

February 29, 2016

Submitted via email: [director@fasb.org](mailto:director@fasb.org)

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

File Reference No. 2015-350

Dear Technical Director:

The Technical Issues Group (TIG) of the Missouri Society of CPAs (MSCPA) appreciates the opportunity to respond to certain matters in the Proposed Accounting Standards Update. The views expressed herein are written on behalf of the TIG of the MSCPA. The TIG has been authorized by the MSCPA Board of Directors to submit comments on matters of interest to the society's membership. The views expressed in this letter have not been approved by the MSCPA Board of Directors or Executive Board and, therefore, should not be construed as representing the views or policy of the MSCPA.

We generally agree with the direction taken by the Financial Accounting Standards Board (Board). We agree Proposed Accounting Standards Update No. 2015-350 generally meets the objectives of financial reporting by providing more consistent information on these assets and liabilities and eliminates information that is not decision useful. However, we feel the cost of preparing and auditing the additional Level 3 reporting requirements may exceed the benefits specifically during periods of uncertainty and volatility in the financial markets.

Thank you for considering our comments. We would be pleased to respond to any questions the Board or its staff may have about the following comments. Please direct questions to Mark Winiarski, TIG Chairman, [MWiniarski@CBIZ.com](mailto:MWiniarski@CBIZ.com).

Sincerely,



Mark Winiarski, CPA  
TIG Chairman



Robert Singer Ph.D., CPA  
Project Leader



Jeff Antrainer, CPA  
Project Leader

**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.**

**Response:** We believe that the omissions included in the proposed amendments would improve the relevance of footnote disclosure related to the nature and determination of fair value measurement of assets and liabilities. The proposed omissions are consistent with Proposed Accounting Standards Update—*Notes to Financial Statements (Topic 235): Assessing Whether Disclosures are Material* as they relate to materiality, and in this respect would assist the reporting entity in determining the relevant information regarding fair value measurement of several categories of assets and liabilities. Thus, in regard to the second question, we do not believe that the proposed amendments would result in the elimination of decision-useful information about fair value.

At the same time, the additional required disclosures as they relate to changes in unrealized gains/losses affecting net income and other comprehensive income disaggregated by level of the fair value hierarchy may allow users to better assess the significance and relative importance of various asset and liability classes. We believe that this information may be important to professional investors and when the nature of the business is primarily investing. In our experience these disclosures would have limited usefulness for the average financial statement user that is more concerned about operational aspects of the business and in circumstances when the financial instruments are ancillary to the business of the entity even though they may be material. As discussed in Questions 2 and 3, we also believe that this information will require significant modification to systems in order to be operable and will be costly to prepare. For these reasons, we agree with the decision to exclude private companies from this disclosure requirement and encourage the board to consider if other companies should be exempted.

Disclosures explaining how the entity determined the range, weighted average, and time period of unobservable inputs, will allow the user to better understand and evaluate the relative importance of Level 3 fair value measurements. To the extent that the secondary informational qualities of comparability and consistency are enhanced by the omission of immaterial disclosures and inclusion of the proposed disclosures, this update is well anchored to the U.S. conceptual framework (i.e., the Statements of Financial Accounting Concepts). However, we question whether the disclosure about the time period used for unobservable inputs is useful for investors because of difficulty that may exist in comparing time periods across similar entities. Determination of the time period when it is applicable to a measurement will include significant judgment when the development of the fair value estimate includes the exclusion of outlier events. In addition, while the time period would be useful when comparing the same asset or liability between entities, the necessary aggregation of investments would likely limit or eliminate the benefit and may simply create confusions for users of the financial statements.

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

**Response:** We believe that some of the proposed disclosure requirements, particularly, as they relate to Level 1 and 2 of the fair value hierarchy are operable and auditable. From an operations standpoint, the reporting entity should be able to disaggregate the various assets/liabilities requiring a fair value measurement into Level 1, 2, and 3 categories. We caution that many companies do not currently have systems designed to produce information

disaggregated by level and that information that is currently presented by level is often done through a labor intensive manual process. Considering the lack of existing systems, as well as, challenges with tracking and reporting gains and losses when measurements are transferred between levels, we believe that companies will require an extended period of time in order to implement systems that will allow these disclosures to be operable. With regard to Levels 1 and 2, where the inputs used in the various valuation methods are observable, management should not have too much difficulty explaining the basis of measurement. Moreover, management should be able to explain its justification for using an income as well as a market approach or vice versa or why circumstances might justify using a replacement cost approach. Furthermore, auditing these disclosures will require additional effort and cost, but should be auditable.

