



Ernst & Young LLP
5 Times Square
New York, NY 10036
Tel: 212 773 3000
www.ey.com

Ms. Susan M. Cospers
Technical Director
Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, CT 06856-5116

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Proposed Accounting Standards Update, Technical Corrections File Reference 2011-190

Dear Ms. Cospers:

We appreciate the opportunity to comment on the Proposed Accounting Standards Update (ASU), *Technical Corrections*. We support the FASB's continuing project to address feedback received from stakeholders on the Codification and to facilitate updates for technical corrections and clarifications. For the most part, we agree that the changes included in this proposed ASU represent minor changes to clarify the Codification or correct unintended application of guidance that would not be expected to have a significant effect on current accounting practice or create a significant administrative cost to most entities.

However, we are concerned about several of the proposed amendments as detailed below. Also, we have suggested other changes that are not included in the proposal.

- ▶ Paragraph 3 proposes transition guidance for the amendments addressed in paragraphs 47, 287 and 298, and includes the following sentence: "An entity should follow the disclosure requirements of Section 250-10-50 and disclose the accounting principles that were used before and after application of the provisions of this proposed Update and the reason that applying this proposed Update resulted in a change in accounting principle or correction of an error." We recommend that the words "or correction of an error" be omitted or that the Board clarify when adopting the proposed standards would be considered a correction of an error. Additionally, due to the significance of the change in accounting and potential implications to financial ratio covenants within loan agreements, we recommend that an additional year of transition be included for the provisions related to paragraph 47.
- ▶ Paragraph 47 proposes amendments to 954-430-25-1 to clarify that refundable advance fees may be recorded as deferred revenue when a contract between a continuing care retirement community (CCRC) and a resident stipulates that those advance fees will be paid to the current resident only to the extent of advance fees that the CCRC receives upon reoccupancy of a contract holder's unit. Then, only that portion may be accounted for as deferred revenue, while any additional refundable amounts received by the CCRC would be accounted for as a liability that is not subject to amortization. We are concerned that the description of these amendments in

paragraph 46 could be misconstrued to mean that if any portion of the refundable fee is expected to be paid by the CCRC, the entire refundable fee should be accounted for as a liability. We recommend that the last sentence in paragraph 46 be re-worded to say:

- ▶ The addition of a reference to paragraph 954-430-25-1 clarifies that to be able to treat a portion of the refundable advance fee as deferred revenue that is amortized over the life of the facility, any refund payable must be limited to the contract between the continuing care retirement community and the resident must stipulate that the portion of the refundable advance fee to be accounted for as deferred revenue must be refundable only to the extent of the proceeds of reoccupancy of the contract holder's unit, and it must be the entity's policy or practice to comply with that limitation.
- ▶ Paragraphs 50 and 51 propose amendments to 958-320-45-6 to clarify that not-for-profit organizations are not permitted to use the amortized cost measurement when accounting for securities classified as held to maturity. We believe that the proposed revisions imply that a not-for-profit entity with comparability concerns may apply the guidance of 320-10-25-1 through 25-6 and classify securities as available for sale or held to maturity. The guidance in 320-10-15-3 notes that other than the specified guidance on impairment of certain securities, no other part of that Topic applies to NFPs. We believe that 958-320-45-6 may be more clearly stated as follows:
 - ▶ Some NFPs, primarily health care entities, would like to compare their results to business entities in the same industry. An NFP with those comparability concerns may report in a manner similar to business entities by identifying classifying those securities that would be classified by business entities as available for sale or held to maturity, as described in paragraphs 320-10-25-1 through 25-6, and excluding the recognized portion of uUnrealized gains and losses on those securities may be excluded from an operating measure within the NFP's statement of activities but must be recognized in accordance with 958-320-35-1 and presented in accordance with 958-320-45-1. Not-for-profit, business-oriented, health care entities, ~~however,~~ are required to exclude unrealized certain gains and losses on other-than-trading securities from the a performance measure indicator (see paragraph 954-320-45-1).
- ▶ Paragraphs 54 and 55 propose amendments to the implementation guidance in paragraphs 958-810-55-3 through 55-4. We suggest the following changes for improved clarity:
 - ▶ 958-810-55-3 – Clarify the second rectangle in the right column: "Do not consolidate. Disclose existence and nature of relationship and related transaction (See Section 850-10-50)."
 - ▶ 958-810-55-3 – Add to the first rectangle in the left column: "Consolidation is permitted, and in some cases encouraged, but it is not required (See 958-810-25-4)."
 - ▶ 958-810-55-3 – Consider referencing the disclosure requirements of 958-810-50 in the last rectangle in the right column that currently reads "Stop."
 - ▶ 958-810-55-4 – Consider providing a more specific reference in the fifth diamond in the right column: "Is there a more-than-minor noncontrolling interest in a real estate partnership, limited liability company or similar entity*? (See Subtopic 970-323-25)."

