December 23, 2019

Mr. Shayne Kuhaneck
Acting Technical Director
Financial Accounting Standards Board
401 Merritt 7, PO Box 5116
Norwalk, CT 06856-5116

RE: File Reference No. 2019-800

Dear Mr. Kuhaneck:

PricewaterhouseCoopers LLP appreciates the opportunity to comment on the Proposed Accounting Standards Update, *Codification Improvements*. We support the FASB's ongoing efforts to provide regular updates, corrections, and improvements to the Codification.

The Appendix contains our suggestions. We agree with the proposed amendments not addressed in the Appendix.

If you have any questions regarding our comments, please contact David Schmid at (973) 997-0768, or Ashleigh Pierce at (512) 657-0065.

Sincerely,

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP

Appendix

The following details suggested modifications to some of the proposed amendments and our disagreement with others. We agree with the proposed amendments not addressed below.

General comment on transition

It would be helpful to clarify your intent with respect to transition guidance and when content-specific transition guidance should be followed as opposed to the general transition guidance.

Further, the transition guidance in ASC 105-10-65-XA requires transition at January 1, 2020 for certain reporting entities. This date should be extended since the ASU will not be issued before January 1, 2020.

Amendments to Master Glossary - Terms Amended

Financial Instrument: We believe the definition of "financial instrument" would be more understandable if the words "that are assets (liabilities) in accordance with applicable GAAP" were deleted given that the rest of the sentence seems to address off-balance sheet items as opposed to items that would be assets or liabilities.

Obligation: We do not think use of the term "obligation" should be limited to contracts within the scope of ASC 480. We believe the term "obligation" is considered from a broad perspective in determining whether an item should be reported as a liability.

Transfer (Definition 2): Refer to our comment on "transfer (definition 1)" below in "Amendments to Master Glossary - Terms Deleted."

Amendments to Master Glossary - Terms Deleted

Expected Losses and Expected Residual Returns: While we agree with eliminating the reference to the FASB's Statements of Financial Accounting Concepts (the "Concepts Statements") CON 7, we disagree with eliminating the Master Glossary definition of "expected losses and expected residual returns." This term includes the concept that variability may stem from changes in cash flows the entity or its assets may introduce, while the definition of "expected losses" and separate definition of "expected residual returns" only refer to variability in the fair value of an entity's assets.

Transfers (Definition 1): We believe that deleting the first definition of "transfer" from the Master Glossary could result in confusion. As noted in paragraph 16, the term "transfer" is used frequently in the codification even if not always specifically linked to this definition. Users of the codification may focus on the narrow definition, even when not appropriate.

Income Statement—Reporting Comprehensive Income (Topic 220)

We noticed that in certain cases, when adding language from the 45 sections to the 50 sections, that the 50 section contains a reference back to the 45 section. In other cases, the 45 section refers to the 50 section or there is no cross-reference at all. We think that the codification should be amended in a consistent manner. We believe it would be more appropriate for the 50 section to refer back to the 45 section.

Earnings Per Share (Topic 260)

While the concept included in the revision to ASC 260-10-55-56(k) is appropriate, we believe the wording should be changed to "The retail site and earnings contingenc~~y~~ies ha~~s~~ve no incremental effect on diluted EPS because of the antidilution rules (see paragraph ASC 260-10-45-17)" to incorporate both contingencies and also to reflect that only the incremental number of potential common shares between basic and diluted EPS is affected by the antidilution rules.

Additionally, we disagree with the computation in ASC 260-10-55-56. In the third quarter, 1,333 shares have been included in basic EPS as the retail site contingency has been resolved for two stores and the shares will definitely be issued. As such, those same 1,333 shares should be included in the computation of diluted EPS (the denominator should not be smaller for diluted EPS than for basic EPS) and total shares outstanding and EPS would be the same for both third quarter basic EPS and diluted EPS. The Full Year shares included in the retail site contingency line for diluted EPS should be 1,083 ((0 + 1,000 + 1,333 + 2,000) / 4).

