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February 21, 2023

Via email to director@fasb.org

Ms. Hillary H. Salo, Technical Director
File Reference No. 2022-ED400
Financial Accounting Standards Board
801 Main Avenue
P.O. Box 5116
Norwalk, CT 06856-5116

Re: Chapter 5 – Recognition and Derecognition

Dear Ms. Salo:

We appreciate the opportunity to respond to the Board's exposure draft on the portion of the conceptual framework addressing recognition and derecognition of an item in the financial statements.

Overall, we support the conceptual framework project. In our view, the Board is not significantly altering the concepts for recognition and derecognition in this chapter, but rather clarifying them.

Our detailed responses and suggestions to the Questions for Respondents are contained in the attached Appendix.

We would be pleased to discuss our comments with the FASB staff. Please direct questions to Jin Koo at (214) 243-2941 or Adam Brown at (214) 665-0673.

Very truly yours,

BDO USA, LLP

BDO USA, LLP

Appendix

Question 1: Do you agree that an item must satisfy all three criteria in paragraph RD5 concurrently to be recognized in the financial statements? If not, why? Do you agree that the criteria in paragraph RD5 are necessary and sufficient as recognition criteria?

We generally agree with the Board's view that an item must satisfy all three criteria in paragraph RD5 concurrently to be recognized in the financial statements. However, in our view, the Board is not changing the criteria around recognition, but rather providing clarification. As an example, reliability, a fundamental qualitative characteristic in the superseded Concepts Statement 2, is incorporated into the criterion of faithful representation in this proposal.

We also generally agree that the criteria in paragraph RD5 are necessary and sufficient as recognition criteria. Paragraph RD3 states "[r]ecognition is the process of incorporating an item in financial statements of a reporting entity as […] or [a] distribution to owners." The phrase "distribution to owners" may limit the scope of distributions that could occur, by excluding distributions and contributions to non-owners (for example, a charitable contribution by a for-profit entity to a related not-for-profit entity). Accordingly, we recommend that the phrase "to owners" be removed or broadened.

In addition, recognition can occur when there is a change in the composition of the reporting entity either through acquisition, merger or by becoming the primary beneficiary of a variable interest entity (VIE). Therefore, we recommend that a reference be added to Chapter 2 on the reporting entity in paragraph RD5.

Question 2: Do you agree that the qualitative characteristic of relevance is adequately captured in the definitions and measurability criteria, as explained in paragraph BC11? If not, why?

We agree.

Question 3: Are there circumstances in which an item may meet the definition of an element (as defined in Chapter 4, Elements of Financial Statements, of this Concepts Statement) but does not meet the measurability or faithful representation criteria? Please describe those circumstances and provide a specific example or examples.

Theoretically, an item could meet the definition of an element but not be measurable in a representationally faithful way. As an example, internally generated in-process research and development (IPR&D) could meet the definition of an asset but not be reliably measured, depending on how an appropriate measurement attribute is determined (e.g., an entry vs. exit price). In this regard, the Board's project on the measurement chapter of the conceptual framework may have further implications for recognition and derecognition.

Question 4: Do you agree that derecognition occurs when an item fails to meet any one of the recognition criteria in paragraph RD5? If not, why?

We generally agree with the Board that derecognition occurs when an item fails to meet any one of the recognition criteria in paragraph RD5. However, the Board may need to address derecognition when there is a change in the composition of the reporting entity. That is, individual assets and liabilities can meet the recognition criteria in paragraph RD5, but the previously constituted reporting entity no longer controls those elements, for instance when a subsidiary is deconsolidated, or a spinoff occurs.

Additional Comment

Paragraph C8 states "disclosure of an amount […] is *not* recognition." However, we note there are inconsistencies between the Codification and this paragraph C8. As an example, ASC 810-10-45-12 states "[…] recognition should be given by disclosure or otherwise" when consolidating a subsidiary on a lag. As such, the Board may wish to consider a project to identify any additional inconsistencies of this nature in the Codification and whether amendments are necessary to resolve them.