October 1, 2014

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


Dear Technical Director:

We appreciate the opportunity to comment on the Board’s Exposure Draft, *Income Statement-Extraordinary and Unusual Items (Subtopic 225-20) – Simplifying Income Statement Presentation by Eliminating the Concept of Extraordinary Items*. We support the Board’s objectives of the simplification initiative and agree that areas of U.S. generally accepted accounting principles (GAAP) for which cost and complexity can be reduced without sacrificing the usefulness of the information provided to users should be evaluated and improved. The Board notes that the identification and classification of extraordinary items is extremely rare in practice. We agree with that assessment and agree with the proposed elimination of the concept of extraordinary items based on the limited circumstances in which it is applicable. Although the identification and classification of an extraordinary item is rare in practice and, therefore, the impact on cost and complexity may be minimal, we agree that the concept of extraordinary items should be eliminated if users do not find the extraordinary item classification and presentation helpful.

**Continuing Need to Identify Significant Unusual or Infrequently Occurring Items**

Part of the complexity in current GAAP related to extraordinary items includes the determination of whether a transaction is unusual in nature or infrequent in its occurrence, in addition to the assessment of whether an item should be considered both unusual and infrequent. The elimination of the extraordinary item concept may have limited impact on reducing complexity because, based on the proposed ASU, entities would be required to continue to evaluate whether items are unusual or infrequent for disclosure purposes and estimating the annual effective tax
rate for interim reporting purposes. Although the proposed ASU includes amendments indicating that unusual or infrequently occurring items that are significant and will be reported separately or reported net of their related tax effects should be excluded from the estimated annual effective tax rate for interim reporting purposes, we believe the FASB should emphasize that continuing requirement in the summary and basis for conclusions of the ASU to help ensure that readers understand the continuing need to identify significant unusual or infrequently occurring items.

We believe that the Board should consider whether the complexities that arise as a result of the continuing requirement to identify significant unusual or infrequently occurring items for interim tax calculations warrant consideration in the simplification initiative. If the Board were to consider changes that would have a significant impact on interim period tax rates or calculations (such as elimination of discrete period treatment for significant unusual or infrequently occurring items), we believe that would require additional outreach to users, preparers, auditors, and other stakeholders.

**Overall Plan to Address Complexity in Accounting Standards**

While we support the Board’s efforts to address unnecessary complexity in accounting standards through its narrow-scope projects within the simplification initiative, we believe that there are significant issues with complexity in accounting standards and financial reporting beyond the scope of narrow projects to simplify specific provisions within existing standards. In addition to the narrow simplification initiatives, we believe the Board should develop a broader overall plan to address systemic causes of complexity within accounting standards and financial reporting. That plan should result in development of a framework on how the Board will identify, evaluate, and prevent or mitigate potential complexity on an ongoing basis as an integral aspect of its standard-setting activities. The Board also should develop plans to address more significant areas of complexity in existing standards beyond the scope of the narrow projects within the simplification initiative. The narrow projects within the simplification initiative appropriately address concerns about complexity from the perspective of the application of a specific provision of a standard. We believe development of an overall framework on complexity should consider and address cost and complexity based on the potential impacts on the overall standard-setting process and financial reporting system, including complexity for financial statement users.
Development of a framework to address concerns about complexity should include research on the underlying causes of complexity in accounting standards and financial reporting and document a process for how the Board would intend to address those causes. Although not all inclusive, we believe development of a framework on complexity should identify how the Board will minimize or eliminate complexity that may result from, for example:

- Multiple models of accounting for the same or similar transactions, assets, or liabilities such that similar economic events and transactions are reported differently.
- Standards that may be viewed as inconsistent with the Board’s conceptual framework.
- The lack of clear principles on which a standard is based, or a lack of clarity about how to determine when exceptions to principles are appropriate.
- Inconsistent approaches to transition and standards with multiple transition alternatives, extended required effective dates, grandfathering of existing transactions, and early adoption elections.
- Differences in accounting standards for different types of entities.
- Standards that include provisions to achieve specific outcomes, such as through the use of other comprehensive income.

We encourage the Board to expand its efforts to address concerns about complexity in accounting standards beyond the narrow scope projects within the simplification initiative and develop an overall plan to address the broader systemic causes of complexity in financial reporting as well as complexity in existing standards beyond the scope of the narrow projects within the simplification initiative. We believe the development of a framework on complexity and a plan to address complexity in existing standards beyond the scope of the narrow projects within the simplification initiative should be subject to due process, including exposure for public comment.
We look forward to working with the Board as it continues to explore other opportunities for change as part of the simplification initiative. Our responses to the Board’s specific questions and our other observations are set forth in Appendix I. If you have any questions about our comments or wish to discuss any of the matters addressed herein, please contact Mark Bielstein at (212) 909-5419 or Prabhakar (PK) Kalavacherla at (415) 963-8657.

