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December 4, 2017

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

File Reference No. 2017-320
Re: Proposed Accounting Standards Update, *Codification Improvements*

Dear Ms. Cospers:

Deloitte & Touche LLP is pleased to comment on the FASB's proposed Accounting Standards Update (ASU) *Codification Improvements*.

We support the Board's commitment to a standing project on technical corrections, clarifications, and minor improvements to the *FASB Accounting Standards Codification* (the "Codification"). Limiting this project to minor changes that do not significantly affect current practice seems the most practical and efficient way to resolve these types of minor technical issues related to the Codification.

We generally agree with, and support finalizing, the proposed Codification improvements. Appendix A contains our responses to the proposed ASU's questions for respondents and notes our concerns about certain Codification improvements as well as suggestions for strengthening them. Appendix B identifies additional Codification improvements that we believe the Board should deliberate and expose for public comment as part of its ongoing Codification improvements project.

We appreciate the opportunity to comment on the proposed ASU. If you have any questions concerning our comments, please feel free to contact Stefanie Tamulis at (203) 563-2648.

Yours truly,

Deloitte & Touche LLP
cc: Robert Uhl

Appendix A
Deloitte & Touche LLP
Responses to Proposed ASU's Questions for Respondents

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. However, as discussed below, we have concerns about certain Codification improvements described in the proposal as well as suggestions for strengthening them.

Issue 1 – Amendments to Subtopic 220-10, Income Statement – Reporting Comprehensive Income: Overall

We agree with the proposed amendment; however, we believe that the quasi-reorganization example cited in the amended language is rare. Accordingly, we suggest that the FASB consider using an example that is more prevalent in practice, such as the recognition of the tax effects of an increase or decrease in contributed capital as contemplated in ASC 740-20-45-11(c), or the recognition of the tax effects of changes in the tax bases of assets and liabilities caused by transactions among or with shareholders as contemplated in ASC 740-20-45-11(g).

Issue 7 – Amendments to Topic 718-740, Compensation – Stock Compensation: Income Taxes

We are concerned that the proposed change to the second-to-last sentence of ASC 718-740-35-2, which now focuses on the resolution of an “uncertainty,” may further confuse the issue of when excess tax benefits should be recognized. As an alternative to the proposed wording, we suggest that the FASB consider revising the portion of ASC 718-740-35-2 included below as follows (deletion in ~~strikethrough~~; additions underlined):

The tax effect shall be recognized in the income statement in the period in which the tax deduction is determined ~~arises~~ or, in the case of an expiration of an award, in the period in which the expiration occurs. The appropriate period depends on the type of award and the incremental guidance under the requirements of Subtopic 740-270 on income taxes—interim reporting.

Issue 8 – Amendments to Subtopic 720-35, Other Expenses: Advertising Costs, Subtopic 944-30, Financial Services – Insurance: Acquisition Costs, and Subtopic 944-720, Financial Services – Insurance: Other Expenses

We agree with the proposed amendment to move the guidance on direct-response advertising costs in ASC 720-35-15-5 to ASC 944-30. However, we believe that ASC 944-30-25-1AAA is not the appropriate place for this guidance. We ask that the Board reconsider the placement of this guidance and whether it would be more appropriate to move this content after ASC 944-30-25-1C or ASC 944-30-25-1D.

We agree with the proposed amendment to remove the subheading “Direct-Response Advertising Costs” from before ASC 720-35-25-1A.

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We do not agree with the proposed amendment in ASC 944-720-55-1 to replace the reference to paragraph 944-30-25-1AA with one to paragraph 944-30-25-1AAA. We believe that this reference should either remain as paragraph 944-30-25-1AA or be amended to paragraph 944-30-25-1P to encompass all of the guidance on direct-response advertising costs.

Issue 10 – Amendments to Subtopic 740-30, Income Taxes: Other Considerations or Special Areas

We do not believe that the proposed change clarifies the fact that the phrase “essentially permanent in duration” refers only to corporate joint ventures. As an alternative to the proposed wording, we suggest that the FASB consider revising ASC 740-30-25-9 as follows (additions underlined):

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 corporate joint venture that is essentially permanent in duration, only if it is apparent that the temporary difference will reverse in the foreseeable future.

Issue 11 – Amendments to Subtopic 805-740, Business Combinations: Income Taxes

We agree with the proposed amendment; however, we believe that the last two sentences of the issue description in paragraph 34 are confusing. Specifically, these sentences indicate that EITF Issue 94-10 stated that the consequences of temporary tax differences should be recognized through net income or equity. While this is accurate in a broad sense, Issue 94-10 would indicate that the tax effects of the tax basis step-up discussed in EITF Issue 86-9 should be recognized as an adjustment to equity (as opposed to net income or equity). Accordingly, we suggest revisions to the last two sentences of paragraph 34 as follows (deletions in ~~strikethrough~~; additions underlined):

