Council of Institutional Investors®
The voice of corporate governance

Via E-Mail

September 16, 2021

Hillary H. Salo
Technical Director
File Reference No. 2021-004
FASB
401 Merritt 7
PO Box 5116
Norwalk, CT 06856-5116

Re: Agenda Consultation

Dear Ms. Salo:

I am writing on behalf of the Council of Institutional Investors (CII). CII is a nonprofit, nonpartisan association of United States (U.S.) public, corporate and union employee benefit funds, other employee benefit plans, state and local entities charged with investing public assets, and foundations and endowments with combined assets under management of approximately $4 trillion. Our member funds include major long-term shareowners with a duty to protect the retirement savings of millions of workers and their families, including public pension funds with more than 15 million participants – true "Main Street" investors through their pension funds. Our associate members include non-U.S. asset owners with about $4 trillion in assets, and a range of asset managers with more than $40 trillion in assets under management.[1]

As the leading voice for corporate governance, CII places great importance on financial statements and related disclosures as "a critical source of information to institutional investors making investment decisions."[2] And CII believes that the quality, comparability and reliability of the information contained in those financial statements, "in turn, depends directly on the quality of the financial reporting standards that: [] enterprises use to recognize, measure and report their economic activities and events . . . ."[3] Importantly, CII also believes that the responsibility to promulgate accounting standards "should reside with independent organizations" that, among other attributes, are accountable to investors.[4]

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[1] For more information about the Council of Institutional Investors ("CII"), including its board and members, please visit CII's website at http://www.cii.org.
[2] Council of Institutional Investors, CII Policies, Policies on Other Issues, **Independence of Accounting and Auditing Standard Setters** (Updated, Mar. 1, 2017), https://www.cii.org/policies_other_issues.
[3] *Id.*
[4] *Id.*

This letter is in response to the Financial Accounting Standards Board (FASB or Board) Invitation to Comment, Agenda Consultation (ITC).[5] CII generally believes the following two topics should be a top priority for the Board: (1) "ESG-Related Disclosures";[6] and (2) "Presentation of Statement of Cash Flows."[7] The following responses to select questions raised in the ITC provide more details regarding our views on the two topics and other issues:

Question 1: Please describe what type of stakeholder you (or your organization) are from the list below, including a discussion of your background and what your point of view is when responding to this ITC:
a. Academic
b. Investor, other allocator of capital, or other financial statement user, such as:
- **1. Equity analyst: buy side**
- **2. Equity analyst: sell side**
- **3. Credit-rating agency analyst**
- **4. Fixed-income analyst**
- **5. Accounting analyst**
- **6. Quantitative analyst**
- **7. Portfolio manager**
- **8. Private equity**
- **9. Lender**
- **10. Long-only focus**
- **11. Long/short focus**
- **12. Other**

c. NFP organization preparer
d. Practitioner/auditor
e. Private company preparer
f. Public company preparer
g. Regulator
h. Standard setter
i. Other.[8]

As indicated, while CII members have a variety of investment strategies, they generally have a "long-only," passive investment focus consistent with their long-term obligations and related duty to protect the retirement savings of millions of workers and their families.

Question 2: Which topics in this ITC should be a top priority for the Board? Please explain your rationale, including the following:

> **a.** **Why there is a pervasive need to change GAAP (for example, what is the reason for the change)**

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[5] FASB Invitation to Comment, Agenda Consultation (June 24, 2021), https://www.fasb.org/jsp/FASB/Document_C/DocumentPage?cid=1176176828145&acceptedDisclaimer=true.
[6] *Id.* at 9.
[7] *Id.* at 12.
[8] *Id.* at 6 (emphasis added).

b. How the Board should address this topic (that is, the potential project scope, objective, potential solutions, and the expected costs and benefits of those solutions)

c. What the urgency is of the Board completing a project on this topic (that is, how quickly the issues need to be addressed).[9]

As indicated, CII generally believes the following two topics should be a top priority for the Board: (1) ESG-Related Disclosures; and (2) Presentation of Statement of Cash Flows. Each topic will be discussed in turn.

