Approved by the Investor Advisory Committee at the September 21, 2022 Meeting

Recommendation of the Investor Advisory Committee Regarding Accounting Modernization

The Investor Advisory Committee ("IAC") recommends that the U.S. Securities and Exchange Commission ("SEC" or "Commission") review current U.S. accounting standard-setting practices, including the practices of the Financial Accounting Foundation ("FAF") and the Financial Accounting Standards Board ("FASB"), and implement several measures intended to modernize, strengthen, and increase the transparency of the U.S. accounting infrastructure.

As the Commission's currently recognized accounting standard-setter, the FASB's purpose is to "[e]stablish and improve financial accounting and reporting standards to provide useful information to investors and other users of financial reports and educate stakeholders on how to most effectively understand and implement those standards." Its role is critical to ensuring investors are able to access high-quality, high-utility information to make informed capital allocation and voting decisions.

In recent years, investors have increasingly voiced concerns that accounting standard-setting has not kept pace with the evolution of the sources of value and risk, leaving investors without the information they need to value modern companies. The CFA Institute captured these concerns in its recent letter to SEC Chair Gary Gensler, stating, "Investors are working with a 19th century manufacturing accounting model in a 21st century service-oriented, global, intangibles-based economy…. Our view is that the accounting model does not provide a suitable framework for the information investors need."[1] We share these concerns, and we strongly believe that accounting standard-setting must prioritize the needs of investors and enhance investors' ability to understand and analyze company value in modern markets.

In this letter, the IAC will consider the efficacy of the current accounting standard-setting infrastructure in meeting the critical needs of investors, and the challenges investors face when accounting standard-setting strays from meeting these needs. To help contextualize the discussion, we begin with a brief review of the Commission's absolute and delegatory authority over accounting standard-setting, explain our rationale for reform, and offer three recommendations that we believe will ensure investors receive accurate, reliable, and decision-useful information in service of the SEC's critical mission to "protect investors; maintain fair, orderly, and efficient markets; and facilitate capital formation."[2]

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[1] Letter from Sandra J. Peters, Senior Head of Glob. Fin. Reporting Pol'y Advoc., CFA Inst., to The Hon. Gary Gensler, Chair, U.S. Sec. & Exch. Comm'n (Jul. 31, 2021), https://www.sec.gov/comments/climate-disclosure/cll12-9104674-246948.pdf (responding to Comm'r Allison Herren Lee, *Public Input Welcomed on Climate Change Disclosures*, SEC (Mar. 15, 2021), https://www.sec.gov/news/public-statement/lee-climate-change-disclosures).

[2] U.S. Sec. & Exch. Comm'n, *About the SEC*, SEC, https://www.sec.gov/about.shtml (last modified Nov. 22, 2016).

Background

The SEC's authority for financial reporting standards

By law, the SEC holds ultimate authority over financial accounting standards in the United States. The SEC's authority to develop financial accounting standards (and to delegate to a third-party standard-setter should it choose to do so), is derived from the Securities Act of 1933 and the Securities Exchange Act of 1934. Specifically, Section 13(b)(1) of the '34 Act states that "[t]he Commission may prescribe…the form or forms in which the required information shall be set forth…in the balance sheet and the earnings statement, and the methods to be followed in the preparation of reports."[3] Relatedly, Section 19(a) of the '33 Act says that "[t]he Commission may recognize, as 'generally accepted'...any accounting principles established by a standard setting body."

The Commission's fundamental authority over accounting standard-setting has been consistently cited and reaffirmed in subsequent legislation and regulation. For example, the Sarbanes-Oxley Act of 2002[4] amended Section 19(b) of the Securities Act of 1933 to clarify the criteria that must be met for the work product of an accounting standard-setting body to be recognized as "generally accepted."[5] In doing so, Congress clearly reaffirmed both the SEC's authority over the creation and regulation of generally accepted accounting principles, and the SEC's authority to delegate standard-setting to a suitable third party should it choose to do so. Indeed, Section 108(c) of Sarbanes-Oxley clearly states that "[n]othing in this Act…shall be construed to impair or limit the authority of the Commission to establish accounting principles or standards for purposes of enforcement of the securities laws."[6]

