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December 20, 2019

Technical Director
Financial Accounting Standards Board
401 Merritt 7
PO Box 5116
Norwalk, CT 06856-5116

RE: Proposed Accounting Standards Update, *Codification Improvements* (File Reference No. 2019-800)

Dear Technical Director:

We appreciate the opportunity to comment on the proposed ASU, *Codification Improvements*.

We support the Board's objective to remove references to the FASB Concepts Statements from the Codification, as we believe that the Codification should not refer to non-authoritative guidance. However, we believe that certain proposals may have a significant effect on current accounting practice, which is inconsistent with our understanding of the Board's objective for this project. Our response to Question 1 includes recommendations that we believe would minimize those effects. Our response to Question 2 recommends that the Board provide transition provisions for all proposed amendments related to removing references to the Concepts Statements.

Our responses to the Questions for Respondents are included in Appendix I to this letter. Our additional observations are in Appendix II.

* * * * *

If you have questions about our comments or wish to discuss the matters addressed in this comment letter, please contact Kimber Bascom at (212) 909-5664 or kbacom@kpmg.com or Angie Storm at (212) 909-5488 or astorm@kpmg.com.

Sincerely,

A handwritten signature in black ink that reads 'KPMG LLP'. The letters are bold and slightly slanted, with a casual, professional feel.

KPMG LLP

Appendix I – Responses to 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.

While we support the Board’s objective to remove references to the FASB Concepts Statements from the Codification, we believe that certain proposals may have a significant effect on current accounting practice, which is inconsistent with our understanding of the Board’s objective for this project. We believe the following recommendations would minimize those effects.

Issue 1

We support eliminating the term ‘expected losses and expected residual returns’, and believe that the Master Glossary definition of ‘expected cash flow’ is substantially equivalent to the definition of the same term in FASB Concepts Statement No. 7, *Using Cash Flow Information and Present Value in Accounting Measurements*.

However, the proposed amendment would eliminate the explanation that “expected losses and expected residual returns [are] derived from expected cash flows.” While the relationship between ‘expected losses’, ‘expected residual returns’ and ‘expected cash flows’ is illustrated in the Implementation Guidance, we believe the Board should establish the conceptual basis in the Master Glossary definitions. Therefore, we recommend that the Board consider additional amendments to the Master Glossary, as follows (additions underlined):

Expected Losses

A legal entity that has no history of net losses and expects to continue to be profitable in the foreseeable future can be a variable interest entity (VIE). A legal entity that expects to be profitable will have expected losses. A VIE’s expected losses are the expected negative variability in the VIE’s expected cash flows compared to the fair value of its net assets exclusive of variable interests and not the anticipated amount or variability of the net income or loss.

Expected Residual Returns

A variable interest entity’s (VIE’s) expected residual returns are the expected positive variability in the VIE’s expected cash flows compared to the fair value of its net assets exclusive of variable interests.

Issue 6

We support removing the reference to FASB Concepts Statement No. 6, *Elements of Financial Statements*. However, because “transfer” is a pervasive concept in Topic 480, *Distinguishing Liabilities from Equity*, we recommend that the Board retain Definition 1 of “transfer” with the following suggested revisions (additions underlined, deletions struck through):

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The term transfer is used in a broad sense as a conveyance of economic value consistent with its use in FASB Concepts Statement No. 6, Elements of Financial Statements (such as in paragraph 137), rather than in the narrow sense in which it is used in Subtopic 860-10.

Issue 7

We support removing the reference to FASB Concepts Statement No. 5, *Recognition and Measurement in Financial Statements of Business Enterprises*. However, the proposed amendment would also remove the recognition threshold for an intangible asset that does not meet the contractual-legal or the separability criterion but does meet the general asset recognition criteria. Therefore, we recommend the Board amend paragraph 350-30-25-4 as follows (additions underlined, deletions struck through):

Intangible assets that are acquired individually or with a group of assets in a transaction other than a business combination or an acquisition by a not-for-profit entity may meet the definition of an asset (as described in paragraph 805-20-25-2(a)) ~~meet asset recognition criteria in FASB Concepts Statement No. 5, Recognition and Measurement in Financial Statements of Business Enterprises~~, even though they do not meet either the contractual-legal criterion or the separability criterion for being an identifiable asset (for example, specially-trained employees or a unique manufacturing process related to an acquired manufacturing plant). Such transactions commonly are bargained exchange transactions that are conducted at arm's length, which provides reliable evidence about the existence and fair value of ~~those the~~ assets acquired, including intangible assets. Thus, those intangible assets shall be recognized as part of the purchase transaction ~~intangible assets~~.

