



March 13, 2017

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

File Reference No. 2017-210

Re: Proposed Accounting Standards Update, *Changes to the Disclosure Requirements for Inventory*

Dear Ms. Cospers:

Deloitte & Touche LLP is pleased to comment on the FASB's proposed Accounting Standards Update (ASU), *Changes to the Disclosure Requirements for Inventory*.

We support the FASB's ongoing efforts to improve the effectiveness of disclosures in the notes to the financial statements. We agree with many aspects of the Board's proposed ASU. Specifically, we applaud the Board's emphasis on considering materiality for disclosures. However, we believe some of the newly proposed disclosure requirements warrant further clarification or revision, as explained in our responses to the questions for respondents in the appendix below.

While we support the Board's project to improve disclosure effectiveness, we believe the Board should undertake a more fulsome examination of costs that should be capitalized as part of inventory and costs charged to cost of goods sold. Such a project would be beneficial due to significant diversity in current practice in those areas.

We appreciate the opportunity to comment on the proposed ASU. If you have any questions about our comment letter, please feel free to contact Eric Knachel at (203) 765-3625 or Joe DiLeo at (203) 761-3195.

Yours truly,

Deloitte & Touche LLP

cc: Robert Uhl

File Reference No. 2017-210
March 13, 2017
Page 2

Appendix
Deloitte & Touche LLP
Responses to Certain of the Proposed ASU's 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 believe the amendments would provide more effective, decision-useful information about inventory. In addition, because application of the proposed ASU would provide information that only public business entities (PBEs) are currently required to disclose in accordance with SEC rules and regulations, users of non-PBE entity financial statements will significantly benefit from this ASU. However, we include observations below for certain proposed disclosure requirements that we believe may be challenging for entities to implement.

Question 2: Are the proposed disclosure requirements operable and auditable? If not, which aspects pose operability or auditability concerns and why?

We agree that users may need more qualitative information about the retail inventory method (RIM) because they may not fully understand this method of inventory valuation. However, we disagree with the proposed requirement to disclose “quantitative information about the critical assumptions used...under the retail inventory method” as proposed by ASC 330-10-50-12. We do not believe the proposed disclosure requirements are operable as the valuation of inventory using RIM is entity-specific and requires the use of significant judgment – particularly regarding the level of aggregation at which an entity determines to perform the calculation (i.e., an entity’s determination of its cost complements). For instance, some entities that value inventory under RIM perform a separate calculation using a cost complement for each retail location, while others calculate RIM using a cost complement for each department within each retail location. Therefore, depending on the level of disaggregation, the inventory amount reported in the financial statements may be dependent on hundreds, if not thousands, of individual RIM calculations and assumptions. Recognizing the diversity in application, the level at which such individual calculations should be aggregated for disclosure in the financial statements is unclear. For example, we believe it would not be operable to require disclosure of individual RIM calculations yet we question the decision-usefulness of RIM disclosures at the consolidated level because such aggregation may not be informative about the entity’s underlying businesses. In fact, the aggregation of individual RIM calculations or cost complements (which, again, may number in the hundreds or thousands) could potentially be misleading to a user who does not know how the assumptions have been aggregated.

Further, we observe that RIM is simply another inventory costing methodology similar to LIFO, FIFO, and weighted average cost but the proposed ASU does not require detailed disclosures about the LIFO, FIFO, and weighted average cost methods. Because all inventory methods rely on various assumptions, it is unclear why additional detailed disclosures should be required for RIM but not for these other costing methodologies.

File Reference No. 2017-210
March 13, 2017
Page 3

Therefore, rather than requiring quantitative disclosures about RIM which are not decision-useful and may be potentially misleading, we recommend additional disclosures about RIM be limited to qualitative disclosures about critical assumptions used as proposed in ASC 330-10-50-12.

In addition, refer to Question 4 for our thoughts regarding potential challenges associated with the disclosure of inventory changes.

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 agree with the Board's decision not to require a rollforward of inventory as we believe it would be overly complex to produce. Further, we support the Board's proposed disclosure in ASC 330-10-50-7, subject to the following clarifications.

We question the operability of the proposed disclosure requirements in ASC 330-10-50-7. Specifically, we believe the requirement to disclose "atypical losses from the subsequent measurement of inventory" is too vague because U.S. GAAP does not define the term "atypical" and the proposed ASU does not provide sufficient context and guidance regarding the disclosure requirement. Consequently, we believe the lack of a definition and guidance could cause diversity in how entities assess atypical losses for disclosure purposes.

Further, in considering the Board's public deliberations and the text in paragraph BC 23 of the proposed ASU's Basis For Conclusions, we believe it was the Board's intention to limit disclosure of "shrinkage, spoilage, or damage" to when these occur outside of the normal course of business. However, we believe the proposed guidance in ASC 330-10-50-7(a) could be interpreted to require an entity to disclose all shrinkage, spoilage, or damage. Similar to our observations regarding the fact that atypical losses are not defined, we question how entities would identify shrinkage, spoilage, and damage that occur outside of the normal course of business. Consequently, we believe clarifying the proposed guidance would help prevent diversity in its application. In addition, we believe it would be beneficial for the Board to further clarify the meaning of "unrealized gains and losses for inventories recorded above cost or at selling prices" in ASC 330-10-50-7(e) of the proposed ASU.

Also, the proposed requirements to disclose "inventory obtained through a business combination" and "inventory disposed of through a divestiture" in ASC 330-10-50-7(c) and 50-7(d), respectively, may be duplicative because an entity would have disclosed such amounts in accordance with ASC 805 and ASC 205-20 (i.e., with respect to its purchase price allocation and discontinued operations disclosures), respectively.

File Reference No. 2017-210
March 13, 2017
Page 4

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?

We agree that the disclosures proposed in ASC 280-10-50-25 and 50-32 should be limited to those entities within the scope of ASC 280.

We would like to highlight a need for clarity in the proposed example in ASC 280-10-55-54. The disclosure in the example excludes inventory components from the entity's segment disclosures because the facts specify that the chief operating decision maker ("CODM") regularly reviews inventory in total by segment. However, we note no requirement for an entity to disclose why the entity excludes inventory components. In the spirit of transparent disclosure, we recommend that a company clearly state why it excludes inventory by component from their segment disclosures, (i.e., that the CODM does not receive or review inventory information at the component level by segment).

Question 6: Paragraph 330-10-50-11 proposes a requirement to disclose a qualitative description of types of costs that an entity capitalizes into inventory. Would this requirement provide useful information to users?

We agree with this requirement. However, we believe further clarification regarding the proposal's level of specificity and an example would be helpful.

Question 7: Paragraph 330-10-50-12 proposes a requirement for entities that record inventory using 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?

Please refer to our response to Question 2 above. In addition, regarding the example RIM disclosure in ASC 330-10-55-17 of the proposed ASU, it is our understanding that the "Markdowns" balance of \$1 million should be below the "Goods available for sale" line. This would result in a RIM ratio of 70.8% and an ending RIM inventory balance of \$7.9 million.

Question 8: Are there any other disclosures that should be required by Topic 330 on the basis of the proposed Concept Statement or for any other reasons? Please explain why.

We have not identified any other disclosures that we believe should be required.

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.

File Reference No. 2017-210
March 13, 2017
Page 5

Because of operational concerns regarding gathering the necessary information for prior years, we agree with the proposed transition for an entity to adopt the changes to disclosure on a prospective basis.

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 defer to the views of preparers regarding how much time would be needed to implement the proposed disclosures. However, as the proposed incremental disclosures represent an improvement beneficial to users, we believe the Board should permit early adoption.