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June 28, 2019

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

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 Technical Director:

We appreciate the opportunity to comment on the proposed ASU, *Disclosure Improvements: Codification Amendments in Response to the SEC's Disclosure Update and Simplification Initiative*. We support the Board's objective to codify certain SEC disclosure requirements that overlap with, but require incremental information to, US GAAP.

We generally believe that the proposed amendments are consistent with the objectives of the FASB's disclosure framework. However, we believe certain clarifications to the proposals would facilitate consistent application across entities and maintain consistency within the Codification. In particular, see our comments related to Consolidation, Interim: Common control transactions and Related parties detailed in Appendix II.

In addition, we support the Board's 2015 and 2018 decisions to evaluate disclosures for interim reporting. Specifically, Topic 270, *Interim Reporting*, includes minimum disclosure requirements for a set of interim financial statements. However, Rule 10-01(a)(5) of Regulation S-X permits companies to omit disclosures that substantially duplicate disclosures contained in the most recent audited annual report if the disclosures have not changed significantly in amount or composition. As a result, differences currently exist between the Commission's disclosure objective and GAAP. We believe that harmonizing the interim disclosure objectives would promote disclosure effectiveness and efficiency and that the Board should continue to deliberate disclosures for interim reporting in collaboration with the SEC.

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

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Technical Director
Financial Accounting Standards Board
June 28, 2019
Page 2

If you have questions about our comments or wish to discuss the matters addressed in this comment letter, please contact Kimber Bascom at (212) 909-5664 or kbascom@kpmg.com or Valerie Boissou at (212) 954-1723 or vlesageboissou@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.

We generally support the proposed amendments. However, as detailed in Appendix II, we believe certain clarifications to the proposals would facilitate consistent application across entities and maintain consistency within the Codification. In particular, see our comments related to Consolidation, Interim: Common control transactions and Related parties.

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

We generally believe that the proposed amendments would result in more effective, decision-useful information. However, as discussed in the Consolidation section of Appendix II, we believe that disclosing the name of each ‘legal entity’ when there is a change in entities included in or excluded from the consolidated financial statements may not provide decision-useful information for financial statement users.

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?

We generally believe that the proposed disclosure requirements are operable and auditable.

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 do not believe that the proposed disclosure requirements would impose significant incremental costs for entities other than public business entities.

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.

As discussed in the Related parties section of Appendix II, we believe paragraph 850-10-50-4A is unclear about when a public business entity would provide the proposed disclosure. However, if the Board clarifies and requires the new disclosure, we believe that it should not apply to entities other than public business entities.

We believe that the remaining amendments should be applied based on the scope provided in the Codification.

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.

See our comments in the Consolidation section of Appendix II.

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 the proposed amendments should be applied prospectively to financial statements issued after the effective date.

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 that an entity should be permitted to early adopt the amendments. We believe that entities other than public business entities will need one year to adopt the proposed amendments because they are not already applying the related SEC regulations.

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 generally believe that the Board should finalize the proposed amendments to the Codification even if the SEC does not eliminate the specific disclosure requirements that it referred to the Board for resolution. However, in that situation, we recommend that the Board work with the SEC staff to determine whether the proposed amendments would achieve the SEC's objective in eliminating the specific, related SEC regulations.

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 to the Codification for certain disclosures on Equity compensation plans, Discounts on shares, Major customers, Authorized amount of debt, and Related party transactions on the face of the financial statements. However, we recommend that the Board clarify paragraph BC37 to include the specific paragraph in Topic 230 that includes the requirement to disclose stock issuance costs in the period of issuance.

Appendix II – Additional Observations

Foreign currency

We agree with the Board's proposed amendment to clarify in Subtopic 830-30 that reporting entities should translate their financial statements from the functional currency to the reporting currency when the functional currency is different than the reporting currency. However, we believe that the proposed changes to the presentation and implementation guidance paragraphs of Subtopic 830-10 may be confusing to readers (paragraphs 830-10-45-2, 45-7, 45-11 and 55-5). Rather than amending paragraphs 830-10-45-2, 45-7, 45-11 and 55-5, we recommend that the Board add a separate paragraph to Subtopic 830-30 to explain that reporting entities should translate their financial statements from the functional currency to the reporting currency when the functional currency is different than the reporting currency. For example:

830-30-45-1A The guidance in this Section also applies when a reporting entity's reporting currency is different than its functional currency.

