



February 29, 2016

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

Re: File Reference No. 2015-350

Dear Ms. Cospier:

PricewaterhouseCoopers LLP appreciates the opportunity to comment on the FASB's Proposed Accounting Standards Update, *Fair Value Measurement (Topic 820), Disclosure Framework—Changes to the Disclosure Requirements for Fair Value Measurement* (the "ED") and the supplemental paper included within it, *Decision Questions Considered in Establishing Disclosure Requirements* (the "supplemental paper").

We support the Board's overall objective in the disclosure framework project to make financial statement disclosures more effective, balancing the information needs of financial statement users with the costs and complexity of producing that information. Further, we agree with the FASB's expected approach of considering the feedback on the ED with feedback on the disclosure framework proposed in March 2014 and on the other tests of that framework in the areas of defined benefit plans, income taxes, inventory, and interim reporting. We propose that no changes to the disclosure requirements in any of those areas be finalized until all feedback is considered.

We are providing our views on whether the proposal improves the effectiveness of disclosures related to fair value measurement. That is, we are commenting on the merits of the proposed disclosures and on how the proposed framework was applied, without expressing a view on the proposed disclosure framework directly.

Fair value disclosures

The Post-Implementation Review ("PIR") Report on FASB Statement No. 157, *Fair Value Measurements* (codified in ASC 820), states that preparers and practitioners "cited concerns about disclosure overload, particularly as it relates to Level 3 disclosures..." As a result, a perception exists that this project is intended to address those concerns. We acknowledge that the Board's stated objectives in the disclosure framework project do not include an explicit goal of reducing the volume of disclosures. Nevertheless, we do not believe the proposed modifications significantly improve disclosure effectiveness related to fair value measurements, and, as a result, question the need for these amendments. We believe a more impactful solution could be achieved by focusing on the foundation of the disclosures, the fair value hierarchy.



The fair value hierarchy is a three-level hierarchy based on the observability (i.e., availability of market data) of the inputs in fair value measurements. We have observed diversity in practice in how companies categorize financial assets and financial liabilities within the hierarchy, which has led to inconsistent application of the existing disclosure principles. Addressing some of the practical issues in applying the fair value hierarchy, specifically the misconception that the levels are based on the relative liquidity or risk of the items, rather than the observability of the inputs to fair value measurement, would be a more effective approach to improving fair value disclosures.

We believe the confusion in practice today will only be exacerbated by language in the Basis for Conclusions of the ED that suggests that the fair value hierarchy is based on liquidity. For instance, paragraph BC15 supports removal of the disclosure of transfers between Levels 1 and 2 of the fair value hierarchy because such information “can be misleading about the liquidity of the securities in an entity’s portfolio.” Also, we believe a prior technical correction in ASU 2012-04, *Technical Corrections*, created similar confusion. That correction amended the guidance in ASC 230-10-15-4(c)(2) related to the statement of cash flows, but it inappropriately equated liquidity with Levels 1 and 2 and, in turn, illiquidity with Level 3. We suggest that the Board update the Basis for Conclusions and add guidance in the final ASU to clarify the purpose of the fair value hierarchy and dispel the notion that the levels represent degrees of liquidity.

Disclosure objective

One of the key elements of the disclosure framework project is the introduction of key “disclosure objectives” in each topical section. We support the addition of disclosure objectives to assist entities in determining when disclosures should be made. However, the stated objective for fair value disclosures proposed in the ED provides a list of various aspects of fair value measurement rather than an overall objective. We encourage the Board to develop a better objective of the fair value disclosures aligned with the objective of financial reporting in general. The objective of financial reporting in *Statement of Financial Accounting Concepts No. 8* is to provide financial information about the reporting entity that is useful to investors and creditors in making investment decisions. In our view, that does not mean that the financial statement disclosures should contain all information necessary for users to develop independent or alternative valuations of an entity’s assets and liabilities.

The underlying premise of fair value measurement is that it is intended to represent the rights to future cash flows embodied in a particular asset or liability. In theory, a properly-determined fair value provides the information a user would need to assess an asset’s or liability’s future cash flows. However, given that fair value measurements are estimates, some of which are based on data that is not readily observable in the market, we propose that the overarching objective of disclosures in this context is to provide the user with information about the manner in which fair value was determined and the relative observability of the inputs, with an emphasis on those with the least observable information.

The current and proposed disclosures primarily relate to Level 3 measurements, which is consistent with the input from users described in paragraph BC26 that there is more certainty about Level 1 and Level 2 fair value measurements. Given this feedback and the Board’s stated focus in ASC 820-10-50-1D(c) on



disclosures related to Level 3 measurements, we question the need for the proposed disclosure of unrealized gains and losses segregated by Level 1 and Level 2 instruments.

