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File Reference No. 2021-001
Financial Accounting Standards Board
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28 January 2022

**Proposed Accounting Standards Update, Interim Reporting (Topic 270):
Disclosure Framework – Changes to Interim Disclosure Requirements
(File Reference No. 2021-001)**

Dear Ms. Salo:

We appreciate the opportunity to comment on the Proposed Accounting Standards Update, *Interim Reporting (Topic 270): Disclosure Framework – Changes to Interim Disclosure Requirements* (the proposal or proposed amendments), issued by the Financial Accounting Standards Board (FASB or Board).

We support the FASB's disclosure framework project and its objective of improving the effectiveness of disclosure requirements on interim reporting under Accounting Standards Codification (ASC) 270. We believe that the FASB's proposal to clarify and consolidate the interim reporting requirements into one topic of the Codification would be helpful for interim financial statement preparers.

We also support the FASB's proposal to introduce a principle to ASC 270 that is based on a requirement that the Securities and Exchange Commission (SEC) removed from Regulation S-X, Rule 10-01, which would require disclosure in financial statements at interim periods when a significant event or transaction that has a material effect on an entity has occurred since the prior year end.

We support the proposed amendments that would introduce new guidance on the form and content of interim financial statements and notes described in ASC 270-10-45-20 through 45-21. We also support the proposal to require that an entity refer a reader of interim financial statements and notes to the previous annual financial statements when it provides condensed financial statements and/or limited notes.

However, we have some concerns about aspects of the proposal, which we address in our responses in Appendix A. We have also attached Appendix B, which suggests language the FASB could consider to clarify the amendments.



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We would be pleased to discuss our comments with the Board or its staff at its convenience.

Very truly yours,

Ernst & Young LLP

Appendix A – Responses to questions raised in the Proposed Accounting Standards Update, Interim Reporting (Topic 270): Disclosure Framework – Changes to Interim Disclosure Requirements

Question 1: Would the amendments in this proposed Update that introduce a principle similar to the language removed from Regulation S-X, Rule 10-01 (see paragraph 270-10-50-9) result in less, more, or the same degree of decision-useful information for interim reporting? Please explain why or why not.

We support the FASB's proposal to introduce a principle similar to the language removed from Regulation S-X, Rule 10-01, into ASC 270. We believe it would result in entities providing, at least, the same degree of decision-useful information currently provided by many SEC registrants and would be consistent with what was previously required under the SEC rule. We believe that, because the proposed principle would clarify the form and content of interim reporting, as well as disclosures required by nonpublic entities that prepare interim financial statements with limited notes, it may result in improved disclosure of decision-useful information by some entities.

Question 2: Upon a significant event or transaction occurring since the date of the prior annual financial statements and notes, should an entity provide all the disclosures required by the applicable Topic or only information specific to the event or transaction as described in paragraph 270-10-55-1? Please explain your position.

We believe that an entity should provide all the disclosures required by the applicable Topic, including those otherwise required by ASC 270, about a significant event or transaction that has occurred since the date of the prior annual financial statements when that event or transaction does not relate to matters discussed in the most recent annual financial statements and notes (e.g., significant business combination, impairments, issuing new debt). We believe disclosing all the requirements of the applicable Topic for these types of events or transactions would provide information that is decision-useful for the users of the interim financial statements.

We support the proposed amendments that would require an entity to provide only information specific to a significant event or transaction occurring since the date of the prior annual financial statements to the extent that these events or transactions relate to significant changes to matters discussed in notes to the most recent annual financial statements. This approach is described in the example provided in ASC 270-10-55-1 and would be consistent with paragraph D73 of Chapter 8 of Concepts Statements 8 that states that notes to interim-period financial statements are intended to convey new information or information about significant changes to matters discussed in the notes to the most recent annual financial statements. See Appendix B for additional language that we believe would clarify the guidance in ASC 270-10-55-1.

Question 3: Is the proposed disclosure guidance on significant events or transactions operable? If not, which aspects pose operability issues and why?

