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Mr. Shayne Kuhaneck  
Acting Technical Director  
File Reference No. 2019-600  
Financial Accounting Standards Board  
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**Re: Proposed Accounting Standards Update, *Disclosure Improvements: Codification Amendments in Response to the SEC's Disclosure Update and Simplification Initiative* (File Reference No. 2019-600)**

Dear Mr. Kuhaneck:

We appreciate the opportunity to comment on the proposed Accounting Standards Update (ASU) issued by the Financial Accounting Standards Board (FASB or Board).

We support the FASB's proposal to incorporate certain of the disclosure requirements referred by the Securities and Exchange Commission (SEC) into US GAAP. We believe the FASB's Codification should be the primary source of all note disclosure requirements. This approach would be more efficient for financial statement preparers and would promote timely periodic updates to the requirements.

However, we have some concerns about aspects of the proposal, which we address in our responses in Appendix A. We also encourage the FASB staff to work with the SEC staff to eliminate the related disclosure requirements from Regulation S-X and Regulation S-K when this guidance goes into effect.

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Our responses to questions in the proposed standard are set out in Appendix A. We have included other editorial suggestions in Appendix B.

We would be pleased to discuss our comments with the Board or its staff at your convenience.

Very truly yours,

**Appendix A – Responses to Questions for Respondents included in the proposal**

**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.

**Question 2:** Would the proposed amendments result in decision-useful information? Please explain why or why not.

As previously discussed, we generally support the FASB's proposal to incorporate the disclosure requirements referred by the SEC into the Codification and believe including the additional disclosures would result in decision-useful information, except for the proposed amendments to the following topics.

**Accounting Standards Codification (ASC) 260, *Earnings Per Share***

While Regulation S-X Rule 10-01(b)(2) requires that the "basis of the earnings per share computation" be disclosed, we have observed diversity in practice regarding the application of this requirement. That is, not all registrants have interpreted Regulation S-X Rule 10-01(b)(2) to require disclosure of the method used to calculate diluted earnings per share. Therefore, the proposed amendment could require a change in practice for some registrants.

**ASC 280, *Segment Reporting***

We have concerns with the proposal to remove the impracticability exception in ASC 280-10-50-40. While the impracticability exception is used infrequently, we have observed its application by companies with financial reporting systems that have limited reporting functionality. Removing this impracticability exception and requiring an entity to obtain the information and have it audited may result in an increase to an entity's costs. If the FASB removes this impracticability exception, the transition should be prospective with a sufficient transition period to give companies time to prepare this information (refer to our response to Question 8 for further discussion). In addition, we observe that removing this impracticability exception would be inconsistent with retaining the impracticability exceptions for other disclosure requirements in ASC 280-10-50.

We also encourage the FASB to seek input on the usefulness of the disclosures required by ASC 280 about products and services on an entity-wide basis as part of its project on segment reporting presentation and disclosures. We note that entities are now required by ASC 606-10-50-5 through 50-7<sup>1</sup> to disaggregate their revenue disclosures in a way that depicts the effect of economic factors on the nature, amount, timing and uncertainty of revenue and cash flows, and this requirement may make the disclosures about products and services required by ASC 280 less useful.

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<sup>1</sup> ASC 606, *Revenue from Contracts with Customers*.

### **ASC 810, Consolidation**

We believe that the objective of the proposed disclosure requirement in ASC 810-10-50-1C is generally met in practice today when entities comply with the existing requirements for business combinations in ASC 805-10-50-2(a)<sup>2</sup> and ASC 810-10-50-2AA, and dispositions in ASC 810-10-50-1B.

However, if the FASB believes that a more explicit disclosure requirement is necessary, we believe it should be added to other topics in addition to ASC 810. Entities acquire and dispose of legal entities through other mechanisms than business combinations. Therefore, it should be added in ASC 805-50-50 on asset acquisitions and ASC 610-20-50<sup>3</sup> for sales of in-substance nonfinancial assets. Alternatively, the FASB could consider including the requirement in ASC 235, *Notes to Financial Statements*, rather than adding it to multiple topics.

### **ASC 850, Related Party Disclosure**

We do not believe the current wording of the proposed requirement is operable or auditable, due to the lack of clarity as described below.

We recommend that the Board clarify what it means by “separate financial statements” in ASC 850-10-50-4A. We believe that under Regulation S-X Rule 4-08(k)(2), the term “separate financial statements” refers to the separate financial statements of an entity that are presented together with consolidated or combined financial statements of a primary reporting entity. However, we believe the proposed requirement in ASC 850-10-50-4A, as drafted, could be interpreted to apply to all separate financial statements of public business entities (PBEs) and not solely those that are presented together with the consolidated or combined financial statements of a primary reporting entity. For example, this interpretation would include the financial statements a PBE that is an SEC registrant files with the SEC, not just the financial statements presented together with the consolidated or combined financial statements of a primary reporting entity. It is unclear to us whether the Board’s intent is to broaden the scope of the existing requirements in Regulation S-X Rule 4-08(k)(2), which we believe applies only to separate financial statements presented together with consolidated or combined financial statements of a primary reporting entity.