Issue 8

We support removing the reference to FASB Concepts Statement No. 6. However, the Codification limits the scope of Subtopic 410-20 to legal obligations associated with the retirement of tangible long-lived assets. We believe that discussing obligations other than legal obligations is unnecessary and may create confusion about the transactions and activities that are in the scope of Subtopic 410-20. Therefore, we recommend that the Board remove the following sentences from proposed paragraph 410-20-25-4A:

Obligations in the definition is broader than legal obligations. It is used with its usual general meaning to refer to duties imposed legally or socially; to that which one is bound to do by contract, promise, moral responsibility, and so forth (Webster's New World Dictionary, p. 981). It includes equitable and constructive obligations as well as legal obligations.

In addition, proposed paragraph 410-20-25-4A would refer to an 'exit or disposal activity' while the Subtopic is specific to asset retirement obligations. We recommend that the Board replace 'exit or disposal activity' with 'asset retirement obligation.'

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Proposed paragraph 410-20-25-4A would eliminate the reference to paragraph 450-20-25-1, which provides guidance on the use of ‘probable’ in the technical sense in the Codification. We believe providing Codification users with this reference provides a helpful contrast to and context for the meaning of ‘probable’ in paragraph 410-20-25-4A and, therefore, recommend that the Board retain the reference to paragraph 450-20-25-1.

Issue 9

We support removing the reference to FASB Concepts Statement No. 6. However, we believe that the proposed definition of a liability associated with an exit or disposal activity in paragraph 420-10-25-2 places undue emphasis on obligations that are not legal obligations. We believe this emphasis may be misleading because some obligations (e.g. contract termination benefits) must be legal obligations to qualify for recognition under Topic 420. Further, we believe that Topic 420 already provides adequate liability recognition guidance for non-legal obligations in its scope. Therefore, we recommend that the Board modify proposed paragraph 420-10-25-2 as follows (additions underlined, deletions struck through):

A liability for a cost associated with an exit or disposal activity is incurred when the following definition of a liability is met:

Liabilities are probable future sacrifices of economic benefits arising from present obligations of a particular entity to transfer assets or provide services to other entities in the future as a result of past transactions or events. Probable is used with its usual general meaning, rather than in a specific accounting or technical sense, and refers to that which can reasonably be expected or believed on the basis of available evidence or logic but is neither certain nor proved (Webster’s New World Dictionary of the American Language, 2d college ed. [New York: Simon and Schuster 1982], p. 1132). Its inclusion in the definition is intended to acknowledge that business and other economic activities occur in an environment characterized by uncertainty in which few outcomes are certain. Obligations in the definition ~~is broader include than~~ legal obligations. ~~It is used with its usual general meaning to refer to duties imposed legally or socially; to that which one is bound to do by contract, promise, moral responsibility, and so forth (Webster’s New World Dictionary, p. 981). It includes equitable and constructive obligations as well as legal obligations. Only present obligations to others...~~

Issues 8 and 9

We believe the Board should clarify the interaction between Topic 480 and Topics 410, 420 and 805. We recommend that the Board add guidance in proposed paragraphs 410-20-25-4B, 420-10-25-2A (incorrectly labeled 420-~~20~~-25-2A in the Exposure Draft) and 805-20-25-28C to clearly state which sections of ASC 410, 420 and 805 apply (or do not apply) to liabilities that are within the scope of Topic 480.