Materiality

We support the elimination of phrases like “an entity shall at a minimum provide” and other wording that could appear to limit an entity’s discretion to omit immaterial disclosures. We believe this supports the Board’s intent to clarify that entities have flexibility to determine what information is material for disclosure in their financial statements.

“Private” companies, not-for-profit organizations, and employee benefit plans

We agree with the statement in the FAS 157 PIR report that users of private company, employee benefit plan, and not-for-profit financial statements may have different information needs than public company users. We generally believe that these entities should have fewer disclosure requirements than public entities in the area of fair value.

However, we believe the ED has not clearly delineated the disclosures applicable to private companies, not-for-profits, and employee benefit plans. Preparers at these entities may be confused by the ED’s reference to both “nonpublic entities” and “private companies.” As a result, they may be unsure which disclosures are applicable to their entity. The term “nonpublic entity” is a dated definition that may create confusion and should not be used. New standards and amendments to existing standards should use or be based on the definition of a “public business entity” from ASU 2013-12, *Definition of a Public Business Entity*. We continue to believe that practice would be better served by a single definition of a private company. For the sake of clarity, we believe the Board should specify which disclosures would be required for a public business entity, an NFP, and an EBP, using current and consistent terminology.

Application of the proposed disclosure framework

The supplemental paper distributed with the ED states that the FASB’s approach to answering the decision question in proposed framework for fair value disclosures only considered fair value measurement, not the underlying assets and liabilities, because ASC 820 only pertains to measurement. We found this logic challenging to follow because we believe that effective disclosure of fair value measurements requires an understanding of the nature of the assets and liabilities being measured. We note that a number of the proposed disclosures include information on the nature of the instruments and the approaches to their measurement. Further, an understanding of the underlying assets and liabilities is necessary to ensure that no disclosure is either overlooked or duplicated with those in another area, such as the recognition and measurement of financial instruments.

By considering the underlying assets and liabilities, we would answer certain decision questions differently. For instance, decision question L2, which asks whether the financial statement line item represents financial instruments, is answered as “not applicable.” However, the most frequent characteristic of an asset or liability measured at fair value is that it is a financial instrument. Although different responses to these decision questions would not directly drive different disclosure conclusions,



we believe the parameters for applying the framework are important in determining how to apply it to other topics.

In the rollforward of Level 3 instruments, the Board overrode the framework. The rollforward of Level 3 fair value measurements was not indicated by the framework, yet the Board proposed to retain it because “most users” find it helpful. In our view, the challenge for the Board is to determine those disclosures that are *most* useful in the context of the objectives of financial reporting and the specific topic for which the disclosure is being evaluated. The usefulness should then be balanced against the cost to preparers of developing and maintaining processes to accumulate those disclosures. While we acknowledge the Board’s authority for departing from the framework when warranted, in those cases they should clearly articulate their rationale in relation to the overall objective of financial reporting.

* * * * *

The appendix to this letter contains our responses to the Questions for Respondents in the ED, which includes additional observations and in some cases expands on our comments above. If you have any questions, please contact Patrick Durbin at (973) 236-5152 or Christopher May at (973) 236-5729.

Sincerely,

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

PricewaterhouseCoopers LLP



Appendix

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.

While some of the proposed changes result in more decision-useful information, on balance, we do not believe the ED improves disclosure effectiveness. As noted in our cover letter, we believe clarification of the fair value hierarchy, which forms the foundation for fair value measurement disclosures, would be more impactful. Following are our specific comments on each of the proposed changes.

Measurement uncertainty

The proposed measurement uncertainty disclosure is an update of the current sensitivity disclosure. We agree that it is more appropriate for financial statements to address uncertainty at the measurement date rather than the impact of possible future changes (sensitivity). However, we note that some observers have already expressed concerns that the sensitivity disclosures are at times too basic to be decision-useful. We are concerned that the proposed measurement uncertainty disclosures will not represent an incremental improvement. While we agree with the Board's decision not to propose a quantitative disclosure of measurement uncertainty, we note that it is also difficult to create and audit a meaningful qualitative disclosure because of the often dynamic relationship of Level 3 inputs.

Not all assets within a given class will react in a consistent manner to movements in an input. To that end, we believe the implementation example in ASC 820-10-55-106 is inaccurate. Specifically, increases in prepayment rates may increase or decrease the fair value of residential mortgage-backed securities (RMBS) depending on whether the value of the securities is driven by (1) the return of principal (in which case, increased prepayments would accelerate the principal flow and increase the value of the bond) or (2) the coupon payments (in which case, increased prepayments would reduce the coupon cash flows, reducing the value of the bond). This is further complicated by the interdependency between and among certain inputs. As a result, the disclosure of how such complex interrelationships might impact the fair value measurement may be difficult and may not be meaningful.

