June 28, 2019

VIA Email: director@fasb.org

Mr. Shayne Kuhaneck
Acting Technical Director
FASB
401 Merritt 7
PO Box 5116
Norwalk, CT 06856-5116

Re: File Reference No. 2019-600. Proposed Accounting Standards Update (ASU) Disclosure Improvements: Codification Amendments in Response to the SEC's Disclosure Update and Simplification Initiative

Dear Mr. Kuhaneck,

The Securities Industry and Financial Markets Association ("SIFMA")[1], appreciates the opportunity to respond to the Financial Accounting Standards Board's ("FASB's") request for comment on the proposed Accounting Standards Update ("ASU") *Disclosure Improvements: Codification Amendments in Response to the SEC's Disclosure Update and Simplification Initiative*. We appreciate both the Securities and Exchange Commission's ("SEC's") and the FASB's efforts to update and simplify their respective disclosure frameworks. However, we believe that the proposed codification of these requirements is based on the incorrect assumption that all, or significantly all, Public Business Entities ("PBEs") are currently subject to Regulation S-X ("Reg S-X")[2] and Regulation S-K ("Reg S-K")[3]. Based on this incorrect assumption, the Board expects the proposed Accounting Standard Update ("ASU") to be a mere codification of existing practices; requiring minimal change for preparers to implement.[4] This assumption is particularly inaccurate

[1] SIFMA is the leading trade association for broker-dealers, investment banks and asset managers operating in the U.S. and global capital markets. On behalf of our industry's nearly 1 million employees, we advocate for legislation, regulation and business policy, affecting retail and institutional investors, equity and fixed income markets and related products and services. We serve as an industry coordinating body to promote fair and orderly markets, informed regulatory compliance, and efficient market operations and resiliency. We also provide a forum for industry policy and professional development. SIFMA, with offices in New York and Washington, D.C., is the U.S. regional member of the Global Financial Markets Association (GFMA).
[2] 17 CFR § Part 210.
[3] 17 CFR § Part 229.
[4] FASB Proposed ASU*: Disclosure Improvements: Codification Amendments in Response to the SEC's Disclosure Update and Simplification Initiative*, Issued May 6, 2019, Basis for Conclusion 43.

for the financial services industry. Although, our industry does have some PBEs (i.e., broker-dealers) that are currently subject to Reg S-X, our industry has significantly more PBEs (both broker-dealers and banking entities), that are not currently subject to these regulations. Therefore, we strongly urge the FASB not to move forward with this proposed ASU.

Our main concern with the scope is due to the fact that the FASB definition for PBEs is significantly more expansive than the SEC's definition of "registrant". [5] These incremental requirements would represent a significant increase in preparer time, including implementation time, and PCAOB audit costs. For our industry alone, there are 3,607 FINRA registered broker-dealers[6] (i.e., PBEs), the majority of which are smaller private firms that would now be newly subject to these requirements. The increase in scope and cost associated with the proposed codification does not justify the benefit for our industry and runs counter to FINRA and other regulators' efforts to reduce the burden on these entities.

Beyond scoping in numerous smaller private broker-dealer and banking entities, this proposed codification will also scope in asset management firms and insurance companies' PBEs, as these industries also have broker-dealers. SIFMA's foreign firms will also be inadvertently impacted as numerous foreign firms have wholly-owned subsidiaries, which are currently not SEC registrants but are PBEs.

In addition to our concerns about the broader scope of the FASB's definition of a PBE, our industry is subject to significant regulation. Most entities that are PBEs are such primarily because their audited financial statements are submitted to satisfy a regulatory requirement. Regulators, as one of the primary and most sophisticated users of these statements, have access to a significant amount of information about these entities, well beyond the contents of the financial statements. If they required additional information, as a regulated industry we would comply. We are not aware of any regulator requesting the information being codified.

We understand and appreciate the work the FASB and the SEC have undertaken in their respective disclosure framework initiatives and applaud these simplification initiatives. However, given FASB's more expansive definition of PBEs, we believe that these Reg S-X and Reg S-K requirements should remain within the SEC regulations. We also want to provide our observations on selective sections that we believe are unclear and/or would result in amended or incremental disclosures to existing practice without a justification of the incremental costs and time to implement and prepare the disclosures. Many of the following comments and observations support our request to not proceed with this proposed ASU.

