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February 29, 2016

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

RE: Proposed Accounting Standards Update, *Disclosure Framework – Changes to the Disclosure Requirements for Fair Value Measurement* (File Reference No. 2015-350)

Dear Technical Director:

We appreciate the opportunity to comment on the proposed ASU, *Disclosure Framework – Changes to the Disclosure Requirements for Fair Value Measurement*. We support the Board's objective to improve the effectiveness of disclosures in the notes to the financial statements by facilitating clear communication of information that is most important to users of an entity's financial statements.

KPMG's responses to selected Questions for Respondents are included in the Appendix to this letter. We believe that the preparers and users of financial statements are best positioned to respond to the other questions that the Board raised. This letter summarizes KPMG's significant comments:

Disclosure about Measurement Uncertainty

We believe that the Board should provide additional guidance to help stakeholders understand the term *uncertainty* as it is used in the proposed amendment to ASC 820-10-50-2(g), and specifically address how uncertainty is different from *sensitivity* as that term is used in the *FASB Accounting Standards Codification*®. We believe that it is necessary for the Board to describe what it believes is lacking in the current disclosures and seeks to add through the proposal.

Paragraph BC33 of the proposed ASU states the Board's intention in proposing the amendment:

The amendments in this proposed Update would clarify that the narrative description should communicate information about the *uncertainty* in fair value measurements at the reporting date rather than information about *sensitivity* to future changes. (*Emphasis added*)

The proposed amendments to the first and third sentences of ASC 820-10-50-2(g) state:

For recurring fair value measurements categorized within Level 3 of the fair value hierarchy, a narrative description of the uncertainty ~~sensitivity~~ of the fair value measurement ~~to changes~~

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~~in unobservable inputs if and how a change in those unobservable inputs to a different amount amounts might result in a significantly higher or lower fair value measurement at the reporting date . . . To comply with that disclosure requirement, the narrative description of the sensitivity to changes in uncertainty of the fair value measurement that would result from the use of unobservable inputs shall include, at a minimum,~~ the unobservable inputs disclosed when complying with paragraph 820-10-50-2(bbb).

It is not clear to us that the proposed amendment would change the meaning of the first and third sentences of ASC 820-10-50-2(g). The fact that the illustration of this disclosure requirement in ASC 820-10-55-106 is effectively unchanged despite the proposed amendment could give the perception to the readers that the meaning of the sentences is unchanged.

Disclosure of Time Period Used to Develop Significant Unobservable Inputs

Paragraph 820-10-50-2(bbb) of the proposed ASU would require an entity to disclose the time period used to develop significant unobservable inputs. We believe that, in isolation, this information would not provide decision-useful information because, while entities may use historical data in developing inputs, they often adjust those inputs based on differences between the conditions that existed in the historical period and the forecasted future conditions that a market participant would assume. For example, while two entities might use different historical periods as a starting point in developing an identical unobservable input, the result could be the same if each entity used the same assumptions about forecasted future conditions. Therefore, without knowing how an entity adjusted its historical data, it would not appear that this disclosure would provide decision-useful information.

* * * * *

If you have questions about our comments or wish to discuss the matters addressed in this comment letter, please contact Kimber Bascom at (212) 909-5664 or kbacom@kpmg.com, Mike Hall at (212) 872-5665 or mhall@kpmg.com, or Mark Northan at (212) 954-6927 or mnorthan@kpmg.com.

Sincerely,

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Appendix – Responses to Selected Questions for Respondents

Question 1:

Would the proposed amendments result in more effective, decision-useful information about fair value measurements? If not, please explain why. Would the proposed amendments result in the elimination of decision-useful information about fair value measurements? If yes, please explain why.

We believe that users of financial statements are generally best positioned to provide input about whether the proposed amendments provide or remove decision-useful information. However, our cover letter addresses the disclosures of measurement uncertainty and the time period used to develop significant unobservable inputs.

Question 2:

Are the proposed disclosure requirements operable and auditable? If not, which aspects pose operability or auditability issues and why?

We believe that the proposed disclosure requirements are auditable. We believe that the Board should seek views from preparers about the operability of the proposed disclosure requirements.

Question 4A:

The proposed amendments would apply to all entities, except for certain requirements in paragraph 820-10-50-2(bbb) through (d), for which private companies would be exempt. Do you agree with the exemption for private companies? If not, please describe why and which disclosures should be required for private companies.

