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December 16, 2011

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

**Re: October 14, 2011 FASB Exposure Draft of a Proposed Accounting Standards Update (ASU), *Technical Corrections* [File Reference No. 2011-190]**

Dear Ms. Cospers:

One of the objectives that the Council of the American Institute of Certified Public Accountants (AICPA) established for the PCPS Executive Committee is to act as an advocate for all local and regional firms and represent those firms' interests on professional issues, 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 both sections of the ED and is providing the following comments for your consideration.

### GENERAL COMMENTS

TIC is supportive of the proposed amendments relating to FASB *Accounting Standards Codification*<sup>TM</sup> (ASC) topics other than employee benefit plans. However, TIC believes there are fatal flaws with some of the proposed amendments to the employee benefit plan topics in the ED. Certain sections include apparent errors and inconsistencies. The ED also includes proposed amendments that would change practice and create cost burdens for some plans without providing substantial benefits for financial statement users. TIC's specific comments are presented below for the Board's consideration.

### SPECIFIC COMMENTS

On November 2, 2011, TIC hosted a conference call with the Chair of the AICPA Employee Benefit Plans (EBP) Expert Panel and certain members of the FASB staff to discuss the proposed amendments to FASB ASC Topic 960 (Plan Accounting—Defined Benefit Pension Plans), Topic 962 (Plan Accounting—Defined Contribution Pension Plans), and Topic 965 (Plan Accounting—Health and Welfare Benefit Plans). As a result of that discussion, TIC is proposing an issue for future consideration by the Board and is

endorsing many of the comments provided by the EBP Expert Panel via the comment letter submitted by the AICPA Financial Reporting Executive Committee (FinREC). TIC has emphasized below certain issues raised by the EBP Expert Panel that are of particular concern to TIC.

## **Technical Corrections re: Employee Benefit Plans**

### TIC Concerns Regarding Proposed EBP Amendments

#### *Disclosure of Fair Value Measurement Levels for Net Appreciation (Depreciation)*

TIC strongly disagrees with the proposed amendments to FASB ASC 960-30-45-2 (page 180 for defined benefit plans) and FASB ASC 965-20-45-3(e) (page 192 for health and welfare benefit plans), which would segregate the disclosure of net appreciation (depreciation) by levels 1, 2, and 3 for each significant class of investments. This disclosure is not currently required and would change practice. Under current standards, the plan is only required to segregate the net appreciation (depreciation) between investments whose fair values are measured by quoted prices in an active market (level 1) and those otherwise determined (i.e., levels 2 and 3 combined).

TIC believes the Board may have underestimated the work involved in complying with the proposed amendment. Systems changes would be required for the plans to segregate and report net appreciation (depreciation) for level 2 v. level 3 measurements. Such efforts would be costly and time-consuming, especially for plans that invest in fixed-income securities in different levels and classifications. In addition, master trusts and plans including self-directed investments frequently have both level 2 and 3 investments. TIC also questions whether financial statement users want this information, especially since it is not needed for the Form 5500, *Annual Return/Report of Employee Benefit Plan*.

The proposed amendment will not be cost beneficial since it will impose a significant record-keeping burden and will not provide information that financial statement users are requesting. Therefore, TIC recommends the existing disclosure requirement be retained as is.

#### *Disclosure of Investments that Represent 5% or More of the Plan's Net Assets*

The disclosure example on beginning on page 183 of the ED is inconsistent with the proposed amendments in FASB ASC 962-325-50-1 (page 37 for Defined Contribution Plans) and 965-325-50-1 (pages 198-199 for Health & Welfare Plans). Both paragraphs state that the disclosure should be provided in the accounting policies note; however, the tabular disclosure of significant investments on page 184 is presented as part of the Investments note. The lead-in sentence of both paragraphs should be revised so as not to imply that the specific disclosures required are accounting policy disclosures.

In addition, the disclosure example on page 184 differs significantly from the stated requirements. The disclosure example segregates the investments that represent 5% or

more of the plan's net assets by fair value measurement levels, which is not a required disclosure in the FASB ASC, while excluding certain other required disclosures. As noted by the AICPA EBP Expert Panel, the illustrative disclosure will create confusion and could lead to erroneous note disclosures in the plan financial statements. TIC echoes the concerns of the Expert Panel regarding this inconsistency and strongly urges the Board not to adopt any amendment that would require such investments to be presented by measurement level. TIC believes there would be no added benefit to users in having this disclosure. TIC recommends the removal of the added requirement and modification to, or removal of, the illustrative example to ensure consistency throughout the FASB ASC.