- ▶ We recommend that the disclosure proposed in paragraph 59, drafted as 962-325-50-1b, as well as the corresponding disclosure requirement in 965-325-50-1b, be codified as 50-2 in both Subtopics. These are quantitative disclosure requirements (i.e., identification of investments that represent five percent or more of net assets), not a subset of the 50-1 requirements to disclose the plan's accounting policies.
- ▶ We believe that the amendment in paragraphs 97-98 does not clarify that the content in 715-20-50-2 through 50-4 applies to all employers with two or more plans, not just public entities. The heading above 715-20-50-1 indicates that what follows applies only to public entities, and the heading above paragraph 715-20-50-5 indicates that what follows applies to nonpublic entities. We are concerned that a nonpublic entity would go straight to paragraph 50-5 without looking at paragraphs 50-2 through 4, even if the heading "**Employers with Two or More Plans**" is added as proposed. We recommend that the new heading specify that the guidance applies both to public and nonpublic entities or that a requirement to provide the disclosures in paragraphs 50-2 through 4 if the company has two or more plans be added in paragraph 50-5.
- ▶ We believe there are errors in paragraphs 119-120 in the proposed amendment to Subtopic 840-40 related to the sales-leaseback transaction example in 840-40-55-81 through 55-84. Below, we have replicated the example in the proposed ASU and have marked changes we propose to correct those errors and make the technical corrections we believe the Board intended.

>> Example 6: Leaseback of Equipment That Is Minor

840-40-55-81 This Example illustrates application of the guidance in paragraph 840-40-25-3.

840-40-55-82 An entity sells equipment. The equipment is not integral equipment and has an estimated remaining life of approximately 25 years. The seller negotiates a leaseback of the equipment for one year because the seller has ordered replacement equipment that is expected to be available for the seller to use in approximately one year. This Example has the following assumptions.

Sales price	\$	20,000,000
Carrying value of equipment	\$	6,000,000
Annual rental under leaseback	\$	750,000 800,000
Appraised value of the equipment	\$	4,800,000 21,000,000

840-40-55-83 The leaseback is a minor leaseback because the present value of the leaseback (approximately \$1,800,000, based on the rental under the leaseback and the prepaid rental that effectively has reduced the sales price) is less than 10 percent of the fair value of the asset sold (approximately \$21,075,000, based on the appraisalsales price and the prepaid rental that apparently has reduced the sales price). Accordingly, the seller-lessee would record the sale and would recognize profit. An amount of \$1,0050,000 would be deferred and amortized as additional rent expense over the term of the leaseback to adjust the leaseback rentals to a reasonable amount. Accordingly, the seller-lessee would recognize \$15,0050,000 as profit on the sale (\$14,000,000 of profit based on the terms of the sale increased by \$1,0050,000 to adjust the leaseback rentals to a reasonable amount).

840-40-55-84 If the term of a prepayment of rent were significant, the amount deferred would be the amount required to adjust the rental to the market rental for equivalent equipment if that rental were also prepaid.