ESG-Related Disclosures

CII generally agrees with the Board that many investors believe "disclosures about [Environmental, Social, and Governance] ESG matters and the effect on financial statements would provide decision-useful information for investors and other financial statement users."[10] Three areas in which the FASB can enhance ESG-related disclosures in response to investor needs are by improving the financial statement footnote disclosures with respect to the risks relating to human capital management, climate change and income taxes.

Human capital management

CII believes that there is a pervasive need for more information about human capital management in the financial statements.[11] We generally agree with the feedback received by the Board that "investors request[] more granularity and disaggregation about . . . [b]reakdown of cost of sales (COS) and selling, general, and administrative (SG&A) expense to understand a company's cost structure by nature (such as labor) . . . ."[12] We also generally agree with the Board's feedback that many investors believe such disaggregated information "would allow an investor to better understand a company's . . . operating results, and future cash flows."[13]

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[9] *Id.*

[10] *Id.* at 9; *cf.* Mark Maurer, CFO Journal, The New Head of the International Accounting Standards Board Outlines His Priorities, Wall. St. J. (Sept. 6, 2021), https://www.wsj.com/articles/the-new-head-of-the-international-accounting-standards-board-outlines-his-priorities-11630936800 (citing environmental, social and governance issues as one of the "most pressing accounting issues facing the IASB").

[11] *See* Letter from Jeffrey P. Mahoney, General Counsel, Council of Institutional Investors to Vanessa A. Countryman, Secretary, Securities and Exchange Commission 6 (Oct. 17, 2019), https://www.cii.org/files/issues_and_advocacy/correspondence/2019/October%2017%202019%20SEC%20comment%20letter.pdf ("Institutional and retail investors have a pronounced interest in clear and comparable information about how public companies approach [Human Capital Resources] HCR"); *see also* Climate Change and Social Responsibility: Helping Corporate Boards and Investors Make Decisions for a Sustainable World: Hearing Before the H. Comm. on Fin. Serv. Subcomm. on Investor Protection, Entrepreneurship and Cap. Markets (Feb. 25, 2021) (testimony of James Andrus, Investment Manager, Board Governance and Sustainability, CalSTRS at 5), https://docs.house.gov/meetings/BA/BA16/20210225/111245/HHRG-117-BA16-Wstate-AndrusJ-20210225.pdf ("comprehensive, high-quality, consistent, and comparable disclosures of climate risk, . . . [and] human capital management . . . are critical to the long-term success of capital markets, and more critically, of investors.").

[12] FASB Invitation to Comment, Agenda Consultation at 8.

[13] *Id.* at 11; *see, e.g.*, Letter from John Streur, President and CEO, Calvert Research and Management to Chairman Gary Gensler, U.S. Securities and Exchange Commission 3 (Aug. 30, 2021), https://www.sec.gov/comments/climate-disclosure/cll12-9190246-249462.pdf ("its disaggregation would provide

More specifically, as you are aware, back in February, the co-chairs of the Human Capital Management Coalition, representatives from two CII member funds, provided the Chair, Members and staff of the FASB with a detailed presentation about the pervasive need for the Board to require a financial statement footnote disclosure about the total cost of a company's workforce, including wages, benefits and other transfer payments, and other employee expenses.[14] As presented, this would generally involve disaggregating labor costs from a company's SG&A and COS.[15] We note that many of the amounts to be included in the proposed footnote are already collected by companies' human resources departments and, therefore, would not likely require costly "new systems and changes in control processes."[16]

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better transparency and allow investors to more clearly understand how the costs associated with human capital management impact financial performance").

