December 4, 2017

Ms. Susan Cosper
Technical Director
Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, Connecticut 06856-5116

Re: File Reference No. 2017-320

Dear Ms. Cosper:

PricewaterhouseCoopers LLP appreciates the opportunity to comment on the Board's proposed Accounting Standards Update, *Technical Corrections and Improvements*. We support the FASB's ongoing efforts to provide regular updates, corrections, and improvements to the Codification.

We generally agree with the proposed amendments. The Appendix contains our responses to the Questions for Respondents, including certain instances in which we recommend addition modifications.

If you have any questions regarding our comments, please contact David Schmid at (973) 236-7247.

Sincerely,

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP

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

pwc

Appendix

Question 1: Do you agree with the amendments to the Codification in this proposed Update? If not, please explain which proposed amendment(s) you disagree with and why.

We generally agree with the proposed amendments. The discussion below details suggested modifications to some of the proposed amendments, and the few amendments with which we disagree.

Issue 1

We agree with the proposed codification improvement to remove the words "taxes not payable in cash" from ASC 220-10-45-10B(b)(2).

With regard to the addition of the words "Recognition of tax benefits related to deductible temporary differences and carryforwards arising from a quasi-reorganization as defined in Subtopic 852-20 (see paragraph 852-740-45-3)," we agree that the addition is accurate, albeit relating to a rare financial event. If the intent was for ASC 220-10-45-10B(b) to include a comprehensive list of items that are required to be reported as direct adjustments to paid-in capital, retained earnings, or other non-income equity accounts, there are several other pieces of guidance that should be listed here, many of which are much more common than quasi-reorganizations. For example, ASC 740-20-45-11(c) requires the tax effects of an increase or decrease in contributed capital to be recorded in equity, and ASC 740-20-45-11(g) requires all changes in the tax bases of assets and liabilities caused by transactions among or with shareholders to be recorded in equity. We also encourage the FASB to add a cross-reference to the relevant codification guidance for each item listed in ASC 220-10-45-10B, similar to how ASC 220-10-45-10A is presented.

In addition, we refer you to a letter PwC, jointly with three other public accounting firms, submitted on November 10, 2017 that included proposed ASC 740 simplifications and codification improvements. In that letter, we recommend in Item 2 that the FASB eliminate all guidance that would have companies "backwards trace" the tax benefits of deductible temporary differences and carryforwards that existed at the date of a quasi-reorganization by recording them in equity. This would result in the removal of the guidance in ASC 852-740-45-3 (among other guidance). If the FASB adopts that proposal, the proposed wording additions in ASC 220-10-45-10B(b)(2) may need to be modified to make it clear that the requirement only relates to amounts initially required to be reported in shareholders' equity and does not include any adjustments that might occur in a subsequent period.

Issue 2

We agree.

Issue 3

In both the current guidance (paragraph 50-1A and 50-13) and in the proposed technical correction (which relocated the guidance in 50-13 to 50-1A), it is unclear which types of interim financial statements are required to include the disclosures in ASC 320-10-50. The first sentence of the revised 50-1A states that the "disclosures in this Section are required for all interim and annual periods." The second sentence notes that "[t]he minimum disclosure requirements for summarized interim financial information issued by publicly traded entities are established by paragraph 270-10-50-1." Following the guidance in ASC 270-10-50-1 could lead to a different outcome than including all of the disclosures in ASC 320 as the first sentence suggests. We recommend that either the first sentence or the second sentence be deleted in the proposed ASC 320-50-1A to make it more clear as to what should be disclosed in interim financial statements.

Issue 4

We agree.

Issue 5

We agree with the recommendation that the term loan modification and exchange guidance be updated to include a reference to the specific guidance provided for line-of-credit or revolving debt arrangements in order to avoid confusion between the two models, which have different guidance. However, only making that reference in ASC 470-50-40-18 could cause further confusion since all of the guidance in ASC 470-50-40-6 through 40-18 relates only to term loans. By only adding that language to one paragraph, it may lead users to think that all of the other paragraphs apply to line-of-credit and revolving debt arrangements.

One solution could be to add a paragraph before ASC 470-50-40-6 indicating that the guidance in ASC 470-50-40-6 through 18 relates only to term debt. Another solution could be to amend the subheadings in the guidance. For example, the sub-heading "Modifications and Exchanges" that is located above ASC 470-50-40-6 could be revised to "Modifications and Exchanges of term debt instruments." This change would require that the other sub-headings contained within ASC 470-50-40-6 through 40-18 be amended so that they are sub-headings to the revised heading. By making this edit, it will be clear that these paragraphs only apply to term debt instruments. In connection with this, the line-of-credit/revolving debt guidance in ASC 470-50-40-21 could be moved up before the third-party intermediary guidance in ASC 470-50-40-19 and 40-20. The guidance for third-party intermediaries applies to both term loans and revolving debt arrangements and it may be clearer to readers to sequence the guidance as (1) term loan guidance, (2) the revolving debt guidance, and (3) guidance that is applicable to both.

