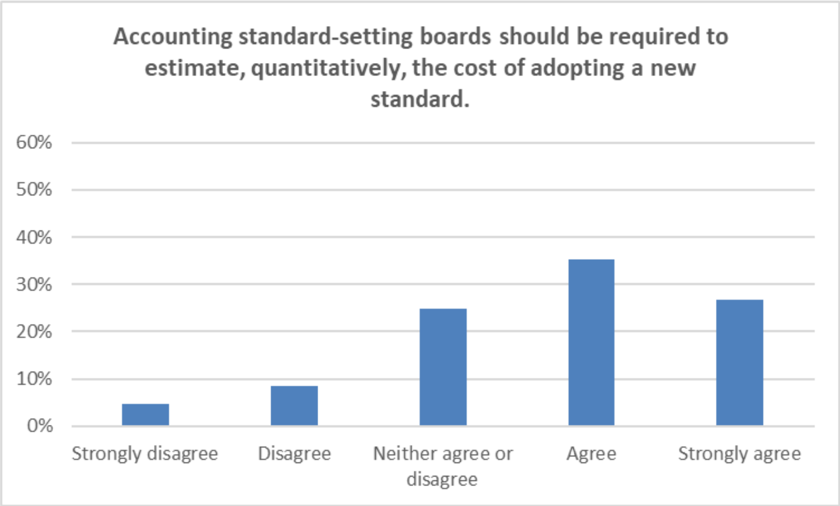
Do you have any comments you'd like to share on this topic? Please write them below.
[Comment box]

Cost and Financial Reporting Technology – Results (1/3)

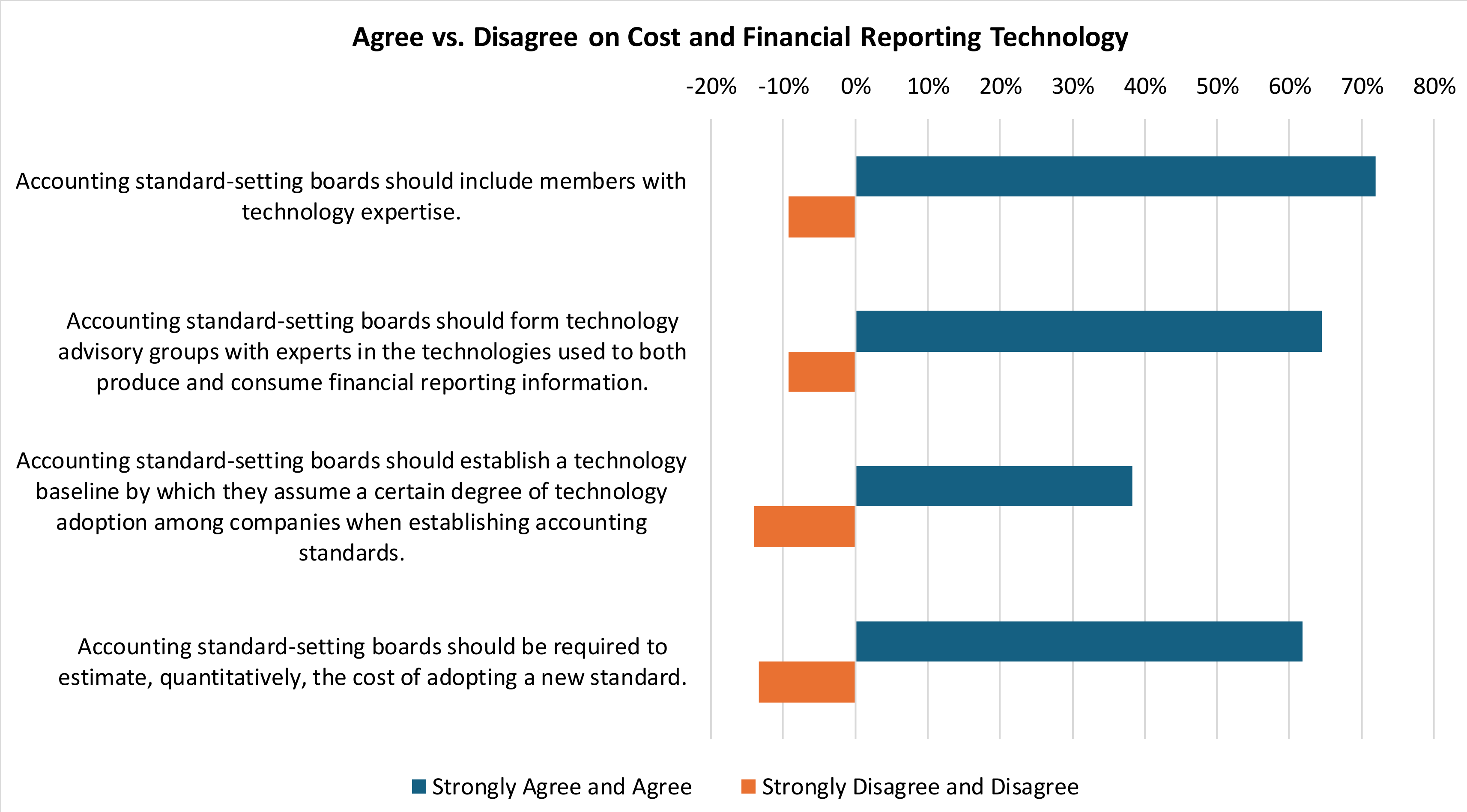








Cost and Financial Reporting Technology – Results (2/3)



Note: Each row does not add to 100% in this summary chart because the percentage of respondents who answered "Neither agree nor disagree" is not shown. See the prior page for the full data.

Cost and Financial Reporting Technology – Results (3/3)

- In the future AI should be able to handle a lot of this data routinely
- Financial reporting should be about showing investors the true economic picture of what is happening with the company. Cost to implement an accounting standard should not be considered if the new accounting standard improves the financial reporting of what is happening economically to the company.
- The cost of the bureaucracy compared to its value is way out of line. Fewer, better people with actual beliefs in free markets and capitalism would dramatically improve the organisation.
- Standards should be set. If a company does not comply they should be allowed to do so but only with clear disclosure that they don't comply, why they don't comply, and what they are doing to bring themselves into compliance in a reasonable time frame (of their choosing)
- Technology available now should reduce the additional cost of accounting standard changes
- Also, it seems reasonable to have lower standards for smaller firms where the cost to comply is more material
- People should consider the cost of change to disclosure on current users of financial statements.
- We have a new better disclosure.
- All historical data no longer relevant.
- Often not a win!
- The cost of changes to accounting standards are overall de minimis for most public companies. "Cost" is a great excuse for companies to push back and limit the transparency of financial reporting.

ANSWERS TO QUESTIONS FOR RESPONDENTS

Overall Questions for Respondents

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

b. Investor, 13. Other.

CFA Institute is a global, not-for-profit professional association of more than 190,000 members in 160 member societies around the world. Members include investment analysts, advisers, portfolio managers, and other investment professionals.