Interim Reporting (Topic 270)

It appears this change is intended to move disclosure guidance currently in ASC 270-10-45-8(b) to ASC 270-10-50-1B. However, the proposed amendment seems to also amend the guidance. We believe the guidance in ASC 270-10-50-1B should be amended to conform with the original language in ASC 270-10-45-8(b). In addition, we believe ASC 270-10-50-1B should reference ASC 270-10-45-8(b).

Receivables (Topic 310)

We do not agree with the proposed amendments to ASC 310-20-35-33. We note that most debt securities with multiple call features are structured such that the call options are operable on or after a specific date as opposed to only on a specific date. In many agreements, when one embedded call option expires, another call option at a different price becomes operable simply due to the passage of time. When a debt security is purchased at a premium, but the next earliest call price is at a higher premium, the proposed amendments would result in an entity amortizing the purchased premium over the contractual maturity of the instrument until the "next earliest call date." At that point, they would begin amortizing the premium to the call price at the next earliest call date (assuming that call price premium was less than the purchased premium). In many cases, this will result in an immediate write-off of a portion of the premium that we believe is inconsistent with the original intent of the guidance and would introduce additional complexity.

In addition, we believe that this codification change will impact current practice and, as such, companies will need time to implement any proposed changes to their systems, processes, and controls. As such, transition guidance should be provided.

Financial Instruments—Credit Losses (Topic 326)

We believe it is unclear if the term "net investment in leases" is referring to the defined term in ASC 842. If the intent is to refer to the defined term in ASC 842, we believe that should be referenced.

In addition, the proposed amendments refer to "leases recognized by a lessor in accordance with Topic 842." We believe this guidance could also apply to leases acquired in a business combination and, thus, the guidance should include a reference to ASC 805 as well.

ASC 326-20-55-8 states that the discount rate used in measuring credit losses on the net investment in a lease should be the same as the one used under Topic 842. We note that there are ongoing discussions related to the measurement of an acquired net investment in a lease. Therefore, to the extent these discussions conclude that a different rate should be used, we believe the guidance should clarify whether the discount rate used to measure credit losses on the net investment in a lease depends on whether the lease was originated or acquired.

Intangibles—Goodwill and Other (Topic 350)

The proposed amendment to ASC 350-30-25-4 removes the reference to "asset" and replaces it with "intangible asset." An intangible asset should be recognized in the context of an acquisition even if it does not meet the contractual or separability criterion. We believe guidance should be included to assist companies with determining whether a specific right meets the definition of an asset as current practice is to look to the Concept Statements in this situation.

Asset Retirement and Environmental Obligations (Topic 410)

General comments

We do not agree with the proposed amendments because they expand the scope of ASC 410 to include constructive or other obligations, and will likely change practice. Specifically, the inclusion of liabilities for "duties imposed…socially," or "moral obligations" suggest that a reporting entity should accrue liabilities based on its own ethical code of conduct or perhaps other factors. The inclusion of the term "and so forth" potentially includes other scenarios. It is also unclear what is intended by "equitable and constructive obligations."

We recognize that the proposed language included at the conclusion of paragraph ASC 410-20-25-4A was previously part of the footnote in the concepts statement. However, we do not believe it was considered in practice. To illustrate, as part of a manufacturing process, a reporting entity may deposit certain minerals and substances in the ground that it is not legally obligated to remove. Notwithstanding, the reporting entity may believe it would be environmentally irresponsible to exit the plant without removing those substances as it believes they could adversely impact wildlife.

Similarly, a reporting entity may have a legal obligation to decommission a facility. Once decommissioned, the applicable regulations may only require the company to instal a fence to keep the public off the property. The reporting entity may believe that it would be socially responsible to not only distmantel the facility but also to designate the property as a public space. This would involve undertaking additional activities to make it safe for the public to access the land. The reporting entity has not made any public statement regarding its intent.

These are just some of the incremental activities reporting entities may undertake as they consider their broader stakeholder community, or consider the risk of doing the legally required minimum. This is supported by the Statement on the Purpose of a Corporation issued by the Business Roundtable in which many CEOs have committed to lead their companies "for the benefit of all stakeholders, customers, employees, suppliers, communities and shareholders."

Notwithstanding these social and moral duties, we believe that a reporting entity often does not recognize an asset retirement obligation if it has the ability and discretion to avoid a future transfer of assets. Accordingly, we believe that a proposal that could require companies to accrue a liability in instances like those illustrated above would be viewed as a change to practice, and should be subject to further due process and transition guidance.

