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April 15, 2025

Mr. Jackson M. Day
Technical Director
Financial Accounting Standards Board
801 Main Avenue
PO Box 5116
Norwalk, CT 06856-5116

RE: Proposed Accounting Standards Update, *Environmental Credits and Environmental Credit Obligations (Topic 818)* (File Reference No. 2024-ED910)

Dear Mr. Day:

We appreciate the opportunity to comment on the proposed ASU, *Environmental Credits and Environmental Credit Obligations (Topic 818)*. We support the Board's objective to improve financial accounting for and disclosure of environmental credits and environmental credit obligations (ECOs). We believe the proposal is generally understandable and operable but believe there are a few items the Board should consider clarifying to improve the consistency in application and avoid unintended consequences.

The Appendix to this cover letter includes our detailed comments; following is a summary of our key observations.

- Definition of an environmental credit: We suggest updating the definition of an environmental credit as follows:
  - Enforceable rights: We agree that the holder's right to an environmental credit needs to be enforceable. However, we believe as written, the proposal is unclear as to what rights need to be enforceable to satisfy the enforceability criterion. To avoid confusion, we believe the Board should clarify that the enforceable right relates to the purported prevention, control, reduction, or removal of emissions or other pollution. Without this clarification, entities might assume, for example, the enforceability criterion is satisfied when only the right to purchase a credit is enforceable (i.e. even if the underlying right to claim the offset the credit provides is not).
  - Transferability: We suggest removing the transferability criterion from the definition because that criterion would seemingly exclude credits that can only be used to settle a regulatory obligation. We believe that settling an obligation imposed by a regulatory body is not a reciprocal transaction, so settling an ECO would not be an exchange transaction. Because, in some instances, the environmental credit must be transferable to be recognized as an asset, we believe the main reasons the Board gave about the importance of transferability are already captured in the recognition model and therefore entities do not need to evaluate it twice (once in scope and again in the asset recognition guidance).
- Internally generated environmental credits: We believe the proposal on internally generated environmental credits is understandable and operable. However, we are aware of fact patterns where the proposed accounting may not reflect the economics of the arrangement. For example, some entities have facilities for which the sole output is an environmental credit that will be sold. If no production costs are allocated to the environmental credit, the income statement may reflect significant period costs prior to the certification of environmental credits, and as a result subsequent sales and margin will not reflect the cost of generating the environmental credit. In other situations, entities pay a premium to acquire sustainable fuel and the subsequent act of

processing or use of the fuel creates an environmental credit. In these situations, if the premium paid for the fuel is not allocated to the environmental credit generated by the entity, then the subsequent sale and margin (or use) of the environmental credit will not properly capture the cost of the transaction. We note these types of transactions are much different than other scenarios where it is very difficult to allocate costs specifically to the generation of environmental credits such as in wind/solar projects. Therefore, we believe the Board should consider revising the proposal to better address these types of arrangements.

- ECO liability recognition: We believe the proposal is understandable but should be modified to address the following aspects of the model that are unclear or would create additional complexity and volatility.
  - The initial recognition and measurement guidance does not clarify whether the debit recognized when an ECO liability is initially recorded should always be expensed or is eligible for capitalization. For example, if the activities that give rise to the obligation relate to production activities that are otherwise inventoriable, we believe there will be diversity in practice about whether the debit is capitalizable or should be expensed based on the current proposal. We suggest the Board clarify whether the Day 1 cost should always be recorded as an expense or would be eligible for capitalization.
  - We believe the proposed model of assuming the reporting date is the end of the compliance period may add unnecessary complexity and volatility over the compliance period. We believe a preferable model would be to estimate the expected number of environmental credits an entity will be required to submit at the end of the compliance period and recognize the amount using a systematic and rational method over that period (e.g. as the entity emits). We believe the Board could do this without adjusting the measurement model.
- Class of eligible environmental credits for fair value election: We suggest the Board consider providing more guidance on the definition of ‘class of eligible noncompliance environmental credits’ and how to differentiate different classes. Without further clarity on how to determine what constitutes a class, we believe entities could have similar noncompliance environmental credits measured under different elections.

* * * * *

If you have questions about our comments or wish to discuss the matters addressed in this comment letter, please contact Nick Burgmeier nburgmeier@kpmg.com or Kimber Bascom kbascom@kpmg.com.

