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Financial Accounting Standards Board  
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10 April 2025

**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 Accounting Standards Update, *Environmental Credits and Environmental Credit Obligations (Topic 818)*, issued by the Financial Accounting Standards Board (FASB or Board).

We support the Board's intent to establish authoritative guidance for the recognition, measurement, presentation and disclosure of environmental credits and environmental credit obligations to provide investors with additional decision-useful information and reduce diversity in practice. While we believe the proposed amendments are largely clear and operable, we suggest that the Board consider clarifying certain matters to mitigate diversity in how the proposed amendments would be interpreted and applied.

We believe the Board should clarify that separate costing method pools should be established for each environmental credit category (i.e., compliance credits and noncompliance credits) to eliminate potential diversity and because if the two categories are intermingled within the same pool, the application of the costing methodology in certain circumstances could result in losses recognized for compliance credits. We also believe the Board should remove the portfolio approach in Accounting Standards Codification (ASC or Codification) 818-20-35-7, because we do not believe it is necessary and may add cost and operability challenges that would outweigh the benefits.

In addition, we believe the Board should consider providing a scope exception from ASC 815, *Derivatives and Hedging*, for arrangements to obtain or transfer environmental credits unless the credits will be or are subsequently remeasured by the reporting entity in accordance with ASC 818-20-35-8. This clarification would mitigate the risk that an entity recognizes a gain or loss on changes in the fair value of an arrangement to obtain credits (e.g., a forward contract to obtain environmental credits at a fixed price) when the entity intends to use such credits, once received, to settle an environmental credit obligation or for voluntary purposes.

Our responses to questions in the proposal and our detailed recommendations for the Board's consideration are included in the Appendix.

\* \* \* \*

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

Very truly yours,



*Ernst & Young LLP*

**Appendix – Responses to questions raised in the Proposed Accounting Standards Update, Environmental Credits and Environmental Credit Obligations (Topic 818)****Environmental credits**

**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 that the proposed definition of an environmental credit is clear and operable and would not present auditing challenges. We also believe the proposed definition would capture the common types of environmental credits that the Board seeks to address in this project.

However, we observe that in certain instances a credit that can be used to settle an environmental credit obligation may initially be separately transferable in an exchange transaction but may not be after an initial exchange(s). In that case, future acquirers may hold credits that do not meet the proposed definition of an environmental credit. For example, certain credits associated with the regulation of sulfur emissions in gasoline are only permitted to be sold twice. The initial and second owner would have credits meeting the proposed definition. However, the enforceable right held by the third owner would not meet the definition of an environmental credit because the credit is no longer separately transferable in an exchange transaction (i.e., the third owner rights are limited to settling an environmental credit obligation). We believe this outcome is likely inconsistent with the Board's intent. Absent changes to the proposed definition of an environmental credit, the third owner in the example above would not be permitted to measure its environmental credit obligation based on the carrying amount of the available credits it holds.

We suggest that the definition of an environmental credit be amended to include items that can be used to settle an obligation with a regulator if those items are or were separately transferable in an exchange transaction at one point in time.

In addition, based on the proposed definition, we observe that environmental credits may otherwise be in the scope of ASC 350, *Intangibles – Goodwill and Other*, because they also may meet the Master Glossary definition of intangible assets. We recommend that the Board add a scope exception to ASC 350-10-15-3 to exclude environmental credits (as defined under the proposed amendments) from the scope of ASC 350 to avoid confusion about which accounting framework should be applied.

**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 that the proposed recognition requirements are clear and operable, except as described below. We agree with the Board's observations in paragraph BC44 in the proposal's Background Information and Basis for Conclusions that the probability threshold may require judgment in certain circumstances, but we do not anticipate significant challenges in auditing those judgments.

We believe that the intent of ASC 805-20-25-15C is to clarify that items meeting all the criteria in the definition of an environmental credit except for the separately transferable criterion should not be recognized in a business combination as identifiable intangible assets. Since such an item would not meet the definition of an environmental credit, the nature of the acquired item referenced is unclear to us.

