December 12, 2011

Ms. Susan M. Cosper
Technical Director
Financial Accounting Standards Board
401 Merritt 7
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Norwalk, CT 06856

File Reference No. 2011-190

PricewaterhouseCoopers LLP appreciates the opportunity to comment on the FASB's proposed accounting standards update, *Technical Corrections*. We support the Board's efforts to clarify the Codification, correct unintended application of guidance, and conform the use of the term *fair value* throughout the Codification. In general, we agree with the changes included in this proposed accounting standards update and believe they meet the project's objective to improve the Codification.

While we do not expect a majority of the proposed amendments to significantly affect current accounting practice, we have specific observations on several of the amendments, which we believe require further consideration or clarification. We have provided these observations along with our recommendations in Appendix A. Additionally, Appendix A contains our responses to the questions posed in the proposed accounting standards update.

If you have any questions regarding our comments or wish to discuss any of these matters further, please contact Chad Bonn at (973) 236-5372.

Sincerely,

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Appendix A

Question 1

Do you agree with the proposed amendments to the Codification described in this proposed Update? If not, please explain which proposed amendments you disagree with and why.

We generally agree with the proposed amendments; however, we have the following observations and recommendations on the specific amendments listed below:

Amendments to Topic 954 (par. 47)

We agree that the guidance for deferred revenue related to continuing-care contracts where refunds payable are limited to proceeds of reoccupancy of a unit should be clarified. We believe diversity in practice has arisen because the existing Codification text implies that the guidance can be applied in all situations where payment of a refund is contingent upon receipt of an entrance fee from a new resident. As noted in par. 47, the guidance applies only to the subset of those situations in which the amount of potential refund payable is *limited to* the proceeds of reoccupancy (i.e., if the subsequent entrance fee received is lower, the refund is limited to that amount).

However, we are concerned that the edits proposed are not specific enough to ensure that the intent of the change identified in par. 47 is appropriately reflected in the amended guidance. We believe that the additional modifications to 954-430-35-4 marked in **bold** below are required.

> When a contract between a continuing care retirement community and a resident stipulates that all or a portion of the advance fee (see paragraph 954-430-25-1) may be refundable if the contract holder's unit is reoccupied by another person, **the refund is limited to the proceeds of reoccupancy of the unit, and it is management's policy and practice to enforce such restrictions,** the resulting deferred revenue shall be amortized to income over future periods based on the remaining useful life of the facility. The basis and method of amortization shall be consistent with the method for calculating depreciation.

Without the additional modification, constituents may continue to interpret the guidance as applying to any contract where payment of the refund is contingent on receipt of a new entrance fee. The same language should be used in the discussion of initial recognition of the deferred revenue in par. 954-430-25-1.

Amendments to Topic 962 (par. 59)

We believe the identification of investments that represent 5% or more of net assets is a quantitative disclosure requirement and therefore should not be referenced as an accounting policy. We suggest presenting this disclosure requirement separate from paragraph 962-325-50-1.

Amendments to Subtopic 710-10 (par. 96)

The proposed technical correction links the measurement of the obligation to the asset. We believe this is not appropriate because the assets held by the trust are measured based on other applicable GAAP (which may or may not be based on fair value), while the amount owed to the employee should be reflected at fair value. We believe the existing guidance in paragraphs 710-10-35-4 and 710-10-45-2 is appropriate.

Amendments to Subtopic 840-40 (par. 120)

The reference to $1,800,000 as the "Appraised value of the equipment" in the table illustration is inaccurate. As described in the next paragraph, 840-40-55-83, this amount represents the present value of the rental payment stream. The description of this line item in the illustration should be reflected as such.

Amendments to Topic 958 (par. 166, 170)

1. We believe the reference correction made in paragraph 166 should be reflected as follows (in **bold**): "paragraphs 958-205-45-13 through **45-35**."

2. We do not support deletion of the phrase in paragraph 958-605-35-30"unless facts and circumstances indicate that the fair value of the beneficial interest differs from the fair value of the assets contributed to the trust." For a perpetual trust, the NFP's asset is the right to receive future cash flows generated by the trust assets, rather than the assets themselves. In many situations, the perpetual income stream will approximate the fair value of the assets in the trust, particularly when the investments have readily determinable fair values. However, situations exist where this will not be the case, such as when the trustee may:

    a. Be instructed (or may have the discretion) to withhold distributions from the trust for a certain period of years.

    b. Distribute only a portion of the income generated by the trust assets.

    c. Distribute the greater of the earnings on the trust assets or a stipulated dollar amount (sometimes used when the trust assets consist of stock in a privately-held company).

    The phrase in this paragraph calls attention to the fact that such situations may exist. We believe it continues to be helpful guidance and its deletion could create diversity in practice.