We believe that the proposed disclosure guidance on significant events or transactions generally would be operable. However, to improve the operability of this guidance, we recommend that the Board consider clarifying the implementation guidance in ASC 270-10-55-1 to say an entity should provide all disclosures required by a Topic that pertain to the significant event that occurred during the interim period (see Appendix B for the language we recommend). As drafted, the illustration suggests that preparers would determine which, if any, guidance would be relevant. This could result in entities deciding to disclose different information, or no information at all, for similar transactions, depending on their determination of which aspects of the disclosure requirements are relevant.

Question 4: Are the proposed amendments that would clarify that an entity's assessment of whether to provide a disclosure at an interim period may incorporate the information provided in the prior annual financial statements and notes appropriate? Please explain why or why not. Would those proposed amendments result in a change in practice?

We believe that the proposed language in ASC 270-10-50-10 that states that an entity's assessment of whether to provide interim disclosures would include consideration of information provided at the previous annual period would be appropriate. Further, we believe that the proposed language in ASC 270-10-55-2 that states that there is a presumption that users of interim financial statements and notes will have read the prior annual financial statements and notes, which should lead entities to not disclose information that would be duplicative of year-end disclosures, even if those requirements are part of the standard disclosure requirements of this Topic, is appropriate. We also believe the proposed amendments clarifying that this may result in entities making only a subset of disclosures or no disclosures at all for certain items would be helpful to preparers when they evaluate whether a disclosure required by ASC 270 should be included in their interim financial statements. We believe that this may lead entities to reduce interim disclosures that would be duplicative of year-end disclosures.

However, we note that the proposed amendments in ASC 270-10-50-10 would require an entity that provides financial statements and notes at interim dates in accordance with either paragraph 270-10-45-20(b) or paragraph 270-10-45-20(c) to disclose the information required within or referenced by this Topic, if material. This may lead an entity to disclose information related to a material balance at an interim period, even if no significant changes have occurred since the previous annual period. To improve the operability of the proposed guidance in ASC 270-10-50-10, we recommend that the Board consider incorporating the proposed amendments in the implementation guidance in ASC 270-10-55-2 into the disclosure requirements in ASC 270-10-50-10. (See Appendix B for the language we recommend.) We also recommend expanding the example in ASC 270-10-55-2 to illustrate a situation where a company does not need to repeat information about material balances at an interim period if no significant changes have occurred.

Question 5: Is the proposed amendment describing interim financial statements and notes in accordance with GAAP (see paragraphs 270-10-45-20 through 45-21) appropriate? Does it capture the form and content of interim financial statements and notes currently being provided in accordance with GAAP?

We believe that the proposed amendment describing interim financial statements and notes in accordance with US GAAP (ASC 270-10-45-20 through 45-21) are appropriate and consistent with the existing requirements of Rule 10-01 of Regulation S-X applied by larger SEC registrants. However, the proposal would not be consistent with the requirements for smaller reporting companies that apply the condensing rules under Rule 8-03 of Regulation S-X. This would subject certain entities to higher thresholds for preparing condensed financial statements than is required by Rule 8-03. We recommend the Board consider revising the proposed amendments in ASC 270-10-45-21 so the requirements for condensed financial statements are consistent with Rule 8-03 of Regulation S-X.

We understand there is diversity in practice with respect to both the form of the interim financial statements and the disclosures made by entities that are not SEC registrants. After considering our recommended changes, we believe the proposed amendments would provide useful guidance to these entities about how to prepare interim financial statements and disclosures in accordance with US GAAP.

Question 6: Is the list of interim disclosure requirements and/or references to interim disclosure requirements in Section 270-10-50 complete?

We note that there are several interim disclosure requirements and/or references to interim disclosure requirements that are not included in ASC 270-10-50, and we recommend adding them to the list in ASC 270-10-50 to avoid confusion.

For example, the going concern disclosure guidance in ASC 205-40-50-1 and ASC 205-40-50-14 state that assessments of an entity's ability to continue as a going concern should be made in each interim and annual reporting period and that if substantial doubt persists in subsequent interim and annual reporting periods following the initial assessment in which there is substantial doubt, the disclosures in ASC 205-40-50-12 through 50-13 should continue to be provided. This language suggests that disclosures about an entity's ability to continue as a going concern when substantial doubt exists are required in interim periods and, therefore, should be reflected in the list of required disclosures in ASC 270-10-50.

