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Proposed Accounting Standards Update, Fair Value Measurement (Topic 820): Disclosure Framework — Changes to the Disclosure Requirements for Fair Value (File Reference No. 2015-350)

Dear Ms. Cosper:

We appreciate the opportunity to comment on the Proposed Accounting Standards Update, *Disclosure Framework — Changes to the Disclosure Requirements for Fair Value Measurement* (the Proposal), from the Financial Accounting Standards Board (FASB or Board).

We support the overall objective of both the Proposal and the disclosure framework project, which aims to improve the effectiveness of disclosures in the notes to the financial statements. We support the proposed elimination of certain fair value disclosure requirements, including the relief that would be provided to private companies. However, we want to highlight the cost of implementing some of the new requirements and how the Proposal would affect employee benefit plans and nonpublic not-for-profit (NFP) entities. We discuss those concerns in the appendix to this letter.

Further, we support using the Proposal as a test case for the Proposed Concepts Statement, *Conceptual Framework for Financial Reporting — Chapter 8: Notes to Financial Statements* (the Proposed Disclosure Framework). While we would not want to see these proposed amendments significantly delayed given the relief being provided to private companies, we have concerns with finalizing the Proposal prior to the completion of the Proposed Disclosure Framework given the potential for inconsistencies.

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We would be pleased to discuss our comments with the Board or FASB staff at your convenience.

Very truly yours,

Ernst & Young LLP

Appendix — Responses to specific questions raised in the Proposed Accounting Standards Update, *Disclosure Framework — Changes to the Disclosure Requirements for Fair Value Measurement*

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

We support the FASB's proposal to eliminate certain disclosure requirements and agree that doing so would generally not eliminate decision-useful information about fair value measurements. We believe the requirements the FASB proposed adding for non-private companies would generally result in more effective, decision-useful information about fair value measurements. However it is also important to note that it would require significant effort by preparers. The Board will have to consider this in making its cost-benefit determinations.

We understand that some financial statement users may find the proposed requirement to disclose the line item location and amount of changes in unrealized gains and losses for recurring Level 1 and Level 2 measurements disaggregated by class useful since it would provide more information about unrealized versus realized gains and losses. However, this information would be challenging for many entities to provide. It is our understanding that many entities currently do not have the system capabilities to disaggregate unrealized and realized profits and losses for assets and liabilities they measure at fair value. Instead, they generally use top-side processes to satisfy today's requirement that they provide this information for Level 3 assets and liabilities.

While entities could enhance system capabilities to provide this information, we understand doing so would be costly. Alternatively, while top-side processes are less costly, they may present control challenges given the large amount of information involved and might add to the potential for financial statement risks.

As we discuss in our response to Question 4B, we do not believe all of the proposed amendments are decision-useful for employee benefit plans.

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

Yes, we believe the proposed disclosure requirements are operable and auditable. However, as discussed in our response to Questions 1 and 3 above, the requirements would significantly increase an entity's cost of providing the disclosures.

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 continue to support providing relief to private companies under US GAAP to reduce the burden of financial reporting for them, while maintaining relevant information for users of their financial statements. Given their greater access to management, users of private company financial statements are often afforded greater access to management, and they are often able to obtain any additional information they need.

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 recommend that all employee benefit plans (EBPs), including those that file a Form 11-K with the Securities and Exchange Commission (SEC), be exempt from the requirements mentioned in Question 4A. We believe plan participants and the Department of Labor (DOL) are the primary users of EBP financial statements, and they do not typically use the financial statements to make investment decisions. EBPs are required to file their annual Form 5500 and audited financial statements (for EBPs that meet certain criteria) with the DOL seven months after the EBP's year end or two-and-a-half months later if they get an extension. However, plan participants typically have access to information about the plan's investments on a much timelier basis through direct access to management or dedicated websites.

The Form 5500 includes information about earnings on investments by type of investment. However, the DOL requires EBPs to use a methodology for calculating realized and unrealized gains and losses that would differ from US GAAP if EBPs were required to make the proposed disclosures. As discussed earlier in our response to Questions 1 and 3, this would also create additional costs for preparers that do not currently have the system capabilities to track gains and losses this way. Further, ASC 960 states that separate disclosure of realized gains and losses on investments sold during the year is neither required nor proscribed. Most plans do not present separate disclosures to avoid confusion between gains and losses calculated for financial statement purposes and those calculated for Form 5500.

We note that Accounting Standards Update (ASU) 2015-12[1] eliminated the requirement to disaggregate the net appreciation (depreciation) in fair value of investments by general type of investment because it didn't provide information that was useful to users of the financial statements. Adding a requirement to disaggregate unrealized gains and losses by hierarchy level and type would seem to effectively reverse this simplification.

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1 Accounting Standards Update (ASU), Plan Accounting: Defined Benefit Pension Plans (Topic 960), Defined Contribution Pension Plans (Topic 962) and Health and Welfare Benefit Plans (Topic 965)

We also note that the FASB has separately proposed[2] eliminating the requirement for nonpublic sponsors of defined benefit plans to reconcile Level 3 plan assets, and it would therefore be inconsistent to require a Level 3 reconciliation for EBPs.

