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

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

File Reference No. 2011-190 Exposure Draft of a Proposed Accounting Standards Update – *Technical Corrections*

The Financial Reporting Executive Committee (FinREC) of the American Institute of Certified Public Accountants is pleased to offer comments on the proposed Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU), *Technical Corrections*. The comments, herein, are limited solely to the proposed technical corrections affecting FASB ASC 960, *Plan Accounting - Defined Benefit Pension Plans*, FASB ASC 962, *Plan Accounting - Defined Contribution Pension Plans* and FASB ASC 965, *Plan Accounting - Health and Welfare Benefit Plans,* here after referred to as the "Plan Accounting" sections, and are based on discussions with the AICPA Employee Benefit Plans Expert Panel.

FinREC supports the FASB's standing project to address the feedback received from stakeholders on the Codification through technical corrections. While this letter is focused on the technical corrections regarding Plan Accounting, FinREC does have one overall observation on the proposed ASU relating to transition. FinREC believes that whenever the FASB makes an amendment to the Codification that transition should be provided for all of the amendments, not just those deemed more significant. The Summary of the proposed ASU acknowledges that "[t]he amendments in this proposed Update represent minor changes to clarify the Codification or correct unintended application of guidance that are not expected to have a significant effect on current accounting practice or create a significant administrative cost to most entities." While FinREC agrees that many of the changes are relatively minor, the act of making the change implies that the guidance could have been clearer and may have resulted in "unintended application of the guidance." Accordingly, FinREC recommends that transition guidance be provided for all changes in the proposed ASU.

As it relates specifically to Plan Accounting, FinREC believes that certain of the proposed conforming amendments regarding the use of the term "fair value" may have unintended consequences of changing practice for plans, as discussed in greater detail in the attached Appendix.

FinREC also notes that since the development of the examples in the Plan Accounting sections of the Codification, new accounting standards have been issued and new disclosures are required for employee benefit plan financial statements, even though the effect of these new disclosures on the plan financial statements may not have been specifically considered. The result is a cumbersome set of required disclosures that are lengthy and not always useful to the plan's financial statement users. FinREC strongly encourages FASB to holistically review the required disclosures for plans, particularly the fair value disclosures, to determine whether there is a more efficient way for plans to meet their financial statement objectives.

The appendix to this letter provides our responses to the questions presented in the exposure draft.

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

Respectfully submitted,

Richard Paul
Chair
Financial Reporting Executive Committee

Deborah Smith
Chair
Employee Benefit Plans Expert Panel

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Appendix

Responses to Questions in the Exposure Draft of a Proposed Accounting Standards Update – *Technical Corrections*

FinREC would like to offer the following comments on the Exposure Draft:

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

1. ***Illustrative Financial Statements and Related Note Disclosures***
   a. *Footnote Disclosure Relating to Investments That Represent Five Percent or More of Plan Net Assets* (proposed amendment in paragraph 282 of the exposure draft)

      The accompanying illustrative disclosures appear to combine the disclosure of investments greater than five percent of net assets with some, but not all, of the disclosures required by FASB ASC 820. This illustration may be interpreted to indicate that the disclosure of investments greater than five percent of net assets is required to be presented by fair value hierarchy level; however, FinREC does not believe that there is any requirement for this information to be presented in this manner. Furthermore, as the hierarchy disclosures are presented for all investments measured at fair value in the fair value measurement disclosure, we do not believe that presenting the investments greater than five percent of net assets by hierarchy level would provide any further benefit to the financial statement users. FinREC is also concerned that this illustrative disclosure could be misinterpreted to be an alternative presentation of the fair value measurement disclosures required by FASB ASC 820; however, this presentation does not include all required disclosures such as the significant classes of assets based on nature and risks or the level three reconciliation. If however, the FASB decides to continue with this illustration and transition guidance is not provided for all of the amendments in the proposed ASU, FinREC requests specific transition guidance be provided for plans on how to implement this change (as discussed in Question 2 below).

b. *Outdated and Incomplete Illustrative Financial Statements and Footnote Disclosures* (proposed amendments in paragraphs 282, 288, and 293 of the exposure draft)

FinREC also noted in many instances that the proposed illustrative financial statements and disclosures are incomplete, contain extraneous information and are outdated and therefore may be misleading to users. For example, the defined benefit pension plan illustrative financial statements in paragraph 282 of the exposure draft are dated 1980 and 1981, and do not contain required disclosures from more current standards that have been issued. Even though the illustrations state that they do not intend to display all required disclosures, the resultant piecemeal updating of the illustrative financial statements may lead to confusion regarding what information is actually required.

FinREC recommends that the illustrative financial statements and related disclosures for Defined Contribution Pension Plans, Defined Benefit Pension Plans, and Health and Welfare Benefit Plans be removed from the FASB Codification until such time as the FASB is able to provide a current, comprehensive set of financial statements for users to follow. FinREC notes that as part of its project to update the AICPA Audit and Accounting Guide *Employee Benefit Plans*, revised illustrative financial statements were posted to the AICPA website for public comment. FinREC would be glad to discuss these updated financial statements with FASB. Also, as noted in the opening letter, we strongly encourage FASB to consider a holistic review of the required disclosures in the employee benefit plan's financial statements.