Transfers and Servicing – Secured Borrowing and Collateral (Topic 860-30)

We strongly believe that Reg S-X Rule 4-08(m) should not be codified by the FASB into *Transfers and Servicing – Secured Borrowing and Collateral (Topic 860-30)*. Existing industry Guide 3 requirements currently complement the Reg S-X disclosures and provide additional information regarding these arrangements. We believe existing practice provides sufficient disclosure; therefore, codification of Reg S-X Rule 4-08(m) is not needed to provide additional clarity for preparers or users of the financial statements. Retaining the existing framework would continue to allow SIFMA's

[5] 17 CFR § 232.11
[6] FINRA statistics (as of Dec. 2018), https://www.finra.org/newsroom/statistics#firms.

members to retain the flexibility to make their disclosures meaningful[7]. This codification, if accepted by the FASB, would result in incremental disclosure requirements beyond what is required by Reg S-X today.

Other Presentation Matters 860-30-45-2 and 2A

Paragraph 860-30-45-2 refers to "liabilities" (e.g., repurchase agreements and securities loaned), but later continues to identify the "secured party" (i.e., lender) or "obligor" (i.e., debtor) in "securities borrowing or resale transactions," which are assets. We believe the intent of this guidance was to capture both assets and liabilities (e.g., reverse repurchase agreements/securities borrowing and repurchase agreements / securities lending), but the current language makes the scope of this requirement difficult to ascertain.

If the amendments to paragraph 860-30-45-2 are codified, we believe presenting accrued interest receivable on the same balance sheet line as the securities borrowing / reverse repurchase asset or securities lending / repurchase liability would be inconsistent with more recent developments in standard setting. The recent CECL guidance in ASU 2019-04 provides an accounting policy election to present accrued interest receivable separately both for loans and securities. We believe it would be confusing for users of the financial statements if the FASB allowed an accounting policy option to separately present accrued interest on the asset side under CECL, but then required accrued interest to be presented within the repurchase / securities lending line on the liability side of the balance sheet, as proposed in the ASU. We recommend that FASB not codify 860-30-45-2 and, instead, that the SEC should consider amending their guidance to be consistent with recent US GAAP in ASU 2019-04 (i.e., to permit an accounting policy election with respect to presenting accrued interest).

In contrast to paragraph 860-30-45-2, paragraph 860-30-45-2A of the proposed Update applies to only reverse repurchase agreements and does not include securities borrowing transactions. The 10% requirement in paragraph 860-30-45-2A also appears to apply to only reverse repurchase agreements and not securities borrowing transactions. We acknowledge that the Reg S-X guidance, that was the basis for this proposed Update, only applies to reverse repurchase agreements. If the FASB chooses to codify the proposed guidance in paragraph 860-30-45-2A, we recommend that the disclosure requirement apply to both reverse repurchase assets and securities borrowing transactions in order to be consistent with other disclosures in ASC 860-30. For example, the disclosure requirements in paragraph 860-30-50-7 apply to repurchase agreements, securities lending transactions, and repurchase-to-maturity transactions.

Disclosure: 860-30-50-7(d)

We do not agree with the codification of the requirement to disclose the effective interest rate. Guide 3 already requires disclosure of the average interest rate and we feel this is a more useful metric for readers of the financial statements. However, if the FASB chooses to codify the proposed disclosure in paragraph 860-30-50-7(d), we recommend amending the requirement to be the "average" interest rate, consistent with existing Guide 3 requirements. We also

[7] The Clearing House and SIFMA letter in response to Letter June 29. 2017 to the SEC File Number: S7-02-17, Request for Comment on Possible Changes to Industry Guide 3 (Statistical Disclosures by Bank Holding Companies), dated June 29, 2017.

recommend that the average interest rate of the reported liability be defined as the average interest rate over the reporting period as opposed to as of the balance sheet date (i.e., a single point in time).