In contrast, the subjectivity inherent in determining the assumptions market participants might use in determining unobservable inputs associated with Level 3 assets/liabilities might prove difficult to operationalize, and even more difficult to audit. Determining whether an asset has a higher or best use as a standalone asset or synergistically in conjunction with other assets or asset groups might prove difficult to justify even with respect to Level 1 and 2 asset/liabilities. In addition, determining the reasonable range will require significant judgment. From an operations standpoint, we are concerned that companies will default to disclosing a large range in order to avoid operational and auditing difficulties. A large range that encompasses both reasonably likely and unlikely outcomes would eliminate the benefit to investors. We encourage additional focus, research, and standard setting on defining the appropriate range that should be disclosed.

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

**Response:** Based on response to Question 2, we believe that significant incremental cost would be associated with disclosures related to Level 3 elements. Specifically, having to document how a company determines the “range, weighted average, and time period used to develop the unobservable inputs” will place a burden on a company’s information system to generate data and its ability to track changes in these variables. Additionally, having to determine and explain re-classifications in and out of Level 3 to lower levels will increase not only a company’s administrative cost (e.g., record keeping, internal audit), but also increase the cost of the independent audit. The additional Level 3 disclosures may lead reporting entities to include an excessive quantity of information due to their inherent subjectivity.

We also believe that implementation of disclosures related to gains and losses by fair value level may require significant initial costs to design and automate systems to properly classify and capture the necessary information. After the initial implementation of appropriate systems, we believe the cost of providing the required information would be manageable.

**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.**

**Response:** We agree that private companies should be exempted from complying with these provisions. The cost of preparing and auditing this information is not worth the benefit. We believe that users of the financial statements of private companies would have access to management and additional information on an as-needed basis and therefore exempting private

companies from these disclosures is consistent with the Private Company Decision-Making Framework.

In addition, the additional Level 3 disclosures may lead reporting entities to include an excessive quantity of information due to their inherent subjectivity, which may be confusing or misleading to the average financial statement user of private companies.

**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.**

**Response:** We believe that the disclosures would enhance the relevance and understandability of defined benefit plans because the projected benefit obligation and plan assets are based on actuarial estimates and are subject to changing conditions in financial markets as well as the general economy. The information provided might allow users (employees and plan sponsors) to better focus on the adequacy of financing future distributions to retirees. Inclusion of this information may also help protect employees in the plan by increasing transparency of the estimation process and decreasing the risk of bias that may be introduced in the selection of the point estimate used for the fair value measurement.

Evaluating whether the disclosures should be applicable to not-for-profit entities is more challenging. We believe that many not-for-profit organizations have limited financial reporting resources and the proposed additional disclosures would be a considerable cost burden, which might impede their ability to meet their mission. However, some not-for-profits, such as foundations, have as a core part of their mission the management of significant investments measured at fair value. Other not-for-profit organizations manage significant investments that they use the income generated to fund their mission. For these organizations, the additional disclosures may enhance the public and donor oversight. It may be that assessments of materiality of the disclosures would be sufficient to distinguish these groups of not-for-profit organizations. Additional research and consideration should be given to the topic of these disclosures for not-for-profit organizations to assess whether the required disclosures should be applicable to all or only a subset of not-for-profit organizations.

**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.**

**Response:** While we believe that classification of fair value measurement of the balance sheet elements provides relevant information for decision-making and would enhance the understandability of various classes of assets and liabilities, requiring the reporting unit to disclose the weighted average of significant unobservable inputs used in Level 3 measurements would prove burdensome to administer and would result in significant incremental costs. Application of these provisions to such asset classes as below investment grade bonds, credit default swaps, collateralized debt obligations of sovereign countries and similar derivative instruments might be inoperable during periods of volatility. Given periods of volatility and uncertainty in global markets, defining a weighted average of changing unobservable inputs as well as specifying a range and a time period for use in a valuation model is problematic. The 1998 collapse of Long Term Capital Management hedge fund is a case in point. The

unobservable inputs used in the mathematical model used to value its highly leveraged convergence trades resulted in substantial losses as the value of their bond portfolio declined due to an unanticipated default of Russian bonds and spillover effects in other global markets.

