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December 4, 2017

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

RE: Proposed Accounting Standards Update, *Codification Improvements* (File Reference No. 2017-320)

Dear Technical Director:

We appreciate the opportunity to comment on the proposed ASU, *Codification Improvements*. While we generally agree with the proposed amendments, we believe the Board should consider clarifying certain amendments and adding one other amendment.

Our responses to the Questions for Respondents are included in Appendix I to this letter. Our additional observations are in Appendix II.

* * * * *

If you have questions about our comments or wish to discuss the matters addressed herein, please contact Kimber Bascom at (212) 909-5664 or kbascom@kpmg.com, or Angie Storm at (212) 909-5488 or astorm@kpmg.com.

Sincerely,

KPMG LLP

KPMG LLP

Appendix I – Responses to Questions for Respondents

Question 1:

Do you agree with the amendments to the Codification in this proposed Update? If not, please explain which proposed amendment(s) you disagree with and why.

Issue 6

We believe that the proposal to eliminate the reference to Derivative 2 as freestanding is appropriate, and that it would eliminate the inconsistency with paragraphs 480-10-25-15 and 480-10-55-55. However, we believe that the Board should consider avoiding the term ‘embedded’ in this example as it may suggest to readers that the parent has analyzed and concluded under Topic 815 that Derivative 2 does not require separate accounting. We believe that US GAAP requires the parent to account for this arrangement as a financing.

We recommend that the Board clarify paragraphs 480-10-55-55 and 55-59 as marked:

55-55 ... However, if the written put option and purchased call option are ~~embedded in the shares~~ terms of the shares (noncontrolling interest) themselves and the shares are not mandatorily redeemable, the ~~freestanding~~ instrument shall be accounted for as discussed in paragraph 480-10-55-59 with the parent consolidating ~~100 percent of the subsidiary~~ and recognizing no noncontrolling interest.

55-59 If the derivative instrument in Derivative 2 is ~~freestanding of the noncontrolling interest~~, it should be a term of the shares (noncontrolling interest) themselves and the shares are not classified as liabilities under this Subtopic, the combined with the noncontrolling interest ~~and~~ is accounted for as a financing. That is, the combination of options ~~contracts~~ should be viewed on a combined basis with the noncontrolling interest and accounted for as a financing of the parent's purchase of the noncontrolling interest.

Issue 12

The proposed clarification to paragraph 815-10-45-5 appears to change the offsetting guidance. Currently, paragraph 815-10-45-5 states that a reporting entity may offset the amounts recognized for derivative assets, derivative liabilities, receivables and payables with the same counterparty under a master netting arrangement. However, some may infer from the proposed wording that an entity can offset derivative assets against only derivative liabilities and receivables against only payables. To preserve current guidance, we suggest that the Board consider retaining the current language in paragraph 815-10-45-5.

Issue 21

We believe that deleting ‘not’ from subparagraph 830-10-45-18(a)(2) may change practice because it appears to change held to maturity debt securities from monetary assets to nonmonetary assets. We believe that the Board should consider removing subparagraph 830-10-45-18(a)(2) from the Codification because held to maturity debt securities are monetary assets by

definition and no other debt security may be carried at cost. Further, we recommend that the Board consider clarifying the interaction of this guidance with paragraph 321-10-35-2.

The Board could implement these recommendations by replacing proposed subparagraphs 830-10-45-18(a)(1) and 45-18(a)(2) with:

830-10-45-18 All of the following are common nonmonetary balance sheet items...:

- a. Equity securities without readily determinable fair values carried at cost in accordance with paragraph 321-10-35-2. However, a subsequent adjustment to the carrying amount of the equity securities in accordance with paragraph 321-10-35-2 is remeasured based on the current exchange rates.

Issue 22

We understand that the proposed changes to paragraphs 940-405-55-1 and 942-210-45-3 about applying the offsetting guidance for securities borrowed and loaned transactions have raised concern by some constituents that the proposed changes could result in a significant change in practice in how the offsetting guidance is applied. Accordingly, we recommend that the Board pursue this proposed amendment in a separate project to provide constituents additional time to evaluate the implications.

Question 2:

Would any of the proposed amendments result in substantive changes to the application of existing guidance that would require transition provisions? If so, please describe.

If the proposed amendments in Issues 6, 12, 21 and 22 are finalized as proposed, we believe that those amendments may result in substantive changes in application that would require transition provisions.

Question 3:

Are there other changes that should be made that are directly or indirectly related to the proposed amendments? Please note that the Board will conduct Codification improvement projects on a periodic basis, and additional changes may be postponed to a subsequent Codification improvement project.

We suggest one additional codification improvement that we believe may clarify the Codification.

Paragraph 323-10-35-26 identifies the steps for determining the amount of an equity method loss when the entity has an equity method investment and an additional investment (e.g. loans to the investee). Subparagraph 323-10-35-26(c) indicates that the entity should apply Subtopic 323-10, *Investments—Equity Method and Joint Ventures – Overall*, before applying Subtopics 310-10, *Receivables – Overall*; 320-10, *Investments—Debt and Equity Securities—Overall*; and 321-10 *Investments—Equity Securities - Overall*. However, paragraph 323-10-35-26 does not address credit losses under Topic 326, *Financial Instruments—Credit Losses*.

We suggest that the Board consider clarifying subparagraph 323-10-35-26(c) to state, “After applying this Subtopic, apply Subtopics 310-10, 320-10, ~~and 321-10,~~ 326-20, and 326-30 to the adjusted basis of the other investments in the investee, as applicable.”