In a 2003 Policy Statement, the SEC determined that the FASB and FAF satisfied the criteria of Section 108, but noted that the Commission would continually monitor the FASB's procedures, qualifications, capabilities, activities, and results to assess the FAF and FASB's compliance with these criteria.[7]

Note that the FASB is the third accounting standard setting organization to be "recognized by the U.S. Securities and Exchange Commission as the designated accounting standard setter for public companies."[8] The first and second accounting standard-setters – the Committee on Accounting Procedure and the Accounting Principles Board ("APB"), respectively – were ultimately disbanded and replaced following concerns about the soundness, independence, and effectiveness of their standard-setting processes.[9] In some cases, these concerns prompted the Commission to step in and take a more hands-

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[3] Securities Exchange Act of 1934, § 13(b)(1), 15 U.S.C. § 78m.

[4] Sarbanes-Oxley Act of 2002, Pub. L. No. 107-204 (2002).

[5] § 108 of the Sarbanes-Oxley Act states that standards set by a private sector standard-setting body will only be recognized as "generally accepted" if the Commission determines that the private sector body "at a minimum…is capable of improving the accuracy and effectiveness of financial reporting and the protection of investors under the securities laws."

[6] *Id.* at § 108(c).

[7] U.S. Sec. & Exch. Comm'n, *Policy Statement: Reaffirming the Status of the FASB as a Designated Private-Sector Standard Setter* (Apr. 25, 2003), https://www.sec.gov/rules/policy/33-8221.htm.

[8] *About the FASB*, *Fin. Acct. Standards Bd.*, https://www.fasb.org/info/facts (accessed Sept. 10, 2022).

[9] Stephen A. Zeff, *Evolution of U.S. Regulation and the Standard-Setting Process for Financial Reporting: 1930s to the Present*, 15 *Founds. & Trends Acct.* 263 (2021).

on role; for example, the Commission overrode the APB's opinion on deferred tax credits in 1965 and demoted an APB opinion on price-level accounting to a "nonbinding" statement in 1969.

Shortly following these incidents, the American Institute of Certified Public Accountants created two committees to examine various aspects of financial reporting: the Wheat Committee, which was tasked with studying the establishment of accounting principles, and the Trueblood Committee, which was tasked with developing the objectives of financial statements. In 1972, the Wheat Study proposed the creation of an independent, full-time Financial Accounting Standards Board ("FASB") to succeed the APB. The FASB, which is overseen by the trustees of the FAF, was officially designated as the accounting standard-setter in 1973, at which point it became the first full-time accounting standard setter anywhere in the world.[10]

Rationale for Reform: Ensuring Investors Come First

As this research shows, weak financial reporting has very real consequences for participants in financial markets—necessitating the creation of standards that minimize misstatement while providing transparent, high-quality financial information. Unfortunately, many investors have expressed concern that the FASB's movement on high-importance topics has not kept pace with the needs of investors. In a series of comment letters[11] by the Alliance of Concerned Investors (ACI), the ACI expressed its disappointment with the FASB's recent actions (or, rather, inactions). The group emphasized that the FASB has only completed three major projects in the past 20 years: revenue recognition, leases, and credit loss accounting. Although the FASB understandably undergoes a lengthy evaluation process before promulgating new standards, it is difficult to deny that this slow rate of tackling major topics compares unfavorably to the significant number of novel accounting issues and questions arising during the same period.

Other observers have commented that the FASB has recently focused on "simplification" efforts designed to alleviate the reporting burden of financial statement preparers instead of addressing major areas of investor concern.[12] In fact, 30% of the Accounting Standards Updates offered between mid-2013 and 2021 relate to "simplification."[13] It appears that a significant portion of the FASB's limited time and resources are spent on fine-tuning narrow standards rather than addressing more pressing accounting issues, such as cash flows, intangibles, financial statement presentation, labor cost accounting, segment reporting, and measurement of the financial impacts of climate change and energy transition.

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[10] *About the FASB*, *supra* note 8.

