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April 22, 2025

Via email to director@fasb.org

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

Re: Codification Improvements (File Reference No. 2025-ED100)

Dear Mr. Day:

We appreciate the opportunity to respond to the Board's exposure draft on codification improvements. We support the Board's efforts to improve the clarity and understandability of the Codification and agree with the proposed changes. However, we added some recommendations that the Board may wish to consider.

Please refer to 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 Jin Koo (jkoo@bdo.com) or Angela Newell (ajnewell@bdo.com).

Very truly yours,

BDO USA, P.C.

BDO USA, P.C.

Appendix

Question 1: Do you agree with the amendments to the Codification in this proposed Update? If not, please explain which proposed amendment(s) you disagree with and why.

We generally agree with the proposed amendments to the Codification. However, refer to our suggestions in Questions 5 and 6.

Question 2: Would any of the proposed amendments result in unintended consequences? If so, please explain.

We do not believe that the proposed amendments would result in unintended consequences.

Question 3: Are there other changes that should be made that are directly or indirectly related to the proposed amendments? Please note that the Board will conduct Codification Improvement projects on a periodic basis, and additional changes may be addressed in a subsequent Codification Improvement project.

Refer to our responses to Questions 5, 6, and 8.

Question 4: The proposed amendments would apply to public and nonpublic entities. Would any of the proposed amendments require special consideration for nonpublic entities? If so, which proposed amendment(s) would require special consideration and why?

We note that the proposed amendments clarify or change guidance that is generally the same for public and nonpublic entities, except for certain issues that apply only to not-for-profit entities and defined contribution plans. Thus, we do not believe there is a need for special consideration for nonpublic entities.

Question 5: The proposed amendments would remove the Master Glossary term amortized cost. Although that term is not linked to the Master Glossary, it frequently is used interchangeably with the linked and defined Master Glossary term amortized cost basis in Subtopic 320-10. Are there any operational concerns or unintended consequences if the existing instances of the term amortized cost were replaced with the Master Glossary term amortized cost basis? Please explain, including any specific instances where the term amortized cost should not be replaced.

We do not have operational concerns regarding the proposed amendment to the Master Glossary. However, because the terms *amortized cost* and *amortized cost basis* are used interchangeably in GAAP and effectively have the same meaning, we recommend replacing all instances of the term *amortized cost* with the term *amortized cost basis* so that a single term is used throughout the Codification. If the Board decides to retain both terms in the Codification, we recommend linking all instances of the term *amortized cost* to the definition of *amortized cost basis*.

Question 6: Are the proposed amendments to Topic 260 on the application of the diluted EPS computation when an entity has a loss from continuing operations (and has a contract that may be settled in stock or cash that is reported as an asset or liability for accounting

purposes) clear and understandable? Would the proposed amendments result in any unintended consequences? Please explain.

We believe that the proposed amendments are clear and understandable and are also consistent with the manner in which EPS is calculated in practice. Therefore, we do not expect they would result in unintended consequences.

We note that paragraph 260-10-55-3C currently reads as follows:

> "When there is year-to-date income, if in-the-money options or warrants were excluded from one or more quarterly diluted EPS computations because the effect was antidilutive **(there was a loss from continuing operations in those periods)**, then those options or warrants should be included in the diluted EPS denominator…" [Emphasis added]

We recommend removing the parenthesis highlighted above to align with the clarifications in Issue 4.

Additionally, paragraph 260-10-55-45 currently reads:

> "…Note that the incremental shares from assumed conversions are included in computing the diluted per-share amounts for the discontinued operation and net loss even though they are antidilutive…

We recommend revising the last sentence above to read: "…even though they are antidilutive <u>to their comparable basic per-share amounts</u>".

Separately, we are aware of diversity in practice in accounting for warrants issued for little or no consideration ('penny warrants') that are liability-classified. Specifically, some believe that the guidance in paragraph 260-10-45-13 on contingently issuable shares apply only to equity-classified penny warrants and therefore exclude potential common shares issuable under liability-classified penny warrants in calculating the denominator of basic EPS. Accordingly, the Board may wish to consider addressing this issue as part of the final ASU or through a future targeted EPS project.

Question 7: The proposed amendments to paragraph 325-40-35-4B would update the description of the calculation of the reference amount for beneficial interests in paragraph 325-40-35-4B to include the allowance for credit losses. Do you anticipate that this proposed amendment would result in a significant and appropriate change in practice? For example, would this proposed amendment impose significant incremental costs or materially change estimated expected credit losses? Please explain.

