November 10, 2017

Ms. Susan Cosper
Technical Director
Financial Accounting Standards Board
401 Merritt 7
PO Box 5116
Norwalk, CT 06856-5116
United States of America

RE: File Reference Nos. 2017-300 and 2017-310

Dear Ms. Cosper:

PricewaterhouseCoopers LLP appreciates the opportunity to comment on the FASB's Two Proposed Accounting Standards Updates, *Technical Corrections and Improvements to Recently Issued Standards,* I. Accounting Standards Update No. 2016-01, *Financial Instruments—Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities* and II. Accounting Standards Update No. 2016-02, *Leases (Topic 842)* (together, "the Amendments").

Amendments to Accounting Standards Update No. 2016-01 ("ASU 2016-01")
We generally agree with the proposed amendments to ASU 2016-01. However, we believe that the amendments made to ASC 321-10-35-2 in response to Issue 1 need further clarification from the Board to prevent inconsistent interpretation of the phrase "all equity securities of the same type" when a reporting entity stops using the measurement alternative and elects an accounting policy to measure an equity security without a readily determinable fair value determined in accordance with ASC 820.

We also recommend three amendments to ASU 2016-01 that were not contemplated by the proposed technical corrections.

- There should be specific guidance to address the presentation and disclosure of instrument-specific credit risk in nonrecourse financial liabilities when the fair value option is elected.
- The guidance should address the accounting when an observable transaction is identified is subsequent to the period in which the transaction occurred.
- The prospective transition guidance provided for equity securities without a readily determinable fair value when the measurement alternative is elected should be modified to provide an exception for insurance entities that currently apply the guidance in ASC 944-325, which is superseded by ASU 2016-01.

Appendix A contains our detailed responses to the Questions for Respondents for the Amendments, which expands on the above comments.

Amendments to Accounting Standards Update No. 2016-02 ("ASU 2016-02")
We agree with the Board's proposed amendments to ASU 2016-02. Appendix B contains our detailed responses to the Questions for Respondents, including a suggestion to clarify one of the provisions.

PricewaterhouseCoopers LLP, 400 Campus Drive, Florham Park, NJ 07932
T: (973) 236 4000, F: (973) 236 5000, www.pwc.com

* * * * *

If you have any questions regarding our comments, please contact David Schmid at (973) 236-7247, John Bishop at (973) 236-4420 or Chip Currie at (973) 236-5331.

Sincerely,

PricewaterhouseCoopers LLP

pwc

Appendix A

Responses to Questions for Respondents contained in the Amendments for ASU 2016-01

Question 1: The proposed amendments are intended to improve the clarity of the guidance in Update 2016-01. Would the proposed amendments clarify that guidance? If not, please explain which proposed amendment(s) would not provide clarification, and why.

We agree that the proposed amendments improve the clarity of the guidance in Update 2016-01. However, the inclusion of the phrase "all equity securities of the same type" within the proposed amendments to ASC 321-10-35-2 (Issue 1) introduces the term "type," which is undefined. Potential interpretations of this phrase could include:

- Only identical securities
- Identical or similar securities from the same issuer
- All securities (whether similar or not) from the same issuer
- Securities within a "major security type," as discussed in ASC 320-10-50-1B
- All securities accounted for under the measurement alternative

Without additional clarification, this phrase may be interpreted inconsistently by different reporting entities. We would be happy to discuss perspectives on the advantages and challenges associated with each of these interpretations.

Question 2: Will any of the proposed amendments result in substantive changes to the application of Update 2016-01 that would require transition provisions or an effective date for the final amendments other than as noted in the Summary section "When Would the Amendments Be Effective?" If so, please describe.

Given the expected timing of a final Update, we believe all amendments should be effective concurrent with the adoption of all other aspects of ASU 2016-01. We are concerned that if these amendments are finalized shortly prior to year end, companies that early adopted provisions of ASU 2016-01 will not have sufficient time to adopt them in 2017.

Question 3: Should other changes be made that are directly or indirectly related to the proposed amendments? Please note that the Board will conduct Codification improvements projects on a periodic basis and additional changes may be postponed to a subsequent Codification improvements project.

We believe that there are three additional amendments that should be made to ASU 2016-01 to address certain transaction types and industry-specific transition issues:

- **Non-recourse liabilities**

  ASU 2016-01 requires an entity that has elected to measure a financial liability at fair value in accordance with ASC 825 or ASC 815 to present the portion of the total change in the fair value of a liability attributable to a change in instrument-specific credit risk separately within other comprehensive income. The Basis for Conclusions acknowledges that the FASB understands that prior to the adoption of ASU 2016-01, entities do not disclose changes in instrument-specific credit risk on nonrecourse liabilities.