Sincerely,

KPMG LLP

KPMG LLP

Appendix – Responses to Questions for Respondents

<u>Environmental Credits</u>

Question 1:

Is the proposed definition of environmental credit clear and operable? Does the proposed definition of environmental credit capture the population of items that require specific accounting guidance? Please explain why or why not. If not, what changes would you suggest? Do you anticipate any auditing challenges? If so, please explain.

We believe the definition should be clarified to appropriately capture the population of items intended to be covered under proposed Topic 818. Specifically, we believe the Board should consider clarifications around the enforceability and transferability criteria.

Enforceable right

We agree that an environmental credit should represent an enforceable right of the holder and agree with the statement in BC19 that the Board does not need to provide guidance for determining whether a right is enforceable. However, the proposed definition does not explicitly state what right needs to be enforceable. Our understanding from the Board's initial deliberations is that the enforceable right should relate to an entity's legal claim that it has prevented, controlled, reduced, or removed emissions or other pollution. Therefore, we believe the enforceability criterion should be clarified so that it is clear an environmental credit relates to an enforceable right to claim what the credit purports to do.

Without this clarification, we believe there is potential to broadly interpret what constitutes an enforceable right. For example, an entity could claim that a legal contract to purchase transferable environmental credits is an enforceable right even when it may not be able to enforce its ownership or claim to the offset or reduction. We are aware of global industry compliance programs without governmental registries or other enforcement mechanisms and there is uncertainty around whether credits from these programs can be legally represented to offset emissions, yet those credits are being bought and sold. In these examples, the right to buy or sell the credit is enforceable but the right to claim the offset may not be. Therefore, indicating that the enforceability needs to relate to the ability to enforce the claim that the entity has prevented, controlled, reduced or removed emissions or other pollution would provide clarity on the type of rights an entity should be evaluating.

To make this clarification, we suggest updating the first sentence of the definition to state "An enforceable right <u>to the purported prevention, control, reduction, or removal of emissions or other pollution</u> that is acquired…" and delete criterion (b) from the definition. This would make it clear that the enforceable right relates to the holder's right to claim an emissions offset and easier to determine when the right exists and ceases to exist.

Transferability

The proposed definition of an environmental credit includes the criterion that it be separately transferable in an exchange transaction. However, we believe using a credit to settle an ECO is not an exchange transaction because it is not a reciprocal transfer between the entity and the regulatory body. That is, paying an obligation to the government (even if using a purchased credit) is more like making a tax payment than entering into an exchange transaction because it does not provide the entity with a good, service, or asset, or relieve it of a liability to another party. Therefore, the current definition of an environmental credit would exclude credits that can be used to settle a regulatory obligation but are not separately transferable. This has a further downstream effect: if the credit is not in scope, that same obligation would not meet the definition of an ECO because it could not be settled by remitting something that meets the definition of an environmental credit.

We believe a simple solution is to remove the transferability criterion from the definition, thereby allowing the definition to capture credits used to settle regulatory obligations and ultimately retaining the same accounting outcomes. While making this change may broaden the scope, we believe the outcomes under the proposed asset recognition guidance would be consistent. This is because transferability is a key factor in the proposed asset recognition guidance and that guidance would preclude entities from capitalizing environmental credits that are not transferable if it is not probable that they will be used to settle an ECO.

Additionally, removing the transferability criterion would simplify the proposed business combination amendments and remove an inconsistency between the proposal and the general intangible asset recognition guidance. Proposed paragraph 805-20-25-15C states that a credit that does not meet the transferability criterion would not be recognized separately from goodwill. We believe this proposed paragraph is inconsistent with the intangible asset guidance in Topic 805 because the credit would typically meet the contractual legal criterion to be recognized separately from goodwill regardless of transferability. Further, if the credit subsumed in goodwill could be used to settle an ECO or be used voluntarily in its own operations, the acquirer would have no accounting for the use of that credit or settlement of the obligation.

We also note that if the transferability criterion and paragraph 805-20-25-15C were removed, when an acquired environmental credit is not transferable and does not meet the proposed Topic 818 asset recognition criteria (because it is not probable it will be used to settle an ECO), it would be initially recognized and measured at fair value separately from goodwill but then subsequently expensed. This accounting would be the same as the model for other environmental credits that do not meet the proposed Topic 818 asset recognition guidance. Therefore, we believe our suggestion would simplify the accounting in a business combination because it would create consistency with the proposed overall model for environmental credits in and out of business combinations.

If the Board does not remove the transferability criterion, we believe at a minimum the criterion should be updated to "Is separately transferable in an exchange transaction <u>or used to settle an ECO obligation</u>" to ensure credits that can only be used to settle an ECO are in scope.