The decision in Issue 94-10 was not consistent with the decision in Issue 86-9. Specifically, Issue 94-10 stated that, with respect to the tax basis step-up discussed in Issue 86-9, the tax effects consequences of all temporary tax differences should be recognized as an ~~through net income or adjustments to equity, not as permanent differences.~~

Issue 16 – Amendments to Subtopic 820-10, Fair Value Measurement: Overall

We agree that, as the proposed ASU states, in part, paragraphs 820-10-35-18D through 35-18F and 820-10-35-18H through 35-18L should be amended to “include not only financial assets and financial liabilities, but also portfolios of financial instruments and nonfinancial instruments accounted for as derivatives” in accordance with ASC 815. Such an amendment “would allow entities to measure fair value on a net basis for those portfolios in which financial assets and liabilities and nonfinancial instruments are managed and valued together.”

However, we believe that the proposed amendments, if issued, could be read to indicate that an entity would need only a group of assets or only a group of liabilities (e.g., only financial assets or nonfinancial assets or both that are accounted for as derivatives or only financial liabilities or nonfinancial liabilities or both that are accounted for as derivatives) to use the portfolio exception rather than a mix of both assets and liabilities.

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As an alternative to the Board's proposed wording, we suggest that the FASB consider revising the guidance throughout ASC 820-10-35-18D through 35-18L as follows (deletions in ~~strike~~through; additions underlined):

. . . a group of assets and liabilities that include a combination of financial assets, assets and financial liabilities, or nonfinancial assets or liabilities items accounted for as derivatives in accordance with Topic 815. . .

Issue 21 – Amendments to Subtopic 830-10, Foreign Currency Matters: Overall

We agree with the proposed changes to ASC 830-10-45-18(a)(1), which are necessitated by the issuance of ASU 2016-01. However, we do not agree with the proposed change to ASC 830-10-45-18(a)(2), which would list "Debt securities intended to be held until maturity" as an example of a "common nonmonetary balance sheet [item]." In other words, the proposed change would require that held-to-maturity debt securities be remeasured in accordance with historical rates.

We believe that investments in debt securities that are classified as held to maturity under ASC 320-10 are monetary assets and therefore should be remeasured in accordance with current rates. This remeasurement will give rise to transaction gains or losses under ASC 830-20. We believe that held-to-maturity debt securities are monetary assets because the amount that an entity will receive upon settlement is fixed or determinable. Further, held-to-maturity debt securities must be carried at amortized cost, not at fair value.

In addition, the proposed change to ASC 830-10-45-18(a)(2) would contradict the guidance in ASC 320-10-35-1(c). Although ASC 320-10-35-1(c) was amended by ASU 2016-01, the amendment served only to remove the reference to equity securities. ASC 320-10-35-1(c), as amended, continues to require the recognition of transaction gains and losses of foreign-currency-denominated held-to-maturity debt securities, which indicates that such securities are monetary assets and therefore must be remeasured in accordance with the current exchange rate.

Issue 22 – Amendments to Subtopic 940-405, Financial Services – Brokers and Dealers: Liabilities, and Subtopic 942-210, Financial Services – Depository and Lending: Balance Sheet

The offsetting criteria in ASC 210-20-45-11 through 45-13 are for payables recognized from repurchase agreements accounted for as collateralized borrowings and receivables recognized from reverse repurchase agreements accounted for as collateralized borrowings. However, the ASC master glossary does not define "securities borrowing transactions" or "securities lending transactions." Certain securities borrowing and lending transactions may be economically similar to and meet the ASC master glossary definitions of "repurchase agreements accounted for as collateralized borrowings" and "reverse repurchase agreements accounted for as collateralized borrowings." As a result, practitioners may have interpreted that they may apply the offsetting guidance in ASC 210-20-45-11 through 45-13 to certain securities borrowing and securities lending transactions. Paragraph 58 of the proposed ASU states, in part, "[t]he reference to explicit settlement dates is included in paragraph 210-20-45-11 and applies to repurchase agreements and reverse repurchase agreement conditions for offsetting but does not apply to securities borrowed and loaned transactions." Consequently, the amendments in paragraph 58 of the proposed ASU may

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result in a change in the application of existing guidance for certain securities borrowing and lending transactions that are economically similar to repurchase agreements and reverse repurchase agreements and meet the criteria within ASC 210-20-45-11 through 45-13, including the type of agreements stated in ASC 210-20-45-11. We believe that the Board should further clarify if the intent of the proposed amendment is to prohibit practitioners from applying the offsetting guidance in ASC 210-20-45-11 through 45-13 to *all* securities borrowing and securities lending transactions.