Broadening the scope of a liability may also lead to increased fluctuations as social and ethical norms change. For example, it is possible a reporting entity may decide not to undertake activities for which it previously accrued a liability based on a previous assessment of its "moral obligations." In such a situation, it may be appropriate to reverse the previously accrued liability. We believe this introduces another consequence of the proposal that should be subject to further due process and transition guidance.

Additional observations

- We do not typically observe liabilities in the context of ASC 410 or ASC 420 that would also be in the scope of ASC 480. Please consider clarifying which liabilities are expected to be in the scope of ASC 480 that should now be included as liabilities under ASC 410 and ASC 420.
- It is not clear why the proposed amendment to ASC 410-20-25-4A refers to “an exit or disposal activity” rather than an “asset retirement obligation.”
- It is not clear what is intended by the term "equitable" in ASC 410-20-25-4A. Additionally, we suggest removing reference to Webster’s New World Dictionary in this paragraph if the intent is to simplify the guidance.
- We believe the reference in ASC 410-20-55-26 to “Sections 410-20-25 and 410-20-30” is too broad and suggest narrowing it to specific paragraphs in order to provide a useful reference.

Exit or Disposal Cost Obligations (Topic 420)

We do not agree with the proposed amendments because they expand the scope of ASC 420 to include constructive or other obligations not previously considered in scope. To illustrate, a reporting entity may announce its plan to exit a facility and terminate employment for all employees at that location. The facility is in a remote location, and employees believe that the reporting entity has the moral obligation to provide them with a relocation package to a major city where they can find gainful employment. The reporting entity may also believe it needs to undertake these and additional activities, as part of maintaining its public image. The reporting entity has not made any promise to provide a relocation package to the employees. Under current practice, we believe it would generally be inappropriate for the reporting entity to accrue a liability for these obligations, while under the proposed amendments, it may be considered appropriate.

The proposed amendments may also be difficult to apply. Specifically, the guidance states that only present obligations that leave an entity little or no discretion to avoid should be recognized as liabilities. It is unclear how an entity should consider whether or not it has the ability and discretion to avoid these social duties or moral obligations. Accordingly, we believe the amendments as proposed would be a change to practice and warrant further due process and transition guidance.

Debt (Topic 470)

We agree with suggested change, however, we suggest that the same clarification be made in ASC 470-50-40-17.

Compensation—Retirement Benefits (Topic 715)

We do not believe it is clear what “principal credits” and “interest credits” are in ASC 715-20-25-2 and 25-3 now that these paragraphs have been separated from the original definition or description of plan type. Consider adding the following to the end of ASC 715-20-25-2:

> "Principal credits can be a fixed amount or based on a percentage of the participants' compensation. Interest credits can be based on fixed or variable interest rates, actual returns on plan assets or hypothetical plan assets, or actual returns subject to floors and/or caps."

Additionally, paragraph ASC 715-30-55-127A states that the illustrated cash balance plan (which has a defined principal-crediting rate as a percentage of salary) is not pay-related and the projected unit credit method of attribution should not be used. This is inconsistent with the guidance in ASC 715-30-55-8, which states that a pension plan formula that provides an annual pension benefit equal to one percent of each year's salary is in effect a career-average-pay plan and the projected unit credit method of attribution should be used. Consider either amending the guidance in ASC 715-30-55-127A, or changing the hypothetical facts to a fixed annual principal-crediting rate instead of one based on salary.

Business Combinations (Topic 805)

We do not agree with the proposed amendments because they broaden the definition of assets and liabilities that should be recognized in the context of an acquisition. This could introduce the possibility of a reporting entity recognizing obligations for future planned activities. To illustrate, consider a target company with a high carbon footprint. The acquirer may believe it has a constructive obligation or social responsibility to undertake activities to offset that footprint and under the proposed guidance could accrue a related liability in purchase accounting as part of the acquisition. Under current practice, this is generally not a liability that would be separately recognized.

