FASB Director @ FASB. ORG Disclosure 1830-100 EITF 100 C

Regarding: Defined Contribution Plans Topic 962- Reporting Loans to Participants

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Colleagues,

Thank you for the opportunity to critique this issuance. Details follow:

Background:

The issuance explains how to classify how loans to participants should be classified and measured by defined contribution pension benefit plans. Sub - paragraph 962-325 requires that most investments held by plans include participant loans to be presented at fair value. In practice, participant loans carried at unpaid principal balances and accrued but unpaid interest are considered a good faith approximation of fair value.

Topic 820 requires the use of observable and unobservable inputs i.e. market interest rates, borrower's credit risks and historical default rates to estimate the fair value of participant loans. Is the use of this assumption producing useful data or not? Any defined contribution pension plan allowing participant loans will be affected by this amendment.

Participant loans classified as **notes receivable** from participants which are segregated from the plan investment and measured at the unpaid principal and any accrued but unpaid interest are more efficient when classified in this manner over fair value and the application is retrospectively to all prior periods.

Participant loans are unique from other investments in that a participant taking out a loan borrows against its own vested benefit balance instead of having participant loans classified as plan investments.

Critique:

These notes receivables aren't investments a plan can or should sell on the open market.. Such loans are different from credit as the term is understood in common paralance. Participants are borrowing from their own account or theoretically from themselves.

According to the proposal, "If a participant were to default, the participant's account would be reduced by the unpaid balance of the loan, and there would be no effect on the plan's investment returns or any other participant's account balance." Although this may be true, plan administrators do not want to encourage material participant loans because to do so might endanger the very foundation of a participant's retirement nestegg in individual cases and for the fund taken as a whole. And so, the problem is to determine how much borrowing should be allowed to be classified as a notes receivable. A related question involves why the borrowing is taking place in the instant case.

By excluding the loans from investments, the proposal saves plan sponsors the difficulty of valuing them under required FASB fair-value accounting for investments. In practice, the plan administrators

should allow a *prudent amount of borrowing* which is a level that does not endanger a participant's retirement vestiture materially on a sound actuarial basis in accordance with bodies that promulgate guidance in sound actuarial practices, procedures and standards. A prudent amount of borrowing could be *no more than 5% of a participant's total vestiture* or more based upon special permission for unusual circumstances beyond the member's control or discretion.