In addition, we disagree with the retrospective transition proposed for this disclosure. It seems unnecessary to discuss measurement uncertainty of instruments at a reporting date more than a year in the past, particularly when the instruments may have been sold or settled in the interim.

Transfers between Levels 1 and 2

We agree with eliminating the required disclosure of transfers between Levels 1 and 2.

Policy for timing of transfers

We agree with eliminating the required disclosure of the policy for reporting the timing of transfers when it is not otherwise subject to disclosure as a significant accounting policy.



Unrealized gains and losses

We question the proposal to extend the disclosure of unrealized gains and losses beyond Level 3 instruments. Paragraph BC26 states that “most users indicated that there is more certainty about Level 1 and Level 2 fair value measurements than Level 3 fair value measurements because they are based on observable prices,” which does not suggest a need for additional disclosure of observable measurements. We would support disclosure of the total unrealized gains and losses, or retaining disclosure of the unrealized gains and losses only on Level 3 fair value measurements.

In addition, without information about the volume of instruments or the period during which they have been held, we disagree with the statement in BC20 that the amount of unrealized gains and losses in any given period would provide useful information about volatility. We suggest the Board clarify or remove this statement from the Basis for Conclusions.

If the proposed disclosure is retained, the illustrative example should be clarified in relation to the requirement in the standard to provide this information by asset class. ASC 820-10-50-2 requires “information for each class of assets and liabilities,” but the illustrative example in ASC 820-10-55-100A is not broken out by asset class. We note, however, that for many entities, that level of disaggregation would exponentially increase the costs of compliance and, in our view, would not be justified by the limited benefits we believe the disclosure provides.

Liquidation timeline of underlying assets in a fund

We agree with the proposed modifications to this disclosure.

Question 2 : Are the proposed disclosure requirements operable and auditable? If not, which aspects pose operability or auditability issues and why?

We expect that preparers will be able to accumulate the information necessary to provide the proposed disclosure, but as noted in our response to Question 3, not without incremental cost.

It may be difficult to audit the measurement uncertainty disclosure for instruments valued by external pricing services depending on the nature of the information provided.

Question 3: Would any of the proposed disclosures impose significant incremental costs? If so, please describe the nature and extent of the additional costs.

The proposed disclosure of unrealized gains and losses will require the collection of additional data that many preparers may not currently collect. Consequently, we expect the proposed disclosure will require additional time and potentially new systems, processes, and controls, which will result in increased cost.



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.

According to the FAS 157 PIR, some investors do not think fair value measurements and the related disclosures are meaningful for employee benefit plans, not-for-profit organizations, or private companies given the different information needs of the users of those entities' financial statements. We agree with that assessment and therefore support fewer fair value disclosures for these entities.

In addition, we believe the ED has not clearly delineated the disclosures applicable to private companies, not-for-profits, and employee benefit plans. The ED refers to "nonpublic entity" in ASC 820-10-50-2F and "private company" in ASC 820-10-50-2G. "Public business entity" is only referred to in the Questions for Respondents. The term "nonpublic entity" is a dated definition that may create confusion and should not be used. The term "private company," which is pending content in ASC 350, *Intangibles*, is defined as an entity other than a public business entity, an NFP, or EBP. We understand that NFPs and EBPs are finding this language difficult to understand.

We continue to believe that practice would be better served by a single definition of a private company. New standards and amendments to existing standards should use or be based on the definition of a "public business entity" from ASU 2013-12. The Basis for Conclusions of that ASU states: "The Board discussed that one of the primary objectives of the project is ... to use the definition on a consistent basis in future deliberations ..."

We believe the Board should clearly specify whether each disclosure should be required for each type of entity: a public business entity, an NFP, and an EBP, using current and consistent terminology. Because of the degree to which the required disclosures applicable to each of these entities may diverge, we also believe it would be more helpful to preparers if the final guidance detailed the requirements for each type of entity, rather than providing a single list with a separate description of exemptions or exceptions in later paragraphs.

Because of the various terms used to refer to private companies, we noted an inconsistency between a proposal in the ED and a change finalized in ASU 2016-1, *Recognition and Measurement of Financial Assets and Financial Liabilities*. ASU 2016-1 amended ASC 825, *Financial Instruments*, to exempt entities other than public business entities from disclosure of the fair values of financial instruments that are not measured at fair value. In ASC 820-10-50-2E and 2F, the ED exempts a "nonpublic entity" from those disclosures. Because these terms do not describe the same group of reporting entities, the FASB should use the same description used in 2016-1 in the ED.

We disagree with the proposal in the ED for private companies, as defined, to no longer provide a full rollforward of recurring Level 3 fair value measurements, but instead disclose transfers into and out of Level 3 and the purchases and issuances of Level 3 assets and liabilities. As proposed, this would not be a comprehensive disclosure and could be misleading. We suggest the disclosure be removed altogether for nonpublic business entities.