Issue 6

We agree that this technical correction could be helpful, but the proposed language is internally inconsistent. The paragraph discusses the treatment of Derivative 2 when embedded in the shares but discusses "combining" it, which would generally only be applicable if the feature was freestanding. We suggest the following wording instead:

> 480-10-55-59 If the derivative instrument in Derivative 2 is embedded in the shares (noncontrolling interest) and the shares are not otherwise required to be classified as liabilities under the guidance in this Subtopic, the option contracts should be viewed as a combined instrument (that is, a forward) embedded in the shares. As a result, the shares (noncontrolling interest) should be classified as a liability.

Issue 7

We suggest that the proposed edit “uncertainty about the amount of the deduction is resolved” be revised to say “the amount of the deduction is determined.” This would eliminate any possible confusion with the word “uncertainty,” which has a specific connotation within ASC 740 related to uncertain tax positions.

Issue 8

We agree.

Issue 9

We agree.

Issue 10

We believe that the proposed edits could still be misread to mean that the words “essentially permanent in duration” modify the term “investment in a subsidiary,” even though that is not the intent. We recommend that the FASB instead revert back to the existing language and add commas after the words “subsidiary” and “duration.”

Issue 11

We agree.

Issue 12

We believe that ASC 815-10-45-5(c) requires an update to clarify that amounts related to the right to reclaim cash collateral and the obligation to return cash collateral refers to amounts recognized at fair value. The paragraph immediately following 5(c) discusses fair value measurement specifically related to paragraph 5(c). We suggest “at fair value” be inserted as follows:

> 815-10-45-5(c) Amounts recognized <u>at fair value</u> for the right to reclaim cash collateral (a receivable) against the obligation to return cash collateral (a payable) arising from derivative instruments recognized at fair value.

Issue 13

We agree.

Issue 14

We agree.

Issue 15

We agree.

Issue 16

We do not believe the corrections will achieve their goal. We recommend that the wording be clarified to indicate that portfolios of financial assets, financial liabilities, nonfinancial assets and liabilities accounted for as derivatives, or combinations of groups thereof can qualify for the portfolio exception. One manner in which this could be achieved is to add “or combinations of these instruments” to the proposed language “group of financial asset, financial liabilities, or nonfinancial items accounted for as derivatives in accordance with Topic 815” that appears multiple times in the guidance.

We also note that ASC 820-10-35-18E (as amended) refers to ASC 820-10-35-D when it should refer to ASC 820-10-35-18D.

Issue 17

We agree.

Issue 18

We agree.

Issue 19

We agree with the proposed correction but recommend that the following sentence also be removed from ASC 820-10-50-2E:

> However, a reporting entity is not required to provide the quantitative disclosures about significant unobservable inputs used in fair value measurements categorized within Level 3 of the fair value hierarchy required by paragraph 820-10-50-2(bbb)(2).

As the reference to 820-10-50-2(bbb)(1) is removed and the last sentence of the paragraph states "[f]or such assets and liabilities, a reporting entity does not need to provide the other disclosures required by this Topic," the sentence clarifying that (bbb)(2) is not required may be unnecessary.

Issue 20

Footnote (d) of the example was amended to include the measurement date of 12/31/X9, which is the reporting period end date. ASC 820-10-50-2 states that disclosure of a date is only required if the nonrecurring fair value measurement is performed at a date other than the end of the reporting period. We question whether footnote (d) will create confusion as to the requirements of the guidance. Therefore, we recommend that it be removed or clarified as to why it is required.

Issue 21

We understand the intent behind this technical correction and we agree that clarifications are needed on the interaction between ASC 830 and the measurement alternative in ASC 321. We also understand the confusion in the reference to debt securities not intended to be held-to-maturity being reported at amortized cost. However, we do not believe that the amendment to ASC 830-10-45-8(a)1 provides sufficient guidance and the amendment to ASC 830-10-45-8(a)2 would imply that held-to-maturity debt securities are nonmonetary items, with which we do not agree.

We believe that ASC 830-10-45-18(a) should be restructured to discuss only equity securities for which there is no readily determinable fair value and are accounted for under ASC 321-10-35-2. This should address how to account for changes in exchange rates when there is an adjustment to the carrying value either for observable price changes or recorded impairment. In these instances, when there is an adjustment to the carrying amount, we believe that the exchange rate as of the date of this adjustment should be used, which will impact the amount reported in current earnings. We believe that the historical rate from the date in which the last changes to the carrying value were made should be used in periods in which there are no adjustments to the carrying value. We also believe that ASC 830-10-45-18(a)2 should be deleted.