In addition, there are several disclosure requirements throughout the Codification that include references, such as "in each period presented," "as of the date of the latest statement of financial position presented," and "for each of the periods for which income statements are presented" (among other similar statements), that we believe are intended to mean that disclosure in an interim period is required. For example, the related party guidance in ASC 850-10-50-1 states that disclosures of descriptions and dollar amounts of material related party transactions are required "for each of the periods in which income statements are presented." While the proposal would update this paragraph to reflect the "comparative" language, it would not include this requirement in the list of required disclosures in ASC 270-10-50. Therefore, it would not be clear whether these disclosures are required in interim reporting periods (see our response to Question 7 for further discussion).

We would be happy to provide a list of other examples upon request.

In addition, we believe it would increase operability if the list of interim disclosure requirements and/or references to interim disclosure requirements were more descriptive (e.g., stating the full codification reference, including relevant paragraph numbers, instead of referencing a general topic, such as “the information about financial instruments as required by Section 825-10-50”).

Question 7: Would the proposed amendments that (a) remove phrases such as *for each period presented* and (b) now state that those disclosures should be *comparative when comparative financial statements are presented* clarify that the disclosures should be comparative in nature? Would the proposed amendments result in a change in practice? If yes, please explain how. Should any of the paragraphs that were clarified as comparative also be required at interim periods?

We believe that the proposed amendments that would explicitly state that the disclosure requirements should be comparative when comparative financial statements are presented indicate that the disclosures should be comparative in nature. However, we believe the proposed amendments do not clearly indicate whether the disclosures are required for interim periods, annual periods or both.

We interpret the proposed amendments to mean that interim income statements that present comparative periods (e.g., 30 June 2021 compared with 30 June 2020) would be considered comparative financial statements. Therefore, we would expect a company to disclose all the requirements related to statements of operations listed in the “Clarifying Language Indicating Comparative Disclosure Requirements” section in its interim financial statements. However, there are paragraphs related to income statement accounts that were updated for comparative language that were not referenced in ASC 270-10-50, such as the comparative disclosure of research and development costs charged to expense required by ASC 730-10-50-1 when comparative income statements are presented. Accordingly, the intent of the update to reflect comparative language is unclear (i.e., whether ASC 730-10-50-1 is meant to be an interim or annual disclosure).

In addition, it is not clear whether the phrase “comparatively when comparative statements of financial position are presented” means anytime an entity presents two statements of financial position (e.g., as of the prior year-end date and the current interim date) or only when the entity presents two statements of financial position as of the same reporting date (e.g., as of the end of two annual periods). For example, ASC 320-10-50-2 was updated in the proposal to clarify that certain comparative disclosures are required for securities classified as available for sale when comparative statements of financial position are presented, which may be interpreted as an annual disclosure requirement. However, ASC 270-10-50-17(n) states that the information about certain investments in debt and equity securities as required by ASC 320-10-50 is a required interim disclosure. Conversely, ASC 310-40-50-1 was similarly updated to clarify that a creditor shall disclose commitments to lend additional funds to certain debtors comparatively when comparative balance sheets are presented, but this paragraph was not reflected in ASC 270-10-50 as a required interim disclosure. Without further clarification, we believe the proposed amendments could lead entities to disclose comparative information in interim periods when it is not required or omit disclosures when they are required.

If the Board decides to move ahead with the proposed language, we recommend that the Board clarify its intent. We also encourage the Board to confirm the completeness of the consequential amendments included in this proposed Accounting Standards Update that would clarify that disclosures should be *comparative when comparative financial statements are presented*. We identified several paragraphs that were not updated consistently with those reflected within the Update. For example, ASC 310-30-50-2 still states “for each balance sheet presented” and, therefore, it is not clear whether this disclosure is required only in an annual financial statement or in any financial statement that includes a balance sheet.

We would be happy to provide a list of those paragraphs upon request.

Question 8: Should the proposed disclosures be required to be implemented retrospectively or prospectively? Please explain why.