Our point of view when responding to this ITC is that of a fundamental equity investor.

Question 2: Which topics in the ITC, including those related to current technical and research agenda projects, should be a top priority for the Board? Please explain, including the following:

a. **Why there is a pervasive need to change GAAP (for example, what is the reason for the change)**
b. **How the Board should address this topic (that is, the scope, objective, potential solutions, and the expected benefits and expected costs of those solutions)**
c. **Why is this topic a top priority and what is the urgency to complete standard setting on this topic (that is, how quickly the issues need to be addressed).**

Of the 42 topics in the ITC, the following four topics should be a top priority for the Board, based on the rankings of priorities by respondents to our *Future of Financial Reporting Survey*, provided in Appendix I.

- Statement of Cash Flows
- Accounting for and Disclosure of Intangibles
- Disaggregation (under the caption "Enhanced Disclosures" in the ITC)
- Financial Key Performance Indicators for Business Entities

Two other top priorities for the Board from our survey are Segment Reporting and Cohesiveness of Financial Statements, which we discuss in our response to Question 4 because they are not topics in the ITC.

<u>Statement of Cash Flows</u>
Investors identified improvements to the statement of cash flows as their top priority for the Board in our survey. We, and other investors and investor organizations, have advocated for improvements to the statement of cash flows for many years, including in responses to the Board's prior agenda consultations in 2016 and 2021 and in similar outreach done by the IASB.

The Board should address this topic by addressing the following four items in a broad project on the statement of cash flows with the objectives of improving the cash flow information reported by entities in the financial statements and the cohesiveness of information reported on the statement of cash flows with the other financial statements.

- Improving disclosures of noncash items
- Disaggregate investing cash flows into maintenance versus expansion
- Define and required disclosure of free cash flow
- Require targeted supplemental disclosures for entities applying the indirect method of presenting cash flows from operating activities, including cash received from customers and cash paid to employees and other suppliers.

These four items were rated as high priorities by over 50% of respondents to our survey and rated as low priorities by less than 15% of respondents.

The statement of cash flows is the top priority for standard setters among investors. Investors have been asking standard setters for improvements for many years. The four items above are presentation and disclosure projects which we believe could be completed by the Board rather quickly. We rate the urgency to complete standard setting on this topic as "high."

Accounting for and Disclosure of Intangibles

Our views on and recommendations for the Accounting for and Disclosure of Intangibles are in our comment letter to the Board's recent Invitation to Comment – Recognition of Intangibles which are largely based on our publication *Investor Perspectives: Intangible Assets* that includes an extensive survey of investors on intangibles.

In our *Future of Financial Reporting Survey*, "Intangible assets - New accounting and/or disclosure guidance for internally-generated intangibles including R&D" ranked among the highest priorities for investors. This topic was rated as a similarly high priority in the Board outreach in its 2021 Agenda Consultation.[15]

We recommend that the Board addresses this topic in a project with the objective of improving the information that entities provide about intangibles in their financial statements. We recommend a phased approach to the project in which presentation and disclosure of intangibles expensed as incurred (i.e., internally generated intangibles) are improved first.

Improvements to presentation and disclosure of internally generated intangibles would include:

- Presentation requirements for R&D expenses and non-R&D expenses for internally generated intangibles on the income statement
- Improved disclosures for R&D costs and disclosure requirements for non-R&D expenses for internally generated intangibles to aid in forecasting, which may include:
    - The types of activities and their respective costs that are considered R&D and non-R&D expenses for internally generated intangibles
    - Expenses related to existing, commercialized products or services and those related to not-yet commercialized products or services

[15] According to the 2021 Agenda Consultation report, Intangible Assets was the fourth highest priority topic identified by investors.

- Disclosure requirements for the "stock" of internally generated intangibles that are either separable or contractual-legal, such as:
    - The types and fair values (management's estimate) of internally generated intangibles.
    - Expected future cash flows attributable to the assets.
    - Information on relevant valuation models, including the type of model and transparency around major inputs.
    - Information about the most significant and sensitive estimates, assumptions and risk factors for the value of intangibles.
    - Key performance metrics managers use to monitor performance of intangibles.
    - Qualitative information on how internally generated and acquired intangible assets have performed over time.
    - More quantitative information on how the acquired or internally generated intangibles performed over time.
    - Information on the board's assessment of how intangible assets have performed over time.

Disaggregation (under the caption "Enhanced Disclosures" in the ITC)
Disaggregation of Financial Reporting Information was investor's top priority in the Board's 2021 Agenda Consultation, and it was still a top priority for investors in our *Future of Financial Reporting Survey*. The highest priority sub-topics include

- Breakdown of non-recurring income and expenses
- Breakdown of cost of sales and SG&A expenses by nature of expense
    - Note: This is directly related to the Board's Disaggregation of Income Statement Expenses (DISE) standard that will be effective for annual periods in 2 years. We informed survey respondents of DISE[16], but this was still rated as a top priority.
- Effects of business combinations on financial statement line items
- Breakdown of revenue and operating income by country

Additionally, most of the "write-in" priority topics we received from respondents in the open-ended section of our survey are related to disaggregation or enhanced disclosures and include the following:

- SG&A breakdown - *Selling expenses which are classified within SG&A should be broken out separately. Goal is to help analysts determine whether the unit economics are changing. Software companies provide expensive services to customers and lump it under SG&A rather than COGS.*
- Disclosure of cash tax rates - *Current tax disclosures often focus on effective tax rates derived from accounting profits, which may not reflect the actual cash taxes paid.*

[16] Specifically, in regard to disaggregation, we stated: "There has been standard setting on this topic since 2021. Under US GAAP, Disaggregation of Income Statement Expenses (effective in 2027), [entities will be required to] Disclose the amounts of (a) purchases of inventory; (b) employee compensation; (c) depreciation; (d) amortization; and (e), depletion included in each income statement expense line. No total across income statement line items is required. (e.g., total employee compensation, depreciation and amortization will not be required to be provided.) And, separately, to define "selling expenses" and disclose the total amount of selling expenses."

Requiring companies to disclose cash tax rates would enhance transparency by revealing the real tax burden and improving comparability across firms and jurisdictions. This would help investors assess long-term sustainability of true after-tax cash flows.

- Corporate welfare - *All payments received from government organizations*
- Corruption exposure - *Payments to politicians, political parties and related persons*
- Factoring - *Properly disclose the amount of factoring used at balance sheet date and average throughout the quarter/year. Same for supply chain finance*
- Sharia-compliant business reporting - *Encourage companies to disclose revenue and profit exposure to the following lines of business: adult entertainment, alcohol.*
- Employee numbers - *Require disclosure in notes to financial statements on employee numbers*
- Leases – [Clearer disclosures on] *what is cash expense, total expense with non cash component, what flows through opex vs interest in the period, what is contractual minimum for future periods*
- Stock-based compensation - *In the notes to the financial statements, a "dilution factor" should be calculated based on annual SBC. It could be a simple one line in a table format. Although technically possible to calculate currently, some companies do not disclose this clearly enough.*
- Anti-dilutive securities - *Some companies…don't disclose the number of anti-dilutive shares. If they were to become profitable, all shares would be in the fully diluted share count. We don't know if [company's] real market cap is $200M or $200B.*
- Convertible instruments - *Require more clean and easy to use disclosure on regular basis…What is conversion price, What is face and book value of converts?*

Financial Key Performance Indicators for Business Entities

Our views on and recommendations for Financial Key Performance Indicators (KPIs) for Business Entities are in our comment letter to the Board's recent Invitation to Comment – Financial Key Performance Indicators.

