March 13, 2017

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

**Re: File Reference No. 2017-210**

Dear Ms. Cosper:

PricewaterhouseCoopers LLP appreciates the opportunity to respond to the FASB's Proposed Accounting Standards Update, *Inventory (Topic 330), Disclosure Framework - Changes to the Disclosure Requirements for Inventory,* (the "ED").

We support the Board's overall objective in the disclosure framework project to make financial statement disclosures more effective, balancing the information needs of financial statement users with the costs and complexity of producing that information. We also agree with the FASB's expected approach of considering the feedback on the ED with feedback on the disclosure framework proposed in March 2014 and on the other tests of that framework in the areas of defined benefit plans, fair value measurement, and income taxes. We recommend that the Board not finalize changes to the disclosure requirements in any of those areas until all feedback is considered.

We note that many of the proposed disclosures codify disclosures that are already required by SEC rules or customarily provided by companies with material inventory balances. However, we also observe that some of the proposed incremental disclosures would require significant incremental cost to compile but would not provide additional information that will enable users to assess prospects for future cash flows. Inventory carried at cost (average cost, FIFO, or LIFO) reflects expenditures that have already been incurred. Understanding the components of inventory and the nature of the costs that have been included in inventory is relevant when comparing margins across similar entities, but inventory cost, in isolation, has little to no predictive value when assessing future cash flows. On balance, we believe that a number of the proposed disclosures could result in increased costs of preparation and audit without producing a commensurate benefit to financial statement users.

The appendix to this letter contains our detailed responses to the Questions for Respondents in the ED, which includes additional observations and in some cases expands on our comments above. We are providing our views on whether the proposal enhances the clarity of disclosures or provides better decision-useful information related to inventory. That is, we are commenting on the merits of the proposed disclosures and on how the proposed framework was applied, without expressing a view on the proposed disclosure framework directly.

*PricewaterhouseCoopers LLP, 400 Campus Drive, Florham Park, NJ 07932*
*T: (973) 236 4000, F: (973) 236 5000*, www.pwc.com

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If you have any questions, please contact Patrick Durbin at (973) 236-5152 or Bud Swartz at (973) 236-4172.

Sincerely,

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP

# Appendix

**Question 1: Would the amendments in this proposed Update result in more effective, decision-useful information about inventory? Please explain why or why not.**

- *Inventory disaggregated by component (for example, raw materials, work-in-process, finished goods, and supplies)*

  We agree with the proposed requirement to disaggregate inventory by components (e.g., raw materials, work-in-process, finished goods), which is already required under Rule S-X 5-02(6)(a) for SEC registrants, and in our experience, tends to be disclosed by private companies.

- *Inventory disaggregated by measurement basis*

  We agree with the proposed requirement to disaggregate inventory by measurement basis. See our response to Question 7 specific to the proposed retail inventory method disclosure.

- *Changes to the inventory balance that are not specifically related to the purchase, manufacture, or sale of inventory in the ordinary course of business*

  Although we believe information about changes in the inventory balance during the period from transactions, circumstances, or events outside the normal course of business may be helpful to the users of the financial statements, we are concerned that accumulating this information on a consolidated global basis to support a rollforward-type disclosure would result in significant incremental cost for many large organizations. In addition, due to intercompany transfers of inventory and the various approaches applied in practice to eliminate intercompany profits, as well as the impact of foreign exchange translation, we believe the disclosure could easily become overly complex or confusing. As such, we recommend a more flexible approach to disclosing individually significant impacts that are not otherwise required to be disclosed (e.g., in connection with a business combination).

- *A qualitative description of the types of costs capitalized into inventory*

  We agree that understanding the types of costs capitalized into inventory is important for users to understand how one company's reported gross margins may compare to other entities. However, given the wide variety of cost accounting methods and cost capitalization approaches (e.g., labor and overhead allocation, absorption) that are specific to each entity's operations, we are concerned that a general requirement to describe the "types of costs" capitalized in inventory could lead to boilerplate disclosure. We recommend that the board provide greater clarity as to its expectations for the nature and extent of this disclosure and consider providing an example for a sample of entity types (e.g., simple manufacturing entity, complex international conglomerate, distributor/wholesaler/retailer).

- *The effects of last-in, first-out (LIFO) liquidations on income*

  We agree with the proposed disclosure regarding the effects of LIFO liquidations on income, which is already required under SAB Topic 11.f, *LIFO Liquidations*, for SEC registrants.