- ▶ Paragraph 121 explains the amendment to 845-10-30-25A as clarifying that an entity is not precluded from using the carryover basis of measurement when accounting for an exchange of a *nonfinancial asset* for a noncontrolling ownership interest. However, ASC 845-10-30-25A refers to an exchange of a *nonmonetary asset* for a noncontrolling ownership interest in a second entity that is accounted for at fair value. We believe that the carryover basis measurement attribute would apply to exchanges involving both financial and nonfinancial assets provided the asset meets the definition of a nonmonetary asset. Paragraph 121 implies that the option would be limited to exchanges of nonfinancial assets, which is inconsistent with the wording in 845-10-30-25A. We recommend replacing the words *nonfinancial asset* in paragraph 121 with *nonmonetary asset*.
- ▶ Paragraphs 123-124 propose amending 942-325-05-2 to reflect that the FHFB no longer regulates the FHLB due to its replacement by the FHFA. However, the revised guidance no longer provides context for the limitations on FHLB equity ownership rights. We recommend that the reason for the limitations be elaborated as follows: “In addition, the equity ownership rights represented by Federal Home Loan Bank stock are more limited than would be the case for a public company because of the oversight role exercised by the FHLB’s regulator in the process of budgeting and approving dividends.”
- ▶ Paragraph 137 would be more clearly stated with the addition of the words *health care*, as follows: “Performance indicators are required to be provided by not-for-profit, business-oriented health care entities.”
- ▶ It is unclear to us how the amendment in paragraph 140 clarifies that not-for-profit business-oriented health care entities should apply the guidance in 958-320 as noted in paragraph 139.
- ▶ Paragraph 160 adds language to 958-210-45-8b. We believe the words “not-for-profit” should be added, so the addition would read “required by paragraph 954-210-45-1 for statements of financial position prepared by not-for-profit business-oriented health care entities”.
- ▶ We believe that the updated reference in 958-320-45-5 to donor-restricted endowment fund guidance, as proposed in Paragraph 166, should incorporate the paragraphs through 958-205-45-35.
- ▶ The reason for the proposed amendment to 958-605-35-3 in paragraph 170 to eliminate the phrase “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” is unclear to us. ASC 958-30-35-10 states that the change in the value of split-interest agreements is the change in the fair value of the NFP’s beneficial interest, which “shall be determined using the same valuation technique that was used to measure the asset initially.” The initial measurement guidance in 958-605-30-14 discusses initial measurement of this asset: “the fair value of a perpetual trust held by a third party generally can be measured using the fair value of the assets contributed to the trust, 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." We question why, if the initial measurement of the beneficial interest may differ from the fair value of the trust's assets in certain facts and circumstances, this would not hold true for subsequent measurement.

- ▶ We believe certain changes to paragraphs 181 and 185 should be made to provide consistency. We believe the word *asset* should be added to paragraph 310-10-45-4A so the term "asset valuation allowance" would be consistent with the terminology in 210-10-45-13. Also, we believe the parenthetical reference in 275-10-60-3A to Example 12 should include all paragraphs that comprise the example and therefore should read: "see paragraphs 360-10-55-50 through 55-54." Also, the word *paragraph* in the parenthetical reference in 932-360-35-14 should be plural: "see paragraphs 360-10-55-50 through 55-54."
- ▶ The amendments proposed in paragraphs 186-187 move the guidance from paragraphs 350-20-35-51 through 35-57 to the newly created Derecognition Section. Although not included in the proposal, we assume that if the relocated paragraphs have related pending content, these paragraphs will move as well. For example, ASU 2011-08, *Intangibles – Goodwill and Other (Topic 350): Testing Goodwill for Impairment*, amended ASC 350-20-35-57 to refer to ASC 350-20-35-3A (emphasis added) rather than ASC 350-20-35-4 (emphasis added).
- ▶ Paragraph 193 moves the statement of cash flows presentation requirements related to refundable advance fees to a new paragraph 954-430-45-1, but provides no context. We believe the paragraph would be clearer with the following additions: "Advance fee amounts refunded by a continuing care retirement community shall be presented in the statement of cash flows as a financing transaction."
- ▶ We agree that the current requirement to segregate the net appreciation (depreciation) in fair value for each significant class of investments between those measured by quoted prices in an active market and those for which fair value has been otherwise determined is no longer useful and should not be a required disclosure, as proposed in paragraphs 280 and 290. Without this requirement, benefit plans would continue to disclose a breakout of net appreciation (depreciation) by class of investments, information that trustees already maintain to allow plans to complete the Form 5500, Schedule H. Also, disclosure of net appreciation (depreciation) of level 3 investments would be provided in the level 3 reconciliation required by ASC 820.

We do not agree with the proposed amendments in paragraphs 280 and 290 to require net appreciation (depreciation) in fair value for each significant class of investments, segregated between investments whose fair values are categorized within levels 1, 2 and 3 of the fair value hierarchy in accordance with ASC 820. We believe that this requirement, which is not a required disclosure for other industries, would be a change from current practice and would be burdensome to plans and their trustees. Although trustees maintain information to allow plans to break out net appreciation (depreciation) by class of investments, these do not always correlate with the fair value hierarchy levels, and therefore that information may not be available from the current systems.

We recommend that the disclosure requirement be limited to providing net appreciation (depreciation) in fair value for each significant class of investments. This information, combined with the additional disclosures about investments measured at fair value required by ASC 820, would provide financial statement users with the information they need. If the new disclosures are required, we recommend that transition guidance be provided to allow time for preparers and their trustees to assess and change their systems as necessary.