[14] *See* Mary Morris, Co-Chair, Human Capital Management Coalition, Investment Officer, CalSTRS & Cambria Allen-Ratzlaff, Co-Chair, Human Capital Management Coalition, Corporate Governance Director, UAW Retiree Medical Benefits Trust, Human Capital Data, Fundamental Disclosures for Optimal Analysis and Decision Making, Prepared for FASB Agenda Consultation (Feb. 26, 2021) (on file with CII); *see also* Letter from Aeisha Mastagni, Portfolio Manager & Mary Hartman Morris, Investment Officer, California State Teachers' Retirement System to Vanessa A. Countryman, Secretary, Securities and Exchange Commission 2 (Oct. 26, 2019), https://www.sec.gov/comments/s7-11-19/s71119-6353231-195593.pdf (describing total workforce costs to include: "Salaries, bonuses and pensions inclusive of all employees - guaranteed pay, variable pay, benefits and equity pay").

[15] *See* Mary Morris, Co-Chair, Human Capital Management Coalition, Investment Officer, CalSTRS & Cambria Allen-Ratzlaff, Co-Chair, Human Capital Management Coalition, Corporate Governance Director, UAW Retiree Medical Benefits Trust, Human Capital Data, Fundamental Disclosures for Optimal Analysis and Decision Making, Prepared for FASB Agenda Consultation at 15 ("Data already included in SG&A or COGS"); *see also* Letter from John Streur, President and CEO, Calvert Research and Management to Chairman Gary Gensler, U.S. Securities and Exchange Commission at 3 ("Total workforce cost information links human capital management data directly to line items reported in a company's financial statements"); *see also* Dr Anthony Hesketh, Department of Organization, Work & Technology, Lancaster University Management School to Anne Sheehan, Chairman, Investor Advisory Committee, U.S. Securities and Exchange Commission 5 (Mar. 21, 2019), https://www.sec.gov/comments/265-28/26528-5180428-183533.pdf ("In the U.S. reporting context, human capital is a currently neglected factor of economic production requires a higher level of granularity afforded to it than currently offered by the cost of goods sold (COGS) or the general sales and administration (GS&A) on current income statements.")..

[16] FASB Invitation to Comment, Agenda Consultation at 12; *see, e.g.*, Mary Morris, Co-Chair, Human Capital Management Coalition, Investment Officer, CalSTRS & Cambria Allen-Ratzlaff, Co-Chair, Human Capital Management Coalition, Corporate Governance Director, UAW Retiree Medical Benefits Trust, Human Capital Data, Fundamental Disclosures for Optimal Analysis and Decision Making, Prepared for FASB Agenda Consultation at 9 ("Most companies also collect information for internal HR purposes such as processing payroll, also mitigating any potential costs").

While the costs for a footnote disclosure of total workforce costs would be minimal, the potential benefits to investors would likely be significant.[17] As Professor Shivaram Rajgopal, the Roy Bernard Kester and T.W. Byrnes Professor of Accounting and Auditing at Columbia Business School explains:

> One of the distressing things to me as a fundamental analyst is that only 15% of American companies actually tell us what their labor costs are.[[18]] Which to me is astonishing. Before we talk about human capital measures and all of the SEC's new initiatives, which are welcome, can somebody just tell me what the labor costs are? That would help me a lot, because that is proxy for fixed cost. If I don't know fixed cost, I don't know operating leverages for companies. This is like finance 101. So, if somebody wants to do something about the "S," [of ESG] please make sure we all get information about labor costs. That would be, I think, a step forward. In my class we spent six hours trying to guesstimate what a company's labor cost are. We use Glassdoor, indeed, LinkedIn as resources. So, the "S" related to labor has a lot of potential in terms of understanding future performance. Especially, subtle things like culture, which is important, but very hard to quantify. But right now, there is virtually nothing in terms of "S" related to labor. So, I would start there. Even if we do not accomplish a lot with this ESG movement, getting information about workforces would really help me as a fundamental analyst.[19]

Climate change

CII believes that climate change is a systemic risk, so it is critical that investors can access clear disclosures of the risks it poses to long-term value creation by the companies in which they invest.[20] We also believe that ensuring that climate risk is properly disclosed is vital to maintaining our efficient and vibrant capital markets and to the long-term success of investors as well as issuers.[21]