[11] *See* Letter from All. of Concerned Invs., to Tech. Dir., Fin. Acct. Standards Bd., (Sept. 22, 2021) (regarding Fin. Acct. Standards Bd., *2021 Agenda Consultation*, FASB, https://fasb.org/Page/ProjectPage?metadata=fasb-2021-Agenda-Consultation-022820221200 (last updated June 30, 2022)); Letter from All. of Concerned Invs., to Allison Herren Lee, Chairman, & Hester M. Peirce, Elad L. Roisman, Lee & Caroline A. Crenshaw, Comm'rs (Oct. 26, 2020).

[12] *See, e.g.*, Letter from CFA Inst., to Kathleen L. Casey, Chair, Fin. Acct. Found. Bd. of Tr. (Aug. 31, 2022) ("Many investors have expressed to the FAF that they believe that the mission and agenda of the FASB has drifted over the last decade, away from addressing the needs of investors and other users of financial statements. Those investors have noted that the FASB's priorities have focused on simplification of accounting standards and practices, without sufficient attention given to the needs of users.").

[13] Jack T. Ciesielski, *Can the FASB Regain Its Mojo*, 36 Acct. Horizons 1 (2022), https://doi.org/10.2308/HORIZONS-2021-133.

As an example, the Statement of Cash Flows is in need of reform. Existing guidance for this statement, which has not been reviewed for refreshment since the 1980s, indicates that the preferred presentation method for cash flows is the direct method.[14] This guidance is rebutted by practice; the direct method is seldom used, and market participants have continually called for the FASB to revisit guidance on the Statement of Cash Flows. For instance, David Katz of *CFO* wrote a series of articles in which he called the cash flow statement a "child of neglect" that had "gotten hardly any of the attention paid by the Financial Accounting Standards Board to income statements and balance sheets." He also noted that CFOs are "at sea about whether to classify many kinds of cash inflows and outflows in the operating, investing, or financing sections of the cash-flow statement" while investors "are confused about how to compare different companies in terms of how they use their cash."[15] Charles Mulford, an accounting professor at Georgia Tech, and author of the book *Creative Cash Flow Reporting,* echoed this sentiment, noting in an interview with Katz that while Topic 230 does provide general guidance on how to classify cash flows, companies do not follow it in uniform ways.[16] When the FASB opened comments on "Topic 230: Classification of Certain Cash Receipts and Cash Payments" in 2016, a number of major companies commented that while they disagreed with certain aspects of the proposed rule, they supported the FASB's desire to provide clearer guidance on cash flows. For instance, Xerox wrote, "We believe that eliminating diversity in practice regarding the reporting of cash flows as well as providing additional guidance on cash flow reporting is beneficial to both users and preparers."[17]

In addition to cash flow reporting, there is also widespread concern about the lack of authoritative guidance for internally developed intangible assets. Corporate intangible assets have ballooned in the last few decades. While intangibles represented 17% of the value of the S&P 500 market value in 1975, they represented 90% of the S&P 500 market value by 2020.[18] As Jack Ciesielski noted in a recent article, with the exception of financial statement presentation, tackling the reporting framework for internally developed intangible assets is the "single biggest project that the FASB could handle that would improve the work of investors."[19] The CFA Institute echoed this concern in a letter to the FASB, writing that the "absence of most intangibles from financial statements and footnotes can result in a large gap between the book value of the company and its market capitalization. Given the significance of intangibles to the

[14] *See* Fin. Acct. Standards Bd., *Summary of Statement No. 95: Statement of Cash Flows (Issued 11/87)*, FASB (Nov. 1987), https://www.fasb.org/page/PageContent?pageId=/reference-library/superseded-standards/summary-of-statement-no-95.html&bcpath=tff (noting "This Statement encourages enterprises to report cash flows from operating activities directly by showing major classes of operating cash receipts and payments (the direct method)."

[15] David Katz, *The Cash-Flow Clash*, *CFO* (2016), http://www.cfo.com/accounting-2/2016/09/cash-flow-clash. A prior version of this recommendation incorrectly referred to David Katz as a partner at Wachtell, Lipton, Rosen & Katz.

[16] *See* David Katz, *FASB Revisits the Cash-Flow Statement*, *CFO* (Sept. 30, 2014), https://www.cfo.com/accounting-2/2014/09/fasb-revisits-cash-flow-statement/.