**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?**

**Response:** We believe that disclosure of the time period used could provide more effective, decision-useful information when comparing the fair value measurements of nearly identical assets and liabilities between entities or over time. However, as mentioned in our response to Question 1, we believe that the necessary aggregation and management judgments that would be required to assess a time period would result in the information being potentially confusing and not decision-useful for users of the financial statements.

Similar to the concerns we expressed in our response to Question 5, the determination of the time period would be difficult. This is particularly true when application of the provisions would prove difficult in periods of volatility. The time period along with the weighted average and range of changing unobservable inputs would incline management to exclude outliers and change its assumptions particularly with respect to the asset classes mentioned in Question 5. The cost of tracking and monitoring changes in these assumptions would place a significant burden on the reporting entity's information system. Moreover, the independent auditor would be inclined to increase the amount of substantive testing in these areas given the changing nature of these inputs and resulting valuations thereby driving up the cost of the audit.

Finally, as discussed in our response to Question 2, the additional Level 3 disclosures may lead reporting entities to include an excessive quantity of information due to their inherent subjectivity. This may result in the inclusion within the range of unobservable inputs those that are unlikely to occur and thus diminish the relevance of the disclosures.

**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.**

**Response:** Additional consideration should be given to the disclosure of quantitative information about Level 3 disclosures. We believe that these fair value measurements generally involve management's selection of a point estimate out of a range of possible estimates. Including the range of unobservable inputs for the measurement is inherently of limited usefulness to users of the financial statements because the user cannot determine the effect of selecting alternative points in the range. Therefore, it may be more useful to users of the financial statements to have disclosure of the range of possible measurements rather than the range of possible inputs to the measurement. Another possible approach to the disclosure would be similar to the required disclosure for assumed health care cost trend rates, that is to include the estimate used for the unobservable input and disclose the impact on the estimate that a one-percentage-point, or other relevant unit, change in the input would have on the estimate. If coupled with the range of the possible input, this type of disclosure would provide financial statement users with insight into the riskiness of the fair value measurements used in financial reporting and the impacts on net income and earnings per share of managements point estimate. We believe additional consideration and research should be given to whether these alternative disclosures should be added to the proposed disclosure requirement or if they should

replace disclosure of the time period or the range and weighted average of the significant unobservable inputs. Although the uncertainty is generally lower for Level 2 fair value measurements, similar disclosures to what we propose for consideration may also be useful to financial statements users for Level 2 fair value measurements.

We do not believe any other disclosures should be required by Topic 820 on the basis of the proposed Concepts Statement or for other reasons. The elimination of previous disclosures and inclusion of the revised disclosures in the update are consistent with the proposed update to ASU 235. However, as expressed above, we are concerned about the impact required disclosures related to Level 3 unobservable inputs might have on causing the reporting entity to incur significant incremental cost. We feel that in periods of volatility having to change the assumptions regarding the range, weighted average, and timing of unobservable inputs as well as the valuation models used to calculate the fair values, particularly those related to derivatives, would inject confusion into financial reporting. As indicated above, management might be inclined to disclose unnecessary information that would only serve to detract from the relevance of the disclosures and be counter to the proposed update to ASU 235.

**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.**

To see how the Board applied the decision questions from the [proposed Concepts Statement](#) to Topic 820, see [Decision Questions Considered in Establishing Disclosure Requirements](#).

**Response:** In general and as mentioned above, the update has significantly reduced the amount of disclosure in Topic 820, previous exposure drafts, and updates. We believe that the changes are consistent with the U.S. conceptual framework, and the proposed materiality exposure draft. Again, we have reservations regarding some of the proposed disclosures as they relate to Level 3 unobservable inputs. If these provisions are to remain, the Board in our view needs to address the extent of disclosure required during extended periods of volatility and uncertainty in the financial markets.

**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.**

**Response:** In our view, the reporting entity would need a three-year transition period to revamp their information systems, coordinate with their independent auditors, and consult with valuation experts and other outside contractors in order to incorporate the proposed disclosures—particularly those relating to the Level 3 weighted average, range, and period of unobservable inputs. If the reporting entity's information system has been revised to capture this information, we see no reason why they should not be allowed early adoption. However, we believe it will take most companies an extended time period to incorporate additional Level 3 disclosures making the question of early adoption moot. We also agree that nonpublic business entities should be allowed additional time to implement the proposed amendment due to the limited resources of some of these organizations.