



December 1, 2014

Ms. Susan Coper  
Technical Director  
Financial Accounting Standards Board  
401 Merritt 7  
P.O. Box 5116  
Norwalk, Connecticut 06856-5116

**RE: File Reference No. 2014-240**

Dear Ms. Coper:

PricewaterhouseCoopers LLP appreciates the opportunity to comment on the Board's proposed Accounting Standards Update, *Technical Corrections and Improvements*. We support the FASB's ongoing efforts to provide regular updates, corrections, and improvements to the Codification.

We generally agree with the proposed amendments. In the Appendix we detail certain instances where we recommend an alternative modification.

However, in regard to Issue 34, we believe the issue is broader than a technical correction and further consideration by the Board is warranted. The proposed amendment, which suggests that a change from a practical expedient to another valuation technique is a change in estimate (rather than a change in accounting principle), has implications to other GAAP topics where practical expedients are provided. Therefore, we believe the Board should consider the question of whether practical expedients are a method of estimation or an accounting policy choice subject to preferability considerations more comprehensively.

If you have any questions regarding our comments, please contact Patrick Durbin at (973) 236-5152 or Daghan Or at (973) 236-4966.

Sincerely,

A handwritten signature in black ink that reads "PricewaterhouseCoopers LLP". The signature is written in a cursive, flowing style.

PricewaterhouseCoopers LLP



## ***Appendix—Responses to Questions for Respondents***

**Question 1: Do you agree with the proposed amendments to the Codification described in this proposed Update? If not, please explain which proposed amendment(s) you disagree with and why.**

We generally agree with the proposed amendments. Our comments and suggested modifications on certain proposed amendments are outlined below.

### **Issue 34: Amendment to Topic 820, regarding a change from a practical expedient to another valuation technique**

We believe there is diversity in whether preparers consider the use of a practical expedient to be an accounting policy election or an estimation technique. As a result, we believe that the issue is broader than can be resolved by the proposed technical correction. In addition to mid-market pricing, practical expedients are available in U.S. GAAP in the areas of fair value of loans versus discounted cash flows, use of net asset value for funds under ASC 820, and non-discounting of revenue or receivables if due in less than one year, among others. U.S. GAAP indicates that a practical expedient (a) must be used consistently and (b) is an election of an application approach, both of which are characteristics of an accounting policy. We are comfortable viewing changes to and from a practical expedient as a prospective change in estimate; however, we believe that the FASB should address more holistically whether the election of a practical expedient is a change in accounting policy subject to consideration of preferability, and how changes to and from practical expedients should be treated and disclosed.

### **Issue 3: Amendment to Topic 255, regarding banks' practice of measuring trading account securities**

Paragraph 255-10-55-2 states that banks carry trading account securities at fair value, which is accurate for investments classified as trading or available-for-sale securities within the scope of Topic 320, or securities for which the fair value option is applied. However, certain securities, such as preferred stock, that do not have a readily determinable fair market value may not be carried at fair value (unless the fair value option is elected). Therefore, the proposed language, "Banks carry these securities at fair value," may not be correct for all trading account securities. Accordingly, we believe that the amendment should be revised to clarify that only trading securities within the scope of Topic 320 are carried at fair value by banks.

### **Issue 5: Amendment to Topic 310 regarding labelling of sub-headings in the Codification**

We understand that the intent of the proposed amendment is to distinguish the applicability of parts of the guidance within this topic between loans and trade receivables.

The guidance in paragraphs 310-10-35-2 through 35-11 falls under the ultimate heading of "Loan impairment" in the proposed heading structure. However, with the exception of paragraphs 310-10-35-2, 35-4 and 35-6, the guidance within this heading is derived from FASB Statement No. 5 and would be applicable to all receivables within the scope of ASC 310. The other paragraphs, although originally derived from guidance applicable only to loans, also represent good practices for trade and other



receivables. It remains unclear whether the Codification intended for the guidance to be directly applicable to receivables. We do not believe that changing the indentation will clarify the intent.

Given that the intent of the proposed change is to clarify scope and applicability of the guidance, we suggest revising the heading preceding paragraph 310-10-35-2 to reference both loans and receivables as depicted in the table below. The guidance in this subsection relates to the accounting treatment for write offs and recoveries associated with actual losses. "Credit losses" is a broader term that includes estimated accrued losses as well as actual loss events; therefore, refinement of this title will clarify the nature of the guidance included in this section.

A corresponding change should be made to the category of subsequent measurement introduced in paragraph 310-10-35-1(a).