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[17] *See, e.g.,* Letter from John Streur, President and CEO, Calvert Research and Management to Chairman Gary Gensler, U.S. Securities and Exchange Commission at 4 ("We would . . . use this information to further assess how compensation aligns with company strategy, how companies reward performance, and how compensation might relate to other human capital metrics . . . ."); *cf.* Neeraj Tandon, Total Workforce – The New Magic Work for CFOs (Apr. 17, 2018), https://www.willistowerswatson.com/en-IN/insights/2018/04/Total-cost-of-workforce-the-new-magic-word-for-CFOs (discussing how total workforce costs can lead to better management decisions).

[18] *See, e.g.,* Dr Anthony Hesketh, Department of Organization, Work & Technology, Lancaster University Management School to Anne Sheehan, Chairman, Investor Advisory Committee, U.S. Securities and Exchange Commission at 8 (attachment) ("Compared to the UK and EU, the most striking of these is total workforce cost with less than 1:8 in the US, compared to 100% in the EU and UK.").

[19] Stakeholder Capitalism and ESG, CII Podcast (Nov. 11, 2020), https://www.cii.org/podcasts; *see, e.g.,* Shivaram Rajgopal, Labor Costs Are the Most Pressing Human Capital Disclosure the SEC Should Consider Mandating, Forbes (May 17, 2021) (on file with CII) ("labor costs—measured in dollars—eminently qualifies as a plausible and useful disclosure item).

[20] *See, e.g.,* Testimony of James Andrus, Investment Manager, Board Governance and Sustainability, CalSTRS at 6 ("Climate change is a systemic risk, so it is critical that investors can access clear disclosures of the risks it poses to long-term value creation by the companies in which they invest.").

[21] *Id.* ("Ensuring that climate risk is properly portrayed in financial statements is vital to maintaining our efficient and vibrant capital markets and to the long-term success of investors as well as issuers.").

CII agrees with the feedback received by the Board that "there is inadequate information currently being disclosed on climate risk and when climate risk would have a material effect [[22]] on an impairment analysis, fair value calculation, or estimate of expected credit losses."[23] We believe "the current inadequacies of existing disclosures about climate change by companies can lead to mispricing of assets and a misallocation of investment capital."[24]

We note that the FASB staff has specifically identified six ,disclosures required under existing U.S. generally accepted accounting principles (GAAP) which could be amended by the Board to improve the information disclosed on climate risk.[25] As you are aware, those areas include the disclosures required by: (1) Subtopic 205-40, Presentation of Financial Statements—Going Concern;[26] (2) Topic 275, Risks and Uncertainties;[27] (3) Subtopic 350-20, Intangibles—Goodwill and Other—Goodwill;[28] (4) Subtopic 350-30, Intangibles—Goodwill and Other—General Intangibles Other than Goodwill;[29] (5) Subtopic 410-20, Asset Retirement and Environmental Obligations—Asset Retirement Obligations;[30] and (6) Subtopic 410-30, Asset Retirement and Environmental Obligations—Environmental Obligations.[31] We believe prioritizing amending those required GAAP disclosures would improve the information about climate risk and help investors better evaluate potential return on investment and make more informed comparisons among investment opportunities.[32]

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[22] *See* CII policies, Policies on Other Issues, Statement on Company Disclosures (adopted Mar. 10, 2020), https://www.cii.org/policies_other_issues#Company_disclosure ("In evaluating proposals to expand company disclosure, CII considers the following factors: [] Materiality to investment and voting decisions").

[23] FASB Invitation to Comment, Agenda Consultation at 9.

[24] Letter from Jeff Mahoney, General Counsel, Council of Institutional Investors, to The Honorable Gary Gensler, Chair, U.S. Securities and Exchange Commission 2 (June 11, 2021), https://www.cii.org/files/issues_and_advocacy/correspondence/2021/June%2011%202021%20CII%20Comment%20Letter%20on%20Climate%20Disclosure%20for%20SEC%20(final)%20LN.pdf.