- *The replacement cost for LIFO inventory*

  We agree with the proposed requirement to disclose the replacement cost for LIFO inventory, which is already required under Rule S-X 5-02(6)(c) for SEC registrants. However, in the spirit of the recent inventory simplification that results in measuring inventories at the lower of cost or net realizable value, we propose that the board permit a practical expedient to use current average cost, first-in, first-out (FIFO), or net realizable value as a proxy for replacement cost as long as the method used is disclosed.

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

We expect that preparers could accumulate the information necessary to provide the proposed disclosures in a manner that will be auditable. However, as discussed further in response to Question 3, we believe preparers would incur potentially significant incremental costs to prepare these disclosures in a controlled and auditable manner.

**Question 3: Would any of the proposed disclosures impose significant incremental costs? If so, please describe the nature and extent of the additional costs.**

We expect the proposed disclosures of changes in inventory outside of the ordinary course of business will require the preparation (whether presented or not) of a consolidated inventory rollforward. Due to intercompany transfers of inventory and eliminations of intercompany profit in inventory, as well as foreign currency translation, preparation of such an analysis on a consolidated basis will require additional costs. While the significance of such costs will vary depending on the size, complexity, and geographic dispersion of an entity's inventories, we are concerned that the costs of preparation may outweigh the benefits of the incremental disclosures to users.

**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?**

As noted in our response to Question 3, we believe the proposed requirement could impose significant operational challenges. While we believe some information about material changes in inventory outside of the ordinary course of business may be useful and is consistent with the requirement in Subtopic 225-20 to disclose material events or transactions that are unusual in nature, we do not believe that a rollforward of inventory is necessary to achieve the objective of the proposed disclosure. We would support a more flexible approach that requires disclosure of material changes to the inventory balance without prescribing a format for those disclosures.

**Question 5: The proposed amendments would apply to all entities, except for the requirements in 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 believe that the proposed amendments should apply to all entities, with the exception of paragraphs 280-10-50-25 and 280-10-50-32, as proposed. In principle, we believe that only in very limited cases are the information needs of users of financial statements of public business entities sufficiently different from the information needs of users of financial statements of non-public business entities to justify different reporting requirements.

**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?**

As noted in our response to Question 1, we believe that a qualitative description of the types of costs capitalized into inventory would provide useful information to users. However, we believe clarification as to what is meant by "types of costs" and a better description of the nature and extent of the disclosure requirement is needed to achieve some degree of consistency in application in practice. As written, the guidance could lead to overly broad disclosures, which will be generic and not entirely helpful to users. For example, a company might disclose that costs capitalized into inventory include materials, labor, and overhead. Arguably, that disclosure could comply with the standard but would provide no incremental information to the users.

**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?**

While entities that file financial statements with the SEC typically disclose critical accounting estimates in Management's Discussion and Analysis, the SEC's relevant Financial Reporting Releases provide no specific guidance relative to the use of the retail inventory method (RIM). GAAP also lacks any specific RIM disclosure requirements. As such, the proposed disclosures would be incremental to what is explicitly required today but, at least from a qualitative standpoint, likely not significantly incremental to what many entities already disclose.

In contrast, the specific quantitative disclosures proposed would be incremental and we question their relevance to anyone other than preparers and auditors. Given the wide diversity in practice in establishing departments within different retailers, a summary rollforward of inventory at cost and at retail is likely to be so high level that it is unlikely to provide meaningful information to investors or to be comparable across the industry. Thus, we do not believe the proposed disclosures (particularly the quantitative disclosures) provide sufficient incremental information to users to justify the cost of preparation.

We would be supportive of retaining the first sentence of paragraph 330-10-50-12 as a codification of what is arguably implied by the SEC's guidance around disclosures of critical accounting estimates, but recommend striking the example.

**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.**

No.

**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 the disclosure requirements should be applied prospectively. Enhanced disclosures are about continuous improvement, and we agree with the board's discussion in the Basis for Conclusions that retroactive application is not cost beneficial. However, we would not object if an entity decided to voluntarily provide comparable prior period information.

**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.**

The amount of time need to accumulate the information to provide the proposed disclosures will vary depending on the nature and complexity of each organization. Thus, we defer to feedback from the preparer community.

We believe that early adoption should be permitted. We recommend the same mandatory effective date for all entities.