Heading	Related Paragraphs
> <del>Loan</del> Impairment of Loans and Trade Receivables	310-10-35-2 through 35-3

Additionally, in an effort to further clarify the headings in this section, we also recommend amending the following heading:

Heading	Related Paragraphs
> <del>Credit losses for</del> Write-offs and recoveries of Loans and Trade Receivables	310-10-35-41 through 35-42

#### **Issue 6: Amendment to Topic 310 regarding measurement of impairment when foreclosure is probable**

We do not agree with the proposed amendment. The proposed amendment is intended to clarify why use of the present value method to assess impairment may result in additional losses in comparison to the use of undiscounted cash flows. We believe the guidance in the first two sentences of paragraph 310-10-35-32 already makes clear that a creditor must measure impairment based on the fair value of the collateral when foreclosure is probable. Therefore, we recommend deleting the proposed addition and the last sentence of the current paragraph (as shown below in **bold**) as these sentences do not improve the clarity of the guidance.

Regardless of the measurement method, a creditor shall measure impairment based on the fair value of the collateral when the creditor determines that foreclosure is probable. When a creditor determines that foreclosure is probable, a creditor shall remeasure the loan at the fair value of the collateral so that loss recognition is not delayed until actual foreclosure. ~~**The requirement to discount expected future cash flows will reduce the amount of loss that would be recognized when foreclosure is probable compared with the loss that would be recognized for the same loan under an undiscounted measure of loan losses. However, the requirement to discount may not preclude the need to recognize additional loss when foreclosure is probable because estimates of expected future cash flows are not remeasured using a market rate and because estimates of expected future cash flows may change when a creditor determines that foreclosure is probable.**~~



**Issue 11: Amendment to master glossary term “readily determinable fair value”**

We agree with the proposed amendment. However, the proposed language may imply that every limited partnership and venture capital interest is an equity security because of the phrase preceding the definition of *readily determinable fair value*: "An equity security has a readily determinable fair value if it meets any of the following conditions..." Accordingly, we recommend revising condition (c) of the definition as follows (our proposed revisions are shown in **bold**):

The fair value of an investment in a mutual fund or in a structure similar to a mutual fund (that is, a limited partnership or a venture capital entity) that meets the definition of an equity security is readily determinable if the fair value per share (unit) is determined and published and is the basis for current transactions.

**Issue 12: Amendment to Topic 320 to update cross-references to the appropriate current guidance**

We agree that paragraphs 320-10-25-20 and 320-10-40-3 should be amended to correct the reference to guidance (paragraph 860-10-35-3) eliminated by the issuance of the amendments in ASU 2009-16, *Transfers and Servicing (Topic 860): Accounting for Transfers of Financial Assets*. However, we believe that the proposed references are incorrect.

The proposed amendments include references to Section 860-20-35, which provides subsequent measurement guidance. Accordingly, this section is applicable only if the underlying transfer first satisfies the conditions for derecognition in Section 860-10-40. We believe it would be more appropriate for the paragraphs in question to refer to the derecognition guidance in Section 860-10-40 because entities must first evaluate whether the sale of a structured note security qualifies for derecognition.

We recommend the following modifications to the references (our proposed revisions are shown in **bold**):

If structured notes are acquired for the type of specified investment strategy described in paragraph 320-10-25-19, then the investor shall account for the two structured note securities as a unit until one of the securities is sold, at which time the guidance in ~~paragraph 860-10-35-3 paragraphs 860-20-35-2 through 35-7~~ **Section 860-10-40** shall be applied **to determine whether the transfer of the security should be accounted for as a sale. The applicable recognition and measurement guidance in Subtopic 860-20 shall be applied if the transfer satisfies the conditions for sale accounting.**

As discussed in paragraph 320-10-25-20, if structured notes are acquired for the type of specified investment strategy described in paragraph 320-10-25-19, then the investor should account for the two structured note securities as a unit until one of the securities is sold, at which time the guidance in paragraph ~~860-10-35-3~~ **860-20-35-1** **Section 860-10-40** shall be applied **to determine whether the transfer of the security should be accounted for as a sale. The recognition and measurement guidance in Subtopic 860-20 shall be applied if the transfer satisfies the conditions for sale accounting.**



**Issue 18: Amendment to Topic 505 to include references to relevant SEC guidance**

We agree with the proposed amendment, but believe that an additional reference should be provided. The proposed amendment adds a reference for public companies to the guidance in ASC 210-10-S99-1 (paragraphs 27 and 28). This guidance originates from SEC Regulation S-X, Rule 5-02, Item 28, *Non-Redeemable Preferred Stocks*, and Item 29, *Common Stocks*. Paragraph 27 of ASC 210-10-S99-1 addresses redeemable preferred stock and presentation of subscriptions receivable within equity. Paragraphs 28 and 29 of ASC 210-10-S99-1 address non-redeemable preferred stocks and common stock, respectively. As such, we suggest that the Board amend the proposed reference to also include paragraph 29, ultimately referencing paragraphs 27 through 29 of ASC 210-10-S99-1.