Counterparty Risk (860-30-50-9 and 10: Amendments to Master Glossary)

We do not believe the codification of Reg S-X 4-08(m)(1)(i) and Reg S-X 4-08(m)(1)(iii) into a proposed counterparty risk disclosure requirement retains the original intent of the Reg S-X requirement and appears to create a redundant disclosure requirement that would be covered under existing concentration of credit risk disclosures. We also would expect that the proposed definitions of "Amount at Risk under Repurchase Agreements" and "Amounts at Risk under Reverse Repurchase Agreements" mirror each other as the risks are symmetrical; however, the proposed definitions do not reflect that symmetry due to the inclusion of "and not returned to the counterparty" in the "Amounts at Risk under Reverse Repurchase Agreements" definition.

Implementation Guidance and Illustrations (860-30-55-4)

The illustrative example shows the weighted average interest rate disaggregated by tenor, which represents incremental disclosure when compared to the disclosure requirements in Reg S-X and the proposed amendment in ASC 860-30-50-7(d). While illustrative examples are not authoritative requirements, preparers are frequently required to make disclosures that are consistent with illustrative examples. Therefore, we recommend that the FASB amend the illustration to show the weighted average interest rate for repurchase and repurchase-to-maturity agreements in total, not disaggregated by tenor.

Related Party Disclosures (Topic 850-10)

Related Party Transactions (850-10-50-4A)

We recommend that the FASB not codify Reg S-X Rule 4-08(k)(2) because the approach and level of detail in the current related party disclosures already provide the decision-useful information necessary for the users of the financial statements. ASC 850-10-50-1 already requires the disclosure of the dollar amounts of transactions for each of the periods for which income statements are presented as well as amounts due from or to related parties as of the date of each balance sheet presented. We do not believe incremental disclosure of any profits or losses resulting from transactions with related parties provides meaningful additional disclosure.

Business Combinations – Related Issues (Topic 805-50)

Transactions Between Entities Under Common Control (805-50-50-3)

We again would propose that the existing Reg S-X Rule 3A-03(b) not be codified. This proposed amendment may impact entities not previously subject to Reg S-X and may inadvertently capture intercompany reorganizations if those entities prepare separate financial statements. Providing the separate results for each combined entity before an intercompany reorganization does not provide decision-useful information. If the business combinations were material, the information would have already been disclosed.

Although we propose retaining the existing Reg S-X requirements, if the FASB does decide to finalize the proposed amendment, we suggest providing additional clarification for the meaning of "results" in 805-50-50-3[c].

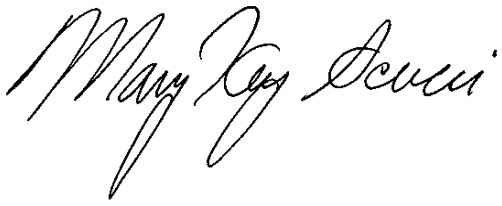
Nonpublic Entities[8] and Other Items for Consideration

- If the FASB decides to proceed with the proposed Update, these proposed disclosures should not apply to nonpublic entities. These amendments do not offer any significant enhancements to the financial statements of nonpublic entities. Additionally, we do not believe the readers of nonpublic financial statements have requested the additional SEC required disclosures.
- We do not believe that Reg S-X Rule 10-01(b)(2) should be codified in EPS as guidance in 260-10-50-1(d). However, should the FASB decide to finalize this amendment, the Codification should be amended to indicate that the disclosure would be made by "major security type." The example illustrates a major security type but the amendment as worded could lead to an interpretation that the disclosure would be at the individual security level.

Conclusion

Thank you for this opportunity to express our concerns related to this proposal, specifically with respect to the unintended consequences of codification of SEC guidance for PBEs that are not SEC registrants. Before the FASB decides to move forward with the proposed ASU, we suggest that the FASB conduct more outreach with preparers that are PBEs and re-perform the cost-benefit analysis in light of the expanded scope. SIFMA would be pleased to discuss its views, provide any additional information, or set up additional outreach if needed. If you have any questions or require further information, please contact me at 212-313-1331.

Sincerely,



Mary Kay Scucci, PhD, CPA
Managing Director, SIFMA

[8] Private companies and not-for-profit organizations.

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