In our *Future of Financial Reporting Survey*, Financial KPIs or Non-GAAP Metrics ranked among the highest priorities for investors, similar to what the Board found in its 2021 Agenda Consultation. More than 50% of respondents rated each of the three following sub-topics as high priority and less than 15% of respondents rated them low priority:

- Define KPIs or non-GAAP metrics that apply to all entities (e.g., EBITDA, free cash flow)
- Define KPIs or non-GAAP metrics on an industry basis (e.g., funds from operations, same-store sales)
- Require KPIs or non-GAAP metrics that are presented outside the financial statements to be disclosed in the notes to the financial statements.

As wrote in our response to the Board's ITC on this topic, we recommend that the Board pursue a project to define and require entities to disclose:

- Operating profit or loss and organic revenue growth by all entities.

- The most widely used Financial KPIs on an industry-specific basis. We believe EBITDA, free cash flow, and net debt would be included among these for most, but not all, industries and that the Board could use common definitions for such measures.
- Non-GAAP financial measures, if an entity presents those measures outside the financial statements, in the notes to the financial statements with complementary disclosures including a quantitative reconciliation to the most directly comparable GAAP financial measure.

Question 3: Are there financial accounting and reporting topics in this ITC that the Board should <u>not</u> address as part of its future standard-setting efforts? Please explain why not, such as there is no pervasive need to change GAAP, the scope would not be identifiable, or the expected benefits of potential solutions would not justify the expected costs.

Of the 42 topics in the ITC, 34 are not investor priorities. We sort these into two groups:

1) <u>Do Not Address at This Time - ITC Topics that are Highly Conceptual, Have Been Debated a Long Time, and/or Expected Benefits of Potential Solutions Would Not Justify Expected Costs for Investors</u>
    - *Equity Method* - See our response to Questions 5-7
    - *Definition of a Business* - See our response to Question 9
    - *Definition of Common Control* - See our response to Question 10
    - *Interaction of Consolidation Guidance and Other Transactions* - See our response to Question 11
    - *Pushdown Accounting* - See our response to Question 12
    - *Distinguishing Liabilities from Equity* - See our responses to Questions 13 and 14
    - *Risk Management and Hedge Accounting* - See our responses to Questions 15 and 16
    - *Definition of Derivative and Derivative Modifications* - See our responses to Questions 19 and 20
    - *Goodwill* – See our response to Question 25
    - *Credit Losses on Receivables from Contracts with Customers* – See our responses to Questions 27 and 28
    - *Definition of Cash Equivalents* – See our response to Question 29
    - *Inventory* - See our response to Question 30
    - *Outdated Disclosures* – See our response to Question 45
    - *Definition of Public Business Entity* – See our responses to Questions 47 and 48
    - *Consolidation* – See our responses to Questions 50 and 51
    - *Accounting for Commodities* - See our responses to Questions 53 and 54

The remaining ITC topics are more niche and technical in nature with unknown pervasiveness among entities. We recommend that the Board refers these topics to the EITF for initial consideration and research on their pervasiveness and diversity in practice. This approach would more efficiently deploy the Board's resources to the highest investor priority projects.

2) <u>Refer to EITF – Niche, Technical Projects with Unknown Pervasiveness</u>
    - *Renewable Energy Partnerships* - See our response to Question 8.
    - *Troubled Debt Restructuring by Borrowers* – See our responses to Questions 17 and 18.
    - *Below Market and Interest Free Loans from Donors* – See our response to Question 21.
    - *Alternative Funding Arrangements for R&D* - See our response to Question 22.
    - *Transfers and Servicing of Financial Assets* – See our response to Question 23.
    - *Multi-Element Software Arrangements* - See our response to Question 26.
    - *Asset Retirement Obligations* – See our response to Question 31.
    - *Guarantees* – See our response to Question 32.
    - *Lease Payments in the Form of Equity* – See our response to Question 33.
    - *ESOP Repurchase Obligations* – See our response to Question 34.
    - *Partnership Accounting* – See our response to Question 35.
    - *Principal versus Agent Considerations* – See our response to Question 38.
    - *Estimate of Variable Consideration for Commission-Based Transactions* – See our response to Question 39.
    - *Consideration Payable to Customers* – See our response to Question 40.
    - *Payments Received from a Vendor in the Airline Industry* – See our response to Question 41.
    - *Recognition of Interest Income for Loans Within the Scope of Subtopic 310-2*0 – See our response to Question 42.
    - *Derecognition of Transferable Income Tax Credits* – See our response to Question 43.
    - *Personal Financial Statements* - See our response to Question 49.

Question 4: Are there any financial accounting and reporting topics beyond those in this ITC that should be a top priority for the Board to address? Please explain, including the following:

a. The nature of the topic
b. The reason for the recommended change
c. Whether the topic is specific to a subset of companies, such as public companies, private companies, or NFPs, or specific to a certain industry
d. How the Board should address this topic (that is, the scope, objective, potential solutions, and the expected benefits and expected costs of those solutions)
e. What is the urgency to complete standard setting on this topic (that is, how quickly the issue needs to be addressed).

Yes, beyond the top priority topics we discussed in our answer to Question 3 that are in the ITC, two other topics that were not in ITC should be a top priority for the Board:

- Segment Reporting
- Cohesiveness of Financial Statements.

<u>Segment Reporting</u>

Our views on and recommendations for Segment Reporting are in our comment letter to the Board's Exposure Draft on its recent segment standard (ASU 2023-07) which are largely based on our publication *Segment Disclosures: Investor Perspectives* that includes an extensive survey of investors on segment reporting and disclosures.

The segment footnote is arguably the most important financial statement disclosure for investors, with its importance rivaling that of the entity-wide financial statements. Many investors' and analysts' models are built off segment disclosures, revenue disaggregation disclosures, and KPIs presented outside the financial statements that "roll up" to forecasted entity-wide financial statements.

In our *Future of Financial Reporting Survey*, Segment Reporting ranked among the highest priorities for investors, similar to what we communicated to the Board in response to its 2016 and 2021 Agenda Consultations.

The Board should address this topic by revisiting the parts of segment reporting it did not address in ASU 2023-07, including the

- identification of operating segments away from the Chief Operating Decision Maker approach today that has too much management discretion
- aggregation criteria for operating segments
- additional segment disclosures besides segment expenses, such as cash flows from operating activities
- the reconciliation of segment disclosure line items to financial statement line items, i.e., more than just the segment profit or loss sub-total.

