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March 19, 2024

Via email to director@fasb.org

Ms. Hilary H. Salo, Technical Director
Financial Accounting Standards Board
801 Main Avenue
P.O. Box 5116
Norwalk, CT 06856-5116

Re: Concepts Statement No. 8, Conceptual Framework for Financial Reporting, Chapter 6: Measurement (File Reference No. 2023-ED700)

Dear Ms. Salo:

We appreciate the opportunity to respond to the Board's exposure draft on the portion of the conceptual framework addressing measurement.

Overall, we support the Board's efforts to improve the conceptual framework and the Board's proposed approach. However, we believe the Board's use of certain terminology is potentially confusing. For example, the proposal uses the terms *entry price* and *exit price* to identify the two proposed measurement systems. However, those terms are currently used in ASC 820 to refer to different fair value approaches, and thus have different meanings in that context as compared to the meanings in the proposal. We recommend the Board use different terms in this chapter to distinguish between the measurement systems described in this chapter and the fair value approaches described in ASC 820. We have elaborated on our concerns in our responses to the Questions for Respondents in the attached Appendix.

We would be pleased to discuss our comments with the FASB staff. Please direct questions to Angela Newell at (214) 689-5669 or Meredith Taylor at (571) 461-6744.

Very truly yours,

BDO USA, P.A.

BDO USA, P.A.

Appendix

Question 1: Do you agree with the proposed underlying premise that to have predictive value the reported amount 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? Please explain why or why not.

We agree. We note that current guidance does not always conform to this principle. For example, contingent liabilities are often recognized at an amount that is less than the amount that is settleable if they are recognized at the low end of a range when no other amount within the range is a better estimate, or not recognized if they do not meet the measurable threshold. However, we agree that this concept is an appropriate basis for future standard-setting.

Question 2: Do you agree that measurement is anchored in prices, as described in paragraphs M5 and M6? Do you also agree that transactions and other events and circumstances affecting the entity should ultimately be measured in prices (entry prices and exit prices)? Please explain why or why not.

We generally agree that measurement is anchored in prices and that transactions should ultimately be measured in prices. However, we note that the word *price* connotes a transaction with an external party. An entity-specific estimate is neither an entry price nor an exit price as it does not consider what a counterparty, who is a market participant, would pay to acquire the asset or assume the liability. Rather, an entity-specific estimate reflects such entity's best estimate of either the value it will obtain from using an asset or the value it will expend to settle a liability. An entity-specific estimate could differ from an entry or exit price due to entity-specific factors. We acknowledge that an entity-specific estimate may be an appropriate measurement approach, and thus recommend the Board consider using a term other than *price* to convey this concept.

Question 3: Do you agree with the proposed definition and features of the entry price system as described in paragraphs M10-M14? Please explain why or why not.

We believe the Board is creating confusion for users of the concepts statement by using the term *entry price* differently than in ASC 820. We strongly recommend the Board refer to this method as historical cost or another appropriate term. Additionally, a cost accumulation approach is different from an entry price system. An entry price as defined in this chapter is the amount paid, but as noted in M13 and M14, under the current cost accumulation approach, entities capitalize other costs associated with bringing an asset to its intended use, such as legal costs and transaction costs. While we do not disagree that a cost accumulation approach as described is appropriate, it is not consistent with the entry price system described.

Question 4: Do you agree with the proposed description and features of the exit price system as described in paragraphs M15-M19? Please explain why or why not.

We have similar concerns about the Board's use of the term *exit price*, as such use creates confusion, and thus strongly recommend the use of a different term. In addition, we had the following observations about the proposed system:

- It is not clear from the proposal why the use of an exit price necessitates updating such exit price each period. For example, in a business combination where there is a bargain gain, an entity may initially value an asset or liability at fair value, which could differ from an entry price, but it would not be appropriate for the entity to continually update that value.
- It is also unclear when transaction costs should be included in an exit price measurement. While proposed paragraph M17 notes that costs to acquire should generally be expensed as incurred, it further provides for an exception when the counterparty would be willing to include those costs in its entry price. However, we note that the entry price approach as described in proposed paragraphs M10-M14 generally includes transaction costs. Thus, a counterparty would seem to always be willing to include those costs in its entry price. In addition, it is unclear why transaction costs would be excluded when an entity uses the entity-specific measurement approach.

Question 5: Do you 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? Please explain why or why not.

We do not agree that the entry price and exit price systems as described in paragraph M7 are the only two relevant and representationally faithful measurement systems that meet the objective of general-purpose financial reporting. As discussed in our response to Question 2, an entity-specific discounted cash flow approach is neither an entry price nor an exit price. However, an entity-specific estimate may be an appropriate measurement approach, specifically when an entity expects to settle a liability through its normal operations. Additionally, as noted in our response to Question 4, in certain circumstances initially measuring an asset or liability at fair value, which could differ from an entry price, but not subsequently updating that value could be another appropriate approach.

In BC6.15, the Board discusses the replacement of the measurement attributes in Concepts Statement 5; however, the proposed measurement systems seem more akin to a combination of the five attributes in the existing concepts statement rather than an elimination or replacement of such attributes.

Regardless of the number and description of measurement systems ultimately adopted by the Board, we note that the Board has declined to provide guidance on when it would be appropriate to use each of the different systems, as well as any specific measurement approaches (entity-specific versus market-based). We believe providing guidance on when the use of each is more appropriate and why is important to making the proposed concept statement useful.

Question 6: Do you agree that the entry price system would likely result in more relevant measurements when entities have unique exit prices for the same asset or liability? Please explain why or why not. (See paragraph M31.)

We do not necessarily agree that the entry price system would result in more relevant measurements for entities with unique exit prices for the same asset or liability, as it seems to be based on the relative availability of market prices for an asset or liability. Instead, we believe that a more relevant measurement basis is how the entity plans to obtain value from the asset or expend value to settle the liability. The more likely the entity is to obtain/expend value in an exit transaction, the more relevant an exit price is. Alternatively, the more likely an entity is to obtain/expend value from within ongoing operations, the more relevant an entry price is, as it allows a user to determine the historical relationship and return on that value. Using real estate as an example, under this method a REIT might carry a building asset at fair value while other entities apply an historical cost method. However, we acknowledge that while this approach may lead to more relevant financial reporting, this method may also lead to more industry-specific guidance and inconsistency between reporting entities for similar assets and liabilities which adds complexity to financial reporting.

Question 7: Do you agree 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? Please explain why or why not. (See paragraph M32.)

In line with our response to Question 6, we do not necessarily agree this system would result in more relevant measurements.

Other Comments

We note that the use of a double negative in proposed paragraph M20 ("there is no conceptual justification for not considering the time value of money…") also creates confusion. We encourage the Board to avoid the use of double negatives wherever possible. In this instance, we agree that consideration of the time value of money is generally appropriate and would recommend establishing a principle that it should be included when the benefits (because of the long-term nature of the liability) exceed the cost of calculating. Alternatively, the Board could consider removing the phrase "*there is no conceptual justification for not considering the time value of money in a cash flow estimate of price*" from paragraph M20. If the Board retains the phrase without adjustment, we encourage the Board to consider providing clarification in the Basis for Conclusions on the nature of this statement.

We recommend that the Board retain the portion of the existing concept statement that describes various aspects of cash flow information (probability-weighted cash flows, etc.). We find that guidance helpful and believe it should be retained.