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Issue 14

We support the proposals to incorporate paragraphs 36(a) - 36(c) of FASB Concepts Statement No. 6 into paragraph 946-20-25-4. However, we believe that limiting the reference in subparagraph 946-20-25-4(d) to subparagraphs 450-20-25-2(a) and 25-2(b) may change the interpretation of paragraph 946-20-25-4. Therefore, we recommend that subparagraph 946-20-25-4(d) refer to paragraph 450-20-25-2 in its entirety.

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.

Section A: Issues 1 to 16

We believe that in certain circumstances, each of the proposed amendments to remove the references to the Concepts Statements could change application of the existing guidance. We believe that the absence of references to specific Concepts Statements paragraphs in many of the existing Codification references and the non-authoritative nature of the Concepts Statements results in some diversity in interpretation and application.

The FASB's plan to release the final Accounting Standards Update during the first quarter of 2020 (i.e. the 2019 financial statement reporting season) may not allow financial statement preparers adequate time to adopt certain amendments for fiscal years beginning after December 15, 2019 (as would be required by proposed transition paragraph 105-10-65-XA). Therefore, we recommend that the Board provide explicit transition provisions for Issues 1 to 16, and modify the proposed effective date for the remainder of the proposals as follows (additions underlined, deletions struck through):

105-10-65-XA The following represents the transition and effective date information related to Accounting Standards Update No. 2019-XX, *Codification Improvements*:

- a. A public business entity, a not-for-profit entity that has issued, or is a conduit bond obligor for, securities that are traded, listed, or quoted on an exchange or an over-the-counter market, and an employee benefit plan that files or furnishes financial statements with or to the U.S. Securities and Exchange Commission, shall apply the pending content that links to this paragraph for annual periods beginning after December 15, ~~2019~~2020, including interim periods within those annual periods.
- b. All other entities shall apply the pending content that links to this paragraph for annual periods beginning after December 15, ~~2020~~2021, and interim periods within annual periods beginning after December 15, ~~2021~~2022.

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Issue 48

We agree with the proposals to exclude from Subtopic 835-30 interest expense from revenue contracts with a significant financing component. However, we believe the clarification highlights a related practice issue about whether interest from revenue contracts with a significant financing component is in the scope of Subtopic 835-20 on interest capitalization. We believe that the current ambiguity about the scope of Subtopic 835-20 has led to diversity in practice. It is unclear whether the intent of the proposed clarification to Subtopic 835-30 is also to clarify that interest from revenue contracts with a significant financing component is not an “interest cost” in the scope of Subtopic 835-20 and not eligible for capitalization. Therefore, we recommend that the Board clarify whether interest from revenue contracts with a significant financing component is in the scope of Subtopic 835-20 and provide transition guidance, or codify current practice as a policy election. We acknowledge that providing guidance on this issue may be beyond the scope of this project but believe that the Board should address it at the same time as it amends the scope of Subtopic 835-30.

Question 3: Would the proposed amendment to Topic 805, *Business Combinations* (Issue 10), affect your assessment of liabilities assumed in a business combination?

Yes. We believe the proposed amendment in Issue 10 would affect the assessment of liabilities assumed in a business combination. Because the Codification provides no guidance on the recognition threshold for contract liabilities (i.e. deferred revenue), we believe that many entities continue to use the ‘legal obligation’ threshold based on EITF Issue No. 01-3, “Accounting in a Business Combination for Deferred Revenue of an Acquiree,” which was nullified by Statement 141R, *Business Combinations*. We also understand that the SEC staff expects financial statement preparers to use that framework for a contract liability/deferred revenue pending expected future standard setting under the Board’s research project, *Recognition and Measurement of Revenue Contracts with Customers under Topic 805*. As a result, we believe the proposed amendment that emphasizes that the definition of a liability in Topic 805 ‘is broader than legal obligations’ could cause confusion. We recommend that the Board modify proposed subparagraph 805-20-25-2(b) as follows (additions underlined, deletions struck through):

