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February 27, 2017

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

RE: Proposed Accounting Standards Update, *Disclosure Framework – Changes to the Disclosure Requirements for Inventory* (File Reference No. 2017-210)

Dear Technical Director:

We appreciate the opportunity to comment on the proposed ASU, *Disclosure Framework – Changes to the Disclosure Requirements for Inventory*. We support the Board's objective to improve the effectiveness of disclosures in the notes to the financial statements by focusing on the information that is most important to users' understanding of the entity's operations, financial position and cash flows.

Our comment letter summarizes our significant comments. Our responses to selected Questions for Respondents are included in the Appendix to this letter.

Objective of Accounting for Inventories

We support the Board's proposal to require additional disclosures about inventory as, for many entities, inventory is a significant component of financial position and results of operations, and GAAP prescribes only minimal disclosures. However, we believe the project also should address disclosures about cost of goods sold to ensure consistency with ASC paragraph 330-10-10-1, which states that a major objective of accounting for inventories is the proper determination of income through the process of matching appropriate costs against revenues. Proposed ASC paragraph 330-10-50-1B states only that the objective for inventory disclosures is to provide users of the financial statements with information that is useful in assessing:

a. How different types of inventory may affect prospects for future cash flows;
b. How inventory recorded using different measurement methods may affect the decision usefulness of information for projecting future cash flows; and
c. How transactions, events, and circumstances outside the normal course of business affect the inventory balance.

To align the disclosure objectives with the major objective of accounting for inventory, we recommend that the Board expand the scope of the proposed ASU to require enhanced disclosures about the profit and loss metrics related to inventories, e.g. cost of goods sold and gross margin.

Retail Inventory Method (RIM) Disclosures

We support the Board's proposal to require qualitative disclosures that are incremental to information provided in critical accounting policies and estimates by SEC registrants using the RIM. However, we believe that additional disclosure requirements that address inventory **and** cost of goods sold are appropriate for all entities – not just those using the RIM. Although the RIM is applied by a specific industry, it is simply a mechanism to estimate the cost of inventory not unlike other inventory costing methods. There are various assumptions involved in determining the cost of inventory by entities using FIFO, weighted average cost, and LIFO, but the proposed amendments would not require disclosures about cost of goods sold and gross margin by entities following those methods.

We also believe that the proposed examples of disclosures about quantitative information at an aggregated entity level may oversimplify how the RIM is applied in practice, and may lead to confusion among users. Many retailers calculate the cost of inventory using the RIM at a department level at each store location, and they may have hundreds or thousands of stores/departments for which the cost is individually calculated. The sum of these individual measurements, which are frequently based on highly differentiated cost-to-inventory ratios, is reflected in the financial statements as total inventory cost.

Using an aggregate tabular disclosure format, as illustrated in proposed ASC paragraph 330-10-55-17, would cause a user to calculate the cost-to-retail ratio based on the cost and retail amounts shown in the *goods available for sale* line which frequently would not agree with the ratio of the cost and retail amounts shown in the *ending retail inventory method inventory at year-end* line. Because the calculations are being done at the department or store location level and aggregated to determine the inventory balance, as changes in the company's mix occur, differences arise that are not easily determinable at an aggregated level and that may require companies to report a residual amount that is an unspecified consequence of the change in mix from period to period. To fully reconcile these amounts would require significantly disaggregated information that would not be cost effective to provide in most cases. This discrepancy, which is caused by the disaggregated nature of the underlying calculations, may confuse users who do not have a deep understanding of the RIM. We do not think an alternative proposal to present disaggregated information by store/department would be feasible in view of the large number of stores/departments used by many retailers.

Additionally, in our experience *markdowns* are not presented before *goods available for sale* as illustrated in proposed ASC paragraph 330-10-55-17. In the RIM calculation, *goods available for sale* generally includes additions to inventory, such as purchases, and is used to derive the cost-to-retail ratio. *Permanent markdowns* are typically reflected 'below the line' as subsequent adjustments to the retail value of *goods available for sale*, and would not be included in the calculation of the cost-to-retail ratio.

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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 kbascom@kpmg.com, or Paul Munter at (212) 909-5567 or pmunter@kpmg.com.

Sincerely,

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Appendix – Responses to Selected Questions for Respondents

Question 1:

Would the amendments in this proposed Update result in more effective, decision-useful information about inventory? Please explain why or why not.

We generally believe that the proposed amendments would result in more effective, decision-useful information about inventories. However, as discussed in our cover letter, we believe that for the disclosures to be consistent with the objectives of inventory accounting, the proposed ASU should also require disclosures about the profit and loss metrics related to inventories.

Question 2:

Are the proposed disclosure requirements operable and auditable? If not, which aspects pose operability or auditability concerns and why?

We believe that the proposed disclosure requirements would be auditable.

Question 4:

Paragraph 330-10-50-7 proposes a requirement to disclose certain specific changes in the inventory balance. Is this requirement sufficiently operable? Why or why not? Would a requirement to include a rollforward of inventory impose significantly greater costs? If so, please describe the nature and extent of the additional costs. Would the informational benefit of a rollforward be sufficient to justify the additional costs? Are there other ways to provide users with this information without imposing significant incremental costs, and, if so, what are they?

