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Comment Letter No. 1

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Mr. Russell G. Golden
Chairman
Financial Accounting Standards Board
401 Merritt 7
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Ms. Susan M. Cosper
Technical Director
Financial Accounting Standards Board
401 Merritt 7
Norwalk, CT 06856-5116

Dear Mr. Golden and Ms. Cosper:

One of the most frequently discussed topics in financial reporting is unnecessary complexity in accounting standards. We define an unnecessarily complex standard (or provision in a standard) as one that is costly or difficult to implement and provides little or no incremental information to financial statement users when compared with simpler alternatives. The Board has recognized this issue and in recent standards (and proposed standards) tried to avoid incorporating unnecessary complexity. In addition, the Board has considered ways to reduce unnecessary complexity in major Topics within its Accounting Standards Codification. The Board has also explored the potential for reducing complexity by reorganizing Topics and discussed this topic in recent speeches. We commend the Board and staff on these efforts.

While we encourage the Board to continue to focus on the larger Topics, we recognize that these efforts will likely be time-consuming, and therefore the benefits may be delayed. Sometimes, greater progress on a journey towards improvement can be made in smaller steps. For example, we believe the Board could make significant inroads to reduce unnecessary complexity by addressing a number of smaller issues within the Codification that affect many types of entities. Therefore, we recommend that the Board add to its agenda a standing technical amendment project in which it seeks input on and addresses several narrow, isolated issues of unnecessary complexity that can be improved relatively quickly. In the appendix to this letter we have suggested a number of topics that we believe would fit this scope and are not already part of the FASB's agenda. The topics in the appendix are some of the complex issues we frequently encounter and do not comprise a comprehensive list.

Potential root causes of unnecessary complexity are numerous. The benefits of a provision on financial reporting may change over time, expected benefits may not be realized as intended, or the costs of implementation may be greater than anticipated. Similarly, the issue of reducing unnecessary complexity is itself a complex issue with no simple solution. We hope the Board will give serious consideration to our recommendation to annually consider addressing a series of smaller, focused projects to amend narrow complications in addition to the Board's larger projects. We would be happy to help the Board in developing this initiative.

If you have any questions concerning this letter, please contact Bob Uhl at (203) 761-3152 or Jim Schnurr at (203) 761-3539.

Yours truly,

s/ Robert Uhl

Robert Uhl
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Appendix

Narrow Issues Involving Unnecessary Complexity

Topic: 330-10-35, Inventory, Adjustments to Lower of Cost or Market

Complexity: This section requires a departure from the cost basis of pricing inventory when utility of the goods is no longer as great as cost. There are exceptions to the general guidance to use the lower of cost or market, and the determination of market as indicated in the guidance contains a complex set of paths involving ceilings and floors.

Alternative: Inventories should be subsequently measured at the lower of cost or net realizable value (as defined in the Master Glossary) to eliminate the complex analyses and exceptions to general principles.

Topic: 350-20-35, Goodwill — Subsequent Measurement and 350-30-35 General Intangibles —Subsequent Measurement

Complexity: The guidance states that the test to analyze goodwill for impairment must be performed annually and at the same time every year. The guidance for analyzing other indefinite-lived intangibles also specifies the test be performed at least annually but does not indicate that the time of year must always be the same. This has been interpreted by the SEC staff to indicate that the chosen timing of the annual test of goodwill is an accounting policy and a change in this timing requires preferability analysis. In contrast, in practice the chosen timing of the annual test of other indefinite-lived intangibles is not viewed as an accounting policy. Requiring an analysis of preferability for changing the timing of the annual goodwill test adds costs with no or little benefit. (Note: as an indicator of volume, we searched SEC filings from the beginning of 2012 through the date of this letter and found that during that time period approximately 44 registrants filed preferability letters to change the date of the annual goodwill impairment test.)

Alternative: The testing of goodwill and other indefinite-lived intangibles is similar. The guidance about the timing of the tests should be similar and should follow the method indicated for other indefinite-lived intangibles.

Topic: 860-10-40, Transfers and Servicing

Complexity: This section requires as one of the conditions for derecognition of financial assets the isolation of the transferred financial assets. Derecognition of financial assets is based on a control concept. Analyzing whether financial assets have been isolated (as defined in the standard) is not necessarily consistent with the control concept and involves a complex legal analysis of generally remote situations. This analysis is difficult and costly, and does not give much perceived benefit to users.

Alternative: Eliminate the isolation condition from the criteria for derecognition of financial assets.

Topic: 260-10-45, Earnings Per Share and 480-10-45, Distinguishing Liabilities from Equity

Complexity: ASC 480 states that a forward contract to repurchase a fixed number of an issuer's shares in a physical settlement should be recognized as a liability for the purchase amount. Further, those common shares subject to repurchase should not be included in the denominator in calculating EPS. However, those shares, often common shares, receive dividends similarly to the shares not subject to the repurchase agreement. Thus, these shares are then considered participating shares and subject to the two-class method. Separating these shares under the two-class method of EPS creates additional complexity and cost.

