**FASB Emerging Issues Task Force**

**Issue No.** 10-C

**Title:** Reporting Loans to Participants by Defined Contribution Pension Plans

**Document:** Issue Summary No. 1, Supplement No. 1*

**Date prepared:** September 9, 2010

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**EITF Liaison:** Jay Hanson

**Date previously discussed:** July 29, 2010

**Previously distributed EITF materials:** Issue Summary No. 1, dated June 25, 2010

**Background**

1. At the July 29, 2010 EITF meeting, the Task Force reached a consensus-for-exposure on this Issue. Additionally, the Board ratified the consensus-for-exposure and approved the issuance of a proposed Accounting Standards Update (proposed Update) for public comment at the July meeting. The proposed Update was posted to the FASB website on August 18, 2010, with a comment period that ended on September 7, 2010. Nineteen comment letters were received on the proposed Update and have been distributed to Task Force members. At the September 16, 2010 EITF meeting, the Task Force will have the opportunity to consider the comment letters as it redeliberates the consensus-for-exposure. The Task Force will then be asked whether it agrees with the staff recommendations for the proposed changes to the amendments to the FASB Accounting Standards Codification™ (the Codification) to be included in the final Update and whether it would like to affirm its consensus-for-exposure (as amended) on this Issue as a final consensus.

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* **The alternative views presented in this Issue Summary Supplement are for purposes of discussion by the EITF. No individual views are to be presumed to be acceptable or unacceptable applications of Generally Accepted Accounting Principles until the Task Force makes such a determination, exposes it for public comment, and it is ratified by the Board.**

**Summary of Comment Letters Received and FASB Staff Analysis**

2. Nineteen comment letters were received on the proposed Update from the following sources:

| | |
|---|---|
| Preparers | 5 |
| Accounting firms | 6 |
| Individuals | 4 |
| Accounting/industry association | 4 |
| **Total** | **19** |

Comment letter respondents were asked to comment on the following questions in the proposed Update:

> **Question 1:** Do you agree that participant loans should be classified by defined contribution pension plans as notes receivable from participants, separately from plan investments? If not, why not? What alternative classification would you prefer and why?
>
> **Question 2:** Do you agree that participant loans should be measured at their unpaid principal balance plus any accrued but unpaid interest? If not, why not? What alternative measurement would you prefer and why?
>
> **Question 3:** The Task Force concluded that no additional disclosures specific to participant loans would be required as part of the amendments in this proposed Update. Do you agree? If not, what additional disclosure do you believe would be necessary?
>
> **Question 4:** Do you agree that the amendments in this proposed Update should be applied retrospectively, with early adoption allowed? If not, why not?
>
> **Question 5:** How much time do you believe would be necessary for you to efficiently implement the amendments in this proposed Update?

The staff has identified and analyzed the significant comments in the sections that follow.

***Accounting for Participant Loans as Receivables***

3. Constituents were asked in the proposed Update whether they agree with the Task Force's consensus-for-exposure that participant loans should be accounted for as receivables rather than as investments, and whether participant loans should be measured at their unpaid principal balance plus accrued but unpaid interest. All comment letter respondents supported the

consensus-for-exposure that participant loans would be accounted for as receivables rather than investments, and measured at their unpaid principal balance plus accrued but unpaid interest. One comment letter respondent noted that the final Update and associated amendments should consistently refer to the required classification of participant loans as "notes receivable from participants." The staff agreed and made the corresponding edits to ensure that such terminology was used consistently throughout the Update.

***Disclosure Considerations***

4. Constituents were asked whether there are specific disclosures that the Board should consider that would be helpful for users with regards to participant loans. Several respondents suggested enhancing the disclosures. The following were the suggested disclosures:

a. A disclosure that participant loans are not lent out of the general assets of the pension fund but rather from the vested balance of the participant (CL#2)

b. A disclosure with regards to how loans in default are accounted for under the plan (CL#16)

c. Balance of loans and maximum amount of loans allowed per employee, if the rights and obligations associated with the loans vary by employee level (CL#17).

5. The staff noted that, generally, footnote disclosures summarizing the significant accounting policies of the plan, as required by paragraphs 235-10-50-1 through 235-10-50-3, will adequately describe how participant loans are administered under the plan's governing documents. The staff does not believe any additional disclosure requirements are necessary.

**Question 1: The staff does not recommend requiring any additional disclosures. Does the Task Force agree with that recommendation?**

6. One respondent expressed concern that, if participant loans were to be classified as notes receivable, they would be subject to the requirements of Accounting Standards Update No. 2010-20, *Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses*. Update 2010-20 requires extensive disclosure regarding the credit quality of finance

receivables. Without additional amendments to existing guidance, the notes receivable from participants would fall into the scope of Update 2010-20.

7. The staff believes that the credit risk associated with individual participant loans is not relevant to the users of the plan financial statements. Any individual credit risk is mitigated by the fact that the loans are secured by the participant's vested balance. If a participant were to default, the participant's account (that is, their investment in the loan) would be offset by the unpaid balance of the loan and the participant would be subject to tax on the unpaid loan balance. The participant is essentially loaning funds to himself and is the only party affected if he defaults on the loan. Accordingly, other plan participants' investment decisions are not affected by the creditworthiness or market value of another plan participant's loan. Therefore, the staff recommends exempting participant loans from the disclosure requirements in Update 2010-20.

**Question 2: The staff recommends that the Task Force exempt participant loans from the disclosure requirements in Update 2010-20. Does the Task Force agree with that recommendation?**

***Transition and Effective Date***

8. Most comment letter respondents agreed that the proposed Update should be applied retrospectively, with early adoption allowed. The proposed Update also asked how much time would be required to efficiently implement the amendments in the proposed Update. The respondents also were in general agreement that the amendments in the proposed Update could be implemented in a minimal amount of time.

9. One comment letter respondent (CL#16) noted:

> Many employee benefit plan audits are conducted as "limited scope" audits pursuant to ERISA and Department of Labor (DOL) regulations, and it is unclear whether participant loans will need to be audited or if they will continue to be covered by the trustee's certification. The DOL should be consulted as to whether a loan receivable would be included under DOL rules as an investment subject to the certification. Currently only investments and the related investment income or loss can be certified to. It is unclear whether this would require a change to 29 CFR 2520.103-8 of the Department of Labor's Rules and Regulations for Reporting and disclosure under ERISA in order for loan receivable to be covered

> by the certification. If this issue can be resolved in time, we suggest that the effective date for this proposed Update apply to years ending on or after December 15, 2010, with early adoption permitted. Such an effective date would provide sufficient time for auditors and the management of plan sponsors of defined contribution plans to conclude on this auditing matter.

10. The staff discussed this matter with the DOL. The DOL expressed the view that it will continue to consider participant loans as plan investments and, if certified as complete and accurate by certifying organizations, participant loans would continue to be eligible for the "limited scope" exclusion.

**Question 3: The staff recommends that the proposed Update be effective retrospectively for periods ending after December 15, 2010, with early adoption allowed. Does the Task Force agree with that recommendation?**