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2017-300  
Comment Letter No. 8

Ms. Susan M. Cospers  
Technical Director  
File Reference No. 2017-300  
Financial Accounting Standards Board  
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**Proposed Accounting Standards Update, *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 (File Reference No. 2017-300)***

Dear Ms. Cospers:

We appreciate the opportunity to comment on the Proposed Accounting Standards Update (ASU), *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*.

We commend the Board for expediting this proposal and generally agree that the proposed amendments would clarify certain aspects of the new guidance on recognizing and measuring financial instruments and address certain issues raised by stakeholders. However, we believe further clarifications are necessary to make it easier for entities to apply the new guidance and the proposed amendments.

The proposed amendment to Accounting Standards Codification (ASC) 321-10-35-2 would clarify that an entity that measures equity securities using the measurement alternative “may subsequently elect an accounting policy to measure the equity security, and all equity securities of the same type, at fair value in accordance with Topic 820.” However, the proposed ASU does not define the term “same type” or provide examples of the “same type” of equity securities.

We observe that ASC 320-10-50 requires certain disclosures by “major security type.” It is unclear whether the Board intended for the concept of “same type” that is being introduced into ASC 321 to be the same as “major security type” that is used in ASC 320 and elsewhere in the codification. If so, that should be clarified. If not, we recommend that the FASB clarify how an entity is expected to determine whether securities are the “same type” and provide examples of securities that should be considered the “same type.”

Further, the proposed amendments would not address whether an entity that changes its measurement approach to the fair value method under ASC 820 would be precluded from electing the measurement alternative for equity investments of the same type that are subsequently acquired or existing equity investments of the same type that later become eligible for the measurement alternative (e.g., if the investments’ fair values cease to be readily determinable). To reduce the risk of diversity in practice, we recommend that the guidance state explicitly that investments of the same type should be measured the same way, regardless of whether they are subsequently acquired or become eligible for the measurement alternative.



We also suggest that the Board clarify in ASC 970-323 that it is still acceptable to use the cost method with amortization to measure investments in qualified affordable housing projects. Currently, ASC 323-740-25-2 indicates that an investment in such a project that is not accounted for using the proportional amortization method should be accounted for in accordance with ASC 970-323 (i.e., using the cost or equity method). ASU 2016-01 added ASC 323-740-25-2A, which says that it may be appropriate to use the cost method to account for investments in qualified affordable housing projects. However, the ASU removed the references to the cost method from ASC 970-323.

ASC 970-323-25-6 (as amended by ASU 2016-01) indicates that when equity method accounting is not appropriate, the investor should account for the investment under ASC 321, which does not provide for the use of the cost method. In addition, ASU 2016-01 supersedes the discussion of the cost method with amortization that is currently in ASC 325-20-35-5 and 6. We understand that the Board did not intend to prohibit an investor from utilizing the cost method of accounting to account for an investment in a qualified affordable housing project following the adoption. We therefore recommend that the FASB amend the guidance to include references to the cost method with amortization.

In addition, we recommend that the Board clarify the transition guidance for insurers in the scope of ASC 944, *Financial Services – Insurance*, that measure their equity securities without readily determinable fair values at fair value with changes in fair value recognized in other comprehensive income (OCI).

Under ASU 2016-01, such investments may be measured using the measurement alternative. The proposed amendments would clarify that a prospective transition approach would only be used for equity investments measured using the measurement alternative. However, neither the ASU nor the proposed amendments address how a prospective transition approach would be applied to amounts related to such investments that these insurers have already accumulated in OCI.

We understand it would not be appropriate for insurers to reclassify these amounts to beginning retained earnings or to the cost basis of the respective investments because these would be retrospective approaches. Assuming our understanding is correct, we recommend that the Board clarify the transition requirements to reduce the risk of insurers inappropriately applying a transition approach similar to those applied by entities in other industries that currently hold equity investments classified as available for sale. In addition, we believe it would be helpful for the FASB to provide guidance that illustrates appropriate transition approaches for these accumulated OCI amounts.

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

Very truly yours,