We note that some respondents to EITF Issue 18-A, *Recognition under Topic 805 for an Assumed Liability in a Revenue Contract*, expressed concern with replacing the recognition threshold of a "legal obligation" with the term "performance obligation." In that case, questions were raised not only with respect to the potential new definition but also with respect to valuation implications. We believe that the proposed amendments could have implications beyond those of deferred revenue and should be considered subject to further due process and transition guidance.

Further, it is not clear whether the paragraphs that follow the proposed amendments in ASC 805-20-25-2, including ASC 805-20-25-5, will remain operable such that intangibles would need to meet the contractual/separability criterion.

Financial Instruments (Topic 825)

We believe that the proposed amendment to clarify that nonpublic business entities are subject to the fair value option disclosures in paragraphs ASC 825-10-50-24 through 50-32 may impact current practice and, as such, companies will need time to implement any proposed changes to their systems, processes, and controls. We suggest including transition guidance for this amendment.

Interest (Topic 835)

The amendment to ASC 835-30-15-3 appears to be intended to correct an apparent inconsistency between subparagraphs (b) and (h), which seems appropriate. However, removing the language from subparagraph (b) may create confusion about whether the guidance in ASC 606 applies to the items listed in subparagraph (b). One approach could be to add language such as "for deposits and advance payments related to contracts with customers, see paragraphs ASC 606-10-32-15 through 32-20" (similar to the wording in subparagraph (d)).

Transfers and Servicing (Topic 860)

In order to clarify that an entity should recognize a financial asset at fair value, we propose the following amendment to ASC 860-20-25-13:

> "For financial assets rerecognized in accordance with paragraph 860-20-25-10, an entity shall recognize a financial asset in accordance with the relevant guidance, including <u>this Topic,</u> Topic 310 on receivables, Topic 320 on investments—debt and equity securities, Topic 323 on investments—equity method and joint ventures, and Topic 325 on investments—other."

In addition, this paragraph links to the transition paragraph in ASC 326-10-65-4. That paragraph requires transition at January 1, 2020 for reporting entities that have not yet adopted the credit losses standard but will adopt it on January 1, 2020. This date should be extended since the ASU will not be issued before January 1, 2020.

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Financial Services—Depository and Lending (Topic 942)

This paragraph links to the transition paragraph in ASC 825-10-65-5. That paragraph requires transition at January 1, 2020 for certain reporting entities. This date should be extended since the ASU will not be issued before January 1, 2020.

Not-for-Profit Entities (Topic 958)

The guidance in ASC 958-220-45-21 discusses the decrease in net assets associated with services received from personnel of an affiliate. The proposed amendment adds a reference to ASC 958-720-45-56, which also includes the guidance for a decrease in net assets associated with services received from personnel of an affiliate and seems duplicative with the preceding sentences. We suggest amending the guidance in ASC 958-220-45-21 to remove the second sentence and keep the added reference to ASC 958-720 as follows:

> "The increase in net assets associated with services received from personnel of an affiliate that directly benefit the recipient NFP and for which the affiliate does not charge the recipient NFP shall be reported as an equity transfer, regardless of whether those services are received from personnel of a not-for-profit affiliate or any other affiliate. ~~The corresponding decrease in net assets or the creation or enhancement of an asset resulting from the use of services received from personnel of an affiliate shall be reported similar to how other such expenses or assets are reported.~~ See paragraph 958-720-45-56 for presentation guidance on the decrease in net assets associated with services received from personnel of an affiliate. Paragraphs 954-220-45-2 through 45-3 provide additional guidance for not-for-profit, business-oriented health care entities."

Similarly, we suggest amending the guidance in ASC 958-720-45-56 as follows:

> ~~"The increase in net assets associated with services received from personnel of an affiliate that directly benefit the recipient not-for-profit entity (NFP) and for which the affiliate does not charge the recipient NFP shall not be presented as a contra-expense or a contra-asset.~~ The ~~corresponding~~ decrease in net assets or the creation or enhancement of an asset resulting from the use of services received from personnel of an affiliate that directly benefit the recipient NFP and for which the affiliate does not charge the recipient NFP shall be presented similar to how other such expenses or assets are presented. See paragraph 958-220-45-21 for presentation guidance on the increase in net assets associated with services received from personnel of an affiliate."