As noted earlier, the DOL has access to information about EBPs' earnings on investments in Form 5500. Form 5500 requires EBPs to include a Schedule of Reportable Transactions that includes purchase price, selling price and net gain or loss. All transactions that meet the criteria are reported on this schedule regardless of the hierarchy level of the investment. We recommend that the Board not require a Level 3 reconciliation for EBPs. If the Board believes it is important to move forward with this proposed requirement, we recommend making the requirement consistent with the proposed requirement for private companies, thus providing some relief.

Not-for-Profit Entities

The primary users of (NFP) entities' financial statements are donors, trustees, rating agencies and bondholders. In general, these users may be concerned with an entity's ability to meet its mission, its liquidity (e.g., debt coverage, current ratios) and management's stewardship of funds. We believe that nonpublic NFPs (e.g., NFPs that are not conduit bond obligors) should be exempt from the proposed requirements mentioned in Question 4A, similar to private companies. This would also be consistent with similar scope exceptions in current GAAP. Users of nonpublic NFP financial statements, like those of private company financial statements, generally do not seek the same level of detailed information as users of public entity financial statements.

However, we believe NFP conduit bond obligors should be required to provide the same disclosures as public business entities and thus should be subject to the proposed amendments mentioned in Question 4A.

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.

While many SEC registrants currently disclose the weighted average of significant unobservable inputs used in Level 3 fair value measurements in response to comment letters from the SEC staff, for derivative instruments, we understand it is common for registrants to disclose the mean or median input or nothing at all.

Questions have been raised in practice about the usefulness of weighted average information for derivative instruments and whether the calculation should be based on fair value or notional value. If the fair value is used, the weighted average could vary from period to period, even if Level 3 inputs have not changed. For example, an interest rate swap's fair value may be determined using both Level 2 observable interest rates as well as significant unobservable Level 3 inputs. If the Level 3

[2] Proposed ASU, *Changes to the Disclosure Requirements for Defined Benefit Plans*

inputs do not change from period to period but the Level 2 inputs change significantly, the weighted average Level 3 inputs disclosed could change dramatically when the weighting is based on the new fair value.

If the calculation is performed by using the notional value, the result could also be distorted when, for example, a derivative asset or liability with a large notional has a small fair value. In this case, the weighted averages would not provide meaningful information about the effect of Level 3 inputs on fair value.

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?

While information related to the time period used to develop significant unobservable inputs may be useful to users, the Board has not clearly articulated how exactly users would benefit from this disclosure. In addition, we have concerns that in practice the disclosure could be misleading or misinterpreted since, for example, an entity may make adjustments to the historical data when assessing its relevance to the Level 3 fair value measurement. Finally, if an entity currently does not maintain this information, it may be difficult to go back and recreate the information for prior periods. Therefore, we believe the FASB should continue to analyze the cost versus benefits of these disclosures. If the Board decides to move forward, entities should be given sufficient time to develop process to accumulate the information.

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.

No, we do not believe any other disclosures should be added.

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.

We recommend that the Board reconsider its decision to retain but clarify the requirement in 50-2(g) to disclose a narrative description of the uncertainty of the fair value measurement and how a change in unobservable inputs to different amounts might result in a significantly higher or lower fair value measurement for recurring Level 3 fair value measurements.

In practice, we have seen preparers disclose information consistent with the Board's implementation guidance in ASC 820-10-55-106. This narrative disclosure results in information that we believe is obvious to a reasonably informed user of the financial statements. We have also observed that many preparers use boilerplate language that does not change from period to period. As such, it is not clear that the information provided is decision-useful.

Further, it is not clear to us how the amended language in 50-2(g) and the proposed example in 820-10-55-106 would change or improve existing disclosures. While the amendments are intended to clarify existing guidance, we do not believe they would result in changes to preparer disclosures.

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 non-private companies would need time to prepare the new disclosures because they would have to gather and present information they don't currently collect. For example, as discussed in our response to Questions 1 and 3, many entities do not distinguish between unrealized and realized gains and losses in their current systems. These entities would need time to change their systems or develop manual workarounds to gather this information and appropriately aggregate it by class and level. They would also need time to make sure they have appropriate controls in place.

The new requirement to disclose the range and weighted average on Level 3 recurring assets and liabilities will not affect many SEC registrants that currently disclose this information. However, reporting entities may require more time to meet the proposed requirement to disclose the time period used to develop significant inputs and to make sure they have appropriate controls in place.

We are concerned about adding these operational challenges when reporting entities will be working on implementing other operationally challenging standards like the new standards on revenue recognition and leases. If the Board moves forward with the proposed requirement to disclose unrealized gains and losses disaggregated by level and class, we believe an effective date for periods beginning after 15 December 2017 would be operational.

We normally recommend that private companies be granted an extra year for transition. However, the Proposal eliminates disclosure requirements for private companies and does not include any new requirements for these entities. As such, we believe that nonpublic and public business entities can have the same effective date.

Early adoption should be permitted to allow reporting entities to take advantage of the proposed eliminations.