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December 26, 2019

Mr. Shayne Kuhaneck
Acting Technical Director
Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, CT 06856-5116

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

Dear Mr. Kuhaneck:

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.

However, we believe that some of the amendments in this proposed ASU go beyond simple technical corrections and may have more significant implications for practice and the application of generally accepted accounting principles (GAAP). Additionally, we do not believe that the proposed ASU sufficiently describes the Board's rationale for removing the references to the Concepts Statements from the Codification. We understand that "[t]he Board believes that removing all references to Concepts Statements and including the actual text of the definitions that were intended to be applied in the guidance will simplify the Codification." However, it is unclear to us how the removal of references to the Concepts Statements would simplify the Codification. We are also concerned about the potential unintended consequences of the amendments in Issue 7. Finally, we believe that the late November timing of the issuance of this proposed ASU and a relatively short 30-day comment period may not give practitioners sufficient time to evaluate and respond to this proposed update. We recommend that the Board perform further outreach before finalizing the proposed amendments.

Appendix A contains our responses to the questions for respondents and notes our concerns about certain of the proposed Codification improvements as well as suggestions for addressing them. Appendix B contains our editorial suggestions about matters that are not significant concerns.

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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.*

As described in more detail below, we have concerns that some of the proposed amendments go beyond simple technical corrections and may have more significant implications for practice and the application of GAAP. We believe that clarification is warranted for some of the other proposed amendments. The following paragraphs indicate our specific concerns about certain Codification improvements described in the proposal and offer suggestions for addressing them (suggested additions are underlined; suggested deletions are in ~~strikethrough~~).

Issue 1

We understand the Board's intent to eliminate redundancy in the ASC master glossary by removing the redundant term "expected losses and expected residual returns" (the "combined definition"). However, we believe that the proposed amendments outlined in Issue 1 do not provide stakeholders with enough information with which to derive expected losses and expected residual returns given the removal of the combined definition. Therefore, we recommend that the Board amend the individual definitions of "expected losses" and "expected residual returns" as follows:

> **Expected Losses**
>
> Expected losses refer to amounts derived from expected cash flows, which are estimated on the basis of explicit assumptions about the range of possible estimated cash flows and their respective probabilities. However, expected losses also refer to amounts discounted and otherwise adjusted for market factors and assumptions rather than to undiscounted cash flow estimates. 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 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**
>
> Expected residual returns refer to amounts derived from expected cash flows, which are estimated on the basis of explicit assumptions about the range of possible estimated cash flows and their respective probabilities. However, expected residual returns also refer to amounts discounted and otherwise adjusted for market factors and assumptions rather than to undiscounted cash flow estimates. A variable interest entity's (VIE's) expected residual returns are the expected positive variability in the fair value of its net assets exclusive of variable interests.

Issue 7

Paragraph 21 of the proposed ASU states, in part:

> Paragraph 350-30-25-4 contains a reference to asset recognition criteria in Concepts Statement 5. The reference does not require an entity to meet recognition criteria as part of the guidance. Instead, the reference appears in an explanation in which an intangible asset may not meet the separability or contractual-legal criterion in the definition of an identifiable asset but may be recognized as an intangible asset.

We believe that practitioners have taken the view that to be recognized in an asset acquisition, an intangible asset must meet (1) the definition of an asset in Concepts Statement 6 and (2) the asset recognition criteria in Concepts Statement 5. If the reference to Concepts Statement 5 is removed, it is unclear whether entities will start recognizing intangible assets that would not have been previously recognized, thus resulting in a change in practice.

On the other hand, we note that "intangible assets" is defined in the ASC master glossary as "**assets** (not including financial assets) that lack physical substance. (The term intangible assets is used to refer to intangible assets other than goodwill.)" (emphasis added). This raises the question of whether practitioners will continue to look to the Concepts Statements for guidance on the definition of an asset even if the reference to Concepts Statement 5 is eliminated.

Because of these concerns, we question whether the Board should defer consideration of an amendment to ASC 350-30 to its Phase 3 project on aligning the accounting for business combinations and asset acquisitions. However, if the Board does decide to remove the reference to Concepts Statement 5, at a minimum, we recommend that rather than describing the meaning of "intangible asset" by using the same term, the Board amend the guidance as follows:

> **350-30-25-4** 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 be recognized ~~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 assets. Thus, those assets shall be recognized as intangible assets.

Issues 8, 9, and 10

While bringing the definition of "liabilities" into the Codification conceptually should not change practice, we question whether the introduction of the term "constructive obligation" to the Codification could have an impact on the way practitioners think about what represents a liability. We also believe that the concept of constructive obligation diverges from the FASB's more recent thinking in other areas of GAAP (e.g., revenue recognition) in which the guidance is based on legally enforceable rights and obligations.

