American Institute of CPAs
1211 Avenue of the Americas
New York, NY 10036-8775

March 24, 2016
Technical Director
Financial Accounting Standards Board
401 Merritt 7, PO Box 5116
Norwalk, CT 06856-5116

File Reference No. 2015-350

Dear Ms. Cosper:

The Financial Reporting Executive Committee (FinREC) of the American Institute of Certified Public Accountants is pleased to offer comments on proposed FASB Accounting Standards Update (ASU), "Fair Value Measurement (Topic 820) - *Disclosure Framework—Changes to the Disclosure Requirements for Fair Value Measurement,"* (the proposed ASU). FinREC supports the objective of the disclosure framework project to improve the effectiveness of disclosures in the notes to financial statements by facilitating clear communication of the information required by generally accepted accounting principles (GAAP) that is most important to users of each entity's financial statements. FinREC also commends the Board's efforts to promote the use of discretion by reporting entities by allowing them to consider materiality when assessing disclosure requirements for both quantitative and qualitative information and eliminating phrases like "an entity shall disclose at a minimum."

This letter provides FinREC's overall observations and concerns about this proposal as well as FinREC's responses to certain questions for respondents.

Overall Observations and Concerns

Terminology. ASU 2013-12, *Definition of a Public Business Entity*, amended FASB ASC Master Glossary to include one definition of public business entity for future use in U.S. GAAP. According to ASU 2013-12, "The definition of a public business entity will be used in considering the scope of new financial guidance and will identify whether the guidance does or does not apply to public business entities."

Comment
We noticed that while the term "public business entity" is used in the Questions for Respondents section of the proposed ASU, it is not used in the "Amendments to the *FASB Accounting Standards Codification"* section. To avoid confusion and potential misinterpretation of the scope, we recommend that the Board conform (or at least reconcile) the scope of the proposed ASU to the definition of a public business entity. If the Board conforms the scope in the proposed ASU to identify whether the guidance does or does not apply to public business entities, it should also conform the terminology in the remainder of ASC 820-10 to avoid confusion.

In the remainder of our letter we use the terminology consistent with that currently used in the proposed ASU.

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***Measurement Uncertainty*.** The proposed amendments to paragraph 820-10-50-2(g) would clarify that the measurement uncertainty disclosure should communicate information about the uncertainty in measurement as of the reporting date rather than information about sensitivity to changes in the future.

Comment
We assume that this clarification is intended to communicate that the measurement uncertainty should be evaluated as of the end of the reporting period. However, we are concerned that this change may have the unintended consequence of causing preparers to go beyond sensitivity analysis to a significantly more comprehensive discussion about measurement uncertainty, which may be operationally challenging to determine. If the Board decides to go forward with this change, in order to avoid misunderstanding we recommend that the Board provide a better explanation in the Basis for Conclusions about the rationale for this change, whether there is a substantive difference between *sensitivity* and *measurement uncertainty* and specifically describe what, if anything, is lacking in the current disclosures that this change is intended to address.

Changes in Unrealized Gains and Losses Disaggregated by Level of the Fair Value Hierarchy. The proposed amendments to paragraph 820-10-50-2(d) would add a requirement for public entities to disclose the changes in unrealized gains and losses for the period included in other comprehensive income and earnings (or changes in net assets) for recurring Level 1, Level 2, and Level 3 fair value measurements held at the end of the reporting period, disaggregated by level of the fair value hierarchy.

Comment
We do not support adding this disclosure requirement because it would not provide meaningful information about the reporting entity's financial position or its results of operations.

Paragraph BC20 provides the following reasoning for proposing this requirement:

> Some users said that disclosure of the change in unrealized gains and losses for the period is a more beneficial disclosure than a rollforward because it **provides information about the volatility of fair value measurements**. (emphasis added)

We believe that this proposed disclosure would not accomplish its objective to provide information about the volatility. Volatility is exhibited through both realized and unrealized gains and losses. Changes in unrealized gains and losses is an isolated data point that would not provide any real context to the overall investment philosophy or the volatility in the portfolio.

It is our understanding that the original intent of the existing requirement to disclose unrealized gains and losses for Level 3 fair value measurements was to provide information to financial statement users about the extent to which management's judgments regarding hard to value assets and liabilities has impacted the entity's results of operations for the period. No similar justification exists for disclosing unrealized gains and losses on Level 1 and 2 fair value measurements because those measurements do not involve significant unobservable inputs. Therefore, we do not support expanding this requirement to Levels 1 and 2 fair value measurements. We also recommend that before deciding whether to retain this disclosure requirement for Level 3 fair value measurements, the Board conduct additional research to determine if users find this information meaningful and useful.