[25] *See* FASB Staff Educational Paper, Intersection of Environmental, Social, and Governance Matters with Financial Accounting Standards, FASB 4-7 (Mar. 19, 2021), https://www.fasb.org/cs/ContentServer?c=Document_C&cid=1176176379917&d=&pagename=FASB%2FDocument_C%2FDocumentPage.

[26] *Id.* at 4 ("Management is required to make certain disclosures if it concludes that substantial doubt exists or that its plans alleviate substantial doubt that was raised [and] [s]uch disclosures should include information about those matters that were significant to the going concern evaluation.").

[27] *Id.* (includes multiple required and encouraged disclosures that could potentially be amended to provide for more information about climate risk).

[28] *Id.* at 5 ("An entity is required to disclose, among other items, the facts and circumstances that led to the recognition of an impairment loss and the method for determining fair value").

[29] *Id.*

[30] *Id.* at 7 ("Environmental matters may affect the recognition, measurement, and disclosure of an ARO in the financial statements, for example, those related to (a) a legal obligation to remove a toxic waste storage facility at the end of its useful life or (b) a regulatory requirement to decommission a nuclear power plant or an offshore drilling platform.").

[31] *Id.* at 6 ("Entities are required to disclose the nature of the contingency and, in some cases, an indication that it is reasonably possible that the amount accrued could change in the near term [and] [f]or unrecognized loss contingencies, entities are required to disclose an estimate of the possible loss or range of losses or a statement that such an estimate cannot be made.").

[32] *See* Testimony of James Andrus, Investment Manager, Board Governance and Sustainability, CalSTRS at 6 (commenting that improved disclosures on climate risk "helps investors properly evaluate potential return on investment and to make informed comparisons among investment opportunities"); *see also* Madison Condon, Market Myopia's Climate Bubble 55 (Feb. 9, 2021) (B.U. School of L. Res.

Income taxes

CII is aware, consistent with the Board's feedback, that many "investors request[] more granularity and disaggregation . . . [including a] [b]reakdown of income tax information to better assess global tax risk."[33] For example, as the Board has heard, many investors agree that jurisdictional or country-by-country information, such as income taxes paid, could assist investors in "better understand[ing] a company's exposure to potential changes in tax legislation and the global tax risk companies may face . . . ."[34] Such information could assist investors in analyzing a company and making capital allocation decisions.[35] In that regard, we note the following comments of MFS Investment Management, who in a recent letter to the FASB, observed:

> As a result of substantial changes at a national and supranational level, as well as greater scrutiny by civil society more broadly, we have spent considerable time researching and evaluating corporate tax practices. Our research has helped us to better model earnings risk and opportunity. It has also allowed us to assess corporate governance more comprehensively, as we believe a company's tax practices—much like its accounting practices—offer an important signal regarding a management team's and board's risk tolerance.
>
> Unfortunately, our research in this area is impaired by a lack of transparency regarding corporate tax practices.

Paper), https://ssrn.com/abstract=3782675 or http://dx.doi.org/10.2139/ssrn.3782675 ("climate risk considerations [should be] . . . included in U.S. generally accepted accounting principles (GAAP)").

[33] FASB Invitation to Comment, Agenda Consultation at 8.