Based on Board deliberations, we understand that the proposed guidance may be intended to address circumstances where an acquiree retired environmental credits before the acquisition date but did not report the use of such credits as part of its voluntary sustainability reporting. These items would not meet the proposed definition of an environmental credit in ASC 818 because they are not separately transferable. However, we understand the Board is concerned that some stakeholders may conclude that these environmental credit-like items meet the contractual-legal criterion in ASC 805-20-25-30 because the acquiring entity may be able to apply the retired credits to meet voluntary environmental targets.

If our understanding is consistent with the Board's basis for including the proposed guidance, we recommend that the Board provide that specific context in the Codification or in the Basis for Conclusions.

**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.

We believe that the proposed initial measurement requirements are clear and operable and would not present auditing challenges. However, in certain arrangements we have observed diversity in how entities allocate the consideration transferred between assets that are acquired under ASC 805-50 and other components of the arrangement that are accounted for separately under other US GAAP.

For instance, when a long-duration contract includes the delivery of electricity and a renewable energy certificate (REC), there may be diversity in how the consideration is allocated between those deliverables. For example, each purchase could be allocated between the power and RECs based on relative fair value at contract inception or at the time of delivery, or a fixed amount could be allocated to each REC and the remainder allocated to the power component. In a virtual power purchase arrangement where electricity is not a deliverable in the arrangement, there is also a question about whether the arrangement contains elements other than the acquisition of a REC.

This question and the diversity in how consideration is allocated may be amplified by the requirement to disclose the expense recognized for environmental credits not initially recognized as an asset. That is because entities now generally do not allocate the cost between the various components when they are each expensed through the same income statement line item in the same period.

We believe the Board should acknowledge in the Basis for Conclusions that entities may need to use reasonable judgment to allocate consideration between the different components of the arrangement, which may help preparers implement the amendments.

The proposed amendments do not address the accounting for arrangements to obtain or sell an environmental credit in the future. For example, a forward purchase agreement to obtain or sell RECs would be accounted for as a derivative if it met the criteria under ASC 815.

We note that the accounting required by ASC 815 may produce outcomes inconsistent with ASC 818. For example, if an entity enters into a forward contract to purchase an environmental credit (that meets the definition of a derivative) that it intends to use to settle an environmental credit obligation or for voluntary purposes (i.e., that will not be monetized through a sale), we believe recognizing a gain or loss for changes in the fair value of this contract may not produce decision-useful information because the credit will ultimately be measured at cost or expensed as incurred.

To improve consistency between the accounting for an arrangement to obtain or sell an environmental credit and the accounting for an environmental credit once obtained or previously recognized, we suggest the Board provide a scope exception to ASC 815 that would exclude such arrangements from derivative accounting, unless the acquired environmental credit is or is intended to be subsequently remeasured by the reporting entity in accordance with ASC 818-20-35-8 (i.e., remeasured at fair value each period). We also suggest that the amendments specify that an entity would be required to reassess previously scoped out arrangements if it subsequently elects to remeasure environmental credits at fair value in accordance with ASC 818-20-35-11. Additionally, we suggest the amendments specify whether any adjustment required in connection with that reassessment would be recorded in earnings or as part of the cumulative-effect adjustment to retained earnings made in accordance with ASC 818-20-35-11.

**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 amendments are clear and operable for accounting for a single environmental credit. However, we believe that additional clarification is needed so that the costing method guidance is applied consistently in practice. We also recommend that the Board reconsider whether the portfolio approach in ASC 818-20-35-7 is necessary.

#### *Costing methods*

We support the Board's decision to permit the use of an average cost or first-in, first-out (FIFO) costing method because entities may find it impracticable to apply the proposed amendments at the individual environmental credit level (i.e., serial number level). However, we believe that the proposed amendments in ASC 818-20-35-2 may not be clear on whether compliance environmental credits and noncompliance environmental credits should or could be combined into the same cost pool.

For example, when an entity holds identical environmental credits for multiple purposes (e.g., some are held for compliance and some are held for trading), it is not clear whether the entity could or should (1) maintain one cost pool for those environmental credits and allocate the carrying amount of the pool between compliance and noncompliance categories at the end of each reporting period or (2) maintain separate cost pools for those assets aligned with their planned use. The financial reporting outcome under these two alternatives could be significantly different.