Questions for Respondents

Question 4A: The proposed amendments would apply to all entities, except for certain requirements in paragraph 820-10-50-2(bbb) through (d), for which private companies would be exempt. Do you agree with the exemption for private companies? If not, please describe why and which disclosures should be required for private companies.

Comment
We agree with the exemption for private companies. Because private company users would typically have more readily available access to this information, we do not believe that the benefits of private companies providing these disclosures would justify the costs.

Question 4B: Should entities other than public business entities (for example, employee benefit plans and not-for-profit organizations) also be exempt from the proposed amendments mentioned in Question 4A? If yes, please describe why and which disclosures they should be exempt from.

Comment
We believe that the exemption for private companies should be extended to employee benefit plans (EBPs) and not-for-profit organizations (NFPs) as discussed below. The Post-Implementation Review Report on FASB Statement No. 157, *Fair Value Measurements* (the Report) indicates that

> … some financial statement users think that most of the fair value information resulting from application of Statement 157 is not relevant or meaningful for employee benefit plans, not-for-profit organizations, and private companies. The feedback we received indicates that the users of those entities' financial statements may have different information needs than other financial statement users.

Therefore, extending the exemption for private companies to EBPs and NFPs would be consistent with the conclusions reached in the Report. Our explanation below details our position on why these entities should be exempt from certain proposed disclosure requirements.

EBPs: We recommend that EBPs, including plans that file a Form 11-K with the SEC, not be required to disclose: 1) changes in unrealized gains and losses disaggregated by general type of investment and levels of the fair value hierarchy; 2) the Level 3 range, weighted average, and time period information; and 3) a Level 3 rollforward. FASB's release of ASU 2015-12, *Plan Accounting*, acknowledged and corrected for conflicting guidance in accounting for EBPs between Topic 820 and Topics 960, 962, and 965. The proposed ASU would essentially overturn certain amendments included in ASU 2015-12.

EBP financial statements are prepared with plan participants in mind, and are filed with the Department of Labor (DOL), as late as 9 ½ months after the plan's year end. In general, plan participants are primarily interested in their individual account balances or benefits and they do not use EBP financial statements to make investment decisions. Participants in defined contribution retirement plans that allow participant-directed investments typically have daily access to investment performance information and prospectuses on dedicated websites, along with access to their specific account activity and balances. For defined benefit pension plans, participants are primarily interested in their accrued pension benefit and not in the plan's investment performance.

Outlined below are additional reasons to support our recommendation:

Disclosure of changes in unrealized gains and losses for Levels 1, 2 and 3 (section 820-10-50-2(d)): ASU 2015-12 eliminated the requirement for EBPs to disaggregate and disclose net appreciation or depreciation by general type of investment. This proposal conflicts with the recent conclusions reached in ASU 2015-12 that such information by general type of investment is not useful to EBP financial statement users; therefore, presumably disaggregation of net appreciation or depreciation by fair value hierarchy level would also not be useful to the users.

ASC 820-10-50-2 requires that the disclosures be made for each class of assets and liabilities; however, ASU 2015-12 amended plan accounting disclosures to indicate that "information by classes of assets required by Section 820-10-50 shall be provided by general type of plan assets." Therefore, requiring plans to disaggregate changes in unrealized gains and losses by levels of the fair value hierarchy would also require these amounts to be disaggregated by general type of investment. This would overturn the amendment in ASU 2015-12.

The DOL receives information about earnings on investments by general type on Schedule H (Financial Information) of the Form 5500. Schedule H requires the preparer to use "current value reporting" to calculate net realized and unrealized gain or loss, meaning for Form 5500 reporting purposes, the assets each year are revalued to current value at the end of the plan year, and the net realized and unrealized gain or loss is reported as the increase or decrease in value of assets since the beginning of the plan year (if held on the first day of the plan year). If GAAP also requires to breakout unrealized gains and losses by fair value hierarchy level, it would require service providers to provide information under different methods and may lead to additional cost to prepare the financial statements.