Alternative: Eliminate the requirements under ASC 480-10-45-4 to exclude common shares subject to repurchase from the denominator in the EPS calculation (i.e., not treat such shares as participating shares).

Topic: 740-10-25-3e, Income Taxes, Recognition of Intra-entity Transactions

Complexity: This guidance prohibits the recognition of a deferred tax asset or liability for the intra-entity difference between the tax basis of an asset in the buyer's jurisdiction and its cost in the consolidated financial statements and requires deferring the recognition of income taxes paid on intra-entity profits on assets remaining within the group. As discussed in paragraphs 121-124 of FAS 109, the Board decided to resolve the conflict between ARB 51 and the assets and liability approach to accounting for income taxes by using the ARB 51 approach and deferring all the related tax effects related to intra-entity transactions until the underlying asset leaves the consolidated group. However, identifying, tracking, and deferring these intra-entity differences adds unnecessary cost and complexity without much perceived benefit to users. In addition, for certain assets that generally do not leave the group (intangibles), the deferral of recognition of the income tax consequences may be indefinite.

Alternative: Eliminate the prohibition for the recognition of the income tax consequence related to intra-entity transactions, which will also result in convergence with IFRS.

Topic: 740-30-25-17 Income Taxes, Exception to the Recognition of Deferred Taxes of Unremitted Earnings

Complexity: This guidance requires that "a parent entity shall have evidence of specific plans for reinvestment of undistributed earnings of a subsidiary which demonstrate that remittance of the earnings will be postponed indefinitely." These requirements are burdensome and costly and do not consider the underlying economic factor (i.e., tax consequence of remittance) that causes many entities to not repatriate unremitted earnings. Generally, there is not an accounting difference between U.S. GAAP and IFRS; however, the IFRS model is less burdensome and costly because it focuses on whether the parent controls the repatriation of the unremitted earnings, and its financial capacity to not repatriate the unremitted earnings in the foreseeable future (while "foreseeable future" is not defined, general practice is to analogize to the going-concern guidance in paragraph 26 of IAS 1 that refers to a period that "is at least, but not limited to, twelve months from the end of the reporting period").

Alternative: Amend the specific requirements to apply the exception to the recognition of deferred taxes of unremitted earnings to be the same as those under IFRS. Under IFRS (IAS 12.39), an entity does not recognize a deferred tax liability on unremitted earnings if (1) the parent controls the reversal of the temporary difference and (2) it is probable the temporary difference will not reverse in the foreseeable future.

Topic: 740-20-45-7 Income Taxes, Intraperiod Tax Allocation

Complexity: This guidance provides an exception, if there is a loss from continuing operations and income from other sources (discontinued operations, extraordinary items, etc.), to the incremental approach that requires that the income tax allocated to continuing operations does not consider the tax effects of items outside of continuing operations. This requirement is difficult to apply, and does not give much perceived benefit to users.

Alternative: Eliminate the exception to the intraperiod tax allocation requirements in ASC 740-20-45-7.

Topic: 740-20-45-7 Income Taxes, Presentation of Deferred Tax Accounts

Complexity: This guidance requires deferred tax accounts in a classified balance sheet to be separated into current and noncurrent based on the classification of the related asset or liability causing the book and tax basis difference. This requirement is costly and provides little or no incremental benefit to users.

Alternative: Amend the presentation of deferred tax accounts by requiring all amounts to be classified as noncurrent, which will also result in convergence with IFRS.

Topic: 718-740-35, Stock Compensation, Income Taxes — Subsequent Measurement

Complexity: The guidance in this section discusses the accounting requirements related to differences between the actual tax deduction on an entity's tax return and the amount of expense recognized in the financial statements. These differences are recorded in additional paid-in capital (APIC), however, tax deficiencies (tax deduction is less than the related financial statement expense) are only recorded to APIC to the extent there is a sufficient APIC pool, otherwise, it is recorded to the tax provision. The tracking of the APIC pool is burdensome and costly and subject to diversity in practice. It alsot does not give much perceived benefit to users.

Alternative: Eliminate the APIC pool tracking requirement by either requiring all tax deficiencies to be recorded to APIC or alternatively in the tax provision.

Topic: The interaction between ASC 710, Compensation — General, and ASC 712, Compensation — Nonretirement Postemployment Benefits

Complexity: The interaction between ASC 710 and ASC 712 can be overly complicated. For example, if the postemployment benefit is not a special termination benefit or a contractual termination benefit, ASC 712 directs you to the criteria in ASC 710-10-25-1 (the FAS 43 criteria for compensated absences). If the benefit meets the criteria in ASC 710-10-25-1, the benefit is accounted for pursuant to ASC 710. If the benefit doesn't meet the criteria in ASC 710-10-25-1, the benefit is accounted for pursuant to ASC 450.

Alternative: Instead of cross referencing the guidance, it would be helpful to have the guidance in ASC 710 repeated in ASC 712. Therefore, a benefit that is scoped into ASC 712 would be also measured and recognized pursuant to ASC 712. Although this comment is mainly focused on how the original standards were codified, we believe that the current structure of the Codification creates unnecessary complexities when determining the measurement and recognition model for postemployment benefits.