Testimony of Russell G. Golden

Hearing on Overseeing the Standard Setters: An Examination of the Financial Accounting Standards Board and the Public Company Accounting Oversight Board

Before the U.S. House of Representatives Committee on Financial Services Subcommittee on Investor Protection, Entrepreneurship, and Capital Markets

Washington, D.C.
January 15, 2020

Chairman Sherman, Ranking Member Huizenga, and Members of the Subcommittee:

My name is Russell Golden, and I am the Chairman of the Financial Accounting Standards Board ("FASB" or "Board"). I would like to thank you for this opportunity to participate in today's important hearing.

In furtherance of the Subcommittee's oversight of financial reporting matters, I would like to:

- Provide a brief overview of the FASB including a description of our robust and transparent standard-setting process and how the FASB remains accountable to our stakeholders;
- Highlight some of our standard-setting activities, including our implementation support activities; and
- Provide an overview of our agenda and future activities.

The FASB

Established in 1973, the FASB operates with oversight by the Financial Accounting Foundation ("FAF"), a private-sector, not-for-profit organization based in Norwalk, Connecticut. Through authority granted to it by the Congress, the U.S. Securities and Exchange Commission ("SEC"), has recognized the FASB as the designated accounting standard-setter for public companies for more than 45 years. The FASB also establishes financial accounting and reporting standards for private companies and not-for-profit organizations that follow U.S. generally accepted accounting principles ("U.S. GAAP").

Additionally, many organizations, including state Boards of Accountancy and the American Institute of Certified Public Accountants ("AICPA"), recognize FASB standards as authoritative.

U.S. GAAP is essential to the efficient functioning of the U.S. economy because investors, creditors, donors, and other users ("investors and other users") of financial reports rely heavily on credible, concise, and understandable financial information. Many people who make decisions on capital allocation cannot require reporting entities to provide them directly with the information they need and must rely on general purpose financial reports. Because the FASB's goal is to improve the utility of financial information in making capital allocation decisions, meeting the needs of those investors and other users is a primary consideration in developing accounting standards. While not all users analyze information in the same manner, they all share a desire for financial reports that are comparable and that provide information that faithfully represents the results of an organization's activities.

The FASB recognizes, however, that information contained in financial reports is produced by a financial reporting system with multiple participants, including entities that prepare financial statements, auditors, regulators, and other stakeholders. Therefore, the FASB gives careful consideration to all stakeholders' views on all aspects of an accounting standard proposal, including the benefits to investors and other users of financial information and the compliance costs of the standard, as the standard is developed. In today's dynamic financial markets, the need for integrity, transparency, and objectivity in financial reporting has become even more critical to ensuring the continued strength of U.S. capital markets and to the broader prosperity of our economy as a whole.

We at the FASB take our role in promoting the integrity of our capital markets very seriously, as has the Congress. In the Sarbanes-Oxley Act of 2002 ("SOX"), the Congress recognized the importance of protecting the integrity of the FASB's accounting standard-setting process from undue influence by providing the FASB with an independent, stable source of funding from annual accounting support fees collected from issuers of securities, as those issuers are defined in SOX.

It is important to note that although the FASB has the responsibility to set accounting standards, it does not have authority to enforce them. Officers and directors of a company are responsible for preparing financial reports in accordance with the accounting standards that the FASB issues, but auditors then provide an opinion as to whether those financial statements have been prepared in accordance with those accounting standards. The Public Company Accounting Oversight Board ("PCAOB") is charged with overseeing auditors of public companies, which includes an auditor's analysis of whether a public company has complied with appropriate accounting standards. The SEC has the ultimate authority to analyze whether public companies have complied with accounting standards.

The FASB's Mission

As I have noted, the FASB recognizes the critical role that high-quality accounting standards play in financial reporting and in supporting the efficient functioning of our capital markets. Robust and transparent financial reporting increases investor confidence, which leads to better capital allocation decisions and economic growth.

The objective of financial reporting is to depict the economics of a transaction neutrally and thus provide financial information about the reporting organization that is useful to existing and potential investors, lenders, and other creditors in making resource allocation decisions.

These decisions typically involve buying, selling, or holding equity and debt instruments and providing or settling loans and other forms of credit.