Other

We note that the environmental credits could be represented in a variety of forms. We are aware of environmental credits being 'tokenized' and questions about whether the crypto asset guidance in Subtopic 350-60 or Topic 818 would apply. We believe the Board should consider clarifying that items in the scope of Topic 818 are out of scope of Subtopic 350-60.

We also note that the Inflation Reduction Act (IRA), enacted in 2022, allocates hundreds of billions of dollars over the next decade to support clean energy initiatives that support the prevention, control, reduction, or removal of emissions or other pollution. A significant portion of this funding is distributed through tax credits, many of which are transferable and can be monetized via sale to a third party like the environmental credits in the scope of this proposal. The definition of an environmental credit excludes an income tax credit that may be used to settle an entity's income tax liability, regardless of whether the entity has a tax liability or intends to use the credit for that purpose. Therefore, these credits are excluded from this proposal, and we do not believe nonrefundable, transferable tax credits of this nature are in the scope of the proposed ASU on government grants.

While it is unclear what accounting guidance may be applied to these credits if the two proposals are finalized as currently proposed, entities currently make a policy election to account for these credits either as a government grant by analogy to a grant model or using Topic 740. There is significant additional optionality within these two models, with both including options that result in the capitalization of the transferable tax credit as it is internally generated, which would be inconsistent with the accounting for environmental credits in the scope of this proposal.

- Consider the fact that an entity may receive: incentives related to its green energy production in the form of refundable tax credits accounted for as a government grant;
- nonrefundable, transferable tax credits it intends to sell accounted for as income taxes or by analogy to a grant model; and
- regulatory credits it intends to sell accounted for as environmental credits under this proposal.

Depending on the optional policy elections made by the entity, the timing of income recognition for these credits, all intended to incentivize the prevention, control, reduction, or removal of emissions or other pollution, will be different. This is because some of these incentives may be recognized based on the entity's activities to generate the credit (i.e. when or as the credit arises or is earned) while others may be (based on policy elections) or are required to be (if in scope of this proposal), recognized when the credit is sold to a third party.

We encourage the Board to assess the overall potential diversity in accounting for environmental credits and incentives in their many forms − including the credits in the scope of this proposal, refundable tax credits in the scope of the government grant proposal, and nonrefundable, transferable tax credits − to ensure the diversity and accounting outcomes are what was intended and meet investor and preparer needs.

Question 2:

The proposed amendments would require that an entity recognize an environmental credit as an asset when it is probable that the entity will use the environmental credit to settle an environmental credit obligation or transfer that credit in an exchange transaction. Costs incurred to obtain all other environmental credits would be recognized as an expense when incurred.

a. *Do you agree with those proposed amendments, including the probability threshold? Should the costs incurred to obtain all other environmental credits be recognized as an expense when incurred? Please explain why or why not.*
b. *Are the recognition requirements clear and operable? Please explain why or why not. If not, what changes would you suggest? Do you anticipate any auditing challenges? If so, please explain.*

We believe the proposed amendments for recognizing an environmental credit as an asset are clear and operable.

Question 3:

The proposed amendments would require that an entity initially measure environmental credits recognized as assets at cost unless received in a nonreciprocal transfer that is not a grant from a regulator or its designee(s). For environmental credits received as a grant from a regulator or internally generated, cost would be limited to the transaction costs to obtain those environmental credits, if any. Are the proposed initial measurement requirements clear and operable? Please explain why or why not. If not, what changes would you suggest? Do you anticipate any auditing challenges? If so, please explain.

The proposed initial measurement requirements are clear and operable. However, the Board should be aware that for some entities, the proposal on internally generated environmental credits will be a significant change in practice and may not align with the economics.

Consider the scenario of an entity constructing a facility (e.g. carbon sequestration facility) where the sole output is environmental credits generated for resale (i.e. there are no other revenue producing activities). Under the proposal, that entity would expense costs of generating the environmental credits (e.g. facility operating costs, depreciation and amortization) as incurred. These costs may be significant and may be incurred for a long period of time before environmental credits are certified and eligible to be sold. Then, when the credits are subsequently sold the gross margin would be inflated because the costs directly incurred to generate those environmental credits were expensed in previous periods.

These types of projects are different from other renewable energy projects that generate environmental credits (such as wind or solar) because the latter projects also produce energy sold to customers. In this latter scenario, the proposal to limit the cost of internally generated environmental credits to their transaction costs avoids the need to determine how much of the inventoriable cost relates to the credit versus the energy produced and sold, which could be subjective and complex. In contrast, in the former scenario where generation of environmental credits for resale is the sole output, there would be significant period costs related to the credits that are not capitalized even though the determination of what costs to allocate to the credits would be straightforward given the entire cost of the facility and its operations are incremental to producing the environmental credit.

