November 15, 2016

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

Via e-mail – director@fasb.org


Plante & Moran, PLLC appreciates the Financial Accounting Standards Board’s (“Board’s”) consideration of the comment letters received on the aforementioned exposure draft. Plante & Moran, PLLC previously provided comments to the exposure draft in a letter dated September 23, 2016. After consideration of the comment letters, the FASB staff issued materials for the EITF’s November 17, 2016 meeting to discuss the exposure draft and the FASB staff recommendations. This letter serves as a supplement to Plante & Moran, PLLC’s original comment letter in response to the Memo.

Background

Prior to the issuance of this exposure draft, the FASB Accounting Standards Codification did not distinguish between “divided interests” and “undivided interests.” With the introduction of these new concepts into the Codification, we believe these concepts must be aligned with the terms “participant directed” and “nonparticipant directed” to allow for decision-useful disclosures to be developed. In general, the divided interests can be separated by (a) participant directed (that is, the investments are divided due to actions taken by the participant), and (b) nonparticipant directed (that is, the investments are different for each plan due to actions taken, directly or indirectly, by the plan sponsor). The participant directed plans are primarily defined contribution plans whereas the nonparticipant directed plans – whether divided or undivided – are primarily defined benefit and health and welfare plans.

There are approximately 80,000 audited plans in the U.S., of which 56,000 are defined contribution plans. Of the 56,000 audited defined contribution plans, over 90% are estimated to be participant directed (approximately 50,000 plans). These plans may currently (or could in the future) be part of a master trust arrangement.

Comments

In the Memo, the staff recommended in Issues 2 and 3 that all plans (that is, both plans with “divided interests” and plans with “undivided interests”) be required to disclose its dollar amount interest in each general type of investment held by the master trust. In addition, all plans would be required to disclose the dollar amount of the plan’s interest in the master trust’s other assets and liabilities. We respectfully take this opportunity to provide additional comments related to these recommendations:
We do not believe that disclosure of a plan’s interest in each general type of investment and/or in other assets and liabilities should be required for plans that hold a **participant-directed divided interest** in a master trust. Our rationale is as follows:

- The ultimate basis for our conclusion aligns with the rationale behind the issuance of SOP No. 99-3 (“SOP 99-3”), *Accounting for and Reporting of Certain Defined Contribution Plan Investments and Other Disclosure Matters*. SOP 99-3 concluded that defined contribution plans are not required to present participant-directed plan investments in the statement of net assets available for benefits by general type for the following reasons:
  - The primary objective of a defined contribution plan’s financial statements is to provide information that is useful in assessing the plan’s present and future ability to pay benefits. Information about participant-directed fund options is commonly available to plan participants more timely and frequently from sources other than the plan’s financial statements.
  - A plan’s investment risk and investment concentrations are largely dictated by the decisions of participants as opposed to the decisions of the plan sponsor.
- For plans that have particularly complicated investments (e.g., separately managed funds, including synthetic GICs) and that seek to obtain a limited scope audit opinion, it may require the plan sponsor to undertake a cumbersome process of obtaining new reporting of investments and investment income at the plan level.
  - Currently, some investment custodians report the plan’s interest in the master trust investments and master trust investment income as a single line item on the plan’s investment statements (similar to the suggested presentation of Question 1 of this exposure draft).
- The disclosures suggested by the FASB staff’s current recommendation would impose an increasing compliance burden on plans that does not provide useful information in assessing a plan’s present and future ability to pay benefits. In addition, the changes impact a potentially significant number of plans for which the benefit would not justify the cost and effort on behalf of plan sponsors.

We also do not believe that disclosure of a plan’s interest in each general type of investment and/or in other assets and liabilities should be required for plans that hold an **undivided interest** in a master trust. This recommendation appears to conflict with the FASB’s significant and successful efforts made recently to simply disclosures and reduce disclosures that could be considered redundant. We believe the financial statement user can understand and evaluate the plan’s investment in the master trust by including a disclosure that the plan holds an undivided interest and by providing the percentage of that undivided interest.

Although FASB has indicated the additional disclosure is a function of math, we believe the financial statement users can perform that function if desired. We also believe that the proposed disclosures become more cumbersome and make the overall investment disclosures unnecessarily complicated due to the comparative nature of the financial statements, which in certain circumstances can include more than two years of financial information.

We appreciate the FASB staff’s efforts, and emphasize again from our original communication that we support the FASB’s recommendation to require disclosure of a plan’s dollar amount interest in each general type of investment and of other assets and liabilities when the plan holds a **nonparticipant-directed divided interest** in a master trust.
Lastly, we noticed that the FASB staff’s recommendations are based, in part, on proposed changes to the Form 5500. Although we applaud the FASB’s efforts to consider and align disclosures with the Form 5500, the proposed changes to the Form 5500 have drawn significant commentary from various parties and could be subject to revision. Therefore, we advise placing less emphasis on the Form 5500 changes when arriving at the ultimate recommendations for this exposure draft.

Thank you again for your consideration of our comments above and we welcome the opportunity to discuss the recommended changes or any questions the Board or its staff may have about these comments. We would be happy to review existing disclosures and how the proposed recommendations may change those disclosures. Please direct any questions to Theresa Banka at theresa.banka@plantemoran.com or 248.223.3572 or David Grubb at david.grubb@plantemoran.com or 248.223.3745.

Very truly yours,

Plante & Moran, PLLC