AICPA® PCPS
Private Companies Practice Section

American Institute of CPAs
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July 6, 2016

Susan M. Cosper, CPA
Technical Director
FASB
401 Merritt 7
PO Box 5116
Norwalk, CT 06856-5116

Re: April 21, 2016 Exposure Draft of a Proposed Accounting Standards Update (ASU), *Technical Corrections and Improvements* [File Reference No. 2016-220]

Dear Ms. Cosper:

The American Institute of CPAs (AICPA) is the world's largest member association representing the accounting profession, with more than 412,000 members in 144 countries, and a history of serving the public interest since 1887. One of the objectives that the Council of the AICPA established for the PCPS Executive Committee is to speak on behalf of local and regional firms and represent those firms' interests on professional issues in keeping with the public interest, primarily through the Technical Issues Committee (TIC). This communication is in accordance with that objective. These comments, however, do not necessarily reflect the positions of the AICPA.

TIC has reviewed the ED and is providing the following comments for your consideration.

GENERAL COMMENTS

TIC supports the proposed amendments, with one exception relating to the adoption of the term "reinsurance recoverable" to replace the term "reinsurance receivable." TIC is also requesting a transition period for this particular amendment because it would change certain financial statement captions of insurance companies. In addition, TIC is encouraging the Board to work on a new definition of "debt" for the Master Glossary and has suggested a new technical correction for the Board's consideration relating to "unrecognized tax benefit related disclosures" in FASB *Accounting Standards Codification™* (ASC) Topic 740 (Income Taxes).

SPECIFIC COMMENTS

Question 1: *Do you agree with the proposed amendments to the Accounting Standards Codification described in this proposed Update? If not, please explain which proposed amendment(s) you disagree with, and why.*

TIC agrees with all of the proposed amendments, except one, which is discussed below.

<u>Amendments to Topic 825 (Financial Instruments) and Topic 944 (Financial Services—Insurance)</u>

Page 3 of the ED states:

> *…the guidance in Topic 825, Financial Instruments, and Topic 944 use the terms reinsurance receivable and reinsurance recoverable interchangeably. The proposed amendment would use the term reinsurance recoverable consistently within these two Topics because that is the more commonly used term in the industry. The use of the consistent terms participating insurance and reinsurance recoverable should result in clearer, unified guidance and should simplify the Accounting Standards Codification.*

TIC supports the Board's objective to promote greater consistency in the use of these insurance terms within the Codification. However, TIC believes the change from "reinsurance recoverable" to "reinsurance receivable" may not be appropriate in paragraphs 815-15-55-101b and 944-815-60-8, both of which refer to Case B: Reinsurer's Receivable Arising from a Modified Coinsurance Arrangement (paragraphs 815-15-55-107+). TIC believes the reinsurance receivable in Case B differs from the reinsurance recoverables discussed elsewhere in the Codification, as the receivable in Case B represents a funds-withheld asset to the reinsurer from the ceding insurance company, whereas reinsurance recoverables represent all amounts owed to the insurer from the reinsurer under the insurance contract in place.

TIC believes the differences between the two types of assets are significant enough to warrant different terminology. TIC recommends that the Board re-examine these definitions and consider retaining both terms with clearly separate definitions and usage.

Question 2: *Will any of the proposed amendments result in substantive changes to the application of existing guidance that would require transition provisions or that the Board should consider in determining the appropriate effective date for the final amendments other than those noted in the Summary section titled "What Are the Transition Requirements and When Would the Amendments Be Effective?" If so, please describe.*

TIC believes the proposed amendments to Topics 825 and 944 will require changes to certain captions in insurers' financial statements. Since the changes will have an impact on external financial reporting, TIC recommends that the Board consider providing a transition period before the amendments become effective.

If the amendments are effective immediately, as proposed, the changes are subtle enough that some preparers may inadvertently overlook them, putting an insurer in violation of the standard simply because the financial statements do not include the proper caption. TIC believes an implementation period is necessary to mitigate potential GAAP departures.