Sincerely,

KPMG LLP

KPMG, LLP
Appendix I

**Question 1:** Should the concept of extraordinary items be eliminated from GAAP? If not, why not?

Yes. As we noted in our accompanying letter, we are supportive of the Board’s objectives for the simplification initiative. While the elimination of the concept of extraordinary items from GAAP may not result in meaningful reductions of cost and complexity, we agree that the concept of extraordinary items should be eliminated if users do not find the extraordinary item classification and presentation helpful.

**Question 2:** Should the proposed Update be applied prospectively to extraordinary items occurring after the date of adoption?

We are not opposed to the proposed Update being applied prospectively given the limited application of extraordinary items in current practice. However, we do believe that prospective application will result in a lack of comparability for reporting entities that disclosed an extraordinary item on the face of the financial statements. The lack of comparability will be highlighted in a review of the trend of annual earnings from continuing operations for such reporting entities. Also, we note that for voluntary accounting changes ASC 250-10-05-02 indicates that “unless impracticable, retrospective application as the required method for reporting a change in accounting principle”. Retrospective application would eliminate any potential lack of comparability. Based on the limited number of reported extraordinary items we believe that retrospective application should be considered by the Board.

**Question 3:** Should the proposed Update be effective in annual periods, and interim periods within those annual periods beginning after December 15, 2015, with early adoption permitted? Should there be a delay in the effective date for entities other than public business entities and why?

We believe the proposed effective date is acceptable.

**Other Observations**

As noted in our accompanying letter, we believe that part of the complexity that exists in current GAAP resides in the determination of whether an item or transaction is unusual in nature or infrequent in its occurrence, rather than the determination if both exist. Therefore, we believe that it would be helpful to retain some of the existing text in the codification that provides guidance to preparers in determining whether an item or transaction is unusual in nature or infrequent in its occurrence that is being removed under the proposal. For example, the guidance in paragraph 225-20-45-4 on page 8 of the exposure draft provides examples of certain gains and losses that would not be
expected to meet one or both of the criteria. We believe that such guidance is still relevant if the concepts of unusual nature and infrequency of occurrence are being retained. Similarly, the guidance or examples consistent with the guidance in paragraphs 225-20-55-3 and 4 on pages 13-14 of the exposure draft should be retained to provide examples for preparers with respect to the unusual nature or infrequency of occurrence concepts that are being retained.

We noted that in paragraph 225-20-50-3 on page 12 of the proposal, there is no mention of the event or transaction being “significant” or “material” in determining whether or not disclosing a separate component of income from continuing operations is necessary. We believe that this represents an inconsistency within the proposed Update as well as current GAAP. In addition, we believe that it would be helpful to provide a single consistent criteria throughout the document, either “significant” or “material”. Depending on the how the Board decides to clarify the criteria, the Board will need to evaluate whether there is the potential for a change in current practice that will result from the clarification.

We agree with the decision to retain the guidance in paragraph 740-10-55-38 on page 21 of the proposed Update, however, we believe that the implementation guidance should be retained similar to the examples in bullets a. and b. that are being removed.

We noted three instances within the proposed Update where other comprehensive income is added to the existing text of the codification (paragraphs 740-20-45-7 on page 22, 740-270-45-4 on page 26, and 830-20-45-5 on page 28). While the additions are helpful in the sense that they provide additional guidance to preparers and auditors, they do not appear to be relevant to the stated objective of the proposed Update. Although there may be different interpretations of existing GAAP in these areas, we agree that the addition of other comprehensive income in each of the paragraphs is helpful in clarifying the existing guidance and represents an appropriate interpretation of existing GAAP. However, the addition of other comprehensive income in each of these paragraphs may warrant further discussion by the Board and potentially outreach with users, preparers, auditors, and other stakeholders if it is found the interpretations vary significantly. In addition, paragraphs 740-20-45-2 and 740-270-45-4 of the proposed ASU refers to “for example, discontinued operations, other comprehensive income, and so forth”. We would encourage the Board to clarify the types of considerations that are contemplated in the “and so forth” excerpt of the existing and proposed guidance.
We noted that the second sentence of paragraph 740-270-30-8 on page 25 states “…items that are significant and will be separately reported or reported net of their related tax effect…” We believe that “reported net of their related tax effect” should be removed from the text in order to be consistent with the remainder of the proposed Update.

Case A of Example 2 in the existing implementation guidance and illustrations (paragraph 740-20-55-10) includes a reference to an extraordinary gain (in both the title and bullet point c.) that was not included in the revisions of the Exposure Draft.