The FASB's mission is twofold: to establish and improve financial accounting and reporting standards to provide useful information to investors and other users of financial reports and to educate stakeholders on how to most effectively understand and implement those standards. Accounting standards are not intended to drive behavior in a particular way; rather, they seek to present financial information so that users can make informed decisions about how to best deploy their capital. The FASB remains committed to ensuring that our nation's financial accounting and reporting standards provide investors with the information they need to confidently invest in the U.S. markets.

As it works to develop accounting standards for financial reporting, the FASB is committed to employing a transparent, inclusive, and orderly process. Our comprehensive procedures permit timely, thorough, and open study of financial accounting and reporting issues and because we understand that the FASB's actions affect so many stakeholders, the procedures also encourage broad public participation throughout the standard-setting process.

The FASB accomplishes its mission through a process that:

1. Improves the usefulness of financial reporting by focusing on the primary characteristics of relevance and faithful representation of financial information, as well as other enhancing characteristics of useful information including comparability, verifiability, timeliness, and understandability;
2. Guides and educates the public, including users of financial statements, the individuals that prepare financial statements, auditors, and others. Through outreach to stakeholders, the form of standards themselves, and related implementation activities, the FASB improves the common understanding of the nature and purposes of information contained in financial reports;
3. Keeps standards current to reflect changes in methods of doing business and changes in the economic environment;
4. Considers promptly any significant areas of deficiency in financial reporting that might be improved through the standard-setting process; and
5. Promotes the convergence of accounting standards internationally when that helps to improve the quality of financial reporting where such convergence is deemed to be appropriate in the public interest and for the protection of investors.

Oversight of the FASB

The FASB operates in an open, collaborative, and accountable manner. First, the FAF Board of Trustees exercises its authority over the FASB by overseeing its administration and finances, as well as that of the FASB's sister organization the GASB and their advisory councils, the Financial Accounting Standards Advisory Council ("FASAC"), the Governmental Accounting Standards Advisory Council ("GASAC"), and the Private Company Council (“PCC”). The Board of Trustees comprises 14-18 independent members from varied backgrounds and perspectives, including users, preparers, and auditors of financial statements; state and local government officials; academics; and regulators.

Through their oversight, the Trustees ensure the effective, efficient, and appropriate stewardship of the FASB's resources as it carries out its standard-setting mission. The Trustees also appoint members to the FASB and its advisory councils and promote and protect the integrity of the FASB's standard-setting processes. To further enhance this oversight function, the Trustees established a post-implementation review process that evaluates the FASB's standard-setting processes to ensure they are as robust, transparent, and inclusive as possible.

Second, the FASB also is subject to SEC oversight with respect to standard-setting for public companies. The SEC has the statutory authority to establish financial accounting and reporting standards for publicly held companies and they are authorized to delegate this authority. For more than 45 years, the SEC has looked to the FASB to set accounting standards. In 2003, the SEC issued a Policy Statement, Reaffirming the Status of the FASB as a Designated Private-Sector Standard Setter, which reaffirms this longstanding relationship with the FASB.

And last, but certainly, not least, the FASB is accountable to its stakeholders, including the Congress, for establishing standards that are consistent with our guiding principles and our comprehensive processes.

The Standard-Setting Process

An independent standard-setting process is foundational to producing high-quality accounting standards. The FASB sets accounting standards through a public process that actively seeks input from all stakeholders. I note that the FASB's Rules of Procedure, established under the FAF's bylaws, require this level of openness and stakeholder involvement in the standard-setting process.

Stakeholder Feedback

The FASB's standard-setting process involves a range of activities intended to solicit and incorporate stakeholder feedback, including, as appropriate, public meetings, public roundtables, field visits or field tests, liaison meetings and presentations to interested parties, and the exposure of our proposed standards for public comment. Videocasts of FASB Board meetings and education sessions are available on its website to make it easier for stakeholders to observe and participate in our standard-setting process. The FASB also creates podcasts and webcasts to provide short, targeted summaries of our proposals and new standards so that stakeholders can quickly assess whether they have an interest and want to comment.

We also proactively request meetings with stakeholders, including a wide range of investors, auditors, and reporting entities, to discuss our proposals or to identify implementation issues with existing standards, which helps us to assess whether the proposals or existing standards will lead to better information as well as to assess the related implementation and ongoing costs. The FASB supplements its direct public outreach by meeting regularly with numerous advisory groups that assist the FASB in its work. The members of these advisory groups are drawn from a broad cross-section of the profession. The FASB's standard-setting process and the resulting standards necessarily benefit from advisory group members sharing their views and experience with us on matters related to projects on the agenda, possible new agenda items, practice and implementation of new standards, and strategic and other matters.