[17] Xerox Corp., Comment Letter, to the FASB, on Proposed Accounting Standards Update - Statement of Cash Flows (Topic 230) - Classification of Certain Cash Receipts and Cash Payments (2015), https://www.fasb.org/Page/ShowPdf?path=EITF-15F.ED.0002.XEROX%20CORPORATION%20JOSEPH%20H.%20MANCINI.pdf&title=EITF-15F.ED.0002.XEROX%20CORPORATION%20JOSEPH%20H.%20MANCINI.

[18] *Intangible Asset Market Value Study*, *Ocean Tomo*, https://www.oceantomo.com/intangible-asset-market-value-study/.

[19] Ciesielski, *supra* note 13, at 3.

valuation of public companies, we believe the FASB should prioritize this project."[20] Yet, it does not appear that the FASB is moving in this direction. "Unrecognized intangibles" was added to the FASB agenda in 2001. After 20 years, this project remains on the FASB agenda—in the "research" section, which houses low-priority items.[21]

In sum, investors have expressed increasing frustration with the FASB. They have emphasized the need for more expeditious standard setting on high-priority issues, and less focus on "simplification" projects.

Proposals for Reform

1. Request the Commission establish an Advisory Committee on Accounting Modernization that can assist the FASB in its standard-setting process.

Following in the footsteps of the Advisory Committee on Improvements to Financial Reporting ("ACIFR"), which was established in 2007, we recommend that the Commission establish an Advisory Committee on Accounting Modernization that can assist the FASB in the following three areas.

First, the Inflation Reduction Act of 2022, HR 5376 imposes a new 15% corporate minimum tax based on "adjusted financial statement income" for certain large corporations. Throughout the history of accounting standard-setters, the SEC has gone to great lengths to remove political influence from financial reporting. By basing taxes on adjusted financial statement income, however, the Act runs the risk of negating decades of efforts to remove political interference in accounting standard-setting. Indeed, 264 accounting and tax scholars recently signed a petition criticizing the use of financial accounting income as part of the alternative tax base.[22] Given this threat to FASB's independence, we recommend that the Committee consider how best to support FASB and ensure that it remains politically independent.

Second, there is a significant backlog of high-priority accounting topics that need to be addressed (e.g., intangibles and key performance indicators). The nature of public companies has changed dramatically over recent decades, and the FASB has yet to promulgate standards to account for these changes. For example, for the first time, more than half of public companies traded in the United States reported an

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[20] CFA Inst., Comment Letter, to the FASB, on Invitation to Comment, Agenda Consultation (Oct. 7, 2021), https://www.cfainstitute.org/-/media/documents/comment-letter/2020-2024/20211007.pdf.

[21] *See* Fin. Acct. Standards Bd., *News Release 8-21-01, FASB Issues Two Agenda Proposals for Comment- Financial Performance Reporting and Disclosure of Intangible Assets*, FASB (Aug. 21, 2001), https://www.fasb.org/page/getarticle?uid=fasb_NEWS_RELEASE_08_21_01Body_0228221200. *See also* Fin. Acct. Standards Bd., *Technical Agenda Overview*, FASB, https://www.fasb.org/info/technicalagenda#50619 (last revised Aug. 31, 2022) (listing "Accounting for and Disclosure of Intangibles" under the "Research" heading).

[22] Letter from Jeff L. Hoopes & Michelle Hanlon, to Wyden & Neal, Chairmen, and Crapo & Brady, Ranking Members, Open Letter of Concern from 264 Accounting Academics Regarding Including Financial Accounting Income in the Tax Base (Nov. 4, 2021), https://tax.unc.edu/wp-content/uploads/2021/11/Academic-Accounting-and-Tax-Open-Letter-on-Corporate-Profits-Tax.pdf. *See also* Testimony of Michelle Hanlon before the United States Senate Committee on Finance (Mar. 16, 2021), chrome-extension://efaidnbmnnnibpcajpcglclefindmkaj/https://www.finance.senate.gov/imo/media/doc/Michelle%20Hanlon%20Testimony.pdf.