2. ***Disclosure of Investments That Represent Five Percent or More of Net Assets*** (paragraph 59 of exposure draft)

FinREC recommends that the disclosure of the identification of investments that represent five percent or more of net assets (ASC 962-325-50-1b) included in paragraph 59 of the exposure draft be moved from accounting policies to conform with the FASB ASC 960-325-50-2, as this is a quantitative disclosure rather than an accounting policy. Furthermore, FinREC recommends that FASB ASC 965-325-50-1b also be conformed to FASB ASC 960-325-50-2.

3. ***Segregation of Net Appreciation or Depreciation*** (paragraphs 280 and 290)

FinREC notes that changing FASB ASC 960-30-45-2 and FASB ASC 965-20-45-3(e) to segregate the net appreciation or depreciation by levels one, two, and three, as outlined in paragraphs 280 and 290, appears to be adding a new disclosure requirement to the Codification. This new disclosure could cause an unnecessary burden on plan sponsors to determine this additional information. Trustees currently maintain their accounting books and records to complete the Form

5500, Schedule H, which requires a breakout of net appreciation or depreciation by class of investments. The Codification currently requires the net appreciation or depreciation for each significant class (or type) of investments, segregated between investments whose fair values have been measured by quoted market prices in an active market and those whose fair values have been otherwise determined. Further, FASB ASC 820 requires the net appreciation or depreciation for the level three reconciliation but does not require a breakout between levels one and two. Some classes of investments may include investments in multiple hierarchy levels and trustees may need to reconfigure their system parameters to capture this breakout. FinREC questions whether the costs for plans to obtain this additional information outweigh the benefits of this disclosure given the information that is already required. These additional disclosures, coupled with the existing disclosures required by FASB ASC 960-30-45-2, ASC 965-20-45-3(e), and ASC 820 for plan investments, would result in burdensome and excessive investment disclosures without a clear articulation of the benefit or decision useful information provided by such disclosures. If, however, the FASB decides to continue with this conforming amendment and transition guidance is not provided for all of the amendments in the proposed ASU, FinREC requests specific transition guidance be provided for plans on how to implement this change (as discussed in Question 2 below). This is an example, where the FASB could, in a holistic review of the financial statements and footnote disclosures (as discussed in the opening letter), determine the usefulness of this additional information to the financial statement users.

FinREC also noted that the FASB proposed replacing the term “quoted market price” investments with the term “level one” investments. FinREC believes that quoted market price, as it is used in the illustrative footnote disclosure example in paragraph 282, can refer to both level one and certain level two investments, such as common and collective trusts. Therefore, FinREC recommends that the FASB take a more in-depth look at the current disclosure requirements to determine the best way to correct them.

4. ***Proposed Change to Wording of FASB ASC 960-325-45-1*** (paragraph 283 of the exposure draft)

For the proposed change to FASB ASC 960-325-45-1, as outlined in paragraph 283, FinREC recommends ending the paragraph at “….types of investments.” As currently proposed, the correction may be interpreted to require the investment leveling to be presented on the face of the financial statements when the investment leveling is typically presented in the notes to the financial statements. FinREC also recommends including a reference to the disclosure requirements in FASB ASC 820. Furthermore, FinREC recommends that FASB ASC 965-325-45-1 be conformed to FASB ASC 960-325-45-1.

This is another example, where the FASB could, in a holistic review of the financial statements and disclosures (as discussed in the opening letter), determine the necessity of showing the investments by level or type on the face of the financial statements when the information is already required in the fair value measurement footnote disclosure. FinREC believes that this information may be redundant and confusing if the information is presented in multiple places in the financial statements.

5. ***Definition of Fair Value for Defined Contribution Pension Plans*** (paragraphs 287, BC 8, and BC 24 in the exposure draft)

   FinREC agrees with conforming the definition of fair value for all types of plans. However, the change outlined in paragraph 287 could lead to a change in accounting practice for some defined contribution pension plans when incorporating fair value less cost to sell, accordingly, FinREC recommends that FASB include transition guidance on how these plans implement the new adjustment to fair value. FinREC also recommends that further clarification be provided about this harmonization of all plan types in the background information and basis for conclusions, as SOP 92-6, *Accounting and Reporting by Health and Welfare Benefit Plans,* is specific to health and welfare benefit plans and therefore raises the question as to why FASB would use this definition for defined contribution plans.

Question 2: Will any of the proposed amendments result in substantive changes to the application of existing guidance that would require transition provisions? If so, please describe the instance(s) in which the proposed amendment(s) will significantly affect the application of U.S. GAAP and as well as the transition provisions that should be provided.

As discussed in the cover letter to these specific answers, FinREC recommends that all changes to the Codification should be accompanied by transition guidance. If the FASB feels compelled to change the authoritative accounting literature, the act of making the change implies that a user of the Codification may have read the content to require something other than what the FASB intended. All such clarifications, regardless of how minor they are perceived to be, should be provided transition. As it relates to Plan Accounting and noted in certain of our responses to question 1, the proposed changes outlined in paragraphs 280 and 290 expand the requirement of breaking out the net appreciation or depreciation between levels one and two. Additionally, paragraph 287 proposes that the definition of fair value (ASC 962-325-35) in the defined contribution pension plan section conform to the definition of fair value for defined benefit and health and welfare plans, which could also affect defined contribution pension plans' financial statements.