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.

As noted in our response to Question 4A, we support fewer fair value disclosures for employee benefit plans and not-for-profit entities.

Employee benefit plans (EBPs)

We believe EBPs should also be exempt from the disclosures mentioned in Question 4A.

We do not believe that EBPs should disclose measurement uncertainty, weighted average, or time period considered in the development of significant unobservable inputs. There are constraints on plans' abilities to produce some of the information required for those disclosures. Often, it is obtained from third-party pricing services, and obtaining extra information would result in extra cost to the plans.

The measurement uncertainty disclosure differs from the existing requirement to disclose sensitivity in one important way. Plan financial statements may be issued six to nine months after the reporting date, and information about how values might have changed at the reporting date if inputs were different would not provide useful information at the date the financial statements are issued.

We do not believe EBPs should be required to disclose unrealized gains and losses for instruments in each level of the fair value hierarchy. The distinction between realized and unrealized gains and losses is generally not meaningful for plans because all realized gains are reinvested. Adding that disclosure would, in effect, undo the simplification in ASU 2015-12, *Plan Accounting: Defined Benefit Pension Plans (Topic 960), Defined Contribution Pension Plans (Topic 962), and Health and Welfare Benefit Plans (Topic 965): Fully Benefit-Responsive Investment Contracts, Plan Investment Disclosures, and Measurement Date Practical Expedient*, that removed the requirement to disclose net appreciation or depreciation by investment category.

Not-for-profit entities (NFPs)

The Board's Not-for-Profit Advisory Committee's (NAC) has been a supporter of measuring investments at fair value, but has repeatedly expressed concerns to the Board about disclosure "overload" in this area. Based on this, coupled with the findings of the FAS 157 PIR report, we believe the FASB should separately evaluate fair value disclosure requirements for NFPs, rather than simply extending decisions made in the public or private company context to NFPs. Although many NFPs have extensive portfolios of investments, the evaluation of which fair value disclosures are necessary for NFPs should not default to the full slate of disclosures, but instead consider (1) the needs of users, and the extent to which the existing NFP-specific disclosures for endowments (ASC 958-205) already meet them, and (2) the cost/benefit of providing each disclosure.



Question 5: The proposed amendments to paragraph 820-10-50-2(bbb) require that a reporting entity disclose the weighted average of significant unobservable inputs used in Level 3 fair value measurements. Are there classes of financial instruments for which this disclosure is inoperable or does not provide meaningful information? If yes, please describe those classes of financial instruments and explain why.

The weighted average of the significant unobservable inputs may be useful when the range of input values is wide, provided it is accompanied by the way in which it was calculated. However, there are certain inputs for which the weighted average is not meaningful, and we do not believe it would be practicable for the FASB to provide an all-inclusive list of those inputs for which the disclosures are, or are not, meaningful. Instead, we suggest that the disclosure be required “if applicable” or “if meaningful.”

Paragraph BC46 in the Basis for Conclusions is inaccurate. It states that constant prepayment rate is an unobservable input in the valuation of commercial mortgage-backed securities (CMBS). However, constant prepayment rate rarely impacts the valuation of CMBS; it is assumed to be zero because the underlying assets often cannot be prepaid for significant periods of time. We note that constant prepayment rate is also included as an input in the valuation of CMBS in the implementation example in ASC 820-10-55-103. Any update to the description in BC46 should be similarly reflected in that example.

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?

We believe preparers are better positioned to comment on the costs of developing and maintaining processes to collect and accumulate this information for disclosure.

We do not believe the time period considered in development of certain significant unobservable inputs would provide decision-useful information to investors. Time period is one data point in development of the input and should not require separate disclosure. Also, the range of years used for a given instrument class can be wide, depending on the level of aggregation, reducing the usefulness of the information.

Further, the time period of data reviewed to develop inputs may not be meaningful for instruments valued at the individual contract level and aggregated by class. Many of the assumptions driving structured security valuation will be based on security-specific collateral performance over a trailing historical period. This metric may be more meaningful for a homogeneous portfolio whose unit of account is the portfolio (e.g., a non-performing loan pool that is valued based on macroeconomic factors impacting the liquidation timeline over a specific time period).

Question 7: Are there any other disclosures that should be required by Topic 820 on the basis of the proposed Concepts Statement or for other reasons? Please explain why.

We are not aware of any additional disclosures that should be required by Topic 820.



Question 8: Are there any other disclosure requirements retained following the review of Topic 820 that should be removed on the basis of the proposed Concepts Statement or for other reasons? Please explain why.

Other than as indicated in the responses to the other questions, we do not propose to remove any other disclosures from Topic 820.

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 suggest that the determination of time period required for implementation be left to preparers. Accordingly, we have no recommendation on this point.

We believe that early adoption should be permitted.