Also, without further clarification, it is not clear to us which “consolidated or combined” financial statements are referenced in ASC 850-10-50-4A, because the separate financial statements of a PBE may be consolidated or combined financial statements themselves.

We recommend that the Board clarify whether the amendments in ASC 850-10-50-4A require disclosure of only profits or losses that are not eliminated in the preparation of the separate financial statements. As drafted, the amendments do not specify whether the disclosures are for amounts eliminated or not eliminated.

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<sup>2</sup> ASC 805, *Business Combinations*.

<sup>3</sup> ASC 610-20, *Other Income – Gains and Losses from the Derecognition of Nonfinancial Assets*.

We recommend replacing ASC 850-10-50-4A with the following language, which assumes the Board's intent is to align the scope of the disclosure requirement with the existing requirements in Regulation S-X Rule 4-08(k)(2) and to require disclosure of profits or losses that are not eliminated:

**ASC 850-10-50-4A** If a reporting entity presents separate financial statements of a public business entity in its consolidated or combined financial report, the separate financial statements shall include disclosure of the dollar amounts of any profits or losses resulting from transactions with related parties that are not eliminated in the preparation of the separate financial statements but are eliminated in the consolidated or combined financial statements of the primary reporting entity.

We also recommend that the Board clarify what it means in ASC 850-10-50-4A by the "effects of those transactions" should be disclosed because the paragraph already requires disclosure of the amount of profit or loss. For example, if the Board is referring to line items in the balance sheet and income statement that are affected, that should be clearly stated.

**Question 3:** For entities other than public business entities, are the proposed disclosure requirements operable and auditable? If not, which aspects pose operability or auditability concerns and why?

**Question 4:** For entities other than public business entities, would any of the proposed disclosure requirements impose significant incremental costs? If so, please describe the nature and extent of the additional costs.

We believe that the proposed disclosure requirements are operable and auditable, except for the proposed amendment to ASC 850-10-50-4A (refer to our response to Questions 1 and 2 above). However, as further described below in our reply to Question 8, we believe that entities that are not PBEs should have additional time to adopt the proposed standard.

Additionally, although we defer to preparers on whether any of the proposed disclosures would impose significant incremental costs, we believe the information necessary to provide the additional disclosures would generally be available and, therefore, entities would generally not incur significant costs except for the proposal to remove the impracticability exception from ASC 280-10-50-40 (refer our reply to Questions 1 and 2 for further discussion).

**Question 5:** The proposed amendment to paragraph 850-10-50-4A would not apply to entities other than public business entities. Do you agree with this proposed scope? Are there other proposed disclosure requirements that entities other than public business entities should not be required to apply? If so, please explain why.

We agree with the Board's decision to exclude entities that are not PBEs from the proposed amendment to ASC 850-10-50-4A. We believe that the existing related-party disclosure requirements in ASC 850 provide users with sufficient information about the existence and magnitude of related party transactions.

However, while we support the FASB codifying the requirement in Regulation S-X Rule 3-15(c), we recommend that the proposed requirement in ASC 974-10-50-1<sup>4</sup> (i.e., to disclose the tax status of distributions per unit) should be limited to PBEs. It is not clear how the disclosure of this information by entities that are not PBEs would improve disclosure effectiveness or provide decision-useful information to financial statement users. As the Board notes in paragraph BC34 of the proposed ASU, current investors have access to this information, and we believe potential new investors in these entities should be able to obtain this information from the entity. In addition, many real estate investment trusts that are not PBEs do not actively trade or change investors.

**Question 6:** The proposed amendment to paragraph 810-10-50-1C would require that an entity disclose the names of newly consolidated or deconsolidated entities. Would this proposed disclosure requirement impose incremental costs for entities other than public business entities? If so, please describe the nature and extent of the additional costs.

We defer to preparers on whether the proposed disclosures would impose significant incremental costs. However, we believe the information necessary to provide the additional disclosures in ASC 810-10-50-1C would generally be available and, therefore, entities would generally not incur significant costs.

**Question 7:** Should the proposed amendments be applied prospectively to financial statements issued after the effective date? If not, what transition method would be more appropriate and why?

We believe that entities should have the option to apply the provisions either prospectively or retrospectively (i.e., by restating prior year(s) disclosures) if they believe comparative disclosures would provide more decision-useful information.

**Question 8:** How much time would be needed to implement the proposed amendments? Should early adoption be permitted? Would the amount of time needed to apply the proposed amendments by entities other than public business entities be different from the amount of time needed by public business entities? Why or why not?