*Defined Contribution Plans—Reducing the Fair Value of Investments by Brokerage Commissions and Other Costs to Sell*

Proposed FASB ASC paragraph 962-325-35-1A would change practice for the measurement of all investments of a defined contribution plan. If significant, brokerage commissions and other costs to sell an investment would be deducted from its estimated fair value. Although this definition of fair value is currently included in FASB ASC Topic 965 (Health and Welfare Benefit Plans), the definition of fair value for a defined contribution plan has never incorporated costs to sell as an element of fair value. TIC believes costs to sell will be very difficult to accumulate for investments in master trusts and self-directed investments, which can include a significant volume of level 3 investments. TIC does not understand why costs to sell would ever be factored into any fair value measurement for an employee benefit plan, since such costs are not factored into the fair value measurement of investments held by other entities. TIC is aware that AICPA Statement of Position 92-6, *Accounting and Reporting by Health and Welfare Benefit Plans*, included the requirement to consider cost to sell as part of the fair value of the investments held by a health and welfare benefit plan. However, TIC questions whether this guidance is in keeping with the principles of FASB ASC 820, *Fair Value Measurements*. TIC therefore asks the Board to reconsider this change.

TIC also noted an inconsistency in the application of the proposed change between FASB ASC Topic 962 (Defined Contribution Plans) and Topic 965 (Health and Welfare Benefit Plans). The proposed amendment to FASB ASC paragraph 965-20-45-1(c) states that the statement of net assets available for benefits shall present net assets reflecting all investments at fair value less costs to sell, if significant [emphasis added]. However, FASB ASC paragraph 962-20-45-2(c), which addresses the presentation of the statement of net assets available for benefits of a defined contribution plan, was not amended to include the "fair value less costs to sell" language, even though FASB ASC paragraph 962-325-35-1A for defined contribution plans has been changed to include the requirement to deduct costs to sell from the fair value of all investments. TIC recommends that this and any other changes affecting two or more topics should be reviewed for consistency.

Issue for Future Consideration

Question 3 asks if there are other changes that should also be made to the FASB ASC that are directly or indirectly related to the technical corrections noted in the ED. TIC believes

the FASB ASC needs to provide more guidance for master trusts and self-directed brokerage accounts within an employee benefit plan. Generally, current practice for a Master Trust is to provide similar disclosures to those required for plans that hold investments directly; however, the Master Trust itself is the plan's sole investment. While not generally seen in practice, a literal reading of the standards and the audit guide would allow for a single investment in the Master Trust to be shown with appropriate disclosures. TIC does not believe that this is the intent, nor does TIC believe that this presentation would benefit any user of the plan financial statements. TIC recommends that specific guidance be provided that clarifies what information should be disclosed with respect to Master Trust investments.

With respect to self-directed brokerage accounts, TIC believes that additional guidance is required here to reduce an undue reporting burden. Most self-directed brokerage accounts invest in a broad variety of investment options. Again, a literal reading of the literature would require that the details of these accounts be presented. For a large plan with many self-directed accounts, this requires the sponsor to compile investment information from multiple accounts in order to ascertain which, if any, investments exceed 5% of plan assets. Similarly, there is significant effort expended to classify these assets into the appropriate levels for purposes of fair value disclosure.

TIC does not believe that this is warranted or useful to the users of the financial statements. Plan participants are making the determination of the degree of risk that they are willing to accept on an individual basis. Further, participants with self-directed brokerage accounts are actively involved in managing those funds and, accordingly, the disclosure burden in this area could and should be reduced. TIC suggests these accounts be aggregated and reported as a single amount captioned "investments in self-directed brokerage accounts," and concentration and fair value disclosures not be required for this particular subset of plan investments.

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,

A handwritten signature in cursive script, appearing to read "Karen Kerber".

Karen Kerber, Chair  
PCPS Technical Issues Committee

cc: PCPS Executive and Technical Issues Committees