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September 30, 2014

Technical Director
Financial Accounting Standards Board
401 Merritt 7
PO Box 5116
Norwalk, CT 06856-5116

RE: Invitation to Comment – Proposed Accounting Standards Update: Inventory Topic 330, "Simplifying the Measurement of Inventory" (File Reference No. 2014-210)

Dear Technical Director:

We appreciate the opportunity to comment on the Board's Exposure Draft, *Inventory (Topic 330) – Simplifying the Measurement of Inventory*. We support the Board's objective of reducing costs and complexity in areas of existing U.S. generally accepted accounting principles (GAAP) while improving, or maintaining, the usefulness of the information provided to financial statement users. We agree that the proposed changes to the measurement of inventory are a step forward under the Board's simplification initiative. In addition to the Board's simplification initiative to identify narrow-scope projects where there may be opportunities to simplify GAAP in a relatively short period of time, we believe the Board should also develop a broader overall plan to address other substantive causes of complexity within accounting standards and financial reporting.

We agree with the overall concept of replacing the lower of cost or market measurement with a lower of cost and net realizable value (NRV) measurement because it would achieve greater convergence with IFRS. We also agree that removing the "replacement cost" and "net realizable value less an approximately normal profit margin" will likely simplify the measurement calculation and is a viable short term solution to reduce complexity. However, there are certain concepts from existing U.S. GAAP, particularly those associated with the retail inventory method, that could be impacted if the Board's intent is not clarified.

Board's Intent With Respect to the Retail Inventory Method

Currently, U.S. GAAP contains specific guidance for those applying the retail inventory method (RIM). ASC paragraph 330-10-35-7 currently states, ". . . the retail inventory method, if adequate markdowns are currently taken, accomplishes the objectives [of lower of cost or market] described herein." The proposed changes to this paragraph are somewhat ambiguous as to whether applying the RIM will continue to meet the inventory measurement objectives as modified by this proposal. The proposed wording regarding the use of the RIM states, "if adequate markdowns are taken, the **estimated cost** of inventory under the retail inventory method accomplishes the objectives described in this Subtopic because inventory would not be stated above net realizable value." (emphasis added)

Our understanding of the RIM is that while the cost of inventory under the RIM would not be above NRV, it is inherently based on the "market" concept and could, therefore, be below NRV (at replacement cost, for example). The current proposed language focuses on the RIM as an appropriate measure of cost, and not necessarily an appropriate gauge of lower of cost and NRV.

Without further clarification, a change in the application of the RIM may not accomplish the Board's simplification objectives and therefore we believe it is important for the Board to state clearly whether the RIM as currently practiced would continue to be acceptable under the proposed requirements. In considering the impact of the proposed ASU on the RIM, we believe the Board should also address the potential implications under the LIFO RIM, including situations where LIFO exceeds FIFO (in some cases such that LIFO even exceeds replacement cost). If it is the Board's intention that the application of the RIM should change, we believe this could be a fundamental shift for many retailers and therefore may require a more comprehensive analysis of inventory for retailers before instituting such a change.

Overall Plan to Address Complexity in Accounting Standards

While we support the Board's efforts to address unnecessary complexity in accounting standards through its narrow-scope projects within the simplification initiative, we believe that there are significant issues with complexity in accounting standards and financial reporting beyond the scope of narrow projects to simplify specific provisions within existing standards. In addition to the narrow simplification initiatives, we believe the Board needs to develop a broader overall plan to address systemic causes of complexity within accounting standards and financial reporting. That plan should result in development of a framework on how the Board will identify, evaluate, and prevent or mitigate potential complexity on an ongoing basis as an integral aspect of its standard-setting activities. The Board also should develop plans to address more significant areas of complexity in existing standards beyond the scope of the narrow projects within the simplification initiative. The narrow projects within the simplification initiative appropriately address concerns about complexity from the perspective of the application of a specific provision of a standard. We believe development of an overall framework on complexity should consider and address cost and complexity based on the potential impacts on the overall standard-setting process and financial reporting system, including complexity for financial statement users.

Development of a framework to address concerns about complexity should include research on the underlying causes of complexity in accounting standards and financial reporting and document a process for how the Board would intend to address those causes. Although not all inclusive, we believe development of a framework on complexity should identify how the Board will minimize or eliminate complexity that may result from, for example:

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- Multiple models of accounting for the same or similar transactions, assets, or liabilities such that similar economic events and transactions are reported differently.
- Standards that may be viewed as inconsistent with the Board's conceptual framework.
- The lack of clear principles on which a standard is based, or a lack of clarity about how to determine when exceptions to principles are appropriate.
- Inconsistent approaches to transition and standards with multiple transition alternatives, extended required effective dates, grandfathering of existing transactions, and early adoption elections.
- Differences in accounting standards for different types of entities.
- Standards that include provisions to achieve specific outcomes, such as through the use of other comprehensive income.

