June 29, 2016

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

RE: Proposed Accounting Standards Update, Technical Corrections and Improvements (File Reference No. 2016-220)

Dear Technical Director:

We appreciate the opportunity to comment on the proposed Accounting Standards Update, Technical Corrections and Improvements. We support the Board’s standing project to continually improve the FASB Accounting Standards Codification®.

While we generally agree with the proposed amendments, we believe the Board should clarify certain amendments and add others. In addition, we do not believe that the proposed amendments will result in substantive changes to application that would require additional special transition provisions or consideration when determining the effective date.

Our responses to selected Questions for Respondents are included in the Appendix to this letter.

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

Sincerely,

KPMG LLP

KPMG LLP
Appendix – Responses to Selected Questions for Respondents

Question 1:

Do you agree with the proposed amendments to the Accounting Standards Codification described in this proposed Update? If not, please explain which proposed amendment(s) you disagree with, and why.

While we generally agree with the proposed amendments, we believe the Board should clarify certain proposed amendments.

Replace *Reinsurance Receivable* with *Reinsurance Recoverable*

We agree with the Board’s proposal to replace *reinsurance receivable* with *reinsurance recoverable* throughout the Codification, in all but one instance. The receivable referred to in paragraph 944-815-60-8 arises from a modified coinsurance arrangement. That receivable is a hybrid instrument that is accounted for under Subtopic 815-15, *Derivatives and Hedging – Embedded Derivatives*. We believe that changing the term to *reinsurer’s recoverable* in that paragraph would be confusing because reinsurer’s recoverables are accounted for under Topic 944, *Financial Services–Insurance*.

Definitions of *Financial Asset*

The Board proposed (1) deleting two sentences about contractual agreements in Definition 2 of *financial asset* because those sentences relate to specific scenarios that are codified in the implementation guidance in Topic 860, *Transfers and Servicing*; (2) deleting Definition 1 of *financial asset* from the Master Glossary; and (3) changing the link of *financial asset* from Definition 1 to Definition 2 in several subtopics.

While we believe that each Master Glossary term should have only one definition, the two sentences about contractual agreements in Definition 2 are helpful beyond the scenarios identified in the implementation guidance. Therefore, we recommend that the Board revise Definition 2 of *financial asset*:

**Financial Asset (Definition-2)**

Cash, evidence of an ownership interest in an entity, or a contract that conveys to one entity a right to do either of the following:

a. Receive cash or another financial instrument from a second entity

b. Exchange other financial instruments on potentially favorable terms with the second entity.

A contract conveys those rights when two or more parties agree to payment terms and those payment terms are reduced to a contract. To be a financial asset, an asset must arise from a contractual agreement between two or more parties, not by an imposition of an obligation by one party on another.
Disclosure Guidance for Investment Companies

The proposed ASU would specify that the disclosures in paragraphs 946-210-50-8 through 50-10 apply to only investment companies that are exempt from SEC registration under the Investment Company Act of 1940. While we believe that paragraph 946-210-50-7 should be amended as proposed, we believe that the Board should also:

1. Remove the reference to paragraphs 946-210-50-1(a) and (b) from paragraph 946-210-50-8, because those disclosures apply to only registered investment companies;
2. Add (proceeds $1,950,000) next to the Canada, Telecommunications, investment under the section for SECURITIES SOLD SHORT, DEBT SECURITIES in the revised example in paragraph 946-210-55-1; and

Definitions of Debt Security

The proposal would (1) delete a parenthetical explanation of securitized receivables from Definition 1 of debt security, (2) delete Definition 2 of debt security from the Master Glossary, and (3) change the link for debt security from Definition 2 to Definition 1 in Subtopic 715-60, Compensation–Retirement Benefits–Defined Benefit Plans–Other Postretirement.

