

December 12, 2011

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

File Reference No. 2011-190

Dear Ms. Cospers:

McGladrey & Pullen, LLP is pleased to comment on the Proposed Accounting Standards Update (ASU), *Technical Corrections* (the “proposed Update”). We support the ongoing efforts of the Financial Accounting Standards Board (“FASB” or the “Board”) to make technical corrections to clarify the Codification and correct unintended application of guidance. Overall, we also support the proposed amendments to conform the use of the term *fair value* throughout the Codification. However, we have identified instances in which the proposed conforming changes may have unintended consequences and likely will result in a significant change in current accounting practice. Our responses to the discussion questions on which specific comment is sought are included below for your consideration.

Comments on Discussion Questions

Question 1: Do you agree with the proposed amendments to the Codification described in this proposed Update? If not, please explain which proposed amendment(s) you disagree with and why.

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 instance(s) in which the proposed amendment(s) will significantly affect the application of U.S. GAAP and as well as the transition provisions that should be provided.

While we agree with many of the proposed amendments designed to clarify the Codification and to correct unintended application of guidance, as well as conform the use of the term *fair value* throughout the Codification, we believe that some of the proposed changes will result in an unintended and significant change in current accounting practice and are outside of the scope of the Technical Corrections project.

Employee Benefit Plan Accounting

In regards to plan accounting the following items were identified which will result in substantive changes to existing guidance:

- Under the proposed Update, paragraph 960-30-45-2 would be amended to require that defined benefit pension plans disclose net appreciation (depreciation) in fair value for each significant class of investment, segregated by the investment’s level within the fair value hierarchy (i.e., Level 1, 2 and 3). As current practice only requires net appreciation (depreciation) be segregated in two levels, the proposed change to three levels of

disaggregation would require trustees to provide additional information. The breakout of this information between Level 1 and Level 2 measurements will be especially challenging in situations when the same class of investment has investments within both levels, and likely will require a change to the trustee's systems as they typically do not currently maintain this information by hierarchy level. As Topic 820 only requires that net appreciation (depreciation) be provided as part of the Level 3 reconciliation, and does not require a further breakdown between Level 1 and Level 2 fair value measurements, this proposed amendment would require a greater level of disaggregation for defined benefit pension plans than is required by other entities. Accordingly, we recommend the proposed amendment be changed to require the disclosure of net appreciation (depreciation) for significant classes of investments be segregated between investments categorized within Level 3 and those categorized elsewhere in the fair value hierarchy.

- We have similar concerns as those cited in the preceding bullet for the proposed amendments to paragraph 965-20-45-3(e) related to the presentation by health and welfare benefit plans of net appreciation (depreciation) for each significant class of investment.

In regards to plan accounting, we also recommend the following changes to the proposed amendments:

- As part of the defined contribution pension plans' accounting policies, the proposed paragraph 962-325-50-1(b) adds a requirement that the plan disclose investments that represent five percent or more of the net assets available for benefits as of the end of the year. This requirement is not an accounting policy disclosure and, accordingly, we recommend the placement of this requirement conform to that of the Defined Benefit Pension Plans Topic (paragraph 960-325-50-2). Additionally, we recommend that the placement of the same proposed requirement in the Health and Welfare Benefit Plans Topic, paragraph 965-325-50-1(b), also conform to that of the Defined Benefit Pension Plans Topic (paragraph 960-325-50-2).
- Under the proposed Update, paragraph 960-205-55-1(Note E) has been updated to segregate the information provided in the table between the three levels in the fair value hierarchy. However, it is unclear as to whether the table is now intended to comply with certain of the Topic 820 disclosure requirements. Furthermore, the table as currently included in the Codification is out of date and inconsistent with current disclosure requirements. For example, the illustration presents the level in the fair value hierarchy of investments greater than five percent of net assets along with the number of shares and principal amounts, which is not information required by Topic 960. We recommend that the illustration be removed or updated to comply with current disclosure requirements.
- Paragraph 960-325-45-1 should end after "... types of investments" to avoid confusion over how the plan's investments are to be presented on the face of the financial statements and Topic 820 disclosure requirements. As currently drafted, the paragraph implies that investments should be segregated by level within the fair value hierarchy on the face of the financial statements. This would change current practice which is to disclose the level of the fair value measurement in the notes to the financial statements.
- As proposed, paragraph 962-325-35-1A introduces into the defined contribution pension plan guidance a requirement to reduce the fair value of plan assets and investments by selling costs. This concept of fair value less cost to sell is currently included in the SOP 92-6 definition of fair value. As SOP 92-6 only applies to health and welfare benefit plans, we do not believe this requirement is relevant for defined contribution pension plans and recommend the proposed change be eliminated.

Employee Stock Ownership Plans

In regards to sponsor accounting for an Employee Stock Ownership Plan (“ESOP”), we believe some of the conforming fair value changes proposed will result in substantive changes to existing guidance. We agree with the need for consistency and, therefore, generally support the use of the Topic 820 definition of fair value. However, there are certain areas where the valuation methodology employed by the ESOP fiduciary may vary from that of Topic 820. Where such differences impact the rights of plan participants or the cash flow of the plan sponsor, we submit that the value measurement employed by the ESOP fiduciary should be used, rather than “fair value” as described in Topic 820. Where such circumstances arise, the terminology employed should clearly distinguish that the amount disclosed is the ESOP fiduciary’s determination of value, as opposed to the Topic 820 measurement of fair value.

The following scenarios demonstrate instances in which the ESOP fiduciary’s definition of value varies from the Topic 820 fair value measurement:

1. Topic 820 stipulates certain constraints with respect to the measurement of fair value with which the fiduciary may not agree. For example, paragraphs 820-10-35-36B and 820-10-35-44 provide that premiums or discounts based upon the size of a holding are not recognized under GAAP. The fiduciary might, however, conclude that such premiums or discounts should be recognized for purposes of the Employee Retirement Income Security Act and the Internal Revenue Code (IRC). We have observed instances in which companies have had a significantly higher “fair value” under GAAP, than was determined by the ESOP fiduciary and used in valuing ESOP accounts. Another situation where we have observed differences is when the fiduciary uses the market to set the ESOP price, but it is the average of the 20 trading days prior to year-end, rather than the year-end price. Topic 820 would require the year-end price.
2. Topic 820 stipulates that “fair value” must be determined based upon observable inputs (e.g. quoted market prices) where available. The tax code stipulates that only ESOP’s holding shares traded on an exchange that is registered under Section 6 of the Securities Exchange Act of 1934 may rely upon quoted prices as the measurement of value. All other securities must be subject to valuation based upon an independent appraisal. These two rules conflict with respect to securities traded on the Over-the-counter Bulletin Board (“OTCBB”). The OTCBB may constitute an active market for certain securities, but in Notice 2011-19, the IRS emphasized that such securities must still be valued based upon an independent appraisal for purposes of those Code sections which rely on fair value of ESOP securities. This includes the determination of distributions to plan participants and the price to be paid under the put option between the participant and the plan sponsor or plan. We are aware of a situation involving a financial institution whose shares were traded over-the-counter and the trading price was nearly 40 percent higher than the appraised value of the shares.

The Exposure Draft suggests changes to the following paragraphs which we believe should rely upon the ESOP fiduciary’s determination of value, rather than “fair value” under ASC 820.

- Paragraph 