accounting loss in 2020.[23] And, as noted previously, intangible assets are an increasing percentage of company assets—despite that internally developed intangible assets are typically reported at zero dollars on the balance sheet. We recommend that the Committee consider potential improvements to financial reporting in these areas. Further, consistent with a recent recommendation from PwC,[24] we recommend that the Committee consider whether disclosure-only solutions would be appropriate as temporary solutions for certain priority areas while the FASB considers how best to reflect the phenomenon in question in the financial statements.[25]

Third, we recommend that the Committee consider how the FASB could improve its technical understanding of issuers' internal data infrastructure. The PCAOB has established a Data and Technology Task Force to assist the staff in understanding data analytics and emerging technologies, and we recommend that the Committee consider whether the FASB needs a similar task force to develop a better understanding of issuers' technological capabilities. As part of this process, we suggest that the Committee consider how the FASB could better work with software providers such as Oracle and SAP that service a significant number of issuers. At present, standards are delayed while these technology providers update their software to reflect new standards, so we suggest the Committee consider ways for these providers to incorporate new standards in an efficient manner that expedites implementation.

Similar to the authority of the ACIFR, we suggest that our proposed advisory committee issue recommendations rather than set standards.[26] However, given that the majority of ACIFR recommendations have not been implemented,[27] we think a stronger accountability mechanism is

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23 We agree with PricewaterhouseCooper's recent letter to the Financial Accounting Foundation noting that "the FAF has an obligation to ensure that the boards' standards remain relevant, which means they need to evolve with changes in both the overall economic environment and investor expectations." *See* Letter from PwC, to Kathleen Casey, Chair, Board of Trustees, Financial Accounting Foundation, Re: Strategic Plan, July 28, 2022.

24 *Id.* PwC suggests "[e]valuating the role of disclosure as an interim reporting approach when there is lack of consensus on recognition and measurement; for example, this could be a near term path to improve reporting related to intangibles and human capital".

25 Accounting standard setters have previously relied on disclosure-only solutions in areas such as accounting for stock options, leasing, and pensions. Accounting for intangibles is one such area that could be improved by disclosure-only accounting. *See* PwC letter, *supra* note 23. For example, issuers could be required to disclose labor costs, allowing investors to capitalize such costs in their own valuation models, without changing the recognition and measurement of labor costs in the financial statements. *See* Petition for Rulemaking from the Working Group on Human Capital Accounting Disclosure, Jun 7, 2022, https://www.sec.gov/rules/petitions/2022/petn4-787.pdf.

26 The mandate of the ACIFR was to examine "the U.S. financial reporting system in order to make recommendations intended to increase the usefulness of financial information to investors" and to reduce "the complexity of the financial reporting system to investors, preparers, and auditors." The ACIFR agreed to "avoid recommendations requiring legislative action" and to instead "issue focused recommendations addressing acknowledged problem areas that [they] believed could be adopted in a reasonable time period by the SEC, the FASB, or the PCAOB." *See SEC Advisory Comm. on Improvements to Fin. Reporting*, *Final Report of the Advisory Committee on Improvements to Financial Reporting to the United States Securities and Exchange Commission* (2008), https://www.sec.gov/about/offices/oca/acifr/acifr-finalreport.pdf.

27 The ACIFR produced a Final Report with their recommendations in 2008. Among other suggestions, the Committee proposed that each issuer include a short executive summary at the beginning of its annual report on Form 10-K to help investors better navigate the filing. Consistent with current concerns, the ACIFR also provided recommendations related to the standard-setting process itself. The Committee advocated for increased investor representation on the FASB and FAF, and the creation of a Financial Reporting Forum (FRF) composed of key public and private parties that would meet regularly to discuss current pressures on the financial reporting system. Unfortunately, it appears that the majority of ACIFR recommendations have not been implemented.

warranted. Accordingly, we suggest requiring FASB to formally respond to all recommendations within a specific time frame prescribed by the Commission.