[34] *Id.* at 10; *see, e.g.*, Letter from Carine Smith Itenacho, Chief Corporate Governance Officer & Wilhelm Mohn, Head of Sustainability, Corporate Governance, Norges Bank Investment Management to Financial Accounting Standards Board, Atten. Technical Director, File Reference No. 2019-500, FASB (May 28, 2019), https://www.fasb.org/cs/BlobServer?blobkey=id&blobnocache=true&blobwhere=1175836007715&blobheader=application%2Fpdf&blobheadername2=Content-Length&blobheadername1=Content-Disposition&blobheadervalue2=570216&blobheadervalue1=filename%3DDISFR-TAXR.ED.008.NBIM_CARINE_SMITH_IHENACHO_WILHELM_MOHN.pdf&blobcol=urldata&blobtable=MungoBlobs ("we consider that taxes should be paid where economic value is generated and see country by-country reporting as a core element of transparent corporate tax disclosure"); Letter from American Federation of Labor and Congress of Industrial Organizations (AFL-CIO) et al. to Shayne Kuhaneck, Acting Technical Director, File Reference No. 2019-500, FASB 1 (May 31, 2019), https://www.fasb.org/cs/BlobServer?blobkey=id&blobnocache=true&blobwhere=1175836010761&blobheader=application%2Fpdf&blobheadername2=Content-Length&blobheadername1=Content-Disposition&blobheadervalue2=573866&blobheadervalue1=filename%3DDISFR-TAXR.ED.033.INVESTORS_SEE_LISTED.pdf&blobcol=urldata&blobtable=MungoBlobs ("tax information at the country-by-country level is what investors require to better understand a company's financial, reputational, and economic risks, gauge their level of risk tolerance, and make informed investment decisions").

[35] *See, e.g.,* Letter from Carine Smith Itenacho, Chief Corporate Governance Officer & Wilhelm Mohn, Head of Sustainability, Corporate Governance, Norges Bank Investment Management to Financial Accounting Standards Board, Atten. Technical Director, File Reference No. 2019-500, FASB ("We are concerned that limiting foreign income tax disclosure to an aggregate number will not provide investors such as NBIM with sufficient information for our financial analysis.").

> . . . [W]e do believe investors would benefit from improved disclosure regarding corporate taxes.[36]

Presentation of Statement of Cash Flows

CII agrees with the Board feedback from investors "that greater insight from a company's statement of cash flows is needed to project future operating results and cash flows."[37] More specifically, we would support as a top priority for the Board to improve the statement of cash flows to require presentation of cash flows from operating activities under the direct method.

We generally agree with the Board that input from investors on this topic includes the view that the:

> [I]ndirect method, which most companies utilize today to report cash flows, is not intuitive and does not provide sufficient decision-useful information. For example, some investors noted that the most decision-useful cash flow information, such as cash collected from customers, is only available in a statement of cash flows prepared using the direct method, which companies rarely utilize.[38]

Detailed operating cash flows provide much needed data and context, which many investors have been demanding for far too many years.[39] As one example, a 2009 public letter from the FASB's Investor Technical Advisory Committee (ITAC) to the Board stated:

> We strongly support the required use of a direct method cash flow statement. Although both U.S. GAAP and IFRS allow the use of either the direct or the indirect method, the overwhelming choice of reporting companies has been the indirect method, which provides **no actual cash flow information within the operating section, the single most important section of the cash flow statement.**[40]

We note that the same letter addresses some preparer allegations identified by the Board that requiring the direct method could result in "significant [costs] and would require major changes

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[36] Letter from Ted Maloney, Chief Investment Officer, MFS Investment Management to Ms. Hillary H. Salo, Technical Director, Financial Accounting Standards Board (Apr. 12, 2021), (https://www.fasb.org/cs/BlobServer?blobkey=id&blobnocache=true&blobwhere=1175836277919&blobheader=application%2Fpdf&blobheadername2=Content-Length&blobheadername1=Content-Disposition&blobheadervalue2=644659&blobheadervalue1=filename%3DITD-UNS.UNS.003.MFS_INVESTMENT_MANAGEMENT_TED_MALONEY.pdf&blobcol=urldata&blobtable=MungoBlobs.
[37] FASB Invitation to Comment, Agenda Consultation at 12.
[38] *Id.* at 12-13.
[39] *See, e.g.*, CFA Institute, Comprehensive Business Reporting Model, Financial Reporting for Investors 13 (July 2007), https://www.cfainstitute.org/-/media/documents/article/position-paper/comprehensive-business-reporting-model.ashx (stating that a principle of business reporting for investors is that the "cash flow statement provides information essential to the analysis of a company and should be prepared using the direct method only" and that investors identified the need for the direct method in 1993).
[40] Letter from Rebecca McEnally, Member, ITAC to Mr. Russell Golden, FASB Technical Director, Financial Accounting Standards Board 25 (July 1, 2009) (on file with CII).