**Issue 20: Amendment to Topic 715 to correct disclosure guidance for multiemployer plans and address applicability to not-for-profit entities**

We agree with the proposed amendment to remove an incorrect reference to nonpublic entities in paragraph 715-80-50-55(e).

We do not, however, support the proposed amendment in paragraph 715-30-55-63, which removes the language indicating that disclosures required for multiemployer plans do not apply to not-for-profit entities that participate in their national organization's defined benefit pension plan. The proposed amendment refers to the disclosure requirements for multiemployer plans in ASC 715-80-50. ASU 2011-09, *Compensation—Retirement Benefits—Multiemployer Plans (Subtopic 715-80): Disclosures about an Employer's Participation in a Multiemployer Plan*, specifically excludes a not-for-profit chapter that participates in an not-for-profit organization's national plan from the scope of the multiemployer disclosure requirements. As a result, we believe the existing guidance related to disclosures in paragraph 715-30-55-63 is appropriate and recommend that the reference to non-public entities in 715-30-55-63 be corrected to clarify that a statement of activities is the financial statement of a not-for-profit entity and that the remaining language relating to not-for-profit entity chapters remain unchanged.

**Issue 32: Amendment to Topic 815 to address fair value hedges of loans**

We agree that the definition of *recorded investment* in the Master Glossary should be clarified to address fair value adjustments when a loan is the hedged item in a fair value adjustment. However, we believe the proposed modifications need to be further amplified to distinguish "cumulative fair value hedge adjustments" (sometimes referred to as "basis adjustments") from the amortization of those adjustments, which would also affect the "recorded investment." Technically, the amortization of the basis adjustments is not a "fair value hedge adjustment." As such, we believe it would be more accurate for the definition to clarify that the recorded investment includes the unamortized value of the cumulative fair value hedge adjustments. We recommend revising the definition to read as follows (our proposed revisions are shown in **bold**):

The amount of the investment in a loan, which is not net of a valuation allowance, but which does reflect any direct write-down of the investment. However, if a loan is a hedged item in a fair value hedge, the amount of that loan's recorded investment should include **the unamortized value of the cumulative fair value hedge adjustments.**



**Issue 33: Amendment to Topic 820 relating to the applicability of fair value measurement and disclosure provisions to contributions received by a not-for-profit entity**

We agree with the proposed amendment to eliminate subparagraph 820-10-15-3(d) because Topic 958 and Subtopic 720-25 provide no such exemption to fair value measurement. However, we do not agree with the proposed addition of paragraph 820-10-25-3 indicating that it may be appropriate to delay recognition of an asset or a contribution in the presence of significant measurement uncertainty. Topic 820 provides guidance on fair value measurement where such measurement is required by the applicable recognition and measurement guidance. As a result, we do not believe that including what is effectively recognition guidance in this Topic is appropriate.

**Issue 35: Amendment to Topic 820 to clarify disclosure requirements for recurring and non-recurring fair value measurements**

We agree with the proposed amendment. But in addition, we recommend that the Board similarly adjust the first sentence of paragraph 820-10-50-2(a) to clarify that the fair value disclosures for nonrecurring measures should be as of the relevant measurement date: (our proposed revisions are shown in **bold**):

For recurring ~~and nonrecurring~~ fair value measurements, the fair value measurement at the end of the reporting period, and for nonrecurring fair value measurements, **the fair value measurement at the relevant measurement date and** the reasons for the measurement. Recurring fair value measurements of assets or liabilities are those that other Topics require or permit in the statement of financial position at the end of each reporting period. Nonrecurring fair value measurements of asset or liabilities are those that other Topics require or permit in the statement of financial position in particular circumstances (for example, when a reporting entity measures a long-lived asset or disposal group classified as held for sale at fair value less costs to sell in accordance with Topic 360 because the asset's fair value less costs to sell is lower than its carrying amount). For nonrecurring measurements estimated at a date during the reporting period other than the end of the reporting period, a reporting entity shall clearly indicate that the fair value information presented is not as of the period's end as well as the date or period that the measurement was taken.

**Issue 40: Amendment to Topic 944 to conform terminology related to capitalization of deferred acquisition costs**

We agree with the proposed amendment to paragraph 944-30-25-8.

