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4 December 2017

Proposed Accounting Standards Update, *Codification Improvements*
(File Reference No. 2017-320)

Dear Ms. Cosper:

We appreciate the opportunity to comment on the proposed Accounting Standards Update (ASU). We support the continued effort by the Financial Accounting Standards Board (FASB or Board) to address stakeholder feedback on the Codification and to make improvements to US GAAP. For the most part, we agree that the proposed changes would clarify the guidance, correct errors and make minor improvements to the Codification that would not be expected to have a significant effect on current accounting practice or create a significant administrative cost for most entities. However, we have concerns about certain proposed amendments as we explain below.

We agree that deleting ASC 320-10-50-13 and moving the guidance on "complete sets of financial statements" to ASC 320-10-50-1A would clarify those disclosure requirements. However, by deleting ASC 320-10-50-13, the explicit statement that disclosures under ASC 320 are not required in summarized interim financial information would also be deleted. We observe that the FASB Special Report, *A Guide to Implementation of Statement 115 on Accounting for Certain Investments in Debt and Equity Securities*, from which ASC 320-10-50-13 was codified, made it clear that the ASC 320 disclosures are not required for summarized interim financial information. However, the proposed amendments to ASC 320-10-50-1A would refer the reader to ASC 270-10-50-1, which provides guidance on the disclosures that are required in summarized interim financial information, including the "information about certain investments in debt and equity securities as required by Sections 320-10-50 and 942-320-50." Therefore, the proposed amendments would seem to require the ASC 320 disclosures in summarized interim financial information. We question whether it is the Board's intention to require such disclosures since the FASB Special Report made it clear that they weren't required. We recommend that the Board clarify the guidance.

We agree that amendments to ASC 740-30-25-9 and ASC 740-30-50-2 are needed to clarify that the phrase "essentially permanent in duration" is intended to modify the phrase "corporate joint venture" and not "investment in a subsidiary." However, we recommend modifying ASC 740-30-25-9 as follows for clarity and consistency with ASC 740-30-50-2:

> "**740-30-25-9** A deferred tax asset shall be recognized for an excess of the tax basis over the amount for financial reporting of an investment ~~in a subsidiary or of an investment~~ in a corporate joint venture that is essentially permanent in duration or an investment in a subsidiary only if it is apparent that the temporary difference will reverse in the foreseeable future."

We agree with the Board's decision to delete ASC 815-10-45-4 but suggest that the Board add the reference to the guidance on offsetting criteria to ASC 815-10-45-5:

> "Pursuant to ASC 210-20-45-1, but ~~W~~without regard to the condition in ASC 210-20-45-1(c), a reporting entity may offset …"

We suggest that the Board retain the reference in ASC 820-10-35-24B to the example in ASC 820-10-55-35 because the example illustrates the guidance in that paragraph on how to consider multiple valuation techniques. Instead, we recommend updating ASC 820-10-55-35 to clarify that Cases A and B in Example 3 illustrate the use of multiple valuation techniques in different valuation approaches. In this example, the appropriate valuation techniques happen to fall within different approaches, but in practice, multiple techniques may fall within the same valuation approach. For example, it is common to determine the fair value of an equity security without a readily determinable fair value using both a guideline public company technique and a guideline transaction technique, both of which fall within the market approach. We are concerned that stakeholders may view the proposed amendments as an indicator that they only should evaluate the reasonableness of the range of values resulting from the valuation techniques that fall within different approaches, and not consider differing results of valuation techniques used in the same approach. We therefore suggest that paragraph 820-10-55-35 be updated as follows:

> "**Example 3: Use of Multiple Valuation Techniques**
>
> **55-35** This Topic notes that a single valuation technique will be appropriate in some cases. In other cases, multiple valuation techniques will be appropriate. Cases A and B illustrate the use of multiple valuation techniques.
>
> a. Subparagraph superseded by Accounting Standards Update No. 2011-04.
>
> b. Subparagraph superseded by Accounting Standards Update No. 2011-04.
>
> Pending Content:
>
> **Transition Date:** *(P) December 16, 2016; (N) December 16, 2016* | **Transition Guidance:** 820-10-65-11
>
> ***Editor's Note:*** *Paragraph 820-10-55-35 will be amended upon transition, together with its heading:*
>
> > > **Example 3: Use of Multiple Valuation ~~Approaches~~ Techniques**
>
> This Topic notes that a single valuation ~~approach~~ technique will be appropriate in some cases. In other cases, multiple valuation ~~approaches~~ techniques will be appropriate. Cases A and B illustrate the use of multiple valuation techniques that fall within different valuation approaches.
>
> a. Subparagraph superseded by Accounting Standards Update No. 2011-04.
>
> b. Subparagraph superseded by Accounting Standards Update No. 2011-04."