In addition to the FASB's advisory groups, the FAF established the PCC in 2012 , which advises the FASB on private company matters while the Emerging Issues Task Force ("EITF" or "Task Force") assists the FASB in improving financial reporting through the timely identification, discussion, and resolution of financial accounting issues relating to U.S. GAAP.

The PCC has an integral role in the process of establishing and improving standards of accounting and reporting as they apply to private companies. The PCC advises the FASB on whether modifications or exceptions to existing U.S. GAAP should be afforded to address the needs of private company financial statements. Any proposed changes to existing U.S. GAAP require endorsement by the FASB and are subject to the same standard-setting process as all other standards.

The EITF assists the FASB in addressing implementation, application, or other emerging issues that can be analyzed within existing U.S. GAAP. The EITF was designed to develop implementation guidance for accounting standards to reduce differences in accounting practice on a timely basis. Task Force members are drawn from a cross section of the FASB's stakeholders, including auditors, preparers, and users of financial statements. The chief accountant or the deputy chief accountant of the SEC attends Task Force meetings regularly as an observer. The structure of the EITF is designed to include persons in a position to be aware of emerging issues before they become widespread and before divergent practices become entrenched. The FASB also meets regularly with SEC and PCAOB staff.

Because banking regulators have a keen interest in U.S. GAAP financial statements as a starting point in assessing the safety and soundness of financial institutions, our staff is in frequent contact with them. Additionally, FASB members and members of our senior staff meet with them on a quarterly basis and otherwise, as appropriate. We also understand the Congress's interest as a stakeholder in the FASB's work, so we provide briefings for Members and their staffs on accounting developments. In short, the FASB actively seeks input from all of its stakeholders on proposals and processes and we are listening to them. Broad consultation provides us with the opportunity for the FASB to hear and consider all stakeholder views, to identify unintended consequences, and, ultimately, to encourage acceptance and understanding of the standards that are adopted.

FASB Guiding Principles

The FASB is keenly aware of the need to balance compliance costs of standards with the benefits investors and other users of financial reports gain. The FASB's broad and inclusive consultation process helps it to assess these factors and strike appropriate balances. The FASB exercises its judgment after considering relevant research, analyzing stakeholder views, and carefully deliberating issues. The FASB is guided by the following principles:

1. To be objective in its decision making and to ensure, insofar as possible, the neutrality of information resulting from its standards. To be neutral, information must report economic activity as faithfully as possible without purposely influencing behavior in any particular direction.
2. To actively solicit and carefully weigh the views of stakeholders in developing standards and concepts. The ultimate determinant of standards and concepts, however, must be the FASB's judgment, based on research, public input, and careful deliberation, about the usefulness of the resulting information.
3. To issue standards only when the expected benefits justify the expected costs. The FASB strives to determine that proposed standards fill a significant need and that the expected costs they impose, compared with possible alternatives, are justified in relation to the overall expected benefits.
4. To issue high-quality standards, which are grounded in a consistently applied conceptual framework, set forth objectives and principles stated in clear and unambiguous language, and foster consistent application by providing structure and necessary detail derived from the principles.
5. To manage the process of improving standards in ways that balance the desire to minimize disruption of accounting and financial reporting processes with the need to improve the decision-usefulness of information in financial reports. The FASB establishes reasonable effective dates and transition provisions when new standards are introduced. The FASB also must balance the desire for comprehensive improvements in standards with the need for incremental changes that produce timely reporting improvements in areas important to users.
6. To provide clear and timely communications, endeavoring at all times to keep the public informed of important developments about the FASB's operations and activities.
7. To review the effects of past decisions and interpret, amend, or replace standards in a timely fashion if such action is indicated.

FASB Activities

Accounting standards that work provide relevant information to investors, lenders, and other financial statement users, helping them make better-informed decisions—decisions about whether to provide capital or where to lend or donate money. For an accounting standard to work, people must be able to consistently understand it and correctly apply it.

Standards that work encompass the entire standard-setting process from the research phase, through initial deliberations, and re-deliberations, to finalization of the standard and implementation efforts post-issuance.

Throughout that entire process, the FASB consistently listens and responds to stakeholders; performs quality research; and engages in quality communication. We welcome accountability to all our stakeholders.