Question 4:

The proposed amendments would apply to public and nonpublic entities. Would any of the proposed amendments require special consideration for nonpublic entities? If so, which proposed amendment(s) would require special consideration and why?

No. We believe that the proposed amendments should apply to public and nonpublic entities.

Appendix II – Additional Observations

Issue 7

The summary of the amendment on pages 3 and 4 of the proposed ASU appears inconsistent with the description in paragraph 15 and the text of the amendment to paragraph 718-740-35-2. We suggest that Board consider revising the summary to state:

The guidance in paragraph 718-740-35-2, as amended by ~~the amendments in~~ Accounting Standards Update No. 2016-09, *Compensation—Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting*, is unclear on whether an entity should recognize excess tax benefits (or tax deficiencies) in its income statement in the period in which the amount of the tax deduction is determined (that is, the period in which the uncertainty about the amount of the deduction is resolved) or in the period in which the tax deduction for compensation expense that is taken on the entity's tax return. The amendment to paragraph 718-740-35-2 in this proposed Update would clarify that an entity should recognize excess tax benefits (or tax deficiencies) in the period in which the amount of the tax deduction is determined, which typically is when an award is exercised, in the case of share options, or vests, in the case of nonvested stock awards, when the tax deduction for compensation expense is taken on the entity's tax return. This includes deductions that are taken on the entity's return in a different period from when the event that gives rise to the tax deduction occurs and the uncertainty about whether (1) the entity will receive a tax deduction and (2) the amount of the tax deduction is resolved.

In addition, we believe users may better understand the context of the amendment if the description in paragraph 15 included an example in which the period in which the entity determines the amount of the tax deduction is different from the period in which it takes that deduction on the tax return. We suggest:

15. The amendments in Accounting Standards Update No. 2016-09, *Compensation—Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting*, require that all excess tax benefits and tax deficiencies be recognized as income tax expense or benefit in the income statement. In addition, the amendments require that an entity recognize an excess tax benefit even if the entity cannot use the deduction to reduce taxes payable in the current period (for example, when an entity has a net operating loss). Some stakeholders noted that the guidance in paragraph 718-740-35-2 is not clear about whether an entity should recognize excess tax benefits (or tax deficiencies) in its income statement in the period when the amount of the tax deduction is determined (that is, the uncertainty about the amount of the deduction is resolved) or in the period when the tax deduction is taken on the entity's tax return. These periods could be different, for example, for an off-calendar year-end company because the deduction for an award generally is determined in the period in which the holder exercises an option (or a nonvested stock award vests), but may not be taken on the tax return until the following tax year. The proposed amendments would clarify that an entity should recognize excess tax benefits (or tax deficiencies) in the period when the amount of the tax deduction is determined, which

typically is when an award is exercised, in the case of share options, or vests, in the case of nonvested stock awards.

Further, in certain scenarios the tax deduction precedes the period in which the entity recognizes compensation cost in the financial statements. To further clarify paragraph 718-740-35-2 for this scenario, we suggest that the Board consider adding ‘or to be recorded’ with respect to the timing of compensation costs, as underlined and italicized:

718-740-35-2 This Section addresses the accounting required in a period when the deduction for compensation expense to be recognized in a actual tax deductions for compensation expense taken by an entity on its tax return for share-based payment arrangements differs in amounts and timing from the compensation cost recorded *or to be recorded* in the financial statements. ...

Issue 10

The proposal would clarify that the phrase ‘essentially permanent in duration’ (a) is intended to modify ‘corporate joint venture’ and (b) is not intended to modify the phrase ‘investment in a subsidiary’ in paragraphs 740-30-25-9 and 740-30-50-2. We suggest that the Board consider clarifying all instances of the same phrase in Topic 740, at a minimum in subparagraphs 740-10-25-3(a)(1), 740-10-25-3(a)(2), 740-30-25-18(a), and 740-30-25-18(b).

Issue 17

It may be unclear in the proposed amendment to subparagraph 820-10-50-2(bbb) whether the exemption for employee benefit plans relates to the entire subparagraph or only to the quantitative disclosures. We suggest that the Board consider separating the qualitative disclosures from the quantitative disclosures in subparagraph 820-10-50-2(bbb) (similar to how the Pending Content is presented), and specifying that employee benefit plans are exempt from only the quantitative disclosures.

Issue 28

The proposed clarification to paragraph 958-720-45-15 states, “...Certain items that are typically excluded from net ~~income~~ income, that are included in other comprehensive income of ~~for-profit entities~~ business entities, and that do not follow Topic 958, such as those items listed in paragraph 220-10-45-10A, are considered gains or losses and, like other gains and losses, shall not be included in the analysis of expenses by nature and function...” We suggest that the Board consider deleting the phrase ‘and that do not follow Topic 958’ because it may suggest that some business entities do follow Topic 958.

Issue 30

The Board added an assumption to the example at paragraph 962-325-55-17, “Except for the fully benefit-responsive investment contracts that are reported at contract value, all investments held

by the defined contribution plan were evaluated for and determined to have a readily determinable fair value.”

The statement that all investments have a readily determinable fair value appears to conflict with the rest of the example in which Corporate bonds are Level 3 assets. We suggest that the Board consider replacing the proposed addition with a statement that the plan has not applied the net asset value practical expedient to its investments. We believe that statement would achieve the same objective without creating an inconsistency with the rest of the illustrative disclosure.