Changes to quantitative thresholds for reportable segments are not an investor priority at this time. The objective of the segment reporting project is to improve the information entities provide to investors about the components of their business.

Cohesiveness of Financial Statements

Improving the cohesiveness of financial statements is a longstanding priority of CFA Institute, as discussed, for example, in our Comprehensive Business Reporting Model (2007) and Comment Letter to the Board on its *Preliminary Views on Financial Statement Presentation* (2009).

In short, investor confusion results from financial statements that do not articulate in a logical manner, i.e. when "flows" on the income statement and statement of cash flows do not match changes in "stock" items presented on the balance sheet, and it would be helpful if the Board required entities to fix the lack of articulation or to provide a quantitative reconciliation that bridges = "flows" with changes in "stock" line items.

In our *Future of Financial Reporting Survey*, cohesiveness between financial statements ranked among the highest priorities for investors. More specifically, the proposal to "Require line items on the financial statements to cleanly link together, e.g., reported changes in working capital accounts on the statement of cash flows match changes on the balance sheets."[17]

We believe the highest impact project on improving the cohesiveness of financial statements that would not require a multi-year, protracted effort like the Board's Financial Statement Presentation (FSP) project from the 2000s-2010s would be to consider the following in conjunction with improvements to the statement of cash flows:

Require entities that apply the indirect method to disclose a reconciliation between the line items presented under "changes in operating assets and liabilities" with changes in those, or similarly-titled, line items on the balance sheet.

For example, Apple would be required to disclose the reconciliation below based on its Annual Report for the fiscal year ended September 28, 2024:

	Accounts receivable, net	Vendor non-trade receivables	Inventories	Other current and non-current assets	Accounts Payable	Other current and non-current liabilities
Cash flow statement line	(3,788)	(1,356)	(1,046)	(11,731)	6,020	15,552
Reconciling item						
Reconciling item						
Reconciling item						
Change in balance sheet line	(3,902)	(1,356)	(955)	(9,668)	6,349	15,515

The same could be required for reconciling changes in non-current liabilities and equity line items on the balance sheet with line items presented in the investing and financing activities section of the statement of cash flows. We believe this would address investors highest priority sub-topic in the statement of cash flows, "improvements to disclosures of non-cash items."

Chapter 1 - Combination of Entities

Equity Method of Accounting

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

[17] Somewhat paradoxically, Account Rollforwards was rated a low priority among respondents, despite its similarity to Cohesiveness of Financial Statements. We believe that this result is due to the wording of the topic descriptions. Our description of Account Rollforwards ("Require rollforwards of certain balance sheet accounts in the notes to the financial statements.") did not emphasize linkages between the financial statements.

Investors need information on the value of the equity method investment and the financial performance, condition, and cash flows of the investee, especially if the investee is material to the investor company and if the investee is not public.

The balance sheet presentation of equity method investments by equity method investors is based on cost and is not always decision useful, because the measurement can differ materially from the fair value. If an investor is estimating an exit price for the investment in an overall valuation or to estimate how many shares the equity method investor could repurchase upon divestment, investors make their own fair value estimate.

The information presented on the income statement and statement of cash flows (share of profit or loss and dividends) is useful but requires broader context of the investee's financial performance and cash flows. Some companies are forthcoming in their disclosures about equity method investees either inside or outside the financial statements while others are not.

Question 6: Should the FASB consider requiring equity method investments to be accounted for consistently with other equity investments in accordance with Topic 321? Please explain.

No, the Board should not address this topic at this time. In our survey of investors, less than 40% of respondents indicated that the equity method of accounting[18] was a priority and in the rankings of priorities at the end of our survey, this topic was ranked among the lowest priorities.

The equity method could be improved for investors with (a) fair value measurement of the investment on the balance sheet, with remeasurements recognized in profit or loss and (b) requiring disclosures on the financial performance, condition, and cash flows of equity investee, especially if the investee is not a public entity. The proposal described in the ITC would make neither of those improvements. As described in the ITC, the "the practical outcome of requiring these types of investments to be accounted for under Topic 321 would be to measure these investments at cost." In other words, the accounting would revert to the cost method that was used prior to the establishment of the equity method in 1971 with APB 18. The cost method was widely criticized for omitting decision-useful information on the performance of investees and for encouraging structuring of subsidiaries to escape consolidation and accountability.

For more on the shortcomings of the cost method and our recommendations with respect to the equity method, see our comment letter to the Board from 2015 in response to the Investments – Equity Method and Joint Ventures (Topic 323): Simplifying the Equity Method of Accounting Exposure Draft.

Additionally, the apparent struggle that equity method investors are having with the equity method of accounting, especially for non-public entities, signals potential weaknesses in the financial reporting by investees. This calls one of the premises of private company alternatives in GAAP in doubt – that owners of private companies need less from financial statements because they get the information they need directly from management.

[18] Specifically, we queried respondents on whether standard setters should "Remove equity method of accounting, replace with cost or fair value, similar to how smaller equity investments are accounted for."

Question 7: If the FASB were to require equity method investments to be accounted for consistently with other equity investments in accordance with Topic 321, are there additional accounting matters (for example, accounting for transactions between investors and investees) or disclosures that would need to be considered? For public business entities, is there related industry-specific guidance that would need to be referred to the U.S. Securities and Exchange Commission (for example, the requirement to include financial statements of significant investees or oil and gas disclosures related to equity method investments)? Please explain.

If the FASB were to effectively revert to the pre-1971 cost method for the equity method, investors would need to be "made whole" with disclosures, which could include a requirement for all entities to report the financial statements of equity method investees. Disclosure of the fair value of the equity method investment, with transparency as to how that value was estimated, would be crucial, because financial statement users today make their own estimate of that value.

Renewable Energy Partnerships

Question 8: What challenges, if any, exist in applying the consolidation and equity method of accounting guidance to renewable energy and similar partnerships? Should the FASB address these issues through standard setting? If so, how should they be addressed (for example, by including HLBV guidance in the Codification, providing other guidance for complex profit-sharing arrangements, or eliminating the equity method [see also Question 6 of this ITC])? Please explain.

We recommend that this question and topic is referred to the EITF for consideration of its pervasiveness, diversity in practice, and to develop recommendations to the Board.

While we did not ask about applying the consolidation and equity method of accounting guidance to renewable energy and similar partnerships specifically in our survey, we did ask about ESG-related transactions. In our survey, less than 30% of respondents indicated that ESG-related transactions should be a standard setting priority. In the rankings of priorities towards the end of our survey, the topic was rated among the lowest priorities.

Definition of a Business

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

No, the FASB should not pursue a project to further revise the definition of a business. This is a conceptual topic that has been debated for a long time without any satisfactory solution. We would not expect a project on this to materially change reporting outcomes for investors. While we did not specifically ask about further revising the definition of a business in our survey of investors, we did not receive any comments about this topic in the open-ended section of our survey, either.