We believe that the proposed disclosures should be required to be implemented prospectively. As the Board noted in BC32, the proposed amendments are not intended to change practice significantly, but rather to ensure ongoing consistent practice for interim reporting. We believe that prospective application would be practical and cost effective.

Question 9: How much time would be needed to implement the proposed amendments? Should those proposed amendments on clarifying comparative disclosures have the same effective date as the other proposed amendments or be effective upon issuance? Should early adoption be permitted? Please explain why or why not.

We believe preparers are in the best position to comment on the time necessary to implement the proposed amendments. However, because the proposed amendments are not intended to significantly change practice, we expect that the proposed amendments generally should not require a significant amount of time to implement. We believe providing nonpublic entities with an additional year to implement the proposed amendments would be appropriate and consistent with the Board's transition approach for other recently issued standards. We believe that early adoption of the proposal should be permitted.

Appendix B – Our recommendations for language the Board should consider incorporating into the amendments

We recommend that the Board make the following changes to the language in the final amendments. Our suggestions are in red for new language and green for moving text to another area. We also recommend deleting the struck-through text.

1. 270-10-55-1 An entity that provides disclosure about a significant event or transaction that had a material effect on the entity that occurred since the date of the prior annual financial statements and notes should consider the annual requirements for those types of events or transactions. For example, if a reporting entity has a significant issuance of share-based compensation awards during the interim period, it would not be sufficient to simply disclose that the entity issued share-based compensation. The entity should refer to **the disclosure requirements** in Topic 718 on stock compensation and **determine** the required disclosures **that pertain to the awards that were issued by the entity during the interim period**. The entity need not comply with all the disclosure requirements in Section 718-10-50 for all share-based compensation outstanding as of the reporting date **if the relevant information is already disclosed in the prior annual financial statements**. Rather, the disclosure **in the interim financial statements** may focus only on those awards issued as part of the significant share-based compensation event and only ~~utilize relevant aspects of provide~~ the required disclosures in Topic 718 **relevant to the significant event**. **An entity that has not provided the disclosures in Topic 718 in its prior annual financial statements should provide all the disclosures required by that Topic.**
2. 270-10-50-10 An entity that provides financial statements and notes at interim dates in accordance with either paragraph 270-10-45-20(b) or paragraph 270-10-45-20(c) shall disclose the information required within or referenced by this Topic, if material. **Assessing whether to provide disclosures at an interim period involves considering information provided in the previous annual financial statements.** Disclosure of the impact of the financial results for interim periods of the matters discussed in paragraphs 270-10-45-12 through 45-16 and 270-10-50-5 through 50-6 is desirable for as many subsequent periods as necessary to keep the reader fully informed. There is a presumption that users of summarized interim financial data statements and notes as referenced in paragraph 270-10-45-20(b) or (c) will have read the prior annual financial statements and notes, as well as ~~latest published annual report,~~ including the financial disclosures required by generally accepted accounting principles (GAAP) and management's commentary, if applicable, concerning the annual financial results, and that the summarized interim data will be viewed in that context. In this connection, management is encouraged to provide commentary relating to the effects of significant events upon the interim financial results. **This presumption should lead entities to not disclose information that would be duplicative of year-end disclosure, even if those requirements are part of the standard disclosure requirements of this Topic. That may result in a subset of or no disclosures being made for certain items** **Assessing whether to provide disclosures at an interim period involves considering information provided in the previous annual financial statements** (see paragraph 270-10-55-2).

3. 270-10-55-2 The presumption that users of interim financial statements and notes as referenced in paragraph 270-10-45-20(b) or (c) will have read the prior annual financial statements and notes should lead entities to not disclose information that would be duplicative of year-end disclosure, even if those requirements are part of the standard disclosure requirements of this Topic. That may result in a subset of or no disclosure being made for certain items. For example, a reporting entity may have material assets and liabilities that are measured at fair value and may have included the disclosures required by Topic 815 in the notes to the prior annual financial statements. If no significant changes have occurred during the interim period, the entity would not need to repeat these disclosures in the interim financial statements and notes since they would be duplicative of the year-end disclosures.