Issue 30 – Amendments to Subtopic 962-325, Plan Accounting – Defined Contribution Pension Plans: Investments – Other

The proposed changes to remove the stable value common collective trust fund from the illustrative example in paragraph 962-325-55-17 would imply that the application of the net asset value per share practical expedient for the stable value common collective trust funds in the example was not appropriate. We recommend that the Board provide further clarification by including the following revised language (taken from the proposed ASU's summary section) in the final ASU's Basis for Conclusions (deletions in ~~strikethrough~~; additions underlined):

This proposed amendment would remove the stable value common collective trust fund from the illustrative example in paragraph 962-325-55-17 to avoid the interpretation that such an investment should always be measured using the net asset value per share practical expedient. Rather, the plan would need to evaluate whether a readily determinable fair value exists, or whether those investments may qualify for the practical expedient to measure at net asset value in Topic 820. That is, whether the fair value of those investments could be estimated using net asset value per share and excluded from the fair value hierarchy.

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 some of the issues regarding proposed changes that we noted in our response to Question 1, if not revised, would require transition provisions.

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.

We do not see a need for other changes that are directly or indirectly related to the changes noted in the proposed ASU other than those described in our response to Question 1 and contained in Appendix B. However, we believe that the Board should make the additional technical corrections proposed in Appendix B below as part of its next application of this standing project.

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

We believe that the amendments in the proposed ASU should apply to public and nonpublic entities equally.

Appendix B
Deloitte & Touche LLP
Additional Technical Corrections

We recommend that the Board make the additional Codification improvements outlined below.

ASC 815 (Derivatives and Hedging)

When it describes the scope exception under ASC 815 for regular-way securities trades, ASC 815-10-15-15 refers to "delivery of a security within the period of time (after the trade date) generally established by regulations or conventions in the marketplace or exchange in which the transaction is being executed." That paragraph then states that "[f]or example, a contract to purchase or sell a publicly traded equity security in the United States customarily requires settlement within **three** business days. If a contract for purchase of that type of security requires settlement in **three** business days, the regular-way security trades scope exception applies." [Emphasis added]

Earlier in 2017, the SEC adopted an amendment to Rule 15c6-1(a) under the Securities Exchange Act of 1934 to "shorten the standard settlement cycle for most broker-dealer transactions from three business days after the trade date ('T+3') to two business days after the trade date ('T+2')." The final rule was effective on May 30, 2017, with a compliance date of September 5, 2017. In light of the new rule, we believe that the Board should amend ASC 815-10-15-15 as follows (deletions in ~~strikethrough~~; additions underlined):

Regular-way security trades are defined as contracts that provide for delivery of a security within the period of time (after the trade date) generally established by regulations or conventions in the marketplace or exchange in which the transaction is being executed. For example, a contract to purchase or sell a publicly traded equity security in the United States customarily requires settlement within ~~three~~ two business days. If a contract for purchase of that type of security requires settlement in ~~three~~ two business days, the regular-way security trades scope exception applies, but if the contract requires settlement in five days, the regular-way security trades scope exception does not apply unless the reporting entity is required to account for the contract on a trade-date basis.

ASC 720-35 (Other Expenses: Advertising Costs), ASC 944-30 (Financial Services — Insurance: Acquisition Costs), and ASC 944-720 (Financial Services: Insurance — Other Expenses)

We believe that the Board should consider making the following additional amendments, which are directly related to the proposed amendments in paragraph 17 of the proposed ASU:

- Reinstated the guidance in ASC 720-35-05-2 with the following amendments (deletions in ~~strikethrough~~; additions underlined):

This Subtopic does not provide guidance for direct-response advertising (see Subtopic ~~340-20~~ 944-30) whose primary purpose is to elicit sales to customers who can be shown to have responded specifically to the advertising and that results in probable future benefits. ~~If future economic benefits do result from~~

~~advertising, they generally would be in the form of revenue. New technology, sources of information, and measurement techniques have given some entities~~

~~the ability to better estimate the future economic benefits that could result from certain kinds of advertising.~~

We believe that by reinstating this guidance, the Board will further clarify the placement of the guidance on direct-response advertising costs.

- Amend ASC 720-35-15-2 as follows (deletions in ~~striketrough~~; additions underlined):

The guidance in this Subtopic applies to all advertising transactions and activities, ~~including direct response advertising~~, with specific exceptions noted below.

We believe that this amendment is necessary because all of the guidance on direct-response advertising costs has been moved from ASC 720-35 to ASC 944-30. Therefore, ASC 720-35 no longer applies to direct-response advertising.

- Add the subheading "Direct-Response Advertising Costs" before ASC 944-30-25-1AA.
- Consider the placement of the guidance in ASC 944-30-25-1B. Specifically, we ask that the Board consider whether this guidance is better suited for the section on direct-response advertising costs.

Previously Proposed Technical Corrections

We would like to point out that improvements to the following Codification topics, as proposed in our June 28, 2016, comment letter, have not yet been made:

- ASC 970-10 (Real Estate — General)
- ASC 970-323 (Real Estate — General: Investments — Equity Method and Joint Ventures)
- ASC 944-605 (Financial Services — Insurance: Revenue Recognition).

Further, the improvements to the following Codification topic proposed in our December 12, 2011, comment letter have not yet been made:

- ASC 505-30-30-8 (Retirement of Treasury Shares).