Issue 15

The proposed amendments to ASC 946-720-25-2 are intended to clarify that expenditures paid by an investment adviser in connection with the distribution of shares of a fund in circumstances in which the investment adviser does not receive both 12b-1 fees and contingent-deferred sales fees should be expensed as incurred rather than capitalized. While we support the Board's intention to clarify this guidance, the proposed amendments essentially are saying "[b]enefits expected from the expenditures . . . shall be expensed as incurred," which we believe is confusing given that items that should be expensed do not have future expected benefits. We recommend that the Board amend the guidance as follows:

> **946-720-25-2** ~~Benefits expected from the expenditures~~ Costs paid by an investment adviser in connection with the distribution of shares of a fund in circumstances in which the investment adviser does not receive both 12b-1 fees and contingent-deferred sales fees ~~do not meet the definition of an asset of the investment adviser as provided in FASB Concepts Statement No. 6, Elements of Financial Statements. Accordingly, such offering costs paid by the investment adviser~~ shall be expensed as incurred. Initial offering costs paid by an investment adviser that does not receive both 12b-1 fees and contingent-deferred sales fees are start-up

costs of the investment adviser, which should be accounted for in accordance with Subtopic 720-15.

Issue 33

We agree with the objective of eliminating the "cash balance" definition and moving the relevant information elsewhere in the Codification on the basis that the definition is determined by regulatory entities outside of the FASB. However, we do not believe that Section 25—Recognition of ASC 715-20 is the most appropriate placement for all the paragraphs included in Issue 33.

We note that EITF Issue 03-4, "Determining the Classification and Benefit Attribution Method for a 'Cash Balance' Pension Plan," addressed two issues: (1) assessment of scope and (2) attribution approach. Therefore, we believe that it would more appropriate for the Board to include the guidance it proposes to insert in added ASC 715-20-25-1 through 25-3, which is related to whether the described plan meets the definition of a defined benefit or defined contribution plan, in an example in Section 55—Implementation Guidance and Illustrations. Further, we believe that if the proposed paragraphs were to be moved to Section 55, the Board may have to reorganize the order of the paragraphs. Proposed ASC 715-20-25-2 and 25-3 should be presented first, given that they reflect the relevant guidance in which the EITF based its judgment in reaching the consensus that the definition of a defined benefit plan was met, followed by ASC 715-20-25-1, which states the conclusion reached for the illustration. We also believe that these paragraphs could be added to ASC 715-30-55 (Illustration 8), which includes the other example from that EITF consensus. Another alternative could be to incorporate those paragraphs into Section 15—Scope and Scope Exceptions, given that ultimately the EITF consensus addressed whether the plan was within the scope of ASC 715-20 or ASC 715-70. If the Board decides that it is better to move the proposed guidance into Section 15, there would not be a need to relocate proposed ASC 715-20-25-1.

We then considered whether proposed ASC 715-20-25-4 provides any additional incremental guidance that is not already included in ASC 715-30-35, to which ASC 715-20-25-4 refers. We concluded that it would be more appropriate for the Board to delete this proposed paragraph instead of relocating it.

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.*

As described above, we have concerns that some of the proposed amendments could result in changes to practice. We recommend that the Board, instead of providing transition provisions, reconsider the proposed amendments that might change practice since the technical corrections project is intended only to "clarify the Codification or correct unintended application of guidance [for changes] that are not expected to have a significant effect on current accounting practice."

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

We believe that the Board may have a concern about whether the proposed amendments to ASC 805 would affect the recognition of deferred revenue in a business combination. It is our understanding that in the absence of specific authoritative guidance, current practice has trended toward recognizing only legal obligations (or performance obligations) as deferred revenue in a business combination. We would not necessarily expect practice to change with the addition of the definition of liabilities to ASC 805. However, we continue to support the Board's addressing the recognition and measurement of deferred revenue in a business combination and resolving this practice issue.

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.*

We believe that financial statement preparers are best positioned to provide views on this question to the Board.

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 believe that financial statement preparers are best positioned to provide views on this question to the Board.

