June 30, 2016

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

Re: File Reference No. 2016-220

Dear Ms. Cosper:

PricewaterhouseCoopers LLP appreciates the opportunity to comment on the Board’s proposed Accounting Standards Update, Technical Corrections and Improvements. We support the FASB’s ongoing efforts to provide regular updates, corrections, and improvements to the Codification.

We generally agree with the proposed amendments. The Appendix contains our responses to the Questions for Respondents, including certain instances in which we recommend an alternative modification.

If you have any questions regarding our comments, please contact Patrick Durbin at (973) 236-5152.

Sincerely,

PricewaterhouseCoopers LLP
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.

We generally agree with the proposed amendments. We have provided comments on certain proposed amendments below by section.

Master Glossary

Paragraph 14

The term “issuing” is also included in paragraphs 505-50-15-2 and 505-50-30-5. Those paragraphs should also be linked to the Master Glossary.

Paragraph 17

The proposed correction eliminated the term “(period) in force” as it is redundant with coverage period. The definition of coverage period refers to contract period. Currently, the definition of contract period only refers to reinsurance. Therefore, we recommend that the definition of "contract period" be amended to address insurance as well as reinsurance. Accordingly, we recommend revising the definition as follows:

   Contract period: The period over which insured events that occur are covered by the insurance (or reinsurance) contracts. Commonly referred to as the coverage period or period that the contracts are in force.

Amendments to Subtopic 310-40, Receivables—Troubled Debt Restructurings by Creditors

Paragraph 26

In the proposed additional scope paragraph of ASC 310, the definition of "debt" includes references to payables and liabilities, which are not relevant to the creditor’s accounting perspective. Therefore, we recommend that those references be removed from ASC 310-40, as follows:

   310-40-15-4 A
   In this Subtopic, a receivable or a payable (collectively referred to as debt) represents a contractual right to receive money or a contractual obligation to pay money on demand or on fixed or determinable dates that is already included as an asset or liability in the creditor’s or debtor’s balance sheet at the time of the restructuring.
Paragraph 27

Similarly, in the proposed additional scope paragraph of ASC 470, the definition of "debt" includes references to receivables and assets, which are not relevant to the debtor's accounting perspective. Therefore, we recommend that those references be removed from ASC 470-60, as follows:

470-60-15-4 A
In this Subtopic, a receivable or a payable (collectively referred to as debt) represents a contractual right to receive money or a contractual obligation to pay money on demand or on fixed or determinable dates that is already included as an asset or a liability in the creditor's or debtor's balance sheet at the time of the restructuring.

Amendments to Subtopic 715-30, Compensation—Retirement Benefits—Defined Benefit Plans—Pension

Paragraph 46

Participating annuity contracts are another form of participating insurance referred to in ASC 715. Therefore, we believe this term should also be removed from the Master Glossary.

Paragraph 49

As a result of removing participating annuity contracts from the glossary, we believe paragraph 715-30-25-7 should be updated as follows:

If an participating annuity contract with a participation right is purchased, the cost of the participation right shall be recognized at the date of purchase as an asset. To the extent that benefits currently earned are covered by annuity contracts, the cost of those benefits shall be the cost of purchasing the contracts, except for the cost of the participation right.

Amendments to Subtopic 715-60, Compensation—Retirement Benefits—Defined Benefit Plans—Other Postretirement

Paragraph 58

We concur with the proposed deletion of the parenthetical reference to securitization transactions in item (e) in the list of exclusions from the definition of a debt security.

However, because of that amendment, we suggest that the following edits be made to the language in item (i):

All securitized debt instruments, such as collateralized mortgage obligations, beneficial interests in securitized receivables, and beneficial interests issued by real estate mortgage investment conduits.
Amendments to Subtopic 820-10, Fair Value Measurement—Overall

Paragraph 70

We generally agree with the proposed changes that clarify the relationship between valuation techniques and valuation approaches. We note that the term “valuation approach” is defined in the Master Glossary, but “valuation technique” is not, although the objective of a valuation technique is included in paragraph 820-10-35-24A. Based on context, we have inferred that the FASB views “valuation approaches” as the broader concepts and “techniques” as the more specific applications of those concepts. If that is the case, we suggest that it be clarified by adding a definition of “valuation technique.”

We also note that the International Valuation Standards Council uses the term “valuation method” instead of valuation technique. We suggest that the language be standardized to avoid diversity in practice.

We suggest the following edits to the wording in paragraph 820-10-35-24A to make the purpose of the amendments clearer:

The objective of using a valuation technique is to estimate the price at which an orderly transaction to sell the asset or to transfer the liability would take place between market participants at the measurement date under current market conditions. Three widely used valuation approaches are the market approach, cost approach, and income approach. The main aspects of approaches and the respective valuation techniques consistent with those approaches are summarized in paragraphs 820-10-55-3A through 55-3G. An entity shall use valuation techniques consistent with the one or more of those approaches to measure fair value.