Issue 22

We do not agree with the FASB's analysis in paragraph 58 that seems to imply that offsetting receivables and payables associated with securities loaned and securities borrowed is not permitted. We believe that if the FASB intends to amend balance sheet offsetting guidance, it should be through a more formal standard-setting process. As a result, we disagree with the removal of ASC 940-405-55.

We do agree with the proposed changes to ASC 942-210-45-3. However, we note there is a comma included between the words "securities" and "borrowed" in ASC 942-210-45-3A that we believe is not necessary.

Issue 23

We agree.

Issue 24

We agree.

Issue 25

We do not agree with the proposed change in ASC 944-360-45-3. The amendment seems to imply that an investment in real estate subject to ASC 360 could be designated as a hedge of a net investment in foreign operations under ASC 815-35 or a cash flow hedge under ASC 815-30. We do not believe that the guidance in ASC 815 would permit a real estate investment to be designated as a hedging instrument of a net investment in a foreign operation or a cash flow hedge. Instead, we believe that the language "(except those that are accounted for as either hedges of net investments in foreign operations [see Subtopic 815-35] or cash flow hedges [see Subtopic 815-30])" should be deleted.

Issue 26

We agree.

Issue 27

We agree.

Issue 28

We agree.

Issue 29

We agree.

Issue 30

Although not incorrect, the correction could be even more helpful. Based on the discussion at the March 1, 2017 FASB meeting, our understanding was that the FASB was going to include an example using a common collective trust with a structure similar to a mutual fund and work through an example of what to consider if that trust meets the definition of readily determinable fair value.

Question 2: Would any of the proposed amendments result in substantive changes to the application of existing guidance that would require transition provisions? If so, please describe.

We believe that all amendments to the codification should be subject to transition provisions. This provides reporting entities with sufficient time to evaluate the changes and make modifications to their accounting policies, internal controls, and processes, as needed. We believe that the Board should deliberate on a transition period and methodology that would be applied to these and any future technical corrections. To the extent that specific codification amendments would warrant different transition provisions (for example, additional time or method), the Board could provide specific transition provisions to those amendments.

pwc

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

In addition to the changes suggested above related to the proposed amendments, we suggest the following additional improvements:

1. In ASU 2017-12, accounting guidance for cash flow hedges of variable rate financial instruments was amended such that the benchmark interest rate concept is no longer applicable. It was replaced with a model based on hedging the variability in a contractually-specified index. Such amendments were carried forward into the guidance relating to hedges qualifying for the short-cut method. However, ASC 815-30-35-26, which addresses the hypothetical derivative method, was not updated to reflect the changes made to the short-cut method associated with hedging a contractually-specified component.

   We recommend the following update to ASC 815-30-35-26:

   > Essentially, the hypothetical derivative would need to satisfy all of the applicable conditions in paragraphs 815-20-25-104 and 815-20-25-106 necessary to qualify for use of the shortcut method except ~~the criterion in paragraph 815-20-25-106(g) and~~ the criterion in paragraph 815-20-25-104(e). Thus, the hypothetical interest rate swap would be expected to perfectly offset the hedged cash flows. Because the requirements of paragraph 815-20-25-104(e) were developed with an emphasis on fair value hedging relationships, they do not fit the more general principle that the hypothetical derivative in a cash flow hedging relationship should be expected to perfectly offset the hedged cash flows.

2. ASU 2017-12 added ASC 815-25-35-9A to reflect the new guidance in the standard relating to partial term hedges. We understand that this guidance was designed to require basis adjustments to be amortized over the assumed term of the hedged item. As written, it requires basis adjustments to be amortized over the life of the hedging relationship, which can be different than the assumed term of the hedged item in situations such as a dynamic hedge. For example, in a dynamic hedging relationship that is de-designated monthly in which the hedged item has a remaining term of 10 years, the guidance in ASC 815-25-35-9A could be interpreted to require any basis adjustment made to be amortized over the next month – not the 10-year term of the hedged item.

   We recommend the following update to 815-25-35-9A:

   > For an outstanding hedging relationship, any amortization of adjustments to the carrying amount of the hedged item shall be performed assuming ~~that~~ the amortization period ~~is the remaining life of the hedging relationship~~ <u>ends on the hedged item's assumed maturity date</u>. For a discontinued hedging relationship, all remaining adjustments to the carrying amount of the hedged item shall be amortized over a period that is consistent with the amortization of other discounts or premiums associated with the hedged item in accordance with other Topics (for example, Subtopic 310-20 on receivables—non-refundable fees and other costs).

Question 4: The proposed amendments would apply to public and non-public entities. Would any of the proposed amendments require special consideration for non-public entities? If so, which proposed amendments(s) would require special consideration and why?

We do not believe that the proposed amendments would require special consideration for non-public entities.