Question 6: *Are there other changes that should be made that are directly or indirectly related to the proposed amendments?*

Within the proposed amendments are edits to the Codification related to ASU 2016-13. We believe that changes should be made to ASC 825-10-25-4 and the ASC master glossary definition of "remeasurement event" to reflect changes made to the Codification upon the issuance of ASU 2016-13. That ASU amended ASC 825-10-25-4 and the master glossary as follows:

> **825-10-25-4** An entity may choose to elect the fair value option for an eligible item only on the date that one of the following occurs:
>
> a. The entity first recognizes the eligible item.
> b. The entity enters into an eligible firm commitment.
> c. Financial assets that have been reported at fair value with unrealized gains and losses included in earnings because of specialized accounting principles cease to qualify for that specialized accounting (for example, a transfer of assets from a subsidiary subject to Subtopic 946-10 to another entity within the consolidated reporting entity not subject to that Subtopic).
> d. The accounting treatment for an investment in another entity changes because the investment becomes subject to the equity method of accounting.
>   1. Subparagraph superseded by Accounting Standards Update No. 2016-01.
>   2. Subparagraph superseded by Accounting Standards Update No. 2016-01.
> e. An event that requires an eligible item to be measured at fair value at the time of the event but does not require fair value measurement at each reporting date after that, excluding the recognition of impairment under lower-of-cost-or-market accounting or ~~other-than-temporary impairment or~~ accounting for ~~equity~~ securities in accordance with <u>either</u> Topic 321 <u>on investments — equity securities or Topic 326 on measurement of credit losses.</u>
>
> **Remeasurement Event**
>
> A remeasurement (new basis) event is an event identified in other authoritative accounting literature, other than the <u>measurement of an impairment under Topic 321 or credit loss under Topic 326</u> ~~recognition of an other-than-temporary impairment~~, that requires a financial instrument to be remeasured to its fair value at the time of the event but does not require that financial instrument to be reported at fair value continually with the change in fair value recognized in earnings. Examples of remeasurement events are business combinations and significant modifications of debt as discussed in paragraph 470-50-40-6.

On the basis of our review of the amendments in ASU 2016-13, we believe that the removal of the language concerning an "other-than-temporary impairment" from ASC 825-10-25-4 could create unintended consequences regarding whether the recognition of an other-than-temporary impairment on an equity method investment creates a remeasurement event that would allow an entity to elect the fair value option upon recognition of the impairment. We do not believe that the intent of ASU 2016-13 was to allow for this change in GAAP, and therefore, we propose the following edits to address this possible concern:

> **825-10-25-4** An entity may choose to elect the fair value option for an eligible item only on the date that one of the following occurs:
>
> a. The entity first recognizes the eligible item.
> b. The entity enters into an eligible firm commitment.
> c. Financial assets that have been reported at fair value with unrealized gains and losses included in earnings because of specialized accounting principles cease to qualify for that specialized accounting (for example, a transfer of assets from a subsidiary subject to Subtopic 946-10 to another entity within the consolidated reporting entity not subject to that Subtopic).
> d. The accounting treatment for an investment in another entity changes because the investment becomes subject to the equity method of accounting.
>   1. Subparagraph superseded by Accounting Standards Update No. 2016-01.
>   2. Subparagraph superseded by Accounting Standards Update No. 2016-01.
> e. An event that requires an eligible item to be measured at fair value at the time of the event but does not require fair value measurement at each reporting date after that, excluding the recognition of impairment under lower-of-cost-or-market accounting, <u>recognition of an impairment under Topic 323</u>, or accounting for securities in accordance with either Topic 321 on investments — equity securities or Topic 326 on measurement of credit losses.
>
> **Remeasurement Event**
>
> A remeasurement (new basis) event is an event identified in other authoritative accounting literature, other than the measurement of an impairment under Topic 321, <u>the measurement of an impairment under Topic 323</u>, or credit loss under Topic 326, that requires a financial instrument to be remeasured to its fair value at the time of the event but does not require that financial instrument to be reported at fair value continually with the change in fair value recognized in earnings. Examples of remeasurement events are business combinations and significant modifications of debt as discussed in paragraph 470-50-40-6.

Question 7: *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 agree that the amendments in the proposed ASU should apply to public and nonpublic entities equally. We do not believe that the amendments require special consideration for nonpublic entities.

Appendix B
Deloitte & Touche LLP
Recommendations

This appendix contains our editorial suggestions about matters that are not significant concerns.

Issue 8

We agree with the intent of this proposed amendment to simplify the format of the recognition requirements of ASC 410 and remove the reference to Concepts Statement 6. However, the proposed amendment is meant to revise the guidance in ASC 410, and we believe that the description of the amendments contains an incorrect reference to ASC 420. We recommend that the Board amend paragraph 24 as follows:

> Additionally, paragraph 410-20-55-26 requires that the accounting for the initial recognition and measurement of liability and asset retirement cost be consistent with paragraphs 410-20-25-1 through 25-4. Because paragraphs 410-20-25-1 through 25-3A would be superseded, the link to paragraphs 410-20-25-1 through 25-4 would be amended to link to Sections 410-20-25 and 410-20-30 where the applicable recognition and initial measurement guidance is located. In addition, the guidance would be clarified to state that financial instruments that are liabilities under Topic 480 are also within the scope of ~~Topic 420, Exit or Disposal Cost Obligations~~ Topic 410, Asset Retirement and Environmental Obligations.