Liabilities are probable future sacrifices of economic benefits arising from present obligations of a particular entity to transfer assets or provide services to other entities in the future as a result of past transactions or events. Probable is used with its usual general meaning, rather than in a specific accounting or technical sense, and refers to that which can reasonably be expected or believed on the basis of available evidence or logic but is neither certain nor proved (Webster’s New World Dictionary, p. 1132). Obligations in the definition include is broader than legal obligations. In some circumstances, they may also include ~~It is used with its usual general meaning to refer to equitable and constructive obligations and other~~ It is used with its usual general meaning to refer to equitable and constructive obligations and other duties imposed legally or socially; ~~to that~~ to that which one is bound to do by contract, promise, moral responsibility, and so forth (Webster’s New World Dictionary, p. 981). ~~It includes equitable and constructive obligations as well as legal obligations.~~ For example,...

Question 4: The proposed amendments related to Issue 37 would be effective immediately. Do you have any concerns with that and, if so, why? Can you apply the guidance on a modified retrospective basis if you already have adopted the amendments in Accounting Standards Update No. 2017-08, *Receivables—Nonrefundable Fees and Other Costs (Subtopic 310-20): Premium Amortization on Purchased Callable Debt Securities*? Do you agree with the transition disclosures? If not, please explain why.

While we expect the proposed guidance in Issue 37 would apply in only limited circumstances, we believe the current non-authoritative status of that guidance warrants a transition period for entities that have already adopted ASU 2017-08.

Question 5: For entities that have adopted the amendments in Accounting Standards Update No. 2016-13, *Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, the proposed amendments related to Issues 38 and 49 would be effective immediately. Do you have any concerns with that and, if so, why? Do you agree with the transition disclosures? If not, please explain why.

We do not have concerns with the proposed amendments related to Issues 38 and 49 being effectively immediately and agree with the transition disclosures. However, we believe that the Board should modify the first sentence of proposed paragraph 860-20-25-13 to refer to paragraph 860-20-30-3 (in addition to Topics 310, 320, 323 and 325), as that paragraph also provides guidance that is applicable when an entity re-recognizes financial assets after it regains control.

Appendix II – Additional Observations

Issues 19 and 20

We agree with the proposals to include in ASC Section 220-10-50 guidance that would allow an entity to disclose activity in other comprehensive income either on the face of the financial statements or in the notes. However, Codification users may be confused by the heading “Certain Income Tax Effects within Accumulated Other Comprehensive Income.” We recommend that the Board add a new heading (e.g. Reporting Changes within Accumulated Other Comprehensive Income) before the proposed paragraphs 220-10-50-5 and 50-6.

Issue 21

We agree with the proposals to include in ASC paragraph 250-10-50-12 existing disclosure guidance about changes that are material to an interim period but not to the full fiscal year. However, Codification users may be confused by including this guidance under the heading “Materiality Considerations for Correction of an Error.” We recommend that the Board (1) renumber the proposed paragraph as paragraph 250-10-50-10A under a new first order heading (e.g. Error Corrections Related to Prior Interim Periods) and (2) make the current heading, “Error Corrections Related to Prior Interim Periods of the Current Fiscal Year,” a first order heading above existing paragraph 250-10-50-11.

Issue 24

We agree with the proposals to include in ASC Section 270-10-50 existing disclosure guidance about costs and expenses that cannot be readily identified with activities or benefits of other interim periods. However, proposed paragraph 270-10-50-1B has been placed in a section that applies only to publicly traded companies while the current paragraph 270-10-45-8 applies to all companies. We do not believe that the Board intended to change the scope of the disclosure requirement and, therefore, recommend that the Board change the new paragraph reference to paragraph 270-10-50-4A under a new first order heading (e.g. Costs and Expenses Entirely Charged in the Interim Period).

Issue 27

We agree with the proposals to include in ASC Section 852-10-50 existing disclosure guidance about the details of operating cash receipts and payments resulting from a reorganization. However, the proposed change from “disclose” to “present” in the first sentence of existing paragraph 852-10-45-13 may suggest that a company must separately present those activities on the cash flow statement regardless of whether it uses the direct or indirect method. We recommend that the Board modify proposed paragraph 852-10-45-13 as follows (additions underlined, deletions struck through):

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Reorganization items shall be presented separately within the operating, investing, and financing categories of the statement of cash flows. ~~This presentation can be better accomplished by the use of the~~ if the direct method of presenting the statement is used....