Derivative accounting policies

We agree with the Board's objective for requiring entities to disclose their accounting policies for classifying derivative instruments and the related gains and losses in the statement of cash flows. Accounting policies are generally not required to be repeated in each interim period. Paragraph D76 of the Conceptual Framework for Financial Reporting Chapter 8, Notes to Financial Statements, states (emphasis added):

...Normally, relevant information that can be obtained from the most recent annual financial statements and that has not changed is not provided in interim-period financial statements. That applies to most descriptions in notes and much of the explanatory information, *such as accounting policies*.

However, Subparagraph 270-10-50-1(I) requires publicly traded companies to disclose information in Section 815-10-50 for each interim period. Therefore, if the proposed disclosure in paragraph 815-10-50-8B is a policy-related disclosure, we believe that the Board should clarify that the policy disclosure is required only for annual periods. Similarly, we recommend that the Board clarify that the policy disclosures in paragraphs 815-10-50-7 and 50-9 are required only for annual periods.

Technical correction (investment companies)

We agree with the Board's proposed amendment to clarify paragraph 946-20-50-11. We do not believe investment companies should be precluded from presenting to financial statement users disaggregated information about the components of their capital.

However, we do not believe this proposed amendment by itself addresses the inconsistencies between paragraphs 946-830-55-12 and 946-20-50-11. We suggest amending the illustrative example in paragraph 946-830-55-12 to remove the disaggregated components of distributable earnings.

We also believe there is an inconsistency between the proposed amendment and the presentation of components of capital in paragraph 946-20-50-11, which states, “This guidance requires *all investment companies* to disclose only two components of capital on the balance sheet: shareholder capital and distributable earnings (emphasis added),” and paragraph 946-20-50-14, which states, “*Investment partnerships and other pass-through entities* shall aggregate all elements of equity into partners’ capital, because the results of operations are deemed distributed to each partner” (emphasis added).

We believe the requirements in paragraphs 946-20-50-11 and 946-20-50-12 should apply only to registered investment companies. Registered investment companies typically receive special pass-through tax treatment as regulated investment companies under Subchapter M of the Internal Revenue Code unless they fail to meet certain distribution requirements. As stated in paragraph 7.103 of AAG-INV (2018), “[the information of components of capital and tax-basis components of distributable earnings required in paragraphs 946-20-50-11 and 946-20-50-12] enables investors to determine the amount of accumulated and undistributed earnings that they potentially could receive in the future and on which they could be taxed.”

We do not believe this information is meaningful for nonregistered investment companies, which are subject to different tax regulations from the regulations for registered investment companies and are typically not subject to legal or regulatory requirements to distribute earnings to their investors. Therefore, we suggest that the Board amend paragraphs 946-20-50-11 and 946-20-50-12 to exclude investment partnerships and other nonregistered investment companies from those requirements.

Consolidation

We agree with the Board’s objective for requiring an entity to disclose when there is a change in entities included in or excluded from the consolidated financial statements. However, we believe that disclosing the name of each ‘legal entity’ may not provide decision-useful information for financial statement users. For example, when a single acquisition or disposition transaction involves a complex organizational structure that involves many individual legal entities, a requirement to disclose all legal entities consolidated or deconsolidated may result in excessive disclosure that could obscure more useful information about the transaction. Therefore, we recommend that the Board use the term ‘name of entity’, which is consistent with the disclosure about business combinations in paragraph 805-10-50-2 and allows preparers to describe the transaction in more meaningful terms, and limit the disclosure to those entities that were significant to the overall change in the consolidated or combined reporting entity:

810-10-50-1C A reporting entity shall disclose in consolidated financial statements or combined financial statements when there has been a change in the ~~legal~~ entities included in or excluded from the corresponding financial statements as compared with the preceding fiscal period and the names of those ~~legal~~ entities that were significant to the overall change in the consolidated or combined reporting entity.