Definition of Common Control

Question 10: Should the FASB consider defining the term *common control*? If yes, how should the term be defined and what would be the anticipated effect? Please explain.

No, the FASB should not pursue a project to define the term *common control*. Like Question 9, this is a conceptual topic that has been debated for a long time without any satisfactory solution. We would not expect a project on this to materially change reporting outcomes for investors. While we did not specifically ask about defining the term *common control* in our survey of investors, we did not receive any comments about this topic in the open-ended section of our survey, either.

Interaction of Consolidation Guidance and Other Transactions

Question 11: Should the FASB prioritize a potential project to improve and align the guidance in any of these areas? If yes, what should be included in the scope and what alternatives should be considered? Please explain.

No, the FASB should not prioritize a potential project to improve and align the guidance in any of these areas. Like Questions 9 and 10, this is a conceptual topic that has been debated for a long time without any satisfactory solution. We would not expect a project on this to materially change reporting outcomes for investors. While we did not specifically ask about a potential project to improve and align the guidance in any of these areas in our survey of investors, we did not receive any comments about this topic in the open-ended section of our survey, either.

Pushdown Accounting

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

We've not heard about challenges with the Board's pushdown accounting guidance from investors. Like Questions 9 – 11, this is a conceptual topic that has been debated for a long time without any satisfactory solution. We would not expect a project on this to materially change reporting outcomes for investors

Chapter 2 – Financial Instruments

Distinguishing Liabilities from Equity

Question 13: If the FASB were to make targeted improvements to the liabilities and equity guidance in Subtopic 815-40, would you support those changes if they significantly changed current financial reporting outcomes? For example, would you support accounting for more contracts indexed to an entity's own equity as equity as compared with today? Please explain.

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

Changes to current financial reporting outcomes must be justified by persuasive evidence that those changes would better reflect the economics of the financial instruments in question and improve the information provided about them to investors. As the ITC notes, distinguishing liabilities from equity is a longstanding debate in accounting motivated by preparers' desire to achieve certain financial reporting outcomes, primarily to classify more financial instruments as equity.

Our longstanding position is that the Board should adopt strict definitions of liabilities and equity and require hybrid instruments that do not meet either definition to be presented separately on the balance sheet with extensive disclosures, rather than constantly tweaking the guidance to accommodate financial innovation and desires to achieve certain reporting outcomes. For more on our longstanding position on this topic and references to our history of relevant comment letters, see our 2024 comment letter to the IASB's Exposure Draft on Financial Instruments with Characteristics of Equity.

We recommend that the Board does not address this topic at this time. Like Questions 9 – 12, this is a conceptual topic that has been debated for a long time without any satisfactory solution. As we wrote in our response to the Board's 2016 Agenda Consultation: "We are…less persuaded by the priority of this project, in part, because of the long-running consideration going as far back as 1990 and failure to resolve or develop a robust conceptual model."

While we did not specifically ask about this topic in our survey of investors, we did not receive any comments about this topic in the open-ended section of our survey, either.

Risk Management and Hedge Accounting

Question 15: Should the FASB consider revising the hedge accounting model? If so, what core aspects of the hedge accounting model should be amended or removed to allow hedge accounting to more accurately reflect the economics of an entity's risk management activities? Please describe why and how those core aspects should be amended or why they should be removed.

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

No, the FASB should not prioritize projects on revising and changing the hedge accounting model and disclosures. Like Questions 9 – 14, this is a conceptual topic that has been debated for a long time without any satisfactory solution. While we did not specifically ask about a potential project to improve and align the guidance in any of these areas in our survey of investors, we did not receive any comments about this topic in the open-ended section of our survey, either.

Our views on and recommendations for the Board's hedge accounting model and disclosures can be found in our 2016 Comment Letter to the Board on its Exposure Draft, Derivatives and Hedging (Topic 815).

Troubled Debt Restructuring by Borrowers

Question 17: How often is the TDR guidance in Subtopic 470-60, Debt—Troubled Debt Restructurings by Debtors, applied? Does the TDR guidance for borrowers continue to be relevant and provide decision-useful information to investors? Is it possible for borrowers to determine the fair value of restructured debt in a TDR? Do you foresee any challenges in determining the fair value of restructured debt when a borrower's financial difficulty results in other market participants being unwilling to lend to that borrower under the terms of the restructured debt? Are there other alternatives to improve the TDR guidance for borrowers that should be considered? Please explain.

Question 18: If borrowers were required to measure restructured debt at fair value, should interest expense be recognized? If yes, when should it be recognized and how should it be calculated? Please explain.

We recommend that this topic and these questions are referred to the EITF for consideration of pervasiveness, diversity in practice, and to develop recommendations to the Board. We believe this topic is fairly narrow in scope, though we acknowledge that this topic would become more pervasive in the event of a credit downturn.

While we did not ask about applying the troubled debt restructuring guidance by borrowers specifically in our survey of investors, we did not receive any comments about this topic in the open-ended section of our survey, either.

Definition of a Derivative and Derivative Modifications

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

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

The FASB should not prioritize projects on the definition of a derivative or accounting for derivative modifications. Like Questions 9 – 16, this is a conceptual topic that has been debated for a long time without any satisfactory solution. While we did not specifically ask about potential projects related to these topics in our survey of investors, we did not receive any comments about them in the open-ended section of our survey, either.

Below-Market and Interest-Free Loans from Donors

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

We recommend that this topic and these questions are referred to the EITF for consideration of pervasiveness, diversity in practice, and to develop recommendations to the Board.

Alternative Funding Arrangements

Question 22: Are there challenges in determining whether a funding arrangement should be accounted for as an R&D funding arrangement or a sale of future revenue? If the FASB were to pursue a project on R&D funding and sales of future revenue arrangements, what types of arrangements should be included in the scope of the project? Please explain.

We recommend that this topic and question are referred to the EITF for consideration of pervasiveness, diversity in practice, and to develop recommendations to the Board.

While we did not ask about alternative funding arrangements specifically in our survey of investors, we did not receive any comments about this topic in the open-ended section of our survey, either.

Transfers and Servicing of Financial Assets

Question 23: If the FASB were to pursue a project to consider improvements to Topic 860, what issues or transactions should it address? For those issues, please explain the challenges encountered in practice when applying the current guidance and what improvements should be considered.

We recommend that this topic and question are referred to the EITF for consideration of pervasiveness, diversity in practice, and to develop recommendations to the Board.

While we did not ask about transfers and servicing of financial assets specifically in our survey of investors, we did not receive any comments about this topic in the open-ended section of our survey, either. We received a comment from an investor requesting a project about factoring of receivables, a related topic:

> *"Properly disclose the amount of factoring used at balance sheet date and average throughout the quarter/year. Same for supply chain finance."*

Chapter 3 – Intangibles

Crypto Assets

Question 24: What challenges, if any, are there in applying current recognition and derecognition guidance to crypto asset transactions? Are there specific transactions that are more challenging? If so, how pervasive are those transactions and does the application of the current guidance appropriately portray the economics of those transactions (and if not, why)? Please explain, including whether and how these challenges could be addressed through standard setting.

