



March 13, 2017

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

RE: File Reference No. 2017-210

Dear Ms. Cospers:

The National Retail Federation (NRF) is pleased to comment on the Proposed Accounting Standards Update, *Inventory (Topic 330): Disclosure Framework – Changes to the Disclosure Requirements for Inventory*. NRF is the world's largest retail trade association, representing discount and department stores, home goods and specialty stores, Main Street merchants, grocers, wholesalers, chain restaurants and Internet retailers from the United States and more than 45 countries.

The retail industry supports many of the qualitative inventory disclosures included in the proposed ASU, understanding that they will lead to more effective and useful notes for the users of the financial statements. However, we are particularly concerned with the proposed quantitative disclosure requirements for those companies that value their inventory using the Retail Inventory Method (RIM), for many of the reasons outlined by Messrs. Buck and Smith in their dissenting views.

For retailers on the RIM, the practice is fundamental to how the business is run. It is efficient, easy to understand by merchants, and a long-standing industry valuation method that has its roots in the early days of record-keeping. While some judgement is required in applying the RIM, all methods of inventory valuation (FIFO, LIFO, and weighted average cost) are an estimate of cost. Therefore, selectively requiring companies on the RIM to provide quantitative information, which can be used to determine confidential pricing information, puts these retailers at a competitive disadvantage. We ask the FASB to take the following concerns into consideration as a final standard is written.

Disclosure of Competitive and Confidential Information

The RIM is computed by first calculating the cost complement (or cost-to-retail inventory ratio) and applying that ratio to the retail value of ending inventory. Because the cost complement essentially reveals how much a company pays for inventory versus how much they sell it for, disclosing this information would tell financial statement readers what the company pays for goods and enable analysts, consumers and competitors to calculate the mark-up percentage. Other items required by the tabular example shown in paragraph 330-10-55-17 include markdown allowances and shrinkage. This is information financial statement readers could use to determine competitive information such as a company's markdown allowance policy and use, and shrink cost. All of this information is part of a retailer's core business strategy and should be considered proprietary.

Disclosing the cost complement, markdown allowances, and shrink information puts retailers on the RIM at a competitive disadvantage compared to their counterparts that use other inventory valuation methods and disclose only qualitative information. There is some uncertainty about how the information would be used and what benefit it provides.

Complexity and Comparability Challenges

The RIM is a multi-faceted valuation model and numerous factors weigh into its application. This could include the number of skus, number of stores, and/or structure of the business. Some retailers calculate the cost complement at the department level, others at the store level, resulting in what could be hundreds to thousands of cost complements even within one company. Aggregating this disparate information is so dilutive that the table as presented in the ASU would be meaningless (e.g., showing cost-to-retail percentages that are not representative of ratios actually used by a retailer in their disaggregate calculations), particularly as the aggregate information would not calculate in a manner as contemplated in the proposed ASU and may further confuse the readers of the financial statements.

There is also concern that the proposed quantitative disclosures could invite confusion and questions by highlighting disparities among retailers. In theory, you could have two companies that sell very similar merchandise but have very different markdown strategies. One might choose to price the goods higher and then markdown more. Another might choose to price the goods lower but not markdown as much. In both instances the retailers end up selling the merchandise for the same price but the quantitative table looks very different, with one showing much higher markdowns. This is not indicative of the health of the company but rather their markdown strategy. This could potentially create confusion for those trying to compare the two and invite questions as to the difference in policies even though both are representative of proper inventory valuations under the RIM.

Cost Prohibitive

Given many of the concerns outlined above, some question how the proposed quantitative RIM disclosures would benefit users of the financial statements. For companies that do not calculate a cost complement at the entity level, the table would be cost prohibitive to pull together and cost prohibitive to audit; SOX controls would need to be added around the RIM disclosures, leading to a higher audit fee; and it is unclear how financial statement readers would use the information to better understand a company's financial position.

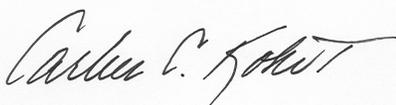
The effort required to disclose disparate information falls only onto retailers using the RIM. Similar burdens and costs are not being required of retailers that use other methods. This is an additional competitive disadvantage for users of the RIM.

Qualitative Disclosures

Users of the RIM agree that consistent internal application of the model is of utmost importance and is, perhaps, the information that would most benefit investors. Therefore, retailers on the RIM support disclosing more qualitative information about what goes into the calculation, including how the company determines temporary versus permanent markdowns; what costs are included in the stock ledger; what amounts are considered in the cost and retail components of the RIM calculation; when permanent markdowns are taken; and how the company looks at aged inventory. NRF believes this accomplishes the FASB's objective to improve the effectiveness of disclosures in the notes to financial statements by facilitating clear communication of the information required by generally accepted accounting principles (GAAP) that is most important to users of each entity's financial statements.

NRF thanks the FASB for consideration of our comments and welcomes any further discussion on this topic.

Sincerely,



Carleen C. Kohut
Executive Vice President and Chief Operating Officer