We agree with the Board's decision to include nonfinancial items accounted for as derivatives under ASC 815 in the guidance on the portfolio exception in ASC 820-10-35. However, we recommend making the following amendments for consistency and completeness:

> "**820-10-35-18L** When using the exception in paragraph 820-10-35-18D to measure the fair value of a group of financial assets, ~~assets and~~ financial liabilities, or nonfinancial items accounted for as derivatives in accordance with Topic 815 entered into with a particular counterparty, the reporting entity shall include the effect of the reporting entity's net exposure to the credit risk of that counterparty or the counterparty's net exposure to the credit risk of the reporting entity in the fair value measurement when market participants would take into account any existing arrangements that mitigate credit risk exposure in the event of default (for example, a master netting agreement with the counterparty or an agreement that requires the exchange of collateral on the basis of each party's net exposure to the credit risk of the other party). The fair value measurement shall reflect market participants' expectations about the likelihood that such an arrangement would be legally enforceable in the event of default."
>
> "**820-10-35-2A(g)** Application to financial assets, ~~and~~ financial liabilities or nonfinancial items accounted for as derivatives in accordance with Topic 815 with offsetting positions in market risks or counterparty credit risk."
>
> Title before Paragraph 820-10-35-18D: "Application to Financial Assets, ~~and~~ Financial Liabilities or Nonfinancial Items Accounted for as Derivatives in Accordance with Topic 815 with Offsetting Positions in Market Risks or Counterparty Credit Risk"

We agree with the proposed amendment to replace the indefinite deferral in transition paragraph ASC 820-10-65-9 with a disclosure exemption in ASC 820-10-50-2(bbb). However, we suggest that the Board clarify that this exemption only applies to quantitative information about the significant unobservable inputs used in the fair value measurement by amending the language as follows:

> "Employee benefit plans, other than those plans that are subject to the U.S. Securities and Exchange Commission's (SEC) filing requirements, are not required to ~~provide this disclosure~~ disclose the quantitative unobservable inputs used in the fair value measurement for investments held by an employee benefit plan in their plan sponsor's own nonpublic equity securities, including equity securities of their plan sponsor's nonpublic affiliated entities."

We agree with the proposed amendments to clarify that the remeasurement guidance in ASC 830-10-45 should only be applied to equity securities measured using the measurement alternative under ASC 321-10-35-2. However, because the term "marketable securities carried at cost" is no longer relevant, we suggest deleting it so that ASC 830-10-45-18(a) reads "Equity securities without readily determinable fair values accounted for under paragraph ASC 321-10-35-2." While we agree that the list of nonmonetary items requiring remeasurement using historical exchange rates should not include debt securities that are not intended to be held to maturity, we do not agree with the proposed amendments to add debt securities intended to be held to maturity to that list, since they are monetary assets. We suggest that the Board delete ASC 830-10-45-18(a)(2).

The proposed amendment to supersede ASC 940-405-55 could significantly change current practice for broker dealers that have interpreted ASC 210-20-45-11 as permitting them to offset securities borrowed and securities loaned transactions if there are explicit settlement dates. It is unclear whether the Board intended this to be a significant change. If it didn't, we recommend that it address this issue separately from the Codification Improvements project, perhaps by adding the issue to the EITF's agenda so further research and outreach can be performed.

The proposed amendment to ASC 958-325-35-1 would address the subsequent measurement of other investments that are not in the scope of ASC 326-20 by referring not-for-profit (NFP) institutions of higher education to the guidance in ASC 325-20. However, ASC 325-20 will be superseded by ASU 2016-01, which is effective before the guidance in ASC 326 is effective. Thus, an entity that is looking for guidance on the measurement of other investments that are not in the scope of ASC 326-20 won't find it if the guidance in ASC 325-20 has already been superseded. We therefore recommend revising the proposed amendment to the last sentence of ASC 958-325-35-1(a). We also note that ASC 958-325-35-5 is not consistent with ASC 958-325-30-1, which indicates that upon initial measurement, credit losses on financial instruments in the scope of ASC 326 are measured in accordance with that guidance. ASC 958-325-35-5, however, says that upon subsequent measurement, it may be necessary to reduce the carrying amount to fair value or provide an allowance for a decline in fair value, rather than record a credit loss as would be required under ASC 326. We recommend that the Board clarify which impairment model a voluntary health and welfare entity should follow.

We agree with the proposed amendment to remove the stable value common collective trust fund from the illustrative example in ASC 962-325-55-17 to avoid interpretation that a common collective trust should always be measured using the net asset value per share practical expedient. However, the key assumptions in that example should not say that all investments were determined to have a readily determinable fair value because the illustrative fair value hierarchy disclosure includes certain corporate bonds in Level 3. We recommend that the Board either delete the key assumptions or revise them to indicate that all investments were evaluated to determine whether they have a readily determinable fair value.

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

Very truly yours,

Ernst + Young LLP