Issue 28

We agree with the proposal to include in ASC Section 852-10-50 existing disclosure guidance about probable dilution of equity interest during reorganization proceedings. However, we recommend that the Board refrain from adding the phrase 'for reorganization' in paragraphs 852-10-45-16 and 852-10-50-6B. Topic 852 consistently refers only to 'a plan' or 'the plan' and we believe using 'plan for reorganization' in these paragraphs may confuse Codification users as that phrase is defined in the Master Glossary.

Issue 29

We agree with the proposals to include in ASC Section 942-360-50 existing disclosure guidance about accumulated depreciation and amortization. However, we believe the Board should clarify that the accumulated depreciation and amortization (versus the net amount of premises and equipment) may be presented separately or disclosed in the notes. Therefore, we recommend that the Board modify proposed paragraphs 942-360-45-1 and 942-360-50-1 as follows (additions underlined, deletions struck through):

Premises and equipment, net of accumulated depreciation and amortization, are generally shown as a single caption on the balance sheet, ~~net of accumulated~~ The amount of accumulated depreciation and amortization, the amount of which shall be presented on the face of the balance sheet or disclosed in the notes to the financial statements.

Issue 36

We do not believe the proposed paragraph clearly communicates that additional guidance (i.e. guidance beyond Topic 860) applies to transfers of financial assets, which is the Board's stated objective in paragraph 84 of the proposals. We recommend that the Board amend paragraph 310-10-60-5 to specify which guidance beyond Topic 860 may apply.

Issue 42

We agree with the proposed addition of the term "nonfinancial" in paragraph 820-10-35-18L. However, we recommend that the Board amend the second order heading as follows (deletions struck through):

>> Application to ~~Financial~~ Assets and ~~Financial~~ Liabilities with Offsetting Positions in Market Risks or Counterparty Credit Risk

Issue 44

We agree with the proposed amendments to paragraph 825-10-50-2A. However, we believe that the description of the amendment should not imply that only business entities are subject to the

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fair value option disclosures. Striking the word ‘business’ from paragraph 104 in the proposals would achieve that objective.

104. The proposed amendment would clarify that nonpublic ~~business~~ entities are subject to the fair value option disclosures in paragraphs 825-10-50-24 through 50-32.

Issue 53

We agree with the proposals to add a cross reference in paragraph 958-720-45-56 to paragraph 958-220-45-21. However, we recommend that the Board conform the language in paragraph 958-720-45-56 related to how a recipient should present the benefit to the guidance in paragraph 958-220-45-21 as follows (additions underlined, deletions struck through):

The increase in net assets associated with services received from personnel of an affiliate that directly benefit the recipient not-for-profit entity (NFP) and for which the affiliate does not charge the recipient NFP shall be reported as an equity transfer, regardless of whether those services are received from personnel of a not-for-profit affiliate or any other affiliate, in accordance with paragraph 958-220-45-21 ~~shall not be presented as a contra expense or a contra asset.~~ The corresponding decrease in net assets or the creation or enhancement of an asset resulting from the use of services received from personnel of an affiliate that directly benefit the recipient NFP and for which the affiliate does not charge the recipient NFP shall be presented similar to how other such expenses or assets are presented. ~~See paragraph 958-220-45-21 for presentation guidance on services received from personnel of an affiliate.~~

Issue 54

We agree with the proposals to add a reference in Subtopic 958-815 to the guidance in paragraph 815-20-25-143. However, paragraph 815-20-25-143 is in the recognition section of Subtopic 815-20. Therefore, we believe the proposed location and reference to ‘implementation guidance’ in proposed paragraph 958-815-55-2 is inconsistent with the contents, and recommend that the Board include the proposed paragraph at 958-815-25-2 and replace ‘implementation guidance’ with ‘recognition guidance’.