Amendments to Topic 230 (par. 197)

We generally agree with the proposed amendments to this Topic, however paragraph 12 of the basis for conclusions is not consistent with the proposed correction. It is clear from the proposed amendment that an investment company is exempt from the requirement to provide a statement of cash flows if, during the period, substantially all of the entity's investments were carried at fair value and classified as Level 1 or 2. However, the basis for conclusion states that if substantially all of an investment company's investments are measured using Level 3 inputs, the entity would not be exempt from preparing a statement of cash flows. Accordingly, we believe the Board should correct the basis for conclusion to be consistent with the proposed codification amendment.

Amendments to Topic 320 (par. 206)

For paragraph 320-10-15-3 (a)(2): we believe "*Defined benefit pension and other postretirement plans*" should also include health and welfare plans accounted for under Topic 965. We recommend revising (a)(2) to say "*Defined benefit pension and other postretirement plans and health and welfare plans.*"

Amendments to Subtopic 350-20 (par. 214)

There is still a reference to "economic value" in the last sentence of paragraph 350-20-55-20. We suggest revising that sentence to read (suggested changes are identified in **bold**):

> This conclusion was based on the following: ~~**evaluation of economic value.**~~

Amendments to Topic 470 (par. 221)

For paragraph 470-20-55-4, we recommend that the reference to "*market price*" of Entity A's common stock on the date of conversion be changed to either "*fair value*" or "*quoted price.*"

Amendments to Topic 946 (par. 268)

We recommend that the reference to "*fair value*" in paragraph 946-830-50-2 (b) be changed to "*quoted price*."

Amendments to Subtopic 948-310 (par. 270)

The basis for conclusions (BC 22) states that the rationale for removing paragraph 948-310-35-3 (c) is to eliminate the concept of "management's intent" because it is not a relevant factor in measuring fair value. However, we believe the other statements within (c) remain relevant to uncommitted mortgage-backed securities. We recommend only striking the following sentence and keeping the other sentences intact:

> If the trust holding the loans may be readily terminated and the loans sold directly, fair value for the securities shall be based on the fair value of the loans or the securities depending on the mortgage banking entity's sales intent.

Amendments to Topic 958 (par. 50)

The proposed amendment in par. 50 is to clarify that not-for-profit organizations are not permitted to use amortized cost measurement for marketable securities. We do not believe the changes proposed clearly accomplish that objective. We suggest add the following sentence at the end of paragraph 958-320-45-6 to clearly state that not-for-profit organizations cannot measure marketable securities at amortized cost:

> Not-for-profit entities are not permitted to use amortized cost measurement for marketable securities (see paragraph 958-320-35-1).

Amendments to Topic 960 (par. 280)

Net appreciation (depreciation) is generally not presented at the level of disaggregation commensurate with Level 1, 2, and 3 of the fair value hierarchy. The disclosure requirement for net appreciation (depreciation) in Topic 960 has generally been interpreted to mean by its investment category (consistent with the Codification guidance). This is also consistent with the manner in which trustees currently capture investment income information for purposes of complying with the requirements of the US Department of Labor's Form 5500. We understand that this information is generally not available within existing trustee systems and a manually intensive process would need to be implemented to comply until systems could be modified.

Prior to requiring this change, the Board may want to engage relevant stakeholders to determine what information is most useful in meeting the objectives of a defined benefit plan's financial statements (which is to assess the plan's ability to pay benefits when due). If the Board decides that disclosing net appreciation (depreciation) by the fair value hierarchy is a cost beneficial disclosure, we recommend the Board consider the time necessary to update systems to capture this information when deciding on an effective date.

In addition, if the Board decides to change this disclosure requirement, we believe the change should also apply to defined contribution plans accounted for under Topic 962 and health and welfare plans accounted for under Topic 965.

Amendments to Topic 962 (par. 287 and par. 295)

We agree that definition 2 of SOP 92-6 indicates that the fair value of an investment shall be reported net of the brokerage commissions and other costs normally incurred in a sale, if those costs are significant. In our experience, however, plans have principally been reporting fair value in accordance with the guidance in Topic 820 without adjusting for costs to sell. We believe requiring cost to sell adjustments introduces unnecessary complexity and is also inconsistent with fair value reporting for similar investments by non-benefit plans. Therefore, we recommend the

Board reconsider the proposal to include cost to sell adjustments when measuring these investments. However, if the Board decides this revision is appropriate, we believe transition guidance should be provided.

Note that this comment also applies to the reporting of fair values for investments by health and welfare plans under Topic 965.

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 instances in which the proposed amendments will significantly affect the application of U.S. GAAP and as well as the transition provisions that should be provided.

We agree that the majority of the proposed amendments are not expected to change practice. We believe the transition guidance, as provided for by the Board, is acceptable, except where we have commented otherwise throughout this letter.

Question 3

Are there other changes that should also 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.

We recommend the Board address the following technical corrections:

Allocation of Consolidated Tax Expense to an Acquired Entity after an Acquisition

We recommend a revision to paragraph 805-740-25-13 in the Codification for the following reasons.