In addition to the cost considerations, the proposed amendments may also cause confusion to the users in understanding why the disaggregation of realized and unrealized gains and losses in the financial statements differs from the Form 5500. Currently the financial statements combine realized and unrealized gains and losses in order to avoid confusion between current value reporting and historical value reporting. ASC 960-30-45-3 states that "[s]eparate disclosure of realized gains and losses on investments sold during the year is neither required nor proscribed."

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Level 3 rollforward (section 820-10-50-2(c)): FASB concluded in ASU 2015-12 that it would be reasonable for plans to retain the Level 3 rollforward. Such conclusion was based on the rationale that the cost of preparing these disclosures would be significantly reduced as many of the investments categorized in Level 3 would be removed due to the implementation of ASU 2015-07, *Fair Value Measurement (Topic 820): Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent),* and the simplifications in ASU 2015-12 relating to fully benefit-responsive investment contracts. Service provider reports generally do not contain the information needed for this disclosure and, as such, the preparation of the Level 3 rollforward requires additional time and expense with limited benefit to the users. Furthermore, investment transactions or series of transactions that meet certain criteria must be disclosed to the DOL on the Schedule of Reportable Transactions on the Form 5500, including purchase price, selling price and realized gain or loss, regardless of the investment's hierarchy level. Therefore, we recommend that EBPs be exempt from the requirement to present the Level 3 rollforward and, consistent with the requirement for private companies, only be required to disclose transfers into and out of Level 3 of the fair value hierarchy along with purchases and issues.

NFPs: We believe that the exemption for private companies should also be extended to NFPs. We understand that the users of NFP financial statement typically do not use the information required in this guidance to make decisions about the entity or to gain insights/understand/make decisions about the investment strategy followed by the entity. Decisions for a NFP financial statement user generally focus on availability of resources to fund mission and operations, honor grant requests and meet debt service requirements, if any. We believe NFP financial statement users typically do not gain any significant insights from detailed investment disclosures regarding Level 3 inputs, changes in inputs and valuation techniques. Consistent with guidance in ASC 958-320-50-1, NFPs may combine the realized and unrealized gains in their financial statements, which was previously allowed due to a recognition that their financial statement users do not find value in the disaggregated information. Therefore, we believe that extending disclosure exemptions for private companies to NFPs is consistent with that early decision related to NFP entities and the decision usefulness of the information presented.

A fair value level table that is used to comply with the requirements in ASC 820-10-50-2(a) through (b) (which presents broad classes of investments within each category) and the disclosure provided to satisfy the requirements in ASC 820-10-50-6A around investments reported at net asset value (NAV) using the practical expedient (which includes basic investment strategy and redemption/liquidity information) we believe are sufficient and meet the financial statement user needs which are focused on mission and operations as described in the previous paragraph.

However, there are many different types of NFP entities and many of the users of NFP financial statements have specific and unique needs. Therefore, we recommend that the Board reach out to the NFP user community and evaluate their needs before deciding whether it is appropriate to extend the exemption for private companies to all types of NFPs (including conduit bond obligors).

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Question 5: The proposed amendments to paragraph 820-10-50-2(bbb) require that a reporting entity disclose the weighted average of significant unobservable inputs used in Level 3 fair value measurements. Are there classes of financial instruments for which this disclosure is inoperable or does not provide meaningful information? If yes, please describe those classes of financial instruments and explain why.

Comment
We believe that disclosure of the weighted average of significant unobservable inputs used in Level 3 fair value measurements does not provide meaningful information, particularly for equity investments, debt instruments and derivatives. We are concerned that disclosing weighted average without providing an explanation about how exactly it was calculated may be more misleading than useful. However, even with an explanation of the methodology, the results may not be useful or easy to interpret. Most importantly, it may give users the impression that these metrics are relevant and precise, which is not the case. Furthermore, when weighted average information is aggregated for multiple investments, it becomes even less meaningful. For these reasons, we believe that disclosing weighted average should not be required and that preparers should be allowed greater discretion in this area. The following examples illustrate our concerns:

Equity Investments. We do not believe that the proposed disclosures of the weighted average of significant unobservable inputs used in Level 3 fair value measurements would be meaningful for equity investments. While a group of equity investments may be categorized similarly (for example, equity investments in early stage technology companies), such investments are not "homogeneous" in the same sense as a portfolio of interest rate or foreign currency derivatives might be. Investments in equity securities have characteristics specific to the underlying businesses, including the type of product, stage of product development, current size of operations, current growth rates, growth projections, regulatory factors and the degree of risk in the business plan. Each of those characteristics creates unique attributes that could impact valuation assumptions and we do not believe that providing weighted averages of certain fair value inputs is meaningful to investors. Additionally, there may be interrelationships between fair value inputs that would not be clear from the proposed disclosures. For example, a particular investee may be assigned a higher weighted-average cost of capital through the inclusion of an entity-specific risk premium based on the reporting entity's qualitative assessment of the risk in its growth forecasts. The proposed disclosures could also be misleading to investors who do not have the detailed analyses that resulted in the selection of the fair value inputs. For example, we are unclear how a financial statement user without information about all of the underlying market comparables used to conclude on the appropriate market multiple would be able to make investment decisions based on a weighted-average market multiple disclosure. Additionally, a market multiple may align with transaction multiples of comparable companies and the resulting fair value measurement may be corroborated within a high degree of precision to an income approach valuation, yet without all of the underlying information a financial statement user may reach an inappropriate conclusion based on the disclosure of a weighted-average amount.

There are a number of additional challenges associated with determining and disclosing weighted averages for Level 3 inputs used in valuations of equity investments. For example, if an EBITDA multiple is used to value an enterprise, questions arise about the appropriate basis for weighting the inputs (that is, whether

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they should be weighted based upon relative equity value [which is readily available] or relative enterprise value). We believe that using the enterprise value (i.e., without considering the enterprise's debt level or capital structure attributes – because the EBITDA multiple calculates the enterprise value before debt, not the value of the equity) may be the only way to get meaningful weighting for that metric. However, even when the enterprise value is used to calculate the weighted average, such weighting may still be misleading because it would not take into account the fact that one company may be far more highly leveraged than another or that the reporting entity may have a far greater or lesser percentage ownership in the various companies included in the weighting. In addition, we believe there is diversity in practice in this area. Preparers have interpreted the existing guidance to suggest that any reasonable approach is acceptable as long as the reporting entity discloses how it has done the weighting. However, we believe that even with an explanation of how the weighting calculation is done, the user does not have the information needed to assess what the weighted average might be if the weighting was done differently. Also, since there are numerous other metrics that are being disclosed in the table which summarizes quantitative information about Level 3 fair value measurements (e.g., EPS, Net Income, WACC, Revenue Multiples, etc.) and those metrics may be used to calculate different elements of the valuation (some get to enterprise value, some get to equity value and some just get to value components of a business and not the whole enterprise), many preparers default to weighting them all based upon relative fair value of the equity. As a result, the weighted average of significant unobservable inputs used in valuations of equity investments is not transparent and may give users a false sense of precision of the underlying information.

Debt Instruments. Similar to equity investments, there are a number of challenges associated with calculating a weighted average on discounts on debt instruments. Specifically, questions arise regarding the basis for weighting (whether it should be based on relative face value, relative notional value, the reporting entity's cost basis, or relative fair value [determined after applying the discounts].) In situations in which there are multiple discounts for multiple factors, questions arise about the ranking hierarchy for determining the basis for weighting on the first versus the second discount. For example, if a reporting entity has two securities - one with a face value of 100 (purchased at par), another with a face value of 250 (purchased for 80% of par) - and the reporting entity has applied a default risk discount of 10% to the first security and 50% to the second and both have a discount for lack of marketability of 10%, the weighted average default risk can be 38% (using face value), 45% (using cost) or 70% (using resulting fair value). Even if the methodology for calculating weighted average is disclosed, users would not be able to evaluate how meaningful the information is unless the inputs to the methodology are also disclosed.

Derivatives. There are also considerable challenges in disclosing a weighted average for Level 3 inputs used in derivative valuations. Correlation is a significant unobservable input often used in equity and foreign exchange derivative valuations, while unobservable swap yields are often used in interest rate and foreign exchange derivative valuations. For example, the swap yield curve is utilized to project cash flows, as well as to discount future cash flows in the derivative valuation. Valuation methodologies use a range of inputs across a yield curve. The points on a yield curve considered in the derivative valuation could vary based on the actual terms of each derivative instrument aggregated in the disclosure. Additionally, entities with larger portfolios of derivative instruments may need to consider yield curves

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across multiple currencies and/or interest rate environments. As discussed previously, such data would then need to be "weighted" based on some methodology, resulting in a single number that we believe would have little utility for users and could potentially be misleading. Presenting a range of these inputs, in this circumstance, would be more meaningful than providing a weighted average.