2. **Require that FASB study the costs of delayed rulemaking on critical topics to investors, and incorporate these costs into the cost-benefit analysis it conducts and publishes as part of its rulemaking activities.**

The FASB's process to promulgate new standards is lengthy. For instance, lease accounting was added to the FASB agenda in 2006.[28] However, the new lease accounting guidance was not released until 10 years later, in 2016. The earliest adoption (for public business entities and employee benefit plans that file financial statements with SEC) became effective for fiscal years beginning after December 15, 2018.[29] FASB's recent standard for revenue recognition took even longer than lease accounting.[30]

A contributing factor to the lengthy process is that the FASB undergoes a significant deliberative process, including a cost-benefit analysis. After identifying a financial reporting issue based on requests or recommendations, the FASB staff prepares an analysis and the Board deliberates on the issue at one or more public meetings. If the Board decides to add a project to the technical agenda, the Board will undergo a series of due process procedures to solicit broad shareholder input.[31] After examining comment

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[28] Fin. Acct. Standards Bd., *News Release 07/19/06: FASB Formally Adds Project to Reconsider Lease Accounting*, FASB (July 19, 2006), https://www.fasb.org/page/getarticle?uid=fasb_NEWS_RELEASE_07_19_06Body_0228221200.

[29] *See* Fin. Acct. Standards Bd., A*ccounting Standards Update-Effective Dates*, FASB, https://www.fasb.org/Page/PageContent?PageId=/standards/accounting-standards-updateseffective-dates.html (last updated June 2022).

[30] The FASB added revenue recognition to its agenda in 2002, but they didn't issue ASU 2014-09 until 2014. After issuance, it took even more time for companies to actually adopt the standard, since the effective date was deferred until reporting periods beginning after December 15, 2017 for public business entities, certain NFP entities, and certain employee benefit plans; and annual reporting periods beginning after December 15, 2018 for all other entities. This date was then deferred again, so that "certain entities that have not yet issued their financial statements reflecting adoption of Revenue, "may elect to adopt the guidance for annual reporting periods beginning after December 15, 2019, and for interim reporting periods within annual reporting periods beginning after December 15, 2020." Although delays in the past two decades may have been exacerbated by efforts to harmonize with IFRS, movement on these topics has been slow regardless.
See Fin. Acct. Standards Bd., *News Release 05-20-02: FASB Adds Revenue Recognition Project to its Agenda*, FASB (May 20, 2002), https://www.fasb.org/page/getarticle?uid=fasb_NEWS_RELEASE_05_20_02Body_0228221200. *See also Fin. Acct. Standards Bd.*, *Financial Accounting Standards Update: Revenue from Contracts with Customers (Topic 606) and Leases (Topic 842) No. 2020-05* (2020), https://fasb.org/Page/ShowPdf?path=ASU+2020-05.pdf&title=ACCOUNTING+STANDARDS+UPDATE+2020-05%E2%80%94REVENUE+FROM+CONTRACTS+WITH+CUSTOMERS+%28TOPIC+606%29+AND+LEASES+%28TOPIC+842%29%3A+EFFECTIVE+DATES+FOR+CERTAIN+ENTITIES&acceptedDisclaimer=true&Submit=.

[31] As stated on its website, the due process procedures may be a Discussion Paper, an Invitation to Comment, a Preliminary Views document, and ultimately an Exposure Draft. Fin. Acct. Found., *Independence & Due Process*, FAF https://accountingfoundation.org/page/PageContent?pageId=/overview-accounting-and-standards/independenceandd ueprocess.html#:~:text=The%20FASB%20and%20GASB%20use,%27%20concerns%2C%20or%20other%20means.

letters and perhaps holding public roundtable discussions, the Board revisits the proposed provisions. Only then do they issue an Accounting Standards Update.[32]

As part of this process, the FASB engages in a time-intensive cost-benefit analysis designed to understand the costs and benefits of a proposed new standard.[33] One former FASB member explained that when FASB thinks about the costs of a standard, they consider "the effort required to collect, analyze, and process the information, the effort and cost involved in auditing the information, and the effort involved in implementing the change, including costs to understand the new rules, systems changes, potential competitive harm to preparers, and so forth." These costs to preparers are then thoughtfully weighed against the benefit to investors. This is a theoretically sound process, but it is unclear whether, in practice, the neutrality the FASB purports actually transpires. For instance, while the discussion of FASB's cost-benefit analysis says the FASB seeks specific, quantifiable information on the costs that companies would incur were a new standard to be put in place, there is no similar discussion on the costs to investors that result from the time-consuming process to implement a new standard.