We believe that the different subsequent measurement requirements for compliance environmental credits and noncompliance environmental credits necessitate that separate costing method pools be established for each environmental credit category (e.g., an entity that holds identical environmental credits for multiple purposes would have at least two cost pools for those credits, aligned with the planned use of the credits) because the carrying amount of credits in a combined pool would be allocated to all credits, including both compliance credits that are not subject to impairment and noncompliance credits that would be subject to impairment. Therefore, we suggest that the Board clarify that an entity is not permitted to combine compliance environmental credits and noncompliance environmental credits within the same cost pool.

We also suggest that the Board specify that an entity is required to categorize environmental credits recognized as assets as either compliance or noncompliance on the date the credit is recognized, not solely at the end of the reporting period. That clarification would result in environmental credits that were acquired and transferred in the same reporting period being derecognized at an amount based on the costing method of the pool to which they relate.

In addition, we note that ASC 818-20-35-2 could be interpreted in various ways. We believe that the Board intended to require that an entity consistently apply the costing method selected (i.e., specific identification, average cost or FIFO) to similar types of environmental credits. We believe some may interpret this paragraph as a requirement to include all similar environmental credits within a single cost pool.

#### *Portfolio approach*

The proposed guidance would allow an entity to combine and account for sufficiently similar environmental credits as a portfolio. However, we believe that the portfolio approach is not needed and may add cost and operability challenges. The proposed amendments would allow an entity to incorporate multiple types of environmental credits into a single cost pool and apply the subsequent measurement (i.e., impairment requirements) to that cost pool in the aggregate. We believe there are two adequate elements in the proposed amendments that require or allow environmental credits to be combined. These elements (Nos. 1 and 2 below) are different than the portfolio approach provided for in ASC 818-20-35-7 (No. 3 below):

1. ASC 818-20-25-4 notes that an entity would not need to apply the amendments at the individual environmental credit level for purposes of recognition. That is, an entity would not be required to track the planned or actual use of *specific* environmental credits (i.e., by serial number). For example, an entity that has 1,000 identical environmental credits and considers it probable that 900 will be used to settle an environmental credit obligation would not be required to identify the *specific* 900 environmental credits that will be used for that purpose when applying the recognition requirements.
2. ASC 818-20-35-2 would allow an entity to account for environmental credits using costing methods such as average cost or FIFO. Continuing with the above example, an entity would not be required to separately track the cost basis of each of the 900 environmental credits allocated to the compliance environmental credit asset and would be permitted to combine that cost basis with other compliance environmental credits on an average cost or FIFO basis.
3. ASC 818-20-35-7 would allow an entity to account for *sufficiently similar* environmental credits using a “portfolio approach.” For example, 100 of type-A environmental credits and 100 of type-B environmental credits can be combined and accounted for as 200 environmental credits (type-AB).

Paragraph BC62 indicates that stakeholders raised concerns that applying the subsequent measurement requirements for environmental credits may be impracticable without the use of a portfolio approach. However, we believe the Board should consider stakeholder feedback on whether the practical challenges would be mitigated by the two concepts highlighted above.

The proposed guidance would require an entity to evaluate its portfolios at each reporting period and determine that the grouping of non-identical environmental credits will not result in a significant loss upon derecognition of an individual environmental credit from the portfolio. We believe this requirement would generally necessitate obtaining the fair value of each type of credit in the portfolio. Therefore, the portfolio guidance may not address the stakeholder concerns because it would be, in substance, the same as a requirement to apply the subsequent measurement guidance to each individual credit type.

In addition, we do not believe there is a similar requirement for identical credits accounted for using the FIFO method, which could result in a significant loss upon the derecognition of an individual environmental credit.

Further, we note that entities have identified and accounted for cost pools for traditional inventory under ASC 330 without needing explicit portfolio approach guidance.

Paragraph BC62 also indicates that stakeholders said the initial and subsequent measurement requirements for environmental credit obligation liabilities may be impracticable without the use of the portfolio approach. We suggest that the Board consider gathering additional feedback in this area. We believe the Board's decision to permit an entity to measure an environmental credit obligation using the carrying amount of the compliance environmental credits expected to be derecognized upon settlement of the liability (ASC 818-30-30-2) would permit adequate flexibility and be operable.