Currently, many reporting entities already disclose weighted average because they have interpreted its inclusion in the disclosure example in paragraph ASC 820-10-55-103 as a requirement, regardless of whether it is deemed relevant to users. However, we understand there is little evidence that users understand and rely on this information. Furthermore, as indicated in the preceding examples, these disclosures may be misleading and give users an inaccurate impression of the true picture. Therefore, we believe that reporting entities should be given greater discretion to provide disclosures that they believe are meaningful to users and, as such, we recommend that disclosing weighted average should not be required.

Question 6: The proposed amendments to paragraph 820-10-50-2(bbb) require that a reporting entity disclose the time period used to develop significant unobservable inputs. What would be the costs associated with including this disclosure? Would this disclosure provide more effective, decision-useful information?

Comment
Consistent with our response to Question 5, we do not believe this standardized, required disclosure would provide more effective, decision-useful information, especially when it is aggregated for multiple investments. Also, it is not clear to us what information would need to be disclosed in connection with the time period used to develop significant unobservable inputs. Our understanding is that when determining fair value, reporting entities should use inputs that are current relative to the measurement date. Therefore, we believe that reporting entities should be given greater discretion to provide disclosures that they believe are meaningful to users and, as such, we recommend that disclosing the time period used to develop significant unobservable inputs should not be required.

Question 8: Are there any other disclosure requirements retained following the review of Topic 820 that should be removed on the basis of the proposed Concepts Statement or for other reasons? Please explain why.

Comment
Level 3 Rollforward. Paragraph 820-10-50-2(c) requires an entity with recurring Level 3 fair value measurements to present a reconciliation of the opening balances to the closing balances, disclosing separately (a) total gains or losses for the period recognized in earnings or comprehensive income, (b) purchases, sales, issues, and settlements, and (c) amounts of any transfers into or out of Level 3 (referred to as the Level 3 rollforward). We agree with the Board's decision to eliminate the requirement to provide Level 3 rollforward for private companies. However, we recommend that this requirement be eliminated for all companies (especially for EBPs and NFPs [see our response to Question 4B in which we recommend that the Board reach out to the NFP user community to evaluate their needs prior to determining if all types of NFPs should be exempted]). We share the concerns that were cited in the Report about "disclosure overload, particularly as it relates to Level 3 disclosures, including the

T: 212.596.6200 | F: 212.596.6213 | aicpa.org

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1211 Avenue of the Americas
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Level 3 rollforward." Also, as indicated in paragraph BC25 of the proposed ASU, "an analysis of the opening and closing balances of Level 3 assets and liabilities is not indicated by the concepts in the proposed Concepts Statement." Therefore, the requirement to provide Level 3 rollforward is inconsistent with the proposed Concepts Statement. Paragraph BC25 goes on to say that that "most users stated that the Level 3 rollforward allows them to gain insight into management's decisions, especially across different economic cycles." However, we understand that users generally focus only on transfers into and out of Level 3 and typically do not use other information provided in the Level 3 rollforward. For these reasons, we recommend that consistent with the requirement for private companies, no company should be required to provide Level 3 rollforward and should only be required to disclose transfers into and out of Level 3 of the fair value hierarchy along with purchases and issues.

Tabular Format. ASC 820-10-50-8 states that "A reporting entity shall present the quantitative disclosures required by this Topic in a tabular format." The purpose of disclosures is to provide relevant and material information to users of financial statements and if such information can be effectively communicated in a non-tabular manner (e.g., charts, graphs, and so on), it is not clear to us why it is necessary to mandate tabular presentation.

Question 9: How much time would be needed to implement the proposed amendments? Should the amount of time needed to implement the proposed amendments by nonpublic business entities be different from the amount of time needed by public business entities? Should early adoption be permitted? If yes to either question, please explain why.

Comment
We support early adoption because we believe reporting entities should not be required to continue disclosing information that is not meaningful to users.

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We appreciate the opportunity to comment on the proposed ASU. We are available to discuss our comments with Board members or staff at their convenience.

Sincerely,

James A. Dolinar

T: 212.596.6200 | F: 212.596.6213 | aicpa.org

American Institute of CPAs
1211 Avenue of the Americas
New York, NY 10036-8775

James A. Dolinar

Chairman

Financial Reporting Executive Committee

T: 212.596.6200 | F: 212.596.6213 | aicpa.org