We encourage the Board to expand its efforts to address concerns about complexity in accounting standards beyond the narrow scope projects within the simplification initiative and develop an overall plan to address the broader systemic causes of complexity in financial reporting as well as complexity in existing standards beyond the scope of the narrow projects within the simplification initiative. We believe the development of a framework on complexity and a plan to address complexity in existing standards beyond the scope of the narrow projects within the simplification initiative should be subject to due process, including exposure for public comment.

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We look forward to working with the Board as it continues to address areas where simplification of current accounting guidance would improve financial reporting. If you have any questions about our comments or wish to discuss any of the matters addressed herein, please contact Mark Bielstein at (212) 909-5419 or Paul Munter at (212) 909-5567.

Sincerely,

KPMG LLP

KPMG, LLP

Appendix I

Question 1: *Should inventory be measured at the lower of cost and net realizable value? If not, what other measurement is more appropriate and why?*

As we noted in our accompanying letter, we are supportive of the Board's stated objectives for the Simplification Initiative and agree that the replacement of the lower of cost or market with the lower of cost and net realizable value will simplify the measurement calculation.

As is the case with this proposal, we also believe that the Board should continue to identify initiatives that can reduce complexity while maintaining the usefulness of the information provided to users of the financial statements. However, to fully realize the Board's simplification objectives, we believe clarification is necessary if the Board does not intend for there to be a change in application of the retail inventory method (RIM). It is not clear to us from the proposed ASU whether the current application of the RIM would meet the objectives of the proposal.

SEC Regulation S-X Rule 5-02.6(c) requires that when the LIFO inventory method is used, registrants must disclose the excess of replacement or current cost over LIFO value. Accordingly, the FASB should consider the consequences to SEC registrants that use LIFO of having to continue to determine replacement cost to meet their SEC disclosure obligations in evaluating the overall benefits of this simplification initiative.

Question 2: *Should the proposed Update be applied prospectively to the measurement of inventory after the date of adoption?*

While we are not opposed to the prospective method of transition outlined in the exposure draft, we believe there should be additional disclosures required to improve comparability. We acknowledge the practical difficulty of retrospective application to the historical inventory measurements; however, the prospective method does not allow for comparability of inventory carrying amounts for all periods presented. The transition disclosures specified in paragraph 330-10-65-1 would require only the disclosure of the nature of and reason for the change in accounting principle. We believe that additional qualitative and quantitative disclosures regarding the impact of the new standard would further improve comparability and the usefulness of the information reported. Disclosure of the effect on gross margin, an "as-if" disclosure of the impairment amount under the legacy U.S. GAAP method, or qualitative disclosures around the difference between the market and NRV as they directly apply to the company could achieve this objective. We recognize that requiring additional disclosures in the first period of adoption could require a company to perform the analysis under both methods (market and NRV); however, since the legacy market concept required three different measurements, including NRV, the incremental effort to compile the data for disclosure would not be significantly greater for many entities than applying current U.S. GAAP for the initial period.

Paragraph BC11 of the exposure draft states that the "proposed Update should not increase cost and complexity for any entity." We recommend that this statement be modified to acknowledge those entities where replacement cost is a more readily available metric than NRV and that have other means to determine they have not exceeded the ceiling under the existing market concept for whom cost and complexity may actually increase.

Question 3: *Should the proposed Update be effective in annual periods, and interim periods within those annual periods beginning after December 15, 2015, with early adoption permitted? Should there be a delay in the effective date for entities other than public business entities and why?*

We believe the proposed effective dates are acceptable unless the Board determines that this proposal is intended to change the application of RIM, in which case, a longer transition may be needed for such entities.

Other Observations

Paragraph BC12 of the Exposure Draft states that inventory measurement under the proposed Update would be more consistent with the measurement of other nonfinancial assets. While the current proposal might result in a reduction of complexity for entities with significant amounts of inventory, the inventory impairment model is just one of several different impairment models that would continue to be applicable to nonfinancial assets. In addition to the inventory model, existing US GAAP for nonfinancial assets include different impairment models for:

- Noncurrent depreciable and amortizable assets (ASC 360),
- Indefinite-lived identifiable intangible assets (ASC 350),
- Goodwill (ASC 350), and
- Other assets including those capitalized pursuant to the new revenue standard (ASC 340).

We believe the statement in BC12 is not correct given the significant differences in the existing impairment models. We believe the Board should consider a longer-term project to develop a more consistent and comprehensive impairment model for all nonfinancial assets.

We note that ASC paragraph 330-10-35-8 includes a sentence that applying the measurement to each item of inventory or to the total of the inventory or components of major inventory categories should "be that which most clearly reflects periodic income." However, the subsequent guidance in ASC paragraphs 330-10-35-9 and -10 would be superseded by the proposed guidance. As such, we suggest deleting the last sentence in ASC paragraph 330-10-35-8 since it relates to the deleted sections.

We noted that in the proposed amendments to the "Transition Date" preceding ASC paragraph 275-10-05-7 refer to "(P) December 15, 2016; (N) December 15, 2018." Our understanding is that this should be the effective date for public business entities and other entities in the new revenue recognition standard and therefore should be December 15, 2017 for other entities to correspond to the effective date of the revenue standard.