For example, if an entity held three different types of compliance environmental credits that were accepted by a regulator, it would be allowed under the proposed guidance to measure its liability based on the carrying amount of the type(s) of credit it expects to use to settle that liability. That is, the entity would not need to account for the three types of credits as a single portfolio to measure its environmental credit obligation. In fact, combining those credits into a single portfolio would reduce the flexibility the entity has in measuring its environmental credit obligation, because ASC 818-30-30-2 would not allow the entity to disregard that portfolio conclusion, even if it was virtually certain that a specific type of credits in the portfolio would be used to settle the obligation.

We suggest that the Board remove the portfolio approach in ASC 818-20-35-7 from the proposed amendments and instead emphasize that an entity would not need to apply the amendments at the individual environmental credit level (similar to the language included in ASC 818-20-25-4). The Board could also include discussion in the Basis for Conclusions acknowledging that, to the extent an entity considers two non-identical compliance credits (or two non-identical noncompliance credits) to be largely interchangeable, it would be appropriate for entities to use reasonable judgment in establishing the cost pool to apply the proposed amendments.

If the Board retains the portfolio approach, we suggest that the guidance clearly articulate the difference between the use of a costing method and the use of the portfolio approach and specify how an entity accounts for the subsequent division of a portfolio. In addition, we believe there may be multiple interpretations of the term "unlikely" and suggest anchoring the requirement to the probable (or "not probable") threshold, because that is more commonly used in 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 believe that the proposed fair value measurement accounting policy election is clear and operable. However, since an entity also may obtain control of an environmental credit in connection with a business combination, which may not always be an exchange transaction, we suggest amending ASC 818-20-35-10 as follows:

"To be eligible for subsequent fair value measurement, a noncompliance environmental credit shall be obtained through either one of the following:

- a. An exchange transaction
- b. A nonreciprocal transfer that is not a grant from a regulator or its designee(s).
- c. A business combination."

**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 the proposed amendments to require qualitative and quantitative disclosures for environmental credits are clear and operable. However, we suggest the Board consider the following revisions to enhance the guidance:

- ▶ Expand the proposed disclosure in ASC 818-20-55-17 to illustrate the non-quantitative disclosure requirements of ASC 818-20-50-4, including disclosure of the line item on the balance sheet containing the amounts disclosed
- ▶ Modify the amounts in ASC 818-20-55-17 to include an amount for "other (not significant) holdings" or remove that line item

## Environmental credit obligations

**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.

The proposed definition of an environmental credit obligation is clear and operable and would not present auditing challenges. We believe that the proposed definition captures the common types of environmental credit obligations that the Board seeks to address in this project.

**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.

We believe that the proposed environmental credit obligation liability recognition requirements are clear and operable, except as described below. We believe specifying that an entity is required to assume that the reporting date is the end of the compliance period when determining whether a liability is recognized would be an important and helpful clarification. While we do not anticipate auditing challenges related to this proposed amendment, we observe that entities may need to implement new processes and controls to track nonfinancial data points (e.g., emissions) necessary to apply the guidance.

While the proposal to add an exception to the general fair value measurement principle in ASC 805 would require entities to apply ASC 818 to measure an environmental credit obligation assumed in a business combination, we believe that the Board should also include recognition guidance in ASC 805. That is because, absent explicit recognition guidance, there may be diverse views on whether an environmental credit obligation as defined and recognized under ASC 818 meets the definition of a liability (in the Concepts Statement) on the acquisition date. Further, we suggest that the Board amend ASC 805-20-25 to specify that, for purposes of evaluating whether an environmental credit obligation should be recognized in a business combination, an acquirer should assume that the acquisition date is the end of the regulatory compliance period.

We also observe that when an entity recognizes an environmental credit obligation under ASC 818-30-25-2 (because it is obligated to remit a fixed number of environmental credits solely because the entity exists as of a specified assessment date), it would be required to recognize a corresponding asset (akin to a prepaid asset rather than an environmental credit) on that date. We observe that if an entity that recognizes and measures such an asset under ASC 818-30-25-2 was to be subsequently acquired in a business combination, it is unclear whether the asset may be carried over and recognized by the acquiring entity.