to systems and control processes."[41] In 2009, the ITAC responded to similar preparer arguments stating:

> We strongly object to the proposition that some have put forward that because many companies' financial reporting systems are out-of-date and cannot directly produce cash flow information, that they should be permitted to approximate the information, i.e., indirectly estimate the cash flows, using extant general ledger line items for, for example, revenues, receivables, and the like.[42]

We also note that in 2021 many preparers agree that the direct method is more useful not only for investors but for management. A recent article on this topic directed at Chief Financial Officers concludes:

> The indirect cash flow statement is useless as a business tool,[] . . .
>
> The direct method, on the other hand, serves as a tool because finance staff can create a forecast that executives can understand and is actionable.[43]

In addition, CII would not object to the FASB requiring more information in the cash flow statement on the financial transactions, like reverse factoring and leasing, that are increasingly replacing cash transactions. We generally agree with the following comments of Nick Anderson, a member of International Accounting Standards Board, in a July joint meeting with the FASB about the respective agenda consultation documents:

> Transactions such as supply chain financing, lease exceptions, and international issues where debt is acquired through a business combination, are all economically equivalent to cash flow but have bypassed the cash flows statement. "I'm wondering whether we need a wholesale review of that statement. … can we really get back to that mantra—can we actually say 'cash is king?'"[44]

Question 5: The objective of this ITC and the related 2021 Agenda Consultation process is to ensure that the FASB continues to allocate its finite resources to standard-setting activities that fulfill its primary mission of improving financial accounting and reporting standards and that are of the highest priority to its stakeholders. Therefore, feedback on the prioritization of projects on the FASB's technical agenda (see Appendix A) would be helpful. Do you have any feedback on the FASB's technical agenda, including the following:

a. Which projects on the FASB's agenda should the Board prioritize completing? Please explain.

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[41] FASB Invitation to Comment, Agenda Consultation at 13.
[42] Letter from Rebecca McEnally, Member, ITAC to Mr. Russell Golden, FASB Technical Director, Financial Accounting Standards Board at 29.
[43] Robert Freedman, Editor, Direct Method Touted as Best Way to Forecast Cash Flow, CFODIVE (Mar. 9, 2021), https://www.cfodive.com/news/direct-method-cash-flow-forecasting/596422/.
[44] CPAJ News Briefs: FASB, AICPA, The CPA J. (Aug. 2021), https://www.cpajournal.com/2021/08/12/cpaj-news-briefs-fasb-aicpa-8/.

b. Which projects, if any, should the Board deprioritize or consider removing from the agenda? Please explain.

c. Which projects, if any, need to be redefined to improve the objective and/or scope? Please explain.[45]

CII has long believed, consistent with the 2008 recommendation of the U.S. Securities and Exchange Commission's Advisory Committee on Improvements to Financial Reporting (Committee), that "investor perspectives should be given preeminence by all parties involved in standards-setting."[46] In that regard, we believe a relevant, practical and cost-effective mechanism for determining which of the 37 projects listed in Appendix A should be deprioritized is simply to ask the members of the FASB's Investor Advisory Committee (IAC) to rank the 37 projects in order of priority and provide explanatory commentary. We believe the IAC ranking could, at a minimum, provide the Board with an investor-focused basis for deciding which projects to deprioritize.