Paragraph 71

We believe the proposed change to the disclosure requirement in paragraph 820-10-50-2 may result in a change in practice. Previously, valuation approach and valuation technique were used interchangeably. Although the current requirement is to disclose a change in valuation technique, it generally describes what would now be referred to as a change in valuation approach. As a result, the proposed change may increase the level of disclosure for some companies. We suggest that the disclosure requirement refer instead to a change in valuation approach, which is more granular and occurs more often. Further, changes to individual valuation techniques may be more subtle. If the currently proposed language is retained, there will be confusion among preparers as to how substantial a change needs to be to warrant disclosure.

Also, we believe it should be clear that both a change in valuation approach and a change in valuation technique are changes in estimates, and do not represent a change in accounting principle.

Further, examples of valuation techniques are included in paragraphs 820-10-55-3A through 55-20. The title of the section is “Valuation Techniques,” but the section includes the definition of valuation approaches. We propose that the title be clarified, and suggest “Valuation Techniques Consistent with Each Valuation Approach.”

It is also not clear why the guidance in paragraph 820-10-50-2 appears twice in the proposed ASU.
Amendments to Subtopic 825-10, Financial Instruments—Overall

Paragraph 74

The FASB should confirm whether the scope of the current expected credit loss model, under the new impairment standard, will be revised to reference “Reinsurance recoverable” instead of “Reinsurance receivable.” The following paragraphs include reference to “reinsurance receivable:” 326-20-15-2 a4, 326-20-50-6, 326-20-55-81 through 326-20-55-85, and 944-310-35-4.

Amendments to Subtopic 815-15, Derivatives and Hedging—Embedded Derivatives and Subtopic 944-805, Financial Services—Insurance—Business Combinations

Paragraphs 77 and 92

The reference to “reinsurer’s receivable” should not be changed to “reinsurer’s recoverable.” A reinsurance recoverable refers to the loss recovery from a secondary insurer. A reinsurer’s receivable refers to the secondary insurer’s right to payment for accepting the insured risk from the primary insurer. Therefore, we believe the guidance should continue to use the term “receivable.”

Amendments to Subtopic 944-310, Financial Services—Insurance—Receivables

Paragraph 86

This paragraph should be clear that the amount due from the reinsurer to the insurer for claims incurred is deemed a recoverable. Conversely, the amount due to the reinsurer from the insurer for consideration or premiums due is deemed a receivable. The technical correction indicates that the amounts due between both parties of the transaction (reinsurer and insurer) is a recoverable, which is incorrect.

Amendments to Subtopic 944-605, Financial Services—Insurance—Revenue Recognition

Paragraph 88

We agree with the overall change and recommend that the glossary in ASC 944-605-20 be updated to replace the term “reinsurance receivable” with “reinsurance recoverable,” consistent with the definition in the master glossary.

Paragraphs 104

We concur with the proposed language. This enhancement to the implementation guidance better aligns its content with the ”effective control” decision model for evaluating call options held by a transferor (set forth in paragraphs 860-860-10-40-5(c)(2)(ii)) and 860-20-25-11). Those paragraphs explicitly state that when making this evaluation, a transferor must consider whether its right to unilaterally re-acquire a transferred asset provides it with more-than-a-trivial benefit.

Given the clarity of the guidance in ASC 860 with respect to this matter, it does not appear that this amendment will have a significant impact on current practice. In addition, current practice has interpreted that the more-than-a-trivial benefit criterion is not a “high hurdle” and, as a result, most fixed price call options are viewed to provide effective control to their holders. For these reasons, we recommend that a
statement be added to paragraph 104 emphasizing that this amendment is not expected to impact current practice. As such, we do not believe transition guidance would be necessary for this correction.

Amendments to Subtopic 860-50, Transfers and Servicing—Servicing Assets and Liabilities

Paragraphs 107

Although the language proposed to be added to paragraph 860-50-40-6 is extracted directly from AICPA Statement of Position (SOP) 01-6, we are unsure of the nature of transactions that the proposed language intends to address, as well as how the applicable guidance in ASC 860 was analyzed. Furthermore, we note that a number of provisions in ASC 860 have changed since the issuance of SOP 01-6. Given these concerns, we propose that no changes be made to paragraph 860-50-40-6 at this time. Alternatively, we recommend that the FASB include a more detailed explanation of the transaction that this guidance is meant to address, as well as a more detailed analysis of the applicable provisions of ASC 860.

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 transition guidance is necessary for any other technical corrections related to recognition and measurement.

Also, as noted in our response to Question 1, the disclosure requirement in paragraph 820-10-50-2 may result in a change in practice, and we instead suggest that the disclosure requirement refer to a change in valuation approach and not a change in valuation technique.

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 are not aware of any additional corrections directly or indirectly related to the noted changes.

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 agree that the amendments should similarly apply to both public business entities and non-public business entities and believe the FASB should use this terminology as agreed for new or amended guidance in the deliberations of ASU 2013-12.