We understand that financial liabilities with recourse only to specific underlying collateral do not have instrument-specific credit risk but rather asset-specific performance risk that would not be subject to the presentation and disclosure requirements of ASU 2016-01. We believe that only changes in the fair value of a financial liability related to the “component” of the liability that has recourse to an issuing entity would be considered instrument-specific credit risk. We believe the Board should amend the relevant sections of the guidance to clarify this point.

- **Observable transactions not identified in the period in which they occur**

  The measurement alternative framework detailed in ASU 2016-01 states that, if elected, a reporting entity will adjust the carrying basis of the equity security for impairment plus or minus changes resulting from observable price changes. ASC 321-10-55-8 further states that an entity should consider transactions on or before the balance sheet date that are known or can be reasonably known but that an entity need not conduct an exhaustive search for all observable price changes.

  We believe ASU 2016-01 should be clarified to address how to consider a transaction that is identified after the financial statements are issued. We understand that if a reasonable search was conducted, an adjustment to the carrying value of an equity security related to an observable price change should be recorded in the period in which the observable transaction is identified. However, without clarification, this could be interpreted as an error.

- **Transition guidance for insurance companies with equity securities without a readily determinable fair value**

  Under current accounting standards, insurance entities are required to record equity securities that do not have a readily determinable fair value at fair value with changes in fair value recorded in accumulated other comprehensive income (AOCI). ASU 2016-01 eliminated this industry-specific guidance. As a result, insurance companies will follow the guidance in ASC 321. The amendments within Issue 6 clarify that transition to the new guidance for equity securities for which the measurement alternative is elected is prospective.
  This presents a unique issue for insurance companies as upon adoption, an existing debit or credit balance within AOCI attributable to securities for which the measurement alternative has been elected will not be reclassified to retained earnings upon adoption of ASU 2016-01. Instead, the AOCI will be prospectively reclassified to net income, which we understand could be done in a number of systematic ways. We believe this adds an unnecessary level of complexity to the transition guidance. Additional amendments should be made to provide an exception in the transition guidance for insurance companies. This exception should allow insurance entities to apply a modified retrospective transition approach in the specific instance when there is an amount recorded in AOCI for an equity security that will be accounted for under the measurement alternative upon adoption of ASU 2016-01. Under this approach, amounts would be reclassified from AOCI as part of the cumulative-effect adjustment.

  We believe that the transition for provisions related to the impact of observable price changes and assessments for impairment should remain prospective, as proposed.

Appendix B

Responses to Questions for Respondents contained in the Amendments for ASU 2016-02

Question 1: Would the amendments in this proposed Update clarify the guidance in Topic 842 or provide a better link between paragraphs within Topic 842 or between the guidance in Topic 842 and other Topics? If not, please explain which proposed amendment(s) you disagree with and why.

We believe the amendments in this proposed Update clarify the guidance in Topic 842. Further guidance is needed, however, in relation to the proposed update to ASC 842-10-65-1(w)(3), which addresses operating leases under Topic 840 that become sales-type leases or direct financing leases under Topic 842 (Issue 9: Certain Transition Adjustments). For leases acquired as part of a business combination, the proposed amendment requires any difference between the carrying amount of the underlying leased asset derecognized and the net investment in the lease recognized to be recorded as an adjustment to equity, regardless of the commencement date of the lease. The proposed update to ASC 842-10-65-1(y)(3) is similar and addresses sales-type leases or direct financing leases under Topic 840 that become operating leases under Topic 842. We believe it would be helpful for the Board to add an explanation of the rationale for these updates in the Basis for Conclusions. For example, if the proposed amendment is being made as an expedient so that entities do not adjust their prior acquisition accounting for a business combination (e.g., goodwill) due to changes in lease classification, we suggest the Board describe this point in the Basis for Conclusions. Doing so may help practitioners apply the transition guidance appropriately.

Question 2: Will any of the proposed amendments result in substantive changes to the application of Topic 842 that would require transition provisions or an effective date for the final amendments other than those noted in the Summary section "When Would the Amendments Be Effective?" If so, please describe.

We believe the proposed transition provisions and effective dates are appropriate.

Question 3: Should other changes that are directly or indirectly related to the proposed amendments be made? Please note that the Board will conduct Codification improvements projects on a periodic basis and additional changes may be postponed to a subsequent Codification improvements project.

We do not have any other changes to recommend to the Board at this time.