We support amending the Master Glossary so that each term has only one definition and support the specific amendments that the Board proposed. However, we believe that the reason for the changes as described in the proposed ASU may confuse defined benefit plan sponsors, in their roles as investors. The proposed ASU suggests that the transferor’s accounting for the securitization determines whether a third-party investor in the securitization trust accounts for its beneficial interest as a debt security. We do not believe that the Board intended to change the third-party investor’s analysis but, rather, to clarify that the transferor should report its asset(s) based on the GAAP characterization of the asset(s) under Topic 860. We recommend that the Board make this intention explicit.

Amendments to Subtopic 958-605, Not-for-Profit Entities—Revenue Recognition

We agree with the Board’s proposal to change the word by to to in the table in paragraph 958-605-55-8. Paragraph 132 describes the reason for the change as “error in the original Audit and Accounting Guide that has since been corrected in the Guide.” In fact, the AICPA did not correct the Guide. Therefore, we recommend that the Board remove that statement from the final standard.

Replace Valuation Technique with Valuation Approach

We agree with the Board’s proposal to replace specific instances of valuation technique with valuation approach to clarify the difference between an approach and a technique when applying the guidance in Topic 820, Fair Value Measurement. However, we suggest that the Board remove
paragraphs 820-10-55-36 through 55-38 from the final ASU, as those paragraphs do not require conforming changes.

**Question 2:**

Will any of the proposed amendments result in substantive changes to the application of existing guidance that would require transition provisions or that the Board should consider in determining the appropriate effective date for the final amendments other than those noted in the Summary section titled “What Are the Transition Requirements and When Would the Amendments Be Effective?” If so, please describe.

We do not believe that the proposed amendments will result in substantive changes to application that would require additional special transition provisions or consideration when determining the effective date. However, we believe that the Board should clarify aspects of the proposed transition guidance.

**Transition provisions in proposed paragraph 105-10-65-4**

- The Summary states, “For two of those proposed amendments, the Board is proposing prospective application with cumulative-effect adjustments to equity as of the beginning of the annual period in which the guidance is effective.” In fact, the transition guidance in proposed paragraph 105-10-65-4 allows for either (1) a cumulative effect adjustment to the opening balance of retained earnings for the period of adoption or (2) retrospective adoption. Thus, the Summary should state that retrospective adoption is allowed. In addition, we believe that the Board should clarify whether the cumulative effect adjustment should be computed as of the beginning of the period of adoption (which could be the beginning of an interim period), as stated in paragraph 105-10-65-4, or the beginning of the annual period, as stated in the Summary.

- The transition guidance in proposed subparagraph 105-10-65-4(e) requires an entity to disclose only the nature of and reason for the change. Because the transition guidance allows for (1) either a cumulative effect adjustment to the opening balance of retained earnings for the period of adoption or retrospective adoption and (2) adoption as of an interim period, we believe additional disclosures would be appropriate:
  - Disclosures about the method of applying the change:
    1. A description of the prior-period information that has been retrospectively adjusted, if any. (250-10-50-1(b)(1))
    2. The effect of the change on income from continuing operations, net income (or other appropriate captions of changes in the applicable net assets or performance indicator), any other affected financial statement line item, and any affected per-share amounts for the current period and any prior periods retrospectively adjusted. Presentation of the effect on financial statement subtotals and totals other than income from continuing operations and net income (or other appropriate captions of changes in the applicable net assets or performance indicator) is not required. (250-10-50-1(b)(2))
3. The cumulative effect of the change on retained earnings or other components of equity or net assets in the statement of financial position as of the beginning of the period of adoption. (250-10-50-1(b)(3) with modification)

- If indirect effects of a change in accounting principle are recognized:

  A description of the indirect effects of a change in accounting principle, including the amounts that have been recognized in the current period, and the related per-share amounts, if applicable. (250-10-50-1(c)(1))

  Unless impracticable, the amount of the total recognized indirect effects of the accounting change and the related per-share amounts, if applicable, that are attributable to each prior period presented. Compliance with this disclosure requirement is practicable unless an entity cannot comply with it after making every reasonable effort to do so. (250-10-50-1(c)(2))