Implementation Activities

Our work does not end when a final standard is issued. In some ways, it is just beginning. Quality standards need quality implementation. You cannot have one without the other. With that goal in mind, we undertake a variety of initiatives focused on educating our stakeholders, helping preparers and practitioners interpret the standards, and listening to our stakeholders to understand if we need to make clarifications to the standards to address unintended consequences, if any. For example, the Board recently revised its effective date philosophy and, as a result, deferred the effective date for leases, credit losses, hedging and insurance for certain entities on the basis of feedback from stakeholder outreach and from monitoring implementation. This revised effective date philosophy acknowledges that implementation is often far more challenging for private companies, smaller public companies, and not-for-profit organizations. The nature and extent of the initiatives vary depending on the scope and degree of changes in the new standard. For example, Transition Resource Groups ("TRGs") are most useful for comprehensive standards that have significant and broad changes. Accordingly, the FASB created TRGs with the issuance of our Revenue Recognition and our Credit Losses standards.

The FASB also has an implementation web portal, which is an easy-to-navigate source of information that preparers need when implementing our major new standards. Portal visitors can even link directly to our staff specialists through the FASB Technical Inquiry Service. This longstanding resource allows stakeholders to submit technical questions about any of our standards. More specifically, I will highlight some of the implementation initiatives associated with three major Accounting Standards Updates ("Updates") since I became Chairman.

Revenue Recognition

For revenue, we established a TRG made up of a cross-section of our stakeholders. The Revenue Recognition TRG addresses potential issues arising from the implementation of the revenue recognition guidance. Based on input from the TRG and other outreach performed, the FASB issued five technical improvements to address narrow aspects (to improve operability, reduce implementation cost, and mitigate the potential for broad noncomparability in application) of the guidance that do not impact the core principle of the guidance, namely that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. In addition, the FASB has answered over 200 technical inquiries, issued 60 educational papers, and held 3 dedicated continuing professional education ("CPE") webinars.

Leases

More recently for leases, the FASB has held 12 implementation Board meetings and issued 5 targeted improvements to the standard. In addition, we have responded to more than 250 technical inquiries, created 4 educational videos and held a dedicated CPE webcast.

We continue to work on leases today. We are currently in the process of performing outreach with public companies, audit firms, regulators and our advisory groups to understand difficulties that may have been experienced during implementation so that we can apply the lessons learned and determine if there are further improvements that can be made to the standard.

Credit Losses

The Credit Losses TRG met twice before the standard was issued and the discussions helped to educate the Board on concerns that Credit Losses TRG members had about the standard so that the FASB could address them before the standard was finalized. The Credit Losses TRG has also met three times since the standard was issued to discuss specific implementation issues from stakeholders. The discussions have helped to educate stakeholders broadly about the new standard, and the FASB stands ready to hold additional Credit Losses TRG meetings as needed to facilitate a discussion with the Board about aspects of the standard that may require further clarification.

We continue to make improvements to the Credit Losses standard to provide clarity that improves the operability and reduces unnecessary costs without compromising the quality of information provided to investors. Since the issuance of the standard, we have issued three technical improvements and two staff questions-and-answer documents in response to stakeholders who asked us to clarify certain aspects of the current expected credit losses ("CECL") guidance. In August, the FASB staff initiated a series of workshops around the country to help community banks and credit unions of all sizes understand the CECL standard. At these sessions, the staff dives deeper into the important concepts of the standard and provides insight into what the Board was thinking during the standard's development. The staff also answers specific questions about implementing the guidance. In 2020, the FASB will collaborate with the Conference of State Bank Supervisors to hold workshops in participating states based on each state's training needs.

Recently Completed Activities

The FASB has recently completed a number of amendments to U.S. GAAP through the issuance of Updates. These Updates include simplifications and clarifications of existing accounting standards, accommodations to improve the process for implementing new Updates, and changes to how companies recognize and present certain transactions in their financial statements and footnote disclosures. The Chairman's Report detailing all our standard-setting activities by quarter is available on our website under the Reference Library menu[1]. Some of the more significant Updates are summarized below:

1. **Revised philosophy for setting the effective dates of major Updates.** In November we issued Update 2019-10, *Financial Instruments—Credit Losses (Topic 326), Derivatives and Hedging (Topic 815), and Leases (Topic 842): Effective Dates*. This Update represents a change in philosophy for setting the effective dates of major Updates. Under the new philosophy, a major Update is first effective for public companies that are Securities and Exchange Commission (SEC) filers, excluding those entities eligible to be smaller reporting companies (SRCs) under the SEC's definition. For all other companies,

[1] The following URL links directly to the Chairman's Report: https://www.fasb.org/jsp/FASB/Page/SectionPage&cid=1176157097727

it is anticipated that the FASB would consider for comprehensive amendments, requiring an effective date staggered at least two years after the initial effective date.