We believe preparers are in the best position to comment on the time necessary to adopt the proposed amendments.

We believe SEC registrants would not incur significant costs to implement the proposed requirements that are consistent with existing SEC disclosure requirements. However, we believe that entities that are not PBEs and companies that have previously applied the impracticability exception in ASC 280-10-50-40 should have additional time to adopt the proposed standard. In certain cases, these entities may need additional time to adjust operational procedures related to the proposed disclosures. Accordingly, it may be helpful to these entities to have an effective date that is a year later than the effective date for PBEs.

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<sup>4</sup> ASC 974, *Real Estate – Real Estate Investment Trusts*.

We believe that early adoption should be permitted for all entities.

**Question 9:** Should the proposed amendments be finalized if the SEC does not eliminate the referred disclosure requirements in Regulation S-X and Regulation S-K? Why or why not?

We do not believe that the proposed amendments should be finalized if the SEC does not plan to remove its related disclosure requirements and does not coordinate the removal with the incorporation of these requirements in US GAAP. We encourage the FASB staff to work with the SEC staff to eliminate the related disclosure requirements from Regulation S-X and Regulation S-K at the same time that this FASB guidance is effective for PBEs. If this does not happen, the redundancies and inconsistencies this proposal hopes to eliminate will remain.

**Question 10:** Do you agree with the Board's decision not to propose amendments to the Codification for certain referred disclosures? If not, please explain why.

We agree with the Board's decision not to propose amendments for the certain referred disclosures referenced in paragraphs BC35 through BC41 of the proposal.

## Appendix B – Editorial comments about the proposal

We recommend the following clarifications to the language in the proposal. Our recommendations for new content are underlined, and our recommendations for deletions are displayed in strike-through.

1. ASC 830-10-15-7 should be modified to clarify that ASC 830 does not apply to the translation of the financial statements of a reporting entity from its reporting currency into another currency for the convenience of readers accustomed to that other currency. This can be done by retaining text currently included in ASC 830-10-15-7:

“ASC 830-10-15-7 Paragraph superseded by Accounting Standards Update No. 2019-XX This Topic does not cover translation of the financial statements of a reporting entity from its reporting currency into another currency for the convenience of readers accustomed to that other currency.”

2. ASC 830-10-45-1 should be modified to clarify how a reporting entity determines its functional currency or that of a foreign entity:

“ASC 830-10-45-1 The guidance in this Section relates to how a reporting entity determines ~~the its~~ functional currency or that of a foreign entity (including ~~of an foreign~~ entity in a highly inflationary economy) ~~or a reporting entity~~, remeasures the books of record (if necessary), and characterizes transaction gains and losses. The guidance is organized as follows:

- a. The functional currency
- b. The functional currency in highly inflationary economies
- c. Remeasurement of books of record into the functional currency
- d. Subparagraph superseded by Accounting Standards Update No. 2015-01.”

3. ASC 830-10-45-15 should be modified to clarify that these provisions should apply to both the entity’s subsidiary and the reporting entity:

“ASC 830-10-45-15 If ~~an reporting entity's subsidiary's~~ functional currency (or that of a subsidiary) changes from the reporting currency to the local currency because the economy ceases to be considered highly inflationary, the entity shall restate the functional currency accounting bases of nonmonetary assets and liabilities at the date of change as follows:

- a. The reporting currency amounts at the date of change shall be translated into the local currency at current exchange rates.
- b. The translated amounts shall become the new functional currency accounting basis for the nonmonetary assets and liabilities.”

4. Certain references to a “foreign” entity throughout ASC 830 should be modified where applicable, to clarify that the guidance would also apply to a reporting entity. As an example, the heading to ASC 830-10-45-3 through 45-6 and ASC 830-10-45-3 should be modified as follows:

“Identifying an Foreign Entity’s Functional Currency”

“**ASC 830-10-45-3** It is neither possible nor desirable to provide unequivocal criteria to identify the functional currency of ~~foreign~~ entities under all possible facts and circumstances and still fulfill the objectives of foreign currency translation. Arbitrary rules that might dictate the identification of the functional currency in each case would accomplish a degree of superficial uniformity but, in the process, might diminish the relevance and reliability of the resulting information.”

5. Certain references to a “reporting” entity throughout ASC 830 should be modified where applicable, to clarify that the guidance would apply to all entities, including a “foreign” entity. For example, we recommend the following changes to ASC 830-10-15-3 and ASC 830-20-35-8:

“**ASC 830-10-15-3** The guidance in the Foreign Currency Matters Topic applies to all foreign currency transactions in financial statements of an reporting entity and all foreign currency statements that are incorporated in the financial statements of a reporting entity by consolidation, combination, or the equity method of accounting.”

“**ASC 830-20-35-8** An reporting entity’s financial statements shall not be adjusted for a rate change that occurs after the date of the ~~reporting~~ entity’s financial statements.”