- An entity that issues interim financial statements shall provide the required disclosures in the financial statements of both the interim period of the change and the annual period of the change. (250-10-50-2)

Transition provisions in proposed paragraph 820-10-65-11

The Summary and Questions for Respondents state, “The other proposed amendment, which would amend Topic 820, could involve adjustments to fair value. For that proposed amendment, the Board is proposing a prospective-only application.” However, the transition guidance in proposed paragraph 820-10-65-11 states, “An entity may elect to apply the pending content that links to this paragraph retrospectively.” It is unclear which transition approach the Board intends for companies to follow. In addition, the Board did not provide specific transition disclosures. We believe disclosures about a change in accounting principle should apply, particularly when an entity elects retrospective application.

Question 3:

Are there other changes that should be made that are directly or indirectly related to the noted changes? Please note that the Board will conduct technical correction projects on a periodic basis and additional changes may be postponed to a subsequent technical corrections project.

We suggest additional technical corrections to further clarify aspects of the Codification.

Fair Value of Investments in Equity Securities without a Readily Determinable Value

Paragraph 321-10-55-9 states, “The entity should adjust the observable price of a similar security for the different rights and obligations to determine the amount that should be recorded as an upward or downward adjustment in the carrying value of the security measured in accordance with paragraph 321-10-35-2 to reflect the current fair value of the security.” However, current fair value commonly is interpreted to mean the value as of the balance sheet date. We believe the Board should clarify that the adjustment described in paragraph 321-10-55-9 would be based on the effect that different rights and obligations between the securities would have on a fair value.
measurement as of the date the observable transaction of the similar security took place, and that further adjustments would not be made to reflect the fair value as of the balance sheet date. We recommend amending the paragraph to state, “…to determine the amount that should be recorded as an upward or downward adjustment…to reflect the current fair value of the security as of the date that the observable transaction for the similar security took place.”

Application of the Cost Method to Qualified Affordable Housing Project Investments after Adopting ASU 2016-01

ASC paragraph 323-740-25-2 states that if a limited partnership investment in a qualified affordable housing project does not qualify for the proportional amortization method (or the proportional amortization method is not elected), it is accounted for under ASC Subtopic 970-323, Real Estate—General - Investments–Equity Method and Joint Ventures. Following that guidance (and the guidance in paragraph 323-30-S99-1), an investor with virtually no influence accounts for its investment under the modified cost method as illustrated in ASC paragraph 323-740-55-7. That method requires the investor to amortize the investment into pre-tax income and recognize the tax credits and other tax benefits in income tax expense.

ASU 2016-01, Recognition and Measurement of Financial Assets and Financial Liabilities, added ASC Topic 321, Investments-Equity Securities, which eliminates the cost method of accounting and instead requires entities to measure their equity investments at fair value (unless a practicability exception is elected for equity investments that do not have a readily determinable fair value). ASU 2016-01 also amended paragraphs 970-323-25-6 and 25-8 to require that real estate investors with virtually no influence account for their investments under Topic 321.

ASU 2016-01 did not amend paragraph 323-740-25-2. As a result, post-ASU 2016-01, an investor applying that paragraph would look to the amended guidance in Subtopic 970-323 and conclude it is required to apply Topic 321. At the same time, paragraph 323-740-25-2A (as amended by ASU 2016-01) states the cost method may be appropriate, and paragraph 323-740-55-7 (which was unchanged by ASU 2016-01) continues to illustrate the application of the cost method to an investment in a qualified affordable housing project.

We believe the Board should amend Subtopic 323-740 to clarify its intent about which, if any, entities may continue to use the modified cost method.

Disclosure Requirements outside of the Disclosures Section

Paragraphs 740-20-45-2, 280-10-55-16, and 260-10-55-12 are not codified in the Disclosures section of the respective Topics. The Board should consider moving the disclosure requirements from those paragraphs to the respective Disclosures sections to help Codification users find all of the disclosure requirements in one location within a Topic.

Question 4:

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

We believe that the proposed amendments should apply to both public and nonpublic entities.