The FASB has issued several major Updates since 2014. On the basis of feedback obtained from outreach with stakeholders and monitoring of implementation, the Board has gained a greater understanding about the implementation challenges encountered by all types of entities when adopting a major Update. The challenges are often magnified for private companies, smaller public companies, and not-for-profit organizations. Many factors affect the severity of the challenges encountered by those entities including the availability of internal and external resources to manage the change and the timing of education about major Updates. The FASB decided to defer the effective dates of several recently issued major Updates for certain entities in light of its enhanced understanding about the implementation challenges they face. The following Updates' effective dates were partially revised by Update 2019-10:

- Update 2016-02, *Leases (Topic 842)* was already effective for certain entities including public companies, therefore the Board retained the effective date for those companies, including SRCs. The Update will be effective beginning in 2021 for all other companies.
- Update 2016-13, *Financial Instruments—Credit Losses (Topic 326)* will be effective beginning in 2020 for calendar-year-end public companies that meet the definition of an SEC filer, excluding SRCs, and beginning in 2023 for all other companies.
- Update 2017-12, *Derivatives and Hedging (Topic 815)* was already effective for public companies, therefore the Board retained the effective date for those companies, including SRCs. The Update will be effective beginning in 2021 for all other companies.

2. **Improved accounting and reporting for long-duration insurance contracts.** The FASB completed its project on the accounting for long-duration contracts issued by insurance entities with the release of Update 2018-12, *Financial Services—Insurance (Topic 944)* in August 2018. This guidance improves financial reporting by insurance entities that issue long-duration insurance contracts such as life insurance, disability income insurance, long-term-care insurance, and annuities.

   The Update makes the following targeted improvements to the existing insurance standard:

   - *Requires updated assumptions for liability measurement.* Assumptions used to measure the liability for insurance contracts will be reviewed—and, if there is a change, updated—at least annually, with the effect recorded in net income.

   - *Standardizes liability discount rate.* The liability discount rate will be a standardized, market-observable discount rate (upper-medium grade fixed-income instrument yield), with the effect of rate changes recorded in other comprehensive income.

- *Improves measurement of market risk benefits.* The two previous measurement models will be reduced to one measurement model (fair value), resulting in greater uniformity across similar market-based benefits and better alignment with the fair value measurement of derivatives used to hedge capital market risk.
- *Simplifies amortization of deferred acquisition costs on a more level basis.* Deferred acquisition costs will be amortized on a constant-level basis over the expected life of the contract.
- *Requires enhanced disclosures.* Several new disclosures will be required, including liability rollforwards and information about significant inputs, judgments, assumptions, and methods used in measurement.

The FASB issued Update 2019-09, *Financial Services—Insurance (Topic 944)* in conjunction with the revision of its philosophy for setting the effective dates of major Updates. Update 2019-09 deferred the effective date of the improvements to the insurance standard. Under the new guidance, the standard should be applied beginning in 2022 for calendar-year-end public companies that meet the definition of an SEC filer, excluding SRCs, and beginning in 2024 for all other companies.

3. **Improved effectiveness of disclosures in the financial statements.** The FASB's Disclosure Framework project included the development of a framework in the form of a Concepts Statement for the FASB to use as a tool when setting disclosure requirements. In August 2018, the FASB completed that portion of its Disclosure Framework project by issuing a chapter of FASB Concepts Statement No. 8, *Conceptual Framework for Financial Reporting*, related to notes to financial statements. That chapter encompasses the Board's decision process component of the Disclosure Framework project. The Board's decision process helps the Board identify relevant information and establish limits on information that should be included in the notes to financial statements.

The Disclosure Framework project also included a review of existing disclosures on specific topics using the newly developed framework. The FASB has used the framework to improve disclosure requirements in fair value measurement and defined benefit plans through the issuance of the following two Updates in August 2018:

- Update 2018-13, *Fair Value Measurement (Topic 820)*
- Update 2018-14, *Compensation—Retirement Benefits—Defined Benefit Plans—General (Subtopic 715-20)*

The FASB continues its work on this aspect of the Disclosure Framework through application of the framework to existing disclosures on other topics including inventory, income taxes, and interim reporting.