We agree with the proposed exemption from the specified disclosure requirements in paragraph 820-10-50-2(bbb) through (d) for private companies because it is consistent with the Private Company Decision-Making Framework.

Question 4B:

Should entities other than public business entities (for example, employee benefit plans and not-for-profit organizations) also be exempt from the proposed amendments mentioned in Question 4A? If yes, please describe why and which disclosures they should be exempt from.

Employee Benefit Plans

We believe that the Board should seek views from users of employee benefit plan (EBP) financial statements about the usefulness of the disclosures. However, we note that certain paragraphs in

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the basis for conclusions in ASU 2015-12, *Plan Accounting: Defined Benefit Pension Plans (Topic 960), Defined Contribution Pension Plans (Topic 962), Health and Welfare Benefit Plans (Topic 965) (Part I) Fully Benefit-Responsive Investment Contracts, (Part II) Plan Investment Disclosures, (Part III) Measurement Date Practical Expedient*, suggest that the proposed additions to ASC 820-10-20-2(bbb) and (d) may not be useful. For example, paragraph BC5 of ASU 2015-12 quotes a regulatory user who relies on the ASC 820 disclosures “to pinpoint certain types of investments that may require further investigation (that is, these disclosures are used as a “red flag” approach)”. A user following this approach would be unlikely to derive benefit from the further disaggregation of unrealized gains and losses between Level 1 and Level 2 of the fair value hierarchy in the proposed amendment to ASC 820-10-20-2(d). Similarly, a financial statement user that is focused on understanding the extent of measurement uncertainty and/or using a *red flag* approach for regulatory purposes may not find the disclosures pertaining to the range, weighted average, and time period used to develop significant unobservable inputs for Level 3 fair value measurements [ASC 820-10-50-2(bbb)] to be useful; those disclosures would be more appropriate for a user who is weighing an investment decision.

We also understand that disaggregation between Level 1 and Level 2 often needs to be prepared manually, which would make these disclosures costly.

For these reasons, we recommend that EBPs disclose only unrealized gains and losses for Level 3 fair value measurements (consistent with the current disclosure requirements) and, similar to private companies, be exempt from the requirement to disclose the range, weighted average, and time period used to develop significant unobservable inputs for Level 3 fair value measurements [ASC 820-10-50-2(bbb)].

Not-For-Profit Organizations

Users of financial statements issued by not-for-profit organizations (NFP) also have different objectives from users of financial statements issued by for-profit entities. We note that the Board recently addressed an issue of disaggregated information on investment returns for NFPs in its deliberations on the proposed ASU, *Presentation of Financial Statements of Not-for-Profit Entities*¹, and decided that the costs to obtain that information would exceed the benefit that it might provide to users of financial statements. We encourage the Board to consult with the Not-For-Profit Advisory Committee and other users of NFP financial statements to obtain input about whether the costs to obtain information for disclosures such as the disaggregation of the unrealized gains and losses by Level 1 and Level 2 of the fair value hierarchy, and the range, weighted average, and time period used to develop significant unobservable inputs for Level 3 fair value measurements [ASC 820-10-50-2(bbb)] would exceed the benefits provided to users of financial statements.

¹ The Board addressed whether investment returns and investment expenses should be separately reflected (Paragraph BC 100).

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Question 6:

The proposed amendments to paragraph 820-10-50-2(bbb) require that a reporting entity disclose the time period used to develop significant unobservable inputs. What would be the costs associated with including this disclosure? Would this disclosure provide more effective, decision-useful information?

As discussed in our cover letter, we believe that the proposed disclosure of the time period to develop significant unobservable inputs will often not provide more effective, decision-useful information because the reader will not have an understanding of how the historical information was adjusted. We believe that the Board should seek views from preparers about the costs associated with the proposed disclosure.

Question 9:

How much time would be needed to implement the proposed amendments? Should the amount of time needed to implement the proposed amendments by nonpublic business entities be different from the amount of time needed by public business entities? Should early adoption be permitted? If yes to either question, please explain why.

We believe that the Board should seek views from preparers about the time needed to implement the proposed amendments, taking into account additional data requirements and their existing arrangements with third party service providers who may assist them with estimating fair value. We believe that the final ASU should permit early adoption, at least for the provisions of the proposed ASU that would remove disclosure requirements, as that would reduce unnecessary disclosures and related costs.