We believe that a requirement to include a rollforward of inventory would be consistent with the objective of accounting for inventories and would provide useful information for users. Additionally, a consolidated rollforward would eliminate the potential for inconsistent application of items considered to be 'outside of the normal course of business.' However, we also recognize that the more disaggregated a rollforward is, the greater the cost to prepare the information becomes. Therefore, we encourage the Board to consult further with preparers and users of financial statements to more fully evaluate whether the benefit of a rollforward is sufficient to justify the additional costs.

Absent the requirement for a consolidated rollforward, we believe the Board should:

- Remove the term *atypical* and add *impairments* in ASC paragraph 330-10-50-7(a) when describing examples of losses from the subsequent measurement of inventory; and
- Add the effect on inventories of applying foreign currency remeasurements to the examples listed under ASC Section 330-10-50.

Because 'atypical' is not defined in the Master Glossary, we believe there could be inconsistent application of that term in practice. It may also be unclear whether the Board intends atypical to reconcile with the current concept of 'substantial' and 'unusual' in ASC paragraph 330-10-50-2. We also believe that users of financial statements are interested in impairment losses, regardless of whether

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they are outside the normal course of business. Further, for entities with significant international operations, the effect of foreign exchange rate changes can be significant and highly volatile and, therefore, of interest to users of the financial statements.

Question 5:

The proposed amendments would apply to all entities, except for the requirements in paragraphs 280-10-50-25 and 280-10-50-32, which apply only to those public entities subject to the guidance in Topic 280. Is it appropriate to exclude entities that are not public business entities from this guidance? Are there other disclosures for which entities other than public business entities should be allowed a modification?

The scope of ASC 280 is currently applicable to a *Public Entity* as defined in ASC Section 280-10-20, which was established before ASU No. 2013-12, *Definition of a Public Business Entity: An Amendment to the Master Glossary*. We do not believe it is appropriate to contemplate a change in the scope of segment reporting in this project.

However, as we have mentioned in previous comment letters, we believe the Board should consider, in a separate project, whether it is appropriate to develop a single definition of a *public business entity* that applies throughout U.S. GAAP. If the Board were to consider replacing the multiple definitions within current U.S. GAAP with a single definition, we believe that the FASB should coordinate with the SEC and other appropriate regulators about the potential changes to existing disclosure requirements and their interaction with other financial reporting requirements of the SEC and other applicable regulators.

Question 6:

Paragraph 330-10-50-11 proposes a requirement to disclose a qualitative description of the types of costs that an entity capitalizes into inventory. Would this requirement provide useful information to users?

We agree with the view in BC45 that the additional qualitative disclosure under proposed ASC paragraphs 330-10-50-10 and 50-11 could become ’boilerplate’ and be of limited use over time. As stated in our response to Question 4, we believe the Board should consider whether a rollforward or similar requirement might provide useful information at a reasonable cost. We recognize that producing that information would result in incremental costs for preparers. Therefore, we encourage the Board to consult with preparers and users to further assess whether the benefits of requiring disclosure of the quantitative amounts of each type of cost capitalized to inventories outweighs the costs.

Question 7:

Paragraph 330-10-50-12 proposes a requirement for entities that record inventory using the RIM to disclose qualitative and quantitative information about the critical assumptions used under that method. Is this disclosure requirement incremental to existing guidance for critical accounting estimates and significant accounting policies? Would it be operable and provide useful information to users?

As discussed in our cover letter, we support the Board's proposal to add qualitative disclosure requirements that are incremental to information provided in critical accounting policies and estimates by SEC registrants using the RIM. However, we believe that additional disclosure requirements that address inventory **and** cost of goods sold are appropriate for all entities – not only those using the RIM. Although the RIM is applied by a specific industry, it is simply a mechanism to estimate the cost of inventory not unlike other inventory costing methods. There are various assumptions involved in determining the cost of inventory by entities using FIFO, weighted average cost, and LIFO, but the proposed amendments would not require disclosures about cost of goods sold and gross margin by entities following those methods.

We also believe that the proposed examples of disclosures about quantitative information at an aggregated entity level may oversimplify how the RIM is applied in practice, and may lead to confusion among users. Many retailers calculate the cost of inventory using the RIM at a department level at each store location, and they may have hundreds or thousands of stores/departments for which the cost is individually calculated. The sum of these individual measurements, which are frequently based on highly differentiated cost-to-inventory ratios, is reflected in the financial statements as total inventory cost.

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Question 8:

Are there any other disclosures that should be required by Topic 330 on the basis of the proposed Concepts Statement or for other reasons? Please explain why.

As addressed more fully in our cover letter, we believe that to adhere to the accounting objective of ASC 330, the ASU should also include disclosures about the profit and loss metrics related to inventories.

Question 9:

Should the proposed disclosures be required only for the fiscal year in which the requirements are effective and years after that fiscal year, or should prior periods be restated in the year in which the requirements are effective? Please explain why.

We believe that an entity should have the option to retrospectively apply the proposed disclosures. While retrospective application improves comparability, we understand that the benefits of retrospective application in this situation may not justify the costs for all entities. Therefore, we believe an entity is best positioned to determine whether retrospective application of the disclosure requirements in its situation is appropriate.

Question 10:

How much time would be needed to implement the proposed amendments? Should the amount of time needed to implement the proposed amendments by entities other than public business entities be different from the amount of time needed by public business entities? Should early adoption be permitted? Please explain why.

We believe that early adoption should be permitted and that the benefit to financial statement users of having additional disclosures from some entities sooner than from other entities outweighs concerns about decreases in comparability among entities.

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