Because the acquiring entity has not obtained an economic benefit at the acquisition date, we do not believe the "cost incurred to operate" that is recognized as an asset, as described in ASC 818-30-55-2, by an acquiree in the pre-combination period would qualify for separate asset recognition under the general recognition principle in ASC 805. If the Board agrees with that view, we recommend that the Board amend ASC 805 to clarify that the asset identified under ASC 818-30-25-2 does not represent an identifiable asset that would be recognized in a business combination. This would avoid creating unintended diversity in practice.

**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.

**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.

**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 that the proposed amendments for initial measurement, subsequent measurement and derecognition of an environmental credit obligation liability 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?

If the Board decides to permit or require presentation on a net basis, we suggest aligning the presentation requirements with the measurement requirements of ASC 818-30-30-2 to minimize cost and complexity because it would obviate the need to address questions about jurisdictional netting and/or netting current assets and non-current liabilities or vice versa.

For example, an entity would be permitted (or required) to present an obligation measured in accordance with ASC 818-30-30-2 and the associated compliance environmental credits on a net basis.

**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 the proposed amendments to require qualitative and quantitative disclosures for environmental credit obligations are clear and operable. However, we suggest that the Board consider the following revisions to clarify the interaction between these proposed requirements and the disclosure requirements related to the disaggregation of income statement expenses:

- ▶ Amend ASC 818-30-50-5 as follows: "... an entity shall disclose the total amortization expense recognized in accordance with paragraph 818-30-25-2, and the line item or items in the income statement that includes that amount. See paragraphs 220-40-50-21 through 50-25 for additional disclosure requirements." Alternatively, if the Board does not require disclosure of the line item(s) containing that amortization expense, we suggest moving the conforming amendment included in ASC 220-40-50-21(s) to ASC 220-40-50-22.
- ▶ Amend ASC 818-30-50-4 as follows "... and the line item or items in the income statement that includes that amount. See paragraphs 220-40-50-21 through 50-25 for additional disclosure requirements."
- ▶ Limit the interim disclosure requirements of ASC 818-30-50-4 to year-to-date information (rather than both quarter and year-to-date information) to make the requirements more operable. We expect there may be challenges with quarter-to-date information because the balance sheet of the immediately preceding quarter is generally not included in the interim financial statements:
  - ▶ "For interim and annual reporting periods, an entity shall disclose the total expense recognized year-to-date for environmental credit obligation liabilities, disaggregated between accruals for emissions occurring during the year-to-date reporting period and remeasurement of environmental credit obligation liabilities previously recognized ..."
  - ▶ Expand the disclosure in ASC 818-30-55-28 to illustrate the non-quantitative disclosure requirements of ASC 818-30-50-2 through 50-4, including disclosure of the line item on the balance sheet and income statement containing the amounts disclosed.

## 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 modified retrospective approach required under the proposed transition guidance is clear and operable and would not present auditing challenges.

**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 the Board should not permit full retrospective application of the proposed amendments and suggest that the Board require all entities to apply the proposed guidance on a modified retrospective basis (as described in Question 16).

We believe that full retrospective application may be costly, complex or potentially impracticable in certain cases, such as when an entity would be required to retrospectively obtain fair value measurements for purposes of applying the subsequent measurement requirements of ASC 818-20 and the initial and subsequent measurement requirements of ASC 818-30, or when an entity would be required to retrospectively adjust the accounting for amounts recognized in business combinations that have occurred in the comparative periods. If the Board decides to allow entities to apply the guidance on a full retrospective basis, we believe it should provide specific transition requirements explaining how the guidance should be applied in those circumstances.

**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 defer to preparers about how much time and resources (including new systems as applicable) would be needed to implement the proposed amendments. We would support an extended effective date for entities other than public business entities, and we believe early adoption should be permitted.

### Private companies

**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.

We are supportive of exploring ways to provide relief to private companies, including in the form of fewer disclosures. However, we believe that any alternatives, or relief, provided to private companies should not result in fundamentally different bases for preparing the financial statements as compared to public companies. We defer to preparers about specific private company considerations.