Issue 26

We agree with this proposed amendment to include a reference to ASC 840-30-45-1 in ASC 840-30-50-2. However, we believe that the explanation for the proposed amendment contains an incorrect reference and recommend that the Board amend paragraph 62 as follows:

> Paragraph 840-30-45-1 contains guidance for assets recorded under capital leases and the accumulated amortization to be identified in the lessee's balance sheet or in the notes. Paragraph 840-30-50-2 only contains a reference to paragraph ~~840-30-50-3~~ 840-30-45-3 for this disclosure guidance.

Issue 28

We agree with this proposed amendment to include disclosure requirements from ASC 852-10-45-16 in the Disclosure section of ASC 852-10. However, we believe that the disclosure paragraphs should, like the ASC master glossary, refer to a "plan **of** reorganization," not a "plan **for** reorganization" (emphasis added). In addition, we recommend that the Board (1) change the cross-reference to the similar paragraphs in ASC 852-10 to refer to ASC 852-10-45-16, given that it contains more detailed guidance, and (2) move the cross-reference to ASC 852-10-50-6B. We propose that the Board revise the guidance as follows:

> **852-10-45-16** Earnings per share (EPS) shall be reported, if required, in conformity with Topic 260. If it is probable that the plan ~~for~~ of reorganization will require the issuance of common stock or common stock equivalents, thereby diluting current equity interests, that fact shall be disclosed. ~~(See paragraph 852-10-50-6B.)~~ **[Content amended and copied to paragraph 852-10-50-6B]**
>
> **852-10-50-6B** If it is probable that the plan ~~for~~ of reorganization will require the issuance of common stock or common stock equivalents, thereby diluting current equity interests, that fact shall be disclosed. (See paragraph 852-10-45-16.) **[Content amended as shown and copied from paragraph 852-10-45-16]**

Issue 30

We agree with this proposed amendment to include disclosure requirements from ASC 946-220-45-9 in the Disclosure section of ASC 946-220. However, we believe that the Board should revise the proposed amendment to reflect the following grammatical correction:

> **946-220-45-9** Class-specific expenses shall be reported for each class of the fund in the statement of operations or disclosed in the notes to financial statements. Reporting the amount of fund-level expenses allocated to each class is not required but disclosure of fund-level expenses by class in the statement of operations or in notes to financial statements is permitted. **[Content amended and copied to paragraph 946-220-50-3]**

Issue 32

We agree with the objective of providing corresponding guidance from ASC 965-205-45-2 in ASC 965-205-50 on disclosure; however, we believe that it would be appropriate for the Board to add language that is consistent with other Disclosure sections when referencing the option to disclose rather than present (e.g., "shall present or disclose").

In addition, we believe that the Board should add to ASC 965-205-45-2 a closed parenthesis after the reference to ASC 965-205-55-7 in a manner consistent with its addition of the closed parenthesis after the reference to the latter guidance in ASC 965-205-50-6. We recommend that the Board revise the guidance as follows:

> **965-205-45-2** Information about the benefit obligations shall be presented in a separate statement, combined with other information on another financial statement, or disclosed in the notes to financial statements. Regardless of the format selected, the plan financial statements shall present or disclose the benefit obligations information in its entirety in the same location. The information shall be presented in such reasonable detail as is necessary to identify the nature and classification of the obligations. See Examples 1 through 3 (paragraphs 965-205-55-2 through 55-7) for illustrative financial statements of **health and welfare benefit plans. [Content amended and copied to paragraph 965-205-50-6]**
>
> **965-205-50-6** Information about the benefit obligations shall be presented in a separate statement, combined with other information on another financial statement, or disclosed in the notes to financial statements. Regardless of the format selected, the plan financial statements shall present or disclose the benefit obligations information in its entirety in the same location. The information shall be presented in such reasonable detail as is necessary to identify the nature and classification of the obligations. See Examples 1 through 3 (paragraphs 965-205-55-2 through 55-7) for illustrative financial statements of **health and welfare benefit plans. [Content amended as shown and copied from paragraph 965-205-45-2]**

Further, the addition of ASC 965-205-50-6 necessitates a revision to ASC 965-205-55-2 to include a reference to this new paragraph. We recommend that the Board revise the guidance as follows:

> **965-205-55-2** This Example illustrates the guidance in paragraphs 965-205-10-1,~~ and~~ 965-205-45-1 through 45-2, and 965-205-50-6.