It's our understanding that while a growing number of entities hold crypto assets, transactions of an "operating" nature (i.e., medium of exchange) are not yet pervasive. A majority of the corporately held crypto assets appear to be held by a single entity for investment purposes.[19] However, this issue could rapidly become more pervasive if mainstream financial institutions begin to issue stablecoins to consumers and non-financial businesses that broadly enable their use for payments as some have publicly said they intend to.[20]

As we wrote in our comment letter to the Board on its Exposure Draft for ASU 2023-08, *Accounting for and Disclosure of Crypto Assets,* the narrow scope of the Board's standard necessitated subsequent projects on out-of-scope assets including those issued by the reporting entity (a key consideration for stablecoins).

In our *Future of Financial Reporting Survey*, crypto assets ("Specific authoritative recognition, measurement, and disclosure guidance for all types of digital assets") was a medium priority topic for investors.

Goodwill

Question 25: The FASB has previously encountered challenges in identifying improvements to the subsequent accounting for goodwill that are cost beneficial. If the FASB were to pursue a project on the subsequent accounting for goodwill, what improvements should be considered? Please provide specifics on how those improvements would be more cost beneficial than the current impairment model.

We recommend that the Board does not address this topic at this time.

Our views on and recommendations for the accounting for goodwill are well documented in our comment letter to the Board on its *Invitation to Comment - Identifiable Intangible Assets and Subsequent Accounting for Goodwill* which is based on our publication *Goodwill: Investor Perspectives* that includes an extensive investor survey on this topic.

In short, there aren't improvements to the subsequent accounting for goodwill for investors that will also satisfy preparers' desires to do and disclose less. Amortization of goodwill would

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[19] Who are the companies hoarding bitcoin? Financial Times (June 20, 2025).
[20] Exclusive | Stablecoin World Opens Up to Main Street Banks - WSJ (June 23,2025)

reduce the information provided to investors through non-economic charges that would write-off 30% or more ($5+ trillion) in equity of US public companies.

Improvements to the subsequent accounting for goodwill that would benefit investors include disclosure improvements that make impairment charges more timely and more informative. We believe the best way to achieve that is to increase transparency to investors about entities' business combinations, an approach that is under consideration by the IASB. For more about our views on that approach, see our recent comment letter on the IASB's Exposure Draft: *Business Combinations – Disclosures, Goodwill and Impairments – Proposed Amendments to IFRS 3 and IAS 36.*

Multi-Element Software Arrangements

Question 26: While this issue was raised by NFP stakeholders, do other types of entities (such as public and private for-profit entities) have similar challenges? For multi-element software arrangements, what challenges, if any, do customers encounter in allocating the costs among the individual elements for accounting purposes? If there are challenges, how could the guidance be improved? Please explain.

We recommend that this topic and question are referred to the EITF for consideration of pervasiveness, diversity in practice, and to develop recommendations to the Board.

While we did not ask about multi-element software arrangements specifically in our survey of investors, we did not receive any comments about this topic in the open-ended section of our survey, either.

Chapter 4 – Other Assets and Liabilities

Credit Losses on Receivables from Contracts with Customers

Question 27: Should the FASB consider a project to permit public business entities to elect a similar practical expedient and accounting policy election for current accounts receivable and contract assets arising from transactions accounted for under Topic 606? Please explain.

Question 28: Should the FASB consider a project to expand the practical expedient and accounting policy election to other short-term assets? If so, which types of assets? Please explain.

The FASB should not consider projects on credit losses on receivables from contracts with customers at this time. We asked investors about current and expected credit losses (CECL) broadly in our survey, and the topic was ranked among the lowest priorities.[21]

[21] Specifically, we asked respondents about "With five years' experience with the CECL model (i.e., where all expected losses are recognized upfront) reevaluate the decision usefulness of this model for investors."

Definition of Cash Equivalents

Question 29: Should the FASB reconsider the definition of cash equivalents and consider including other assets that are easily liquidated? If so, what types of assets should be added to the definition of cash equivalents? Please explain.

No, the FASB should not reconsider the definition of cash equivalents or consider including other assets that are easily liquidated in the definition. We specifically asked investors this question in our survey, and it was rated a high priority by 38% of respondents but a low priority by 23% of respondents, placing this project near the bottom of investor priorities overall.

Inventory

Question 30: What challenges, if any, do entities face in the absence of specific initial recognition guidance for inventory and other nonmonetary assets? Please explain, including the pervasiveness of these challenges.

We're not aware of challenges that entities face in the absence of specific initial recognition guidance for inventory and other nonmonetary assets. This was not raised as a concern by investors in our survey.

Asset Retirement Obligations

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

We recommend that this topic and question are referred to the EITF for consideration of pervasiveness, diversity in practice, and to develop recommendations to the Board.

While we did not ask about asset retirement obligations specifically in our survey of investors, we did not receive any comments about this topic in the open-ended section of our survey, either.

Guarantees

Question 32: What are the types of guarantees, if any, that lead to uncertainty about whether to apply the guidance for guarantees or revenue recognition? How pervasive are these guarantees? How should an entity account for these guarantees? Please explain.

We recommend that this topic and question are referred to the EITF for consideration of pervasiveness, diversity in practice, and to develop recommendations to the Board.

While we did not ask about guarantees specifically in our survey of investors, we did not receive any comments about this topic in the open-ended section of our survey, either.

Lease Payments in the Form of Equity

Question 33: What is the prevalence of these types of lease transactions? Is incremental accounting guidance needed to specify how share-based lease payments should be recognized and measured (both initially and subsequently)? Please explain.

We recommend that this topic and question are referred to the EITF for consideration of pervasiveness, diversity in practice, and to develop recommendations to the Board. We believe this topic is narrow in scope and material to a small subset of entities. A search in the Calcbench universe of disclosures by public business entities did not return a significant number of instances of these transactions in disclosures.

While we did not ask about lease payments in the form of equity specifically in our survey of investors, we did not receive any comments about this topic in the open-ended section of our survey, either.

Chapter 5 – Retirement and Other Employee Benefits

Employee Stock Ownership Plan (ESOP) Repurchase Obligation Disclosures

Question 34: How pervasive are repurchase obligations for ESOPs? Should additional disclosures be required and, if so, what type (for example, quantitative, qualitative, or both types of disclosures)? Please explain.

We recommend that this question and topic is referred to the EITF for consideration of its pervasiveness, diversity in practice, and to develop recommendations to the Board. We also recommend conferring with the Private Company Council (PCC) on this topic as we believe that ESOPs and the materiality of ESOP repurchase obligations are most pervasive among private entities.[22]

Partnership Accounting

Question 35: How should the accrual of and future distributions to current and former members of a partnership be accounted for? Are there other challenges related to applying partnership accounting that the FASB should consider addressing? Please explain.