Preferred shares

We agree with the Board's proposed amendments to paragraph 505-10-50-4 to require an entity to disclose all liquidation preferences on preferred stock, not just those preferences that are considerably in excess of par or stated value of the shares. However, we observe that due to lack of specific guidance, entities currently elect a policy to account for the issuance of preferred shares by either including the full proceeds in a preferred stock account or splitting the proceeds between preferred stock and additional paid in capital (APIC). For example, assume an entity issues a preferred share for \$10 with a liquidation preference and par of \$10 and \$1, respectively. Some entities report that preferred stock at \$10 while others report it as \$1 with the remaining \$9 as APIC. We observe that the entities that include a portion in APIC typically do not disclose the components of APIC (i.e. common versus preferred). Due to this diversity in presentation across entities, the proposed disclosure of liquidation preference other than par may be confusing to financial statement users without additional context about the accounting treatment. Therefore, we recommend that the Board clarify how an entity should present the proceeds received for the issuance of preferred stock.

Assets subject to liens

We agree with the Board's objective for requiring disclosure of assets mortgaged and otherwise subject to lien. However, it is unclear from the proposed amendment to Subtopic 440-10 what amount an entity should disclose for assets mortgaged, pledged or otherwise subject to lien (subparagraph 440-10-50-1(c)). We recommend that the Board specify the basis of the amount, e.g. book value or fair value, to promote consistent application across entities.

In addition, the proposal does not specify for which periods an entity should disclose the commitments. We recommend that the Board specify whether the disclosure is required as of the most recent balance sheet date only or as of each balance sheet date presented.

Interim: Earnings per share

We agree with the Board's proposed amendments to Subtopic 260-10. However, we note that the proposed amendment to subparagraph 270-10-45-19(g) would cross reference the interim *disclosure* required by paragraph 260-10-50-1, while the heading for paragraph 270-10-45-19 refers to the section as "Guidance Related to *Presentation* of Other Topics at Interim Dates" (emphasis added). In addition, subparagraph 270-10-50-1(b) currently requires the disclosures under Topic 260 for interim periods. Therefore, to maintain consistency within Codification

sections, we recommend that the Board not add the cross reference to paragraph 260-10-50-1 at subparagraph 270-10-45-19(g).

Interim: Changes in reporting entity

We agree with the proposed amendments to paragraphs 250-10-50-6 and 270-10-45-12, with specific editorial suggestions:

- Add a cross-reference from paragraph 250-10-50-6 to the requirement in paragraph 270-10-45-12 to make the latter easier to find.
- Change the reference in subparagraph 270-10-45-19(a) to ‘paragraphs 250-10-45-14 through 45-16, and paragraph 45-21’ thereby removing paragraphs 250-10-45-17 through 45-20, which do not relate to an interim period.

Interim: Common control transactions

We agree with the objective to disclose in interim financial statements separate results of each combined entity for periods before combination between entities under common control. However, if the Board finalizes the proposal to require disclosure of such separate results, we have specific observations on items to clarify.

Paragraph 805-50-50-3 requires disclosures for “transactions between entities under common control,” which would include transfers of net assets that do not meet the definition of a business and therefore would not result in a change in reporting entity. Providing separate results of an asset may be costly to prepare as the separate results of net assets that are not a business may not be readily available. We believe that the disclosure of separate results should be required only if the common control transaction relates to a transfer of a business that results in a change in reporting entity. Therefore, we recommend that the Board clarify that the disclosures relate to only common control transactions that result in a change in reporting entity and include proposed disclosure in the Change in Reporting Entity section of Subtopic 250-10 rather than in paragraph 805-50-50-3, as follows:

250-10-50-6A When there has been a change in the reporting entity resulting from a transfer of one or more businesses between entities under common control, the financial statements of the annual and interim period of the change shall disclose the [separate results] of the combined entities for comparative periods prior to the combination, with appropriate explanations. The disclosed amounts shall include only those periods during which the entities were under common control.