We do not, however, agree with the proposed amendment to paragraph 944-30-25-9. This paragraph describes policy-related costs that are unrelated to the acquisition of a contract, but are still related to the policy (such as maintenance costs) and should therefore be included in the calculation of the profit on the contract. The proposed reference to such policy-related costs failing the deferred acquisition cost capitalization criteria is irrelevant because such costs would never be considered for potential deferral as acquisition costs since they do not relate to acquiring an insurance contract. Instead, we suggest that the



Board amend the original language in paragraph 944-30-25-9 as follows (our proposed revisions are shown in **bold**):

Costs that would be included in the determination of net premium under this Subtopic for such contracts and for purposes of determining the deferred profit for limited-payment contracts are policy-related costs that ~~do not meet the criteria for capitalization in paragraphs 944-30-25-1A through 25-1AA~~ are not primarily related to the acquisition of business **are not related to the acquisition of a business** (such as policy administration, maintenance, and settlement costs) and acquisition costs that are capitalized under this Subtopic for such contracts.

**Issue 42: Amendment to Topic 958 relating to the lapsing of donor-imposed restrictions**

We agree with the proposed changes to paragraph 958-205-45-10, but we recommend removing the phrase, "in which the nature of the restriction changes." The event described is the lapsing of the restrictions, and not a change in the nature of the restriction. As such, we recommend modifying the last sentence of the paragraph as follows (proposed revisions are shown in **bold**):

Thus, ~~the effect of the expirations of both of those restrictions (which occur simultaneously) is reported in related effects of that time restricted gift shall be reported in the period of receipt as well as the period in which the expirations occur~~ **the effect of the expirations of both of those restrictions (which occur simultaneously) is reported in the period in which the expirations occur nature of the restriction changes.**

Further, we believe the proposed example in paragraph 958-205-45-10A is unclear. It emphasizes several points related to the expiration of restrictions associated with pledges for the acquisition of long-lived assets; however, the interaction of those points is not apparent. We have the following observations and recommendations on the proposed example:

- The proposed fact pattern illustrates a pledge with payments due in future periods. With a gift of that type, paragraph 958-605-45-5 states that the entity shall reflect a time restriction unless facts and circumstances indicate otherwise. The proposed example states that the entity "might imply a time restriction," which seems inconsistent with the guidance in paragraph 958-605-45-5.
- The fact pattern omits a key fact—whether the entity has implied a time restriction on gifts of long-lived assets. If the entity has, the restrictions would presumably expire over the life of the equipment, regardless of any of the other timing issues noted. If the entity does not imply a time restriction on gifts of long-lived assets, then restrictions on the purchases of equipment would be satisfied when equipment is purchased and placed in service, regardless of whether that occurs in Year 2 (i.e., earlier than expected) or Year 3 (on schedule) in the proposed example.

**Issue 44: Amendment to Topic 958 to clarify the reference to the definition of control**

We agree that paragraph 958-605-25-33 should be amended to eliminate the link to one of the definitions of *control*. However, it is unclear why the definition used for related party disclosure purposes is needed, or why the reference to controlling financial interest has been inserted. We believe the Topic 850



definition of control is not relevant and should be deleted. We recommend revising item c in paragraph 958-605-25-33 to read as follows:

The resource provider controls the recipient entity and specifies an unaffiliated beneficiary. Several definitions of control exist. ~~The~~ **See the definition of control** **When evaluating control, the definition of control** in Subtopic 958-810 **should be used, and the**, **and, if there is a controlling financial interest, the related party disclosure definition of** ~~(remove glossary link)~~ **control** ~~(remove glossary link)~~ **in Topic 850 should be considered when determining whether one entity controls another.**

**Question 2: Will any of the proposed amendments result in substantive changes to the application of existing guidance that would require transition provisions or that the Board should consider in determining the appropriate effective date for the final amendments? If so, please describe.**

We do not believe the proposed amendments significantly change current practice, and agree with the transition guidance provided.

**Question 3: Are there other changes that should be made that are directly or indirectly related to the noted changes? Please note that the Board will conduct technical correction projects on a periodic basis and additional changes may be postponed to a subsequent technical corrections project.**

At this time, we have not identified other changes that should be made that are directly or indirectly related to the proposed changes, except for our observations and recommendations noted in our response to Question 1 above. As part of our effort to provide ongoing assistance to the Board and support the technical corrections and improvements initiative, we will continue to provide the Board with additional proposed technical corrections and suggested improvements to the Codification that we believe merit consideration in future technical corrections projects as we identify them.

**Question 4: The proposed amendments would apply to public and non-public entities. Will any of the proposed amendments require special consideration for non-public entities? If so, which proposed amendment(s) will require special consideration and why?**

We agree that the amendments should similarly apply to both public and non-public entities.