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February 21, 2023

Ms. Hillary Salo
Technical Director
Financial Accounting Standards Board
801 Main Avenue
Norwalk, CT 06856-5116

Via Email to director@fasb.org

Re: File Reference No. 2022-ED400

Dear Ms. Salo:

Grant Thornton LLP appreciates the opportunity to respond to the Proposed Statement of Financial Accounting Concepts, *Concepts Statement No. 8, Conceptual Framework for Financial Reporting—Chapter 5: Recognition and Derecognition* (“Proposed Concepts Statement”).

We agree that an item must meet all three criteria in paragraph RD5 to be recognized in the financial statements and also that an item should be derecognized when it fails to meet any one of the same three criteria. We also agree that the criteria are necessary and sufficient as recognition criteria.

However, current guidance in U.S. GAAP primarily uses the notion of control for derecognition. Examples include:

- Derecognizing assets when control is transferred to a customer in accordance with ASC 606, *Revenue from Contracts with Customers*.
- Derecognizing a financial asset in accordance with ASC 860, *Transfers and Servicing* when control is lost. In addition, we note that Topic 860 requires not only that control is relinquished over the transferred financial asset for derecognition by the transferor, but requires further analysis regarding whether the financial asset is legally isolated from the transferor.
- Derecognizing assets and liabilities as part of the disposition of a business in accordance with ASC 810, *Consolidation* when control is lost.

Therefore, we encourage the Board to discuss in the Basis for Conclusions the linkage between the notion of control that appears to be central in current U.S. GAAP with the proposed concepts for derecognition, specifically as it relates to measurability and faithful representation.

We believe that the qualitative characteristic of relevance is adequately captured in the definitions of an element and the measurability criteria.

We believe there are certain circumstances in which an item meets the definition of an element, but it is unclear how either the measurability or faithful representation criteria is not met such that recognition is not achieved. Examples include internally-generated intangible assets and research and development activities, which are not recognized as assets under U.S. GAAP. In applying the Proposed Concepts Statement to these examples, some stakeholders may conclude that:

- The definition of an asset is met, as there is a present right to an economic benefit. The ability to realize an economic benefit is not isolated to purchased assets, and some stakeholders may argue that there is an economic benefit if an entity learns that certain R&D activities cannot achieve commercialization (i.e., even if the R&D is ultimately not successful).
- The asset is measurable with a relevant measurement attribute, such as fair value. While uncertainty may exist about the ultimate cash flows to be realized from the asset, BC5 through BC9 in the Proposed Concepts Statement notes that the Board acknowledges that an item that has measurement uncertainty may still provide decision-useful information as long as adequate disclosures about that uncertainty are provided.
- The asset can be depicted and measured with faithful representation, as the information is reliable and presumably complete, neutral, and free from error.

We would be pleased to discuss our comments with you. If you have any questions, please contact Graham Dyer, Partner, at Graham.Dyer@us.gt.com or 312.602.8107 or Rahul Gupta, Partner, at Rahul.Gupta@us.gt.com or 312.602.8084.

Sincerely,

/s/ Grant Thornton LLP