We recommend that this question and topic is referred to the EITF for consideration of its pervasiveness, diversity in practice, and to develop recommendations to the Board. We also recommend conferring with the PCC on this topic as we believe that partnerships are primarily private entities; only a small number of them appear to be public business entities.[23]

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[22] Employee Ownership by the Numbers. National Center for Employee Ownership.
[23] Data on the number of Publicly Traded Partnerships Trading on U.S. Exchanges as of June 5, 2025 (Energy Infrastructure Council) vs. data on the total number of partnerships in the US (Internal Revenue Service) suggests that a tiny fraction of partnerships are public business entities.

Gains and Losses of Defined Benefit Plans

Question 36: Should the FASB require entities to immediately recognize gains and losses associated with defined benefit plans in the period they arise? Additionally, should the FASB require entities to disaggregate the net gains or losses recognized between those arising from investment activities related to the plan assets and those arising from changes in actuarial assumptions? Please explain.

Yes, the FASB should require entities to immediately recognize gains and losses associated with defined benefit plans in the period they arise. This has been a longstanding position of CFA Institute and its predecessor organization. As wrote in our response to the Board's 2016 Agenda Consultation, "the smoothing of actuarial gains or losses and prior service costs can distort the depiction of the reflected periodic economic cost of pensions. Hence, we would support eliminating smoothing requirements."

That said, this is not among investors' top priorities. While we did not ask about gains and losses of defined benefit plans specifically in our survey of investors, we did not receive any comments about this topic in the open-ended section of our survey, either. It's our impression that, since FAS 158, defined benefit plans have shrunk in their materiality to business entities.

Remeasurement of Share-Based Payment Awards

Question 37: If the FASB were to pursue a project to align the initial and subsequent measurement of share-based payment awards, how should the awards be initially and subsequently measured? Please explain, including the objective of the measurement and whether and how changes to the subsequent measurement of share-based payment awards would improve the decision usefulness of the information provided to investors.

The awards should be initially and subsequently measured at fair value. This has been our longstanding position since before FAS 123(R), as we wrote in our 2004 comment letter to the Board's Exposure Draft:

> "[T]he compensation expense to be recorded should be estimated at date of grant, using an option (fair value) pricing model and inputs appropriate for the conditions and constraints of the option grant. We believe that the compensation expense should be remeasured at each reporting date thereafter until the vesting date, with changes in the fair value of the compensation expense reported as incurred. From the vesting date until the exercise or settlement date, any additional changes in fair value reported as financing expense."

That said, this is not among investors' top priorities. While we did not ask about remeasurements of share-based payment awards specifically in our survey of investors, we did not receive any comments about this topic in the open-ended section of our survey, either.

Chapter 6 – Income and Expenses

Principal versus Agent Considerations

Question 38: What challenges, if any, do entities encounter in evaluating whether they are acting as a principal versus an agent? Are there instances where the accounting does not appropriately reflect the economics of the transactions? Please explain, including the pervasiveness of those challenges, the industries and transactions for which the accounting could be improved, and whether and how those challenges and improvements could be addressed through standard setting.

We recommend that this topic and question are referred to the EITF for consideration of pervasiveness, diversity in practice, and to develop recommendations to the Board. While this topic is material to many entities (particularly tech-driven platform entities that have significant market capitalization today), we believe sharpening the implementation guidance for this topic is a narrow scope project.

While we did not ask about principal versus agent considerations specifically in our survey of investors, we did not receive any comments about this topic in the open-ended section of our survey, either.

Estimate of Variable Consideration for Commission-Based Transactions

Question 38: Should the FASB consider requiring entities to recognize variable consideration when the underlying triggers have been reached? If so, should that change apply to all entities or a subset of entities (for example, entities that earn commission-based revenue)? Would this provide better information for investors' analyses? Please explain.

We recommend that this topic and question are referred to the EITF for consideration of pervasiveness, diversity in practice, and to develop recommendations to the Board.

While we did not ask about variable consideration for commission-based transactions specifically in our survey of investors, we did not receive any comments about this topic in the open-ended section of our survey, either.

Consideration Payable to Customers

Question 40: What challenges, if any, are there in applying the consideration payable to customers guidance? Should the FASB consider clarifying this guidance? Please explain.

We recommend that this topic and question are referred to the EITF for consideration of pervasiveness, diversity in practice, and to develop recommendations to the Board.

While we did not ask about consideration payable to customers specifically in our survey of investors, we did not receive any comments about this topic in the open-ended section of our survey, either.

Payments Received from a Vendor in the Airline Industry

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

We recommend that this topic and question are referred to the EITF for consideration of pervasiveness, diversity in practice, and to develop recommendations to the Board.

While we did not ask about payments received from a vendor in the airline industry specifically in our survey of investors, we did not receive any comments about this topic in the open-ended section of our survey, either.

Recognition of Interest Income

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

We recommend that this topic and question are referred to the EITF for consideration of pervasiveness, diversity in practice, and to develop recommendations to the Board.

While we did not ask about recognition of interest income for loans within the scope of Subtopic 310-20 specifically in our survey of investors, we did not receive any comments about this topic in the open-ended section of our survey, either.

Derecognition of Transferable Income Tax Credits

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

We recommend that this topic and question are referred to the EITF for consideration of pervasiveness, diversity in practice, and to develop recommendations to the Board.

While we did not ask about derecognition of transferable income tax credits specifically in our survey of investors, we did not receive any comments about this topic in the open-ended section of our survey, either.

Chapter 7 – Presentation and Disclosure of Financial Reporting Information

Enhanced Disclosures

Question 44: Should the FASB consider any additional disclosures in any of the above areas? If so, how would that information better inform investment decisions? If these or similar disclosures are currently required outside of the financial statements, why should

or shouldn't they be included in the financial statements? Are there other areas that need additional disclosures? Please explain.

Yes. Many of these additional disclosures fall under the broader topic of disaggregation, which was investor's top priority in the Board's 2021 Agenda Consultation and a top priority for investors in our *Future of Financial Reporting Survey*. The highest priority sub-topics include

- Breakdown of non-recurring income and expenses
- Breakdown of cost of sales and SG&A expenses by nature of expense
    - Note: This is directly related to the Board's Disaggregation of Income Statement Expenses (DISE) standard that will be effective for annual periods in 2 years. We informed survey respondents of DISE[24], but this was still rated as a top priority.
- Effects of business combinations on financial statement line items
- Breakdown of revenue and operating income by country

Additionally, most of the "write-in" priority topics we received from respondents in the open-ended section of our survey are related to enhanced disclosures and include the following:

- SG&A breakdown - *Selling expenses which are classified within SG&A should be broken out separately. Goal is to help analysts determine whether the unit economics are changing. Software companies provide expensive services to customers and lump it under SG&A rather than COGS.*
- Disclosure of cash tax rates - *Current tax disclosures often focus on effective tax rates derived from accounting profits, which may not reflect the actual cash taxes paid. Requiring companies to disclose cash tax rates would enhance transparency by revealing the real tax burden and improving comparability across firms and jurisdictions. This would help investors assess long-term sustainability of true after-tax cash flows.*
- Corporate welfare - *All payments received from government organizations*
- Corruption exposure - *Payments to politicians, political parties and related persons*
- Factoring - *Properly disclose the amount of factoring used at balance sheet date and average throughout the quarter/year. Same for supply chain finance*
- Sharia-compliant business reporting - *Encourage companies to disclose revenue and profit exposure to the following lines of business: adult entertainment, alcohol.*
- Employee numbers - *Require disclosure in notes to financial statements on employee numbers*
- Leases – [Clearer disclosures on] *what is cash expense, total expense with non cash component, what flows through opex vs interest in the period, what is contractual minimum for future periods*
- Stock-based compensation - *In the notes to the financial statements, a "dilution factor" should be calculated based on annual SBC. It could be a simple one line in a table*

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[24] Specifically, in regard to disaggregation, we stated: "There has been standard setting on this topic since 2021. Under US GAAP, Disaggregation of Income Statement Expenses (effective in 2027), [entities will be required to] Disclose the amounts of (a) purchases of inventory; (b) employee compensation; (c) depreciation; (d) amortization; and (e), depletion included in each income statement expense line. No total across income statement line items is required. (e.g., total employee compensation, depreciation and amortization will not be required to be provided.) And, separately, to define "selling expenses" and disclose the total amount of selling expenses."

format. Although technically possible to calculate currently, some companies do not disclose this clearly enough.

- Anti-dilutive securities - *Some companies…don't disclose the number of anti-dilutive shares. If they were to become profitable, all shares would be in the fully diluted share count. We don't know if [company's] real market cap is $200M or $200B.*
- Convertible instruments - *Require more clean and easy to use disclosure on regular basis…What is conversion price, What is face and book value of converts?*

Outdated Disclosures

Question 45: Are there current disclosure requirements that do not provide meaningful information about an entity? If yes, please explain which disclosures are not decision useful and whether those disclosures should be removed or how they should be improved.

We've not found this to be the case. In our 2012 Disclosure Survey, the majority (76%) of investor respondents did not observe the inclusion of obviously immaterial information. Similarly, as we write in our report *Financial Reporting Disclosures: Transparency, Trust, and Volume*, 80% of respondents indicated that volume is not a significant financial reporting concern.

Investors want more information, not less. Investors often have the benefit of familiarity with entities and their prior disclosures, as well as technology, from simple tools like searching a document and blackline reports to see changes in disclosure language from prior releases, to more advanced tools like large language models. "Disclosure overload" is more myth than reality for investors.

Diluted Earnings per Share (EPS)

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

Yes. We asked this question specifically in our *Future of Financial Reporting Survey* and 64% of respondents agreed that including more RSUs in the computation of diluted EPS under the treasury stock method by not adjusting for unrecognized compensation expense is a priority. However, in the rankings of priorities towards the end of our survey, this was rated as a medium priority.

Definition of a Public Business Entity

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

Question 48: What complexity, if any, results from multiple definitions of a public entity and a nonpublic entity in GAAP? Should the FASB prioritize a project that seeks to reduce the number of definitions of a public entity and a nonpublic entity throughout GAAP? If

the FASB were to pursue a project to reduce the number of definitions of a public entity and a nonpublic entity, should the FASB consider replacing the definitions of a public entity with the public business entity definition? Please explain.

We've generally opposed different standards for different types of entity because it results in different accounting for the same transaction or event by different entities, undermining the benefit of reporting "standards." As we discussed in the body of our letter, by creating private company alternatives in GAAP, the Board is contributing to the increased costs of going public and creating another hurdle to making that decision (i.e., having to change accounting standards).

That said, the FASB should <u>not</u> consider a project on redefining public business entity or amending the Master Glossary for that term at this time.

Personal Financial Statements

Question 49: Is there certain implementation guidance in Topic 274 that should be updated? If yes, what is the pervasiveness of individuals (or groups of related individuals) that prepare GAAP-compliant personal financial statements? How should assets be measured? Are there additional disclosures that should be required in personal financial statements and, if so, how would they be decision useful? Please explain.

We're not able to determine the pervasiveness of individuals (or groups of related individuals) that prepare GAAP-compliant personal financial statements.

We recommend that the Board confers with the PCC on this question as we believe personal financial statements are commonly prepared by/for owners of private companies.

Chapter 8 – Current Research Agenda Projects

Consolidation for Business Entities

Question 50: Should the FASB prioritize a project to develop a single consolidation model? If yes, should the FASB leverage the guidance in IFRS 10, the VIE model, or the voting interest entity model as a starting point? If the FASB should not prioritize a single consolidation model, should the FASB make targeted improvements to better align the current voting interest entity and VIE guidance, including simplifying the determination of whether an entity is a VIE or a voting interest entity? Please explain.

Question 51: Are there pervasive accounting outcomes resulting from the application of the consolidation guidance that are inconsistent with the underlying economics of the transaction? If so, please provide examples.

No, the FASB should not prioritize a project to develop a single consolidation model. This is a conceptual topic that has been debated for a long time without any satisfactory solution. We would not expect a project on this to materially change reporting outcomes for investors.

While we did not ask about consolidation specifically in our survey of investors, we did not receive any comments about this topic in the open-ended section of our survey, either.

Statement of Cash Flows

Question 52: Should the FASB pursue a project on the statement of cash flows? If yes, which improvements, if any, are most important? Should the FASB leverage the current guidance in Topic 230, Statement of Cash Flows? If yes, would it be preferable to retain the direct method, the indirect method, or both? Should this potential project be a broad project applicable to all entities that provide a statement of cash flows10 or limited to certain entities or industries? Please explain.

Yes. This is the number one priority for investors.

We, and other investors and investor organizations, have advocated for improvements to the statement of cash flows for many years, including in responses to the Board's prior agenda consultations in 2016 and 2021 and in similar outreach done by the IASB.

The Board should address this topic by addressing the following four items in a broad project on the statement of cash flows with the objectives of improving the cash flow information reported by entities in the financial statements and the cohesiveness of information reported on the statement of cash flows with the other financial statements.

- Improving disclosures of noncash items
- Disaggregate investing cash flows into maintenance versus expansion
- Define and required disclosure of free cash flow
- Require targeted supplemental disclosures for entities applying the indirect method of presenting cash flows from operating activities, including cash received from customers and cash paid to employees and other suppliers.

Accounting for Commodities

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

Question 54: Beyond financial institutions, are there other entities or industries that hold physical commodities for trading purposes that should be permitted to apply the fair value option to physical commodities? Please explain, including which types of entities or industries and whether and how providing an option would provide decision-useful information.

We asked about Accounting for Commodities specifically in our *Future of Financial Reporting Survey*. In the rankings of priorities towards the end of our survey, this was rated among the lowest priority topics for investors.