Other entities generate environmental credits by processing or using purchased sustainable fuel. The action of processing or using the fuel is what generates the environmental credit and therefore we believe would be considered internally generated without further clarification. We note that the cost of the sustainable fuel is higher than normal fuel and stakeholders generating environmental credits in this way believe the premium paid is attributable to the environmental credit being generated. If no value beyond transaction costs is ascribed to the environmental credit, when it is subsequently sold the entity would recognize a margin that does not reflect the entity's costs to generate the environmental credit. We understand that under current practice these entities often apply an inventory costing model to measure the carrying amount of the environmental credits generated.

We want to make the Board aware of these scenarios so it can consider in redeliberations whether to expand or refine the model for internally generated environmental credits to capture the economics of transactions similar to those described above.

Finally, we note there is current diversity in cash flow presentation, with some entities presenting cash flows from purchased environmental credits in operating activities and others in investing activities. The distinction is typically dependent on whether entities account for credits as inventory or intangible assets. We believe this diversity may continue without explicit standard setting or discussion in the basis for conclusions about the appropriate classification.

Question 4:

The proposed amendments would require that an entity subsequently measure an environmental credit based on whether it is determined to be a compliance or noncompliance environmental credit at the reporting date using a costing method (specific identification; first-in, first-out; or average cost). The subsequent measurement requirements in the proposed Update include:

a. *For a compliance environmental credit, an entity would subsequently measure the environmental credit at cost and would not test the environmental credit for impairment at each interim and annual reporting date.*

b. *For a noncompliance environmental credit, an entity would be required to evaluate the environmental credit for impairment at each interim and annual reporting date.*

An entity would be permitted to use a portfolio approach when applying the proposed subsequent measurement requirements to similar types of environmental credits. Are those proposed subsequent requirements clear and operable? Please explain why or why not. If not, what changes would you suggest? Do you anticipate any auditing challenges? If so, please explain.

We believe the proposed subsequent measurement requirements for environmental credits are consistent with current practice.

Question 5:

The proposed amendments would permit an entity to make an accounting policy election to subsequently measure a class of eligible noncompliance environmental credit assets at fair value at the reporting date, with changes recognized in earnings. Is the proposed fair value measurement accounting policy election clear and operable? Please explain why or why not. If not, what changes would you suggest? Do you anticipate any auditing challenges? If so, please explain.

We suggest the Board consider providing more guidance on the definition of 'class of eligible noncompliance environmental credits' and how to differentiate between classes. For example, if an entity elects fair value for type 'A' RINs purchased in Year 1, does that mean that it must elect fair value for all RINs (type A, B and C) or can it further subdivide type A RINs into separate classes (e.g. vintage year, acquisition date, etc.)? Without further clarity on how to determine what constitutes a class, we believe entities could have similar noncompliance environmental credits measured under different elections.

Question 6:

The proposed amendments would require qualitative disclosures for annual reporting periods and quantitative disclosures for interim and annual reporting periods in accordance with paragraphs 818-20-50-1 through 50-7. Are the proposed disclosure requirements for interim and annual reporting periods clear and operable? Please explain why or why not. If not, what changes would you suggest? Do you anticipate any auditing challenges? If so, please explain.

We believe financial statement users and preparers are best positioned to address the benefits and costs of the proposed disclosure requirements. However, we recommend the Board compare the disclosures in this proposal with disclosures required for other environmental incentives (e.g. government grants proposal, transferable tax credits whether analogized to grant accounting or accounted for under Topic 740) and consider whether modifications to any of the disclosures in the proposals or existing GAAP would be prudent given similarities in the underlying incentives even when their form differs.

<u>Environmental Credit Obligations</u>

Question 8:

Is the proposed definition of environmental credit obligation clear and operable? Does the proposed definition of environmental credit obligation capture the population of obligations that require specific accounting guidance? Please explain why or why not. If not, what changes would you suggest? Do you anticipate any auditing challenges? If so, please explain.

We believe our suggestion on clarifying the definition of an environmental credit in Question 1 will also help clarify the definition of an ECO and capture programs where credits are used to satisfy obligations but otherwise are not transferable. If the credit is not in scope, then the obligation would not be in scope. Without this clarification, similar obligations would follow different accounting models simply because some obligations are settleable with nontransferable environmental credits. We also observe that there may be programs with similar characteristics for which the obligations are not settled in environmental credits. Since those obligations would not be in the scope of Topic 818, we believe they could be accounted for differently than under the proposed model. Therefore, the Board may want to reconsider whether settlement in environmental credits should be a requirement to have a liability in scope.

Question 9:

The proposed amendments would require that an entity recognize an environmental credit obligation liability when events occurring on or before the reporting date result in an environmental credit obligation. The entity would be required to assume that the reporting date is the end of the compliance period. Are those recognition requirements clear and operable? Please explain why or why not. If not, what changes would you suggest? Do you anticipate any auditing challenges? If so, please explain.

While the proposed requirements for recognizing the ECO liability are understandable, there are certain aspects of the model that we believe should be clarified because they are unclear or create additional complexity and volatility in earnings.

Initial accounting for the debit

The initial recognition and measurement guidance does not clarify where to record the debit when an ECO liability is initially recognized. Proposed paragraph 818-30-35-1 would require that subsequent changes to measurement be recognized in earnings. However, neither proposed paragraphs 818-30-25-1 nor 30-1 state whether the initial debit would be recorded in earnings or could be evaluated for capitalization under other guidance. For example, if the activities that give rise to the obligation relate to production activities that are otherwise inventoriable, without further clarification we believe there will be diversity in practice. We suggest the Board clarify whether the initial debit amount is eligible for capitalization or should be expensed. We also believe that if the costs are eligible for capitalization, then any subsequent changes should also be eligible for capitalization.

Assuming the reporting date is the end of the compliance period

The proposed model of assuming the reporting date is the end of the compliance period may add unnecessary complexity and volatility in earnings over the compliance period. Consider the following examples.

- Cumulative threshold: The cost recognition would be 'backloaded' when a cumulative emissions threshold must be met but the entity will not cross that threshold until later in the compliance period. In the proposed model, the entity would not accrue an obligation until it crosses the threshold, putting all the costs in those later periods even though some of the emissions that gave rise to the obligation were incurred in earlier periods. Free or allowable emissions credits provided by regulators in some emissions programs will also function as a cumulative threshold. We observe that the application of IFRIC 21 to emissions programs with similar thresholds results in similar accounting to what the Board's proposal does. However, stakeholders have raised concerns about the accounting for these obligations under IFRIC 21 and expressed a desire for a recognition model that does not delay recognition of an obligation in this manner. The IASB has proposed amendments to IAS 37 that would change this accounting to align more with what we believe practice under US GAAP is today and the preferable model we propose below.
- Future activities reduce obligation: The cost recognition would be 'frontloaded' when future activities will reduce or resolve the obligation before the compliance date. In the proposed model, an entity may recognize costs at the reporting date only to reverse them in later periods, creating avoidable volatility in earnings.

We believe a preferable model would be for an entity to estimate the expected number of environmental credits it will be required to submit at the end of the compliance period and recognize the amount in a systematic and rational method over that period (e.g. as the entity emits). We believe the Board could do this without adjusting the measurement model discussed in Question 10. Our suggestion is consistent with the accounting for liability-classified share-based payments under Topic

718. We also believe our suggestion would better align the accounting with the proposed amendments to IAS 37, which we observe are partly in response to stakeholder criticism of liability recognition like the Board's proposal. We believe convergence with IFRS in this area would be helpful to investors and have observed that preparers in certain industries desire convergence.

Question 10:

The proposed amendments would require that an entity initially measure the funded portion of an environmental credit obligation liability using the carrying amount of compliance environmental credits associated with that obligation at the reporting date. If an entity has insufficient compliance environmental credits at a reporting date to satisfy an environmental credit obligation liability, the unfunded portion of its environmental credit obligation liability would be measured under the proposed amendments using the fair value of the environmental credits necessary to settle that portion of the liability at the reporting date, with certain exceptions (see paragraph 818-30-30-3(a) through (b) in this proposed Update). Are the proposed amendments for initially measuring the environmental credit obligation liability clear and operable? Please explain why or why not. If not, what changes would you suggest? Do you anticipate any auditing challenges? If so, please explain.

We believe the proposed amendments for initially measuring the ECO liability are clear and operable.

Question 11:

The proposed amendments would require that at each interim and annual reporting date an entity subsequently measure an environmental credit obligation liability using the same method as initial measurement and recognize any measurement changes through earnings. Are the proposed amendments for the subsequent measurement of an environmental credit obligation liability clear and operable? Please explain why or why not. If not, what changes would you suggest? Do you anticipate any auditing challenges? If so, please explain.

We believe the proposed amendments for subsequently measuring the ECO liability are clear and operable.

Question 12:

The proposed amendments would require that an entity account for the derecognition of an environmental credit obligation liability in accordance with Subtopic 405-20, Liabilities—Extinguishments of Liabilities. Is that proposed derecognition guidance clear and operable? Please explain why or why not. If not, what changes would you suggest? Do you anticipate any auditing challenges? If so, please explain.

We believe the proposed amendments to derecognize an ECO liability in accordance with Subtopic 405-20 are clear and operable.

Question 13:

The proposed amendments would require that an entity present its compliance environmental credits separately from its environmental credit obligation liabilities on its consolidated balance sheet. Do you agree with that proposed presentation, or should environmental credit obligation liabilities be offset with their related compliance environmental credits and presented on a net basis? Please explain why or why not. If not, what changes would you suggest.

We believe the proposed presentation requirements have conceptual merit. However, we believe preparers and investors are best positioned to comment on the decision usefulness of gross or net presentation.

Question 14:

The proposed amendments would require qualitative disclosures for annual reporting periods and quantitative disclosures for interim and annual reporting periods in accordance with paragraphs 818-30-50-1 through 50-7. Are those proposed disclosure requirements clear and operable? Please explain why or why not. If not, what changes would you suggest? Do you anticipate any auditing challenges? If so, please explain.

We believe financial statement users and preparers are best positioned to comment on the benefits and costs of the proposed disclosure requirements.

Transition and Effective Date

Question 16:

An entity would be required to apply the proposed amendments retrospectively through a cumulative-effect adjustment to the opening balance of retained earnings (or other appropriate components of equity or net assets in the balance sheet) as of the beginning of the annual reporting period of adoption. The entity would apply the proposed amendments as if they always had been applicable, subject to specific modifications to those requirements upon adoption. Are the proposed transition requirements clear and operable? Please explain why or why not. If not, what changes would you suggest? Do you anticipate any auditing challenges? If so, please explain.

We believe the proposed transition requirements are clear and operable. However, we suggest the Board consider further clarification to the transition requirements for previously recognized environmental credits to avoid unintended consequences.

The proposed transition guidance requires an entity to measure environmental credits recognized as assets at their pre-adoption carrying amount at the date of initial application unless, for noncompliance environmental credits, this amount exceeds fair value. For entities that internally generate environmental credits and have historically capitalized costs, this requirement would prohibit adjusting the pre-adoption carrying amount unless that amount exceeds fair value despite those same costs not being capitalizable on adoption. Consequently, these entities would record additional expenses in the periods when pre-adoption environmental credits are expensed after adoption. For example, in post-adoption periods, these entities would recognize previously capitalized costs when the environmental credits are used or sold, alongside the non-capitalizable costs of internally generating the environmental credits in that same period. After all the pre-adoption environmental credits are expensed, the costs would be comparable from period to period.

Rather than requiring entities to use the historical carrying amount, we suggest providing a practical expedient to use the carrying amount. Such an expedient would provide practical ways to transition but also would allow entities to initially measure assets at adoption in a manner consistent with credits generated post-adoption period.

Question 17:

Would full retrospective application (compared with the approach described in Question 16) of the proposed amendments be operable and should it be permitted? Please explain why or why not.

We believe full retrospective application should be permitted. An entity may have a valid business reason to prefer a full retrospective application of the proposed amendments on transition.

Question 18:

How much time would be needed to implement the proposed amendments? Should the effective date for entities other than public business entities differ from the effective date for public business entities? If so, how much additional time would you recommend for entities other than public business entities? Should early adoption be permitted? Please explain your reasoning.

We believe preparers are best positioned to comment on the time commitment associated with systems implementation and the gathering of information for the required disclosures. In addition, we believe the Board should consider other potential ASUs being issued around the same time and the overall transition efforts for preparers at that time. However, we believe transition timing between this proposal and the proposal on government grants should be aligned given the scope interaction. We would also be supportive of the customary additional year to adopt for entities other than public business entities.

We support early adoption because the ASU will provide better information through more consistent outcomes.

<u>Private Companies</u>

Question 19:

The proposed amendments, including disclosures, would apply to all entities, including private companies. Do you agree? Are there any private company considerations that the Board should be aware of in developing a final Accounting Standards Update? Please explain your reasoning.

Yes, we believe the proposal should be equally applicable to private and public entities.