Question 6: Greater disaggregation and granularity of the types of financial reporting information described in Chapter 1 have been identified as decision useful to investors. The following insights would be helpful to the FASB when considering this area:

a. Investors and other financial statement users—Which, if any, of the areas described in Chapter 1 should be a top priority for the FASB to consider requiring greater disaggregation—on the income statement, the statement of cash flows, or the notes to financial statements? Would this information be most useful in the financial statements or in the notes to financial statements? How would this information be used to analyze a company and make capital allocation decisions?[47]

As indicated in response to Question 2, CII believes the following three areas described in Chapter 1 should be top priorities for the FASB in requiring greater disaggregation in the notes to the financial statements: (1) Breakdown of COS and SG&A to understand a company's total workforce costs; (2) Effects of climate change on the existing disclosure requirements for Subtopic 205-40, Presentation of Financial Statements—Going Concern; Topic 275, Risks and Uncertainties; Subtopic 350-20, Intangibles—Goodwill and Other—Goodwill; Subtopic 350-30, Intangibles—Goodwill and Other—General Intangibles Other than Goodwill; Subtopic 410-20,

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[45] FASB Invitation to Comment, Agenda Consultation at 7 (emphasis added).

[46] Final Report of the Advisory Committee on Improvements to Financial Reporting to the United States Securities and Exchange Commission 10 (Aug. 1, 2008), https://www.sec.gov/about/offices/oca/acifr/acifr-finalreport.pdf; *see* Council of Institutional Investors, Corporate Governance Policies § 2.13a Audit Committee Responsibilities Regarding Independent Auditors (updated Sept. 22, 2020), https://www.cii.org/files/policies/09_22_20_corp_gov_policies.pdf ("Investors are the 'customers' and end users of financial statements and disclosures in the public capital markets [and] [b]oth the audit committee and the auditor should recognize this principle"); Council of Institutional Investors, Policies on Other Issues, **Independence of Accounting and Auditing Standard Setters** ("Attributes that underpin an effective accounting or auditing standard setter include: . . . Accountability to Investors – A clear recognition that investors are the key customer of audited financial reports and, therefore, the primary role of audited financial reports should be to satisfy in a timely manner investors' information needs (this includes having significant, prominent and adequately balanced representation from qualified investors on the standard setter's staff, standard-setting board, oversight board and outside monitoring or advisory groups)").

[47] FASB Invitation to Comment, Agenda Consultation at 9 (emphasis added).

Asset Retirement and Environmental Obligations—Asset Retirement Obligations; and Subtopic 410-30, Asset Retirement and Environmental Obligations—Environmental Obligations; and (3) Breakdown of income tax information by jurisdiction or country-by-country, such as income taxes paid, to better assess global tax risk.

Question 7: Investors and other financial statement users—What cash flow information, if any, required for your analysis is missing in a statement of cash flows prepared using the indirect method? How would this information influence your decisions and behavior? Please explain.[48]

As indicated in response to Question 2, CII generally agrees with investor input received by the Board that cash collected from customers is the most decision useful cash flow information and that information is not currently required in a statement of cash flows prepared using the indirect method.

Question 13: Are there common ESG-related transactions in which there is a lack of clarity or a need to improve the associated accounting requirements? Please describe the specific transactions and why standard setting is needed.[49]

As indicated in response to Question 2, we believe the FASB needs to improve the financial statement footnote requirements for ESG-related risks arising from human capital management, climate change and income taxes. Those improvements should include standard setting that provides: (1) more human capital management risk information in a footnote to the financial statements requiring disaggregated total workforce costs from SG&A and COS; (2) more climate change risk information in the existing required footnote disclosures for Subtopic 205-40, Presentation of Financial Statements—Going Concern; Topic 275, Risks and Uncertainties; Subtopic 350-20, Intangibles—Goodwill and Other—Goodwill; Subtopic 350-30, Intangibles—Goodwill and Other—General Intangibles Other than Goodwill; Subtopic 410-20, Asset Retirement and Environmental Obligations—Asset Retirement Obligations; and Subtopic 410-30, Asset Retirement and Environmental Obligations—Environmental Obligations; and (3) more jurisdictional or country-by-country income tax information, such as income taxes paid, in a footnote to the financial statements.

Thank you for consideration of CII's views. If we can answer any questions or provide additional information, please do not hesitate to contact me.

Sincerely,

Jeff Mahoney

Jeffrey P. Mahoney
General Counsel

[48] *Id.* at 13.
[49] *Id.* at 17.