4. **Aligned definition of materiality.** The FASB issued an update to an existing chapter of the Conceptual Framework that aligns the FASB's definition of materiality with other definitions in the financial reporting system. The materiality concepts will now be consistent with the definition of materiality used by the SEC, the auditing standards of the PCAOB and the AICPA, and the United States judicial system.

5. **Simplified rules around hedge accounting.** Financial statement preparers expressed concerns over the difficulties associated with applying hedge accounting and its limitations for hedging both nonfinancial and financial risks. Users of financial statements also expressed concerns over the way hedging activities are reported in the financial statements. In August 2017, the FASB issued Update 2017-12, *Derivatives and Hedging (Topic 815)*, which permits more flexibility in hedging interest rate risk for both variable rate and fixed rate financial instruments and introduces the ability to hedge risk components for nonfinancial hedges. The guidance also will enhance the presentation of hedge results in the financial statements and make targeted improvements to simplify a company's assessment of hedge effectiveness. The guidance was effective beginning in 2019 for calendar-year-end public companies and will be effective beginning in 2021 for all other companies. Those effective dates reflect the FASB's new philosophy on setting effective dates. Companies and investors alike have been extremely supportive of this Update, and many companies have decided to early adopt it.

6. **Simplified accounting for non-employee share-based compensation.** Companies sometimes grant share-based awards to nonemployees such as external legal counsel and suppliers. The FASB heard through several channels, including its ongoing dialogue with the PCC, that the accounting for share-based awards granted to nonemployees could be simplified. Some of the areas for simplification apply specifically to nonpublic entities. In June 2018, the FASB issued Update 2018-07, *Compensation—Stock Compensation (Topic 718)* to reduce cost and complexity and improve financial reporting for share-based awards granted to nonemployees. The Update substantially aligned the accounting for share-based payments to nonemployees and employees by expanding the scope of Topic 718, *Compensation—Stock Compensation*, which previously only included share-based awards granted to employees, to also include share-based awards granted to nonemployees in exchange for goods and services to be used in a grantor's own operations. The guidance was effective beginning in 2019 for calendar-year-end public companies and beginning in 2020 for all other companies.

7. **Improvements to the new lease accounting standard.** The new leases standard requires organizations that lease assets—referred to as "lessees"—to recognize assets and liabilities for the rights and obligations created by leases with a lease term of more than 12 months. The FASB has been proactively addressing implementation issues about the new leases standard since its issuance in 2016. We have issued several Updates to reduce unnecessary costs without compromising the ultimate quality of information provided to

investors. For example, we issued Update 2018-11, *Leases (Topic 842)* in July 2018 in response to feedback from our lessor stakeholders. That Update simplified transition requirements for lessors and provided a practical expedient for the separation of nonlease components from lease components. We also issued Update 2018-01, *Leases (Topic 842)* that reduces a lessee's cost to transition historical land easements to the new standard by providing an optional transition practical expedient to not evaluate existing or expired land easements under the new leases standard if they were not previously accounted for as leases under the previous leases standard. Those Updates have the same effective date as the new leases standard.

8. **Accounting for the Tax Cuts and Jobs Act.** Stakeholders in the banking and insurance industries submitted unsolicited comment letters to the FASB about a narrow-scope financial reporting issue that arose as a consequence of the Tax Cuts and Jobs Act. In response, we issued Update 2018-02, *Income Statement—Reporting Comprehensive Income (Topic 220)* in February 2018. That Update helped companies address certain stranded income tax effects in accumulated other comprehensive income (AOCI) resulting from the Tax Cuts and Jobs Act by providing companies with an option to reclassify stranded tax effects within AOCI to retained earnings in each period in which the effect of the change in the U.S. federal corporate income tax rate in the Tax Cuts and Jobs Act (or portion thereof) is recorded. Consequently, the guidance eliminates the stranded tax effects resulting from the Tax Cuts and Jobs Act and will improve the usefulness of information reported to financial statement users. The Update was effective beginning in 2019 for calendar-year-end companies. We also issued five staff Q&A documents to address various financial accounting and reporting implementation issues related to the Tax Cuts and Jobs Act including aspects of the accounting related to the Base Erosion Anti-Abuse Tax and global intangible low-taxed income.