- ▶ Paragraphs 282 and 293 propose amendments to update illustrations for defined benefit pension plans (ASC 960-205-55) and health and welfare benefit plans (ASC 965-205-55). We understand that the amendments are not intended to result in comprehensive illustrations of ASC 820's presentation and disclosure requirements for benefit plans but rather, are intended to conform the terminology to ASC 820. However, we are concerned that the limited update could cause confusion among Codification users.

The amended illustrations present information about investments that represent 5% or more of the plan's net assets separately identified by hierarchy level. Users may interpret this as an alternative presentation of the fair value measurement disclosures required by ASC 820-10-50. ASC 820 requires disclosure for each class of assets and liabilities (e.g., corporate bonds and common stocks may include multiple classes of assets based on nature and risks) as well as a level 3 reconciliation, neither of which is included in the illustrations. On the other hand, a breakout of these net assets by hierarchy level is not required, nor is disclosure of the number of shares or principal amount, both of which are included in the examples. Also, the illustration of 1981 financial statements using ASC 820 terminology may add to the confusion, as that guidance did not exist at that time. We recommend that either the illustrative financial statements be removed from the Codification or be replaced with current and comprehensive illustrations of financial statements for defined benefit pension plans, defined contribution pension plans and health and welfare benefit plans.

- ▶ We agree with the deletion in paragraph 283 of language in 960-325-45-1 that is inconsistent with ASC 820. However, we are concerned that the proposed language may be interpreted to require presentation of hierarchy levels on the face of the financial statements. ASC 820-10-50-2 already requires disclosure of investments by hierarchy level in the footnotes for each class of assets and liabilities. We recommend that the new language not be included and further, that the requirement to present investments on the face of the financial statements by type be removed, consistent with the guidance in 962-325-45-3. We believe that the ASC 820 disclosure requirements make the current requirement to present a plan's investments by type on the face of the financial statements unnecessary. The current requirement to present investments by type and disclose investments by class, which are not always the same, results in multiple presentations of investments that can be burdensome to preparers. Moreover, presenting investments as a single line item on the face of the financial statements would facilitate the required reconciliation of the fair value measurement disclosures for the various classes of assets and liabilities to the line items in the statement of financial position. This recommendation would also apply to the guidance for health and welfare plans (965-325-45-1 and 2), master trust investments (960-30-50-1 and 962-325-50-6) and non-participant directed investments (962-325-45-5 and 965-325-45-2).

- ▶ We agree that the definition of fair value should be the same for all types of plans. However, the change proposed in paragraph 287 to ASC 962-325-35-1A could lead to a change in existing practice for some defined contribution pension plans. We suggest that further clarification about this conforming amendment be provided in the background information and basis for conclusions, as the source for the amendment – SOP 92-6 – is specific to health and welfare benefit plans.

We believe that the following additional changes to the Codification are needed:

- ▶ When paragraph 83 of SOP 81-1 was codified in 605-35-25-86, the guidance in that paragraph related to changes in accounting estimates was not included and was replaced by a reference to ASC 250. We agree with that change. However, in the process of removing what would have been redundant guidance, the discussion in that paragraph related to acceptable accounting methods was deleted. We believe that guidance was inadvertently left out of the codified guidance, and therefore the following should be added to 605-35-25:
 - ▶ “Although two methods are used in practice (i.e., the cumulative catch-up method and the method whereby the effect of the change is accounted for ratably over the period of change in estimate and subsequent periods) to account for changes in estimates of total revenue, total costs, or extent of progress under the percentage-of-completion method, the cumulative catch-up method is more widely used. Accordingly, to narrow the areas of differences in practice, such changes should be accounted for by the cumulative catch-up method.”
- ▶ There is a reference in 410-30-35-7 to “see the following paragraph” but 410-30-35-8 doesn’t relate to modified costs or changes in technology, both of which are discussed in 410-30-35-7. We believe the reference should be deleted from 410-30-35-7.
- ▶ Similar to the need for conforming amendments to the Codification, there may be instances in which the terminology used in the SEC guidance provided in the Codification requires wording changes to be consistent with the terminology in ASC 820. For example, 605-15-S99-1 uses the term *market value* in IV.C.

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We would be pleased to discuss our comments with the Board members or the FASB staff at your convenience.

Very truly yours,



Ernst & Young LLP