It is unclear what measure the term ‘results’ refers to (e.g. operating income, net income or another measure). We recommend that the Board clarify the measure(s) to be disclosed to promote consistent disclosure across entities.

We also observe that the proposals would expand the disclosure under Regulations S-X beyond the stated scope:

- As proposed, the disclosure of separate results of each combined entity before combination in subparagraph 805-50-50-3(c) would be required for annual periods, not just for interim periods as stated in the Summary of Proposed Amendments. We believe that separate results should also be disclosed for annual periods and therefore recommend clarifying the scope of the change in the Summary of Proposed Amendments to the Accounting Standards Codification and the Background Information and Basis for Conclusions.
- The disclosure of separate results of each combined entity before combination in subparagraph 805-50-50-3(c) would be required for comparative periods presented. However, there could be circumstances in which the entities were not under common control during all periods presented. In these circumstances, disclosure of separate results for comparative periods presented may be costly. Therefore, we recommend clarifying that the periods include only those in which the entities were under common control.
- The proposed addition to cross reference Section 805-50-50 in subparagraph 270-10-50-7(a) would expand the interim disclosures beyond the separate results of the combined entities for periods before the combination. Section 805-50-50 includes other disclosure requirements for transactions between entities under common control (e.g. earnings per share disclosures in paragraph 805-50-50-2), and for pushdown accounting. We note that these expanded disclosures appear to be beyond the scope of this project and we recommend clarifying whether this is the Board's intent.

Related parties

We believe paragraph 850-10-50-4A is unclear about when a public business entity would provide the proposed disclosure.

Regulation S-X provides the context for the requirement in Rule 210.4-08(k) to disclose intercompany profits and losses resulting from transactions with related parties “where separate financial statements are presented for the *registrant, certain investees, or subsidiaries*” (emphasis added). We believe companies generally interpret this requirement as applying to parent company-only financial statements and separate financial statements of subsidiaries or investees that must be included in a company's filing under Regulation S-X.

In contrast, the proposal would require the disclosure in the ‘separate financial statements of a public business entity’. It is unclear whether the Board intends to require public business entities to disclose intra-entity profits in the consolidated financial statements:

- only if the separate financial statements of the related party (or the parent company only) are included in the same financial report as a public business entity, which appears more consistent with the scope of Rule 4.08(k) of Regulation S-X; or

- any time a public business entity prepares financial statements, which appears more consistent with the proposed language in paragraph 850-10-50-4A.

If the Board intends for a public business entity to provide the disclosure only if the separate financial statements of the related party (or the parent company only) are included in its financial report under paragraph 810-10-45-11 (which addressed parent entity financial statements) or because of SEC regulations (such as Regulation S-X 210.3-05 or Regulation S-X 210.3-09), we recommend that the Board clarify the situations in which the disclosure applies. For example:

850-10-50-4A If separate financial statements are presented for a public business entity (such as parent-entity financial statements as described in paragraph 810-10-45-11), certain investees, or subsidiaries, profits or losses resulting from transactions with other entities in the consolidated or combined financial statements and the effects of those transactions shall be disclosed.

If the Board intends for a public business entity to provide the disclosure any time it prepares consolidated financial statements, it is unclear whether the Board's cost-benefit analysis (as discussed in paragraph BC27) considered that the proposed requirement applies to a broader scope of transactions than those that are subject to the existing disclosure requirements. Paragraph 850-10-50-1 excludes transactions that are (1) eliminated in consolidation or (2) executed in the ordinary course of business. We believe requiring a company to disclose intra-entity profits on transactions with consolidated subsidiaries, regardless of whether those subsidiaries prepare or provide separate US GAAP financial statements, is a significant new requirement that may be operationally complex and costly for preparers. For that reason, we believe the Board may need to further explore whether the benefits to users outweigh those costs.