We note that the proposed amendment simply clarifies the interaction between the measurement of credit losses on a beneficial interest and the calculation of the reference amount, which is not impacted by credit losses but rather considers non-credit-related changes in expected cash flows. As such, we do not believe it would result in a significant change in practice or materially change estimated expected credit losses.

Question 8: The proposed amendments to paragraphs 860-10-55-5 and 860-10-55-14A would clarify that the transfer of receivables from contracts with customers recognized in

accordance with the guidance in paragraph 606-10-45-4 should be accounted for in accordance with the transfer of financial assets guidance. Are you aware of significant diversity in accounting for these transactions under current GAAP? Do you agree with the proposed amendments? Please explain.

We are aware of diversity in practice in accounting for transfers of receivables that arise from contracts with customers before an entity satisfies its performance obligations. We agree with the proposed amendments and believe they are consistent with the intent of the original guidance in ASC 860 for transfers of receivables within its scope. Because the proposed amendments require prospective transition, we believe the Board should consider requiring entities to disclose the impact of the change on previously reported transactions accounted for as sales of future revenues in accordance with ASC 470.

We are also aware of diversity in practice when the asset being transferred is a contract asset rather than a receivable. In that case the revenue has already been recognized, and thus the arrangement is not in the scope of ASC 470. However, contract assets do not meet the definition of a financial asset and are thus outside the scope of ASC 860 as well. Therefore, it is not clear what guidance does apply. We recommend the board consider expanding this proposed change to include contract assets in the scope of ASC 860 or addressing the question in a future narrow scope project.

Question 9: The proposed amendments to paragraph 958-310-35-3 would refer to Subtopic 326-20 for guidance on the accounting for receivables arising from exchange transactions. This would clarify that all entities, including NFPs, would need to measure receivables arising from exchange transactions using the credit losses guidance in Subtopic 326-20.

a) ***Do you anticipate that this proposed amendment would result in a significant change in practice? For example, would this proposed amendment impose significant incremental costs or result in a significant change in outcome? Please explain. Additionally, how would your responses be affected if the Board finalized the amendments in the proposed Accounting Standards Update, Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses for Accounts Receivable and Contract Assets for Private Companies and Certain Not-for-Profit Entities, which would introduce a practical expedient and an accounting policy election for private companies and certain NFPs related to the application of the guidance in Subtopic 326-20 to current accounts receivable and current contract assets arising from transactions accounted for under Topic 606?***

b) ***Paragraph 326-20-15-1 currently indicates that Subtopic 326-20 on current expected credit losses (CECL) applies to all entities, including NFPs. Therefore, receivables arising from exchange transactions are subject to the CECL guidance in Topic 326. Do you think it is necessary to add a reference for Topic 326 on credit losses to the guidance on the accounting for receivables arising from exchange transactions in paragraph 958-310-35-3? Please explain.***

We do not anticipate a significant change in practice as a result of this proposed amendment and note that ASC 326 only excludes pledges to NFPs from its scope. Our NFP clients have been applying the CECL guidance in ASC 326 for receivables arising from exchange transactions, and we do not expect that the proposed amendment would result in additional costs. We believe it would be helpful to add a reference to ASC 326 in paragraph 958-310-35-3 to remove the inconsistency on subsequent measurement and provide additional clarity, irrespective of whether the proposed ASU on measurement of credit losses by private companies and certain NFPs is finalized.

Question 10: Would any of the proposed amendments (other than Issue 4) result in substantive changes to the application of existing guidance that would require transition provisions specific to that proposed amendment? If so, please describe.

We do not believe the proposed amendments (other than Issue 4) would result in substantive changes in practice.

Question 11: In the period of adoption, an entity would be required to apply the proposed amendments to Topic 260 retrospectively to each prior reporting period presented (Issue 4). An entity would be permitted to apply all other proposed amendments prospectively or retrospectively. Are the proposed transition requirements operable, and do you foresee any auditability challenges? Please explain. If the proposed transition requirements are not operable, please explain what transition method would be more appropriate and why.

We believe the proposed transition requirements are operable and do not foresee auditability challenges.

Question 12: In evaluating the effective date, how much time would be needed to implement the proposed amendments? Should the effective date for entities other than public business entities be different from the effective date for public business entities? Should early adoption be permitted? If so, and an entity elects to early adopt the proposed amendments, should the entity be required to adopt those proposed amendments as of the beginning of an annual reporting period? Please explain.

We note that the proposed amendments are primarily clarifications or edits to existing guidance and generally do not introduce new concepts. Accordingly, we believe that a one-year transition period is sufficient for all the proposed changes while permitting early adoption.