Question 3: *Are there other changes that should be made that are directly or indirectly related to the noted changes? Please note that the Board will conduct technical correction projects on a periodic basis and additional changes may be postponed to a subsequent technical corrections project.*

<u>Deletion of the Term "Debt" from the Master Glossary</u>

This proposed amendment would remove the definition of debt (Troubled Debt Restructurings) from the Master Glossary and include the definition in Scope and Scope Exceptions paragraphs 310-40-15-4A and 470-60-15-4A, as follows: "In this Subtopic, a receivable or a payable (collectively referred to as debt) represents a contractual right to receive money or a contractual obligation to pay money on demand or on fixed or determinable dates that is already included as an asset or a liability in the creditor's or debtor's balance sheet at the time of the restructuring."

Although TIC understands and supports the Board's rationale for removing the term "debt" from the Master Glossary, TIC was initially concerned that, once finalized, there would be no definition of "debt" remaining in the Master Glossary. TIC was therefore pleased to hear that the Board will undertake a separate project, which will ultimately restore a broader, more comprehensive definition of the term to the Master Glossary. TIC encourages the Board to proceed with the project as quickly as possible so as to minimize the amount of time that "debt" remains undefined in the Master Glossary.

<u>"Unrecognized Tax Benefit Related Disclosures" in Topic 740 (Income Taxes)</u>

Although not directly or indirectly related to the proposed changes in this ED, TIC is requesting that a future Technical Corrections project address an ambiguous disclosure requirement, which originated with FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes*, paragraph 21(e). This paragraph was codified in paragraph 740-10-50-15e and requires "a description of tax years that remain subject to examination by major tax jurisdictions." The requirement has created controversy for many nonpublic entities because some believe a disclosure of open tax years is required for all entities, while others believe that the disclosure is required only if the entity has unrecognized tax benefits. The controversy spilled over into the peer review process with a number of firms being erroneously cited for permitting nonpublic clients to omit the disclosure.

In the past, the FASB staff and others have stated that the "Unrecognized Tax Benefit Related Disclosures" heading added by the Codification made it sufficiently clear that only entities with unrecognized tax benefits need to disclose open tax years. However, unlike other disclosure requirements in paragraph 740-10-50-15, the disclosure of open tax years in subparagraph (e) does not specify that unrecognized tax benefits need to exist for the disclosure requirement to apply. As a result, peer review issues continue to surface regarding this disclosure (despite the rescission of the nonauthoritative AICPA Technical Practice Aid 5250.15, *Application of Certain FASB Interpretation No. 48 [codified in FASB ASC 740-10] Disclosure Requirements to Nonpublic Entities That Do Not Have Uncertain Tax*

Positions), which had stated that the disclosure of open tax years was always required [even if the entity did not have uncertain tax positions])

The Board had previously issued guidance to support the view that disclosure of open tax years would not be required if management determines that there are no unrecognized tax benefits to record. However, this guidance appeared in the Basis for Conclusions section, paragraphs BC 13-14, of ASU 2009-06, *Implementation Guidance on Accounting for Uncertainty in Income Taxes and Disclosure Amendments for Nonpublic Entities*, and is not an official part of the ASC. TIC believes that the confusion surrounding this disclosure will continue as long as authoritative guidance is lacking.

TIC therefore requests that the Board propose a technical correction to paragraph 740-10-50-15e as follows:

> *For enterprises with unrecognized tax benefits, a description of tax years that remain subject to examination by major tax jurisdictions.* [The proposed amendment has been underlined.]

Question 4: *The proposed amendments would apply to public and nonpublic entities. Will any of the proposed amendments require special consideration for nonpublic entities? If so, which proposed amendment(s) will require special consideration, and why?*

TIC does not believe that any of the proposed amendments would require special consideration for nonpublic entities.

TIC appreciates the opportunity to present these comments on behalf of PCPS member firms. We would be pleased to discuss our comments with you at your convenience.

Sincerely,

Michael A. Westervelt

Michael A. Westervelt, Chair
PCPS Technical Issues Committee
cc: PCPS Executive and Technical Issues Committees