This guidance is derived from EITF Issue No. 86-9, *IRC Section 338 and Push-Down Accounting,* which was issued in March of 1986 (EITF 86-9). The guidance applies to a narrow fact pattern and describes three acceptable methods for allocating the consolidated tax provision:

a) Modify the intra-entity tax allocation agreement so that taxes are allocated to the acquired entity on the pre-acquisition tax basis
b) Credit the tax benefit from the tax basis step-up to the acquired entity's additional paid-in capital when realized
c) Credit the tax benefit to income of the acquired entity as a permanent difference when realized.

We believe the guidance in paragraph 805-740-25-13 conflicts with the guidance in paragraphs 740-10-30-27 to 30-28 and 740-20-45-11 (g) and therefore should be revised.

The guidance in subtopic 740-10 requires an entity to adopt a tax allocation approach that is systematic, rational, and consistent with comprehensive recognition of deferred income taxes inherent in the assets and liabilities of the entity. For example, an allocation of consolidated taxes (current and deferred) based on a separate tax return basis is one acceptable approach.[1] However, all three methods specified in paragraph 805-740-25-13 are "off balance sheet" approaches, which do not comply with the guidance in subtopic 740-10.

Furthermore, the accounting for the intraperiod allocation effect from **all** transactions with shareholders (or among shareholders) is covered in paragraph 740-20-45-11(g) (which is derived from EITF 94-10, *Accounting by a Company for the Income Tax Effects of Transactions among or with Its Shareholders under FASB Statement No. 109* (EITF 94-10)). Accordingly, deferred income taxes arising from changes in the tax bases of assets and liabilities are recorded in

[1] The guidance in Topic 740-10 acknowledges that total taxes (current and deferred) allocated to the entity may be more or less than taxes reported in the consolidated financial statements in part because of presentation differences in consolidation.

equity if the changes are caused by transactions with shareholders (or among shareholders). A parent company's decision to continue the historical basis of accounting in its acquired subsidiary's separate financial statements when the subsidiary's assets have been stepped-up to fair market values creates deductible temporary differences in the subsidiary's separate financial statements. These deductible temporary differences arise from or are due to a transaction with the shareholder and therefore should be recognized in the acquired entity's equity when created, subject to the normal deferred tax asset recoverability assessment.

While chronologically EITF 86-9 pre-dates FAS 109, *Accounting for Income Taxes (codified in Topic 740),* and EITF 94-10 (codified in paragraph 740-20-45-11 (g)), we believe EITF 86-9 should have been superseded when EITF 94-10 was issued. In fact, when the FASB staff deliberated EITF 94-10, the transaction described in EITF 86-9 was specifically identified as one of the transactions that would be covered by EITF 94-10 (refer to the EITF Issue Summaries for further details). However, we suspect that EITF 86-9 was never superseded in its entirety as a result of the desire to carry forward the pre-tax accounting guidance contained in the first issue.

We recommend paragraph 805-740-25-13 be revised to read as follows:

> If there is a continuation of the historical basis for financial reporting (for example, when push-down accounting is not required), the tax benefit from a tax basis step-up should be credited to the acquired entity's additional paid-in capital consistent with the guidance in paragraph 740-20-45-11(g).

We recommend the Board provide transition guidance for this proposed correction.

Accounting for Participation Liability

We request the Board to consider a technical correction related to the amounts due to a lender pursuant to the lender's participation in a real estate project's results of operations (paragraph 470-30-35-4). We recommend updating this guidance to conform to SOP 97-1, *Accounting for Participating Mortgages*, as we believe the guidance presented in SOP 97-1 continues to be relevant.

1) In SOP 97-1, there is a distinction in the accounting treatment between a participation liability related to an appreciation in the value of a mortgaged real estate project and a participation in the real estate project's results of operations. The guidance in paragraph 470-30-35-4 only discusses the accounting treatment of the lender's participation in the real estate project's results of operations.

2) In addition, we believe the guidance in paragraph 470-30-35-4 should be revised. The accounting treatment in the Codification of the lender's participation in the real estate project's results of operations conflicts with SOP 97-1. Under the SOP, the accounting for a participating liability related to sharing in the results of operations is not based on a fair value model and therefore should not be adjusted each period to fair value.

We recommend the Board provide transition guidance for this proposed correction.

Question 4

Are there any significant operational issues that the Board should consider in determining the appropriate effective date for the final amendments?

We do not anticipate that entities would encounter significant operational issues in applying these amendments other than as noted in our comments to Question 2 on the reporting of net appreciation (depreciation) by employee benefit plans.

Question 5

The proposed amendments in this proposed Update would apply to public and non-public entities. Should any proposed amendments be different for non-public entities? If so, which proposed amendments and why?

We agree with the Board's decision that the amendments should similarly apply to both public and non-public entities.