fei committee on corporate reporting

March 20, 2024

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

Re: File Reference No. 2023-ED700

Dear Ms. Salo,

This letter is submitted by Financial Executives International's (FEI) Committee on Corporate Reporting (CCR) in response to the Financial Accounting Standards Board's (FASB or Board) Proposed Statement of Financial Accounting Concepts, Concepts Statement No. 8, Conceptual Framework for Financial Reporting – Chapter 6: Measurement (Exposure Draft or proposed Chapter).

FEI is a leading international organization comprised of members who hold positions as Chief Financial Officers, Chief Accounting Officers, Controllers, Treasurers, and Tax Executives at companies in every major industry. CCR is FEI's technical committee of approximately 50 Chief Accounting Officers and Corporate Controllers from Fortune 100 and other large public companies, representing more than $14 trillion in market capitalization. CCR reviews and responds to pronouncements, proposed rules and regulations, pending legislation, and other documents issued by domestic and international regulators and organizations such as the U.S. SEC, PCAOB, FASB, and IASB.

This letter represents the views of CCR and not necessarily the views of FEI or its members individually.

Executive Summary

CCR appreciates the Board's effort to continue to improve the conceptual framework to provide a foundation for the development of future accounting standards. In our letter, CCR broadly supports the Board's proposed descriptions and concepts related to the measurement of items recognized in financial statements and suggests a few recommendations for the Board to consider.

Predictive Value and Prices

CCR agrees with the proposed underlying premise that to have predictive value the reported amounts of assets should not be more than what is recoverable, by disposition or use, and the reported amounts of liabilities should not be less than what is settleable, by transfer or satisfaction. Specifically, we believe such premise would be more meaningful to investors and other users of financial statements as it allows for changes in values to be captured in the appropriate period and ensures the balance sheet appropriately reflects the financial position of the company.

Furthermore, we agree that measurement is anchored in prices, as described in paragraphs M5 and M6. Most commercial activity involving the exchange of goods and services typically has observable prices, which provide an objective measure of the initial recognition of an asset or liability. There are instances when the price of an asset or liability is not directly observable and established alternative methods must be used to estimate the value of an asset in use (i.e., cash flow forecasting for individual assets); however, these methods represent an attempt to replicate prices as a basis for estimation and meet the objective of measurement.

Price Systems

We agree that the entry price and exit price systems, as explained in paragraph M7, are the only two relevant and representationally faithful measurement systems that would meet the objective of general purpose financial reporting. However, it is clear in paragraphs M20 – M22 that there is an expectation that entry and exit prices may be based on cash flow estimates. Therefore, we ask the Board to consider referencing estimates in the text or footnotes of paragraph M7, such as “the price paid (or expected to be paid).”

In addition, we concur with the proposed description and features of the entry price system as described in paragraphs M10 – M14, as well as support the concept that the entry price system would likely result in more relevant measurements when entities have unique exit prices for the same asset or liability. However, M31 seems to imply the same exit price does not exist when unique exit prices exist. We believe there are many situations where both could exist, and in cases when the same exit price exists, we believe the exit price system may likely result in more relevant measurements as described below. Therefore, we recommend clarifying the initial sentence to “… when entities *only* have unique exit prices for the same asset or liability.” Further clarifying the term “unique” may also be helpful such that a value is “nonunique” when it is from a market participant perspective and “unique” from an entity-specific perspective. The description of the entry price system is clear that assets subject to the system are initially recorded at cost and subsequent measurement is an adjusted entry price based on allocating the initial amount over the benefit period which is consistent with the current historical cost system. Additionally, we believe direct transaction costs to acquire an asset should be explicitly included in the initial entry price as outlined in M13, which refers to the location and condition necessary to function as intended. We also agree that the entry price system better maintains the historical relationship between revenues and the costs incurred and the assets employed to generate those revenues.

We agree with the proposed description and features of the exit price system as described in paragraphs M15 – M19 and support the notion that the exit price system (specifically, an exit price that incorporates market participant cash flows) would likely result in more relevant measurements when entities have the same exit price for the same asset or liability. Similar to the description of the entry price system in paragraphs M10 – M14, we recommend the Board consider indicating that decisions about whether an exit price should be measured from a market participant perspective or from an entity-specific perspective should be determined at the standards level. Further, exit prices associated with an asset or liability are often more exposed to fluctuations in market conditions. Exit prices help users better understand the risks and uncertainties inherent in the potential cash flows and can be used to confirm or revise expectations for exchange transactions. Exit prices are also useful for assessing solvency and liquidity and may be most useful when there are active markets to base exit prices on.

Conclusion

We appreciate this opportunity to provide feedback on the proposed Chapter to the Conceptual Framework related to Measurement. We thank the Board for its consideration of our comments and welcome further discussion with the Board or staff at your convenience.

Sincerely,

Alice L. Jolla

Alice L. Jolla
Chair, Committee on Corporate Reporting
Financial Executives International