XBRL

In 2010, the FASB assumed ongoing development and maintenance responsibilities for the US GAAP Financial Reporting Taxonomy ("Taxonomy"), which was originally developed by XBRL US, Inc. under contract to the SEC. In 2009, the SEC issued rules requiring public companies and foreign private issuers that prepare their financial statements in accordance with U.S. GAAP to phase in use of the Taxonomy. Under these rules, companies will tag and submit their financial statements and related notes to the SEC using the Taxonomy.

The Taxonomy is a list of machine-readable tags in XBRL that allows companies to label precisely the thousands of pieces of financial data that are included in typical long-form financial statements and related footnote disclosures. XBRL is a standard for tagging business and financial reports to increase the transparency and accessibility of business information by using a uniform format. Once tagged with the Taxonomy, financial reports can be analyzed rapidly and cost effectively by investors, analysts, journalists, and the SEC staff. The FASB updates the Taxonomy each year to reflect new accounting and financial reporting guidance.

Ongoing Standard-Setting Activities

The Technical Agenda Overview provides information about current FASB projects at a glance, including status updates and expected issuance timelines for due process documents and final standards. Some of our more significant projects are highlighted below. The most current Technical Agenda Overview is available on our website under the Projects menu[2]. .

LIBOR Reform

In 2018, we added a project to our agenda to broadly consider how the market wide transition from existing reference rates such as the London Interbank Offer Rate or LIBOR to more transaction based rates such as the Secured Overnight Financing Rate or SOFR would broadly affect the accounting for contracts undergoing this transition. In November, the FASB voted to approve temporary, optional, guidance to ease the potential accounting burden and facilitate this market driven initiative. The guidance will make it easier to report interest rate changes for contracts that meet certain criteria. Companies also will be permitted to preserve their hedge accounting when reference rate reform takes effect. A final Update is expected to be issued in early 2020, in time for companies to begin modifying their LIBOR based contracts and adjusting their interest rate hedges to reflect replacement reference rates.

Liabilities and Equity

Our stakeholders highlighted that the guidance on accounting for financial instruments with characteristics of both liabilities and equity was overly complex, internally inconsistent, and the source of frequent restatements. In July, we issued a proposed Update that would reduce the number of accounting models for convertible debt instruments and convertible preferred stock. It also would revise certain exceptions to the scope of derivative accounting guidance and improve and amend the related disclosure and earnings-per-share guidance. The FASB is continuing its redeliberations on this project and the final Update will seek to reduce complexity and provide investors with more useful information in this area.

Goodwill and Intangible Assets

A 2013 review of the Business Combinations standard identified stakeholder concerns about the cost to assess goodwill for impairment. Since then, the FASB has issued guidance to resolve those concerns. Some of this guidance provided relief to specific types of entities such as private companies and not-for-profit entities and based on that work we decided to revisit the subsequent accounting for goodwill and intangible assets for all companies. In 2019, the FASB issued an Invitation to Comment to gather input from a broad base of stakeholders on potential changes to the existing accounting models. We received more than 100 comment letters and invited 30 comment letter respondents to share their views on the topic at public roundtable meetings held in November. We heard diverse views during the roundtable meetings, and the

---

[2] The following URL links directly to the most current Technical Agenda Overview: https://www.fasb.org/cs/ContentServer?c=Document_C&cid=1176164187985&d=&pagename=FASB%2FDocument_C%2FDocumentPage

FASB will continue discussion about intangible assets and the subsequent accounting for goodwill early this year.

Segment Reporting

The FASB continues its work on the Segment Reporting project, the objective of which is to improve the segment aggregation criteria and disclosures to provide users with more decision-useful information about the reportable segments of a public entity. The FASB recently completed a disclosure study and will use the information obtained from that study to perform outreach with investors on potential segment disclosure improvements. We also are analyzing ways to clarify existing segment disclosure requirements on the amount of total assets by reportable segment.

Conclusion

The FASB is committed to producing high-quality accounting standards. To achieve that goal, we are committed to a comprehensive and transparent process that encourages broad participation and objectively considers all stakeholder views. In doing so, we will continue to guide and educate the public, including users, the individuals who prepare financial statements, auditors, and others. Through its open and robust process, which includes extensive outreach to stakeholders, the FASB improves the resulting standards and related implementation activities. Furthermore, the FASB's efforts also improve the common understanding of the nature and purposes of information contained in financial reports. I appreciate the opportunity to appear before you. We look forward to working with you on these and related issues.