This process, while well-intentioned, has the effect of deterring and/or delaying action by FASB. The FASB Board exerts significant, and time-consuming, efforts to craft standards, but there are costs to such a lengthy process.[34] Most notably, investors do not get the benefit of the updated standards until they are effective or companies voluntarily adopt them. There comes a point when the costs to investors of delay exceeds the benefit of further delay. Therefore, as the FASB conducts its cost-benefit analysis, we propose that the Board consider the costs of delay.[35] Consistent with our recommendation above that disclosure-only approaches may be helpful as a temporary solution, we suggest that the Board consider the cost-analysis of disclosure-only solutions relative to full recognition and measurement solutions.

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[32] Fin. Acct. Standards Bd., *Standard-Setting Process*, FASB, https://www.fasb.org/Page/PageContent?PageId=/about-us/standardsettingprocess.html&isstaticpage=true&bcpath=tff.

[33] Fin. Acct. Standards Bd., *Cost-Benefit Analysis*, FASB https://www.fasb.org/Page/PageContent?PageId=/about-us/standardsettingprocess/cba.html&bcpath=tff (last accessed Sept. 12, 2022). The multi-pronged process includes resource groups, project-specific working groups, academic research, conversations with regulators, field tests, comment letters, roundtables and hearings, industry liaisons, outreach efforts, and staff analysis.

[34] As another potential cost, delays can cause companies to report additional, non-GAAP metrics to show their results in accordance with current accounting standards—and their results in accordance with pending standards, along with a reconciliation. As an example, Microsoft presented its financials in accordance with ASC 606 earlier than required, causing the company to report an extra, non-GAAP table with revenue and the revenue reconciliation. *See* Microsoft Corp., Annual Report (Form 10-K) (June 30, 2017).

[35] We recognize the difficulty of quantifying the costs of delay in these circumstances and note that the SEC's four factor considerations set forth in the SEC's Current Guidance on Economic Analysis in SEC Rulemaking provide a structured framework that considers both quantitative and qualitative costs: (1) A statement of the need for the proposed action; (2) The definition of a baseline against which to measure the likely economic consequences of the proposed regulation; (3) The identification of alternative regulatory approaches; and (4) An evaluation of the benefits and costs—both quantitative and qualitative—of the proposed action and the main alternatives identified by the analysis. *See* Memorandum from the RSFI & OGC, SEC, to the Staff of the Rulewriting Divisions and Offices, Regarding Current Guidance on Economic Analysis in SEC Rulemakings 4 (Mar. 16, 2012).

3. **Increase and broaden access to FASB's standards by urging FASB to create a single searchable database that would be freely available to the public.**

The SEC has previously suggested that the FASB increase access to its authoritative literature by creating a single searchable database that would be freely available to the public. They reasoned that because the FASB is funded by fees charged to SEC registrants, "the long-run goal should be for the FASB's documents to be freely available" since "the costs of providing such documents could appropriately be covered by the funding mechanism provided for in the Act."[36] Today, the cost of purchasing FASB standards is $1,197 for an annual "professional view" subscription. While there is a free "basic" view, in order to have "full functionality and advanced navigation," users must purchase the "professional view." By contrast, PCAOB standards are free, the digital IFRS subscription is 295 euros per year, and the combined digital and print IFRS subscription is 595 euros per year. Registered users can also perform a number of functions such as searching, proposal commenting, viewing training materials, and receiving IASB updates and alerts for free (without any subscription).

In sum, the most expensive IFRS subscription is about half the cost of the typical FASB subscription. While it is commendable that the FASB developed a searchable online database, it is unclear why there is a need to charge such significant fees to access it. We are concerned that accessibility is limited by the cost of the standards, and we recommend, as the SEC did many years ago, that the FASB move toward eliminating such fees.

[36] Off. of the Chief Acct. & Off. of Econ. Analysis, U.S. Sec. & Exch. Comm., *Study Pursuant to Section 108(d) of the Sarbanes-Oxley Act of 2002 on the Adoption by the United States Financial Reporting System of a Principles-Based Accounting System*, SEC, https://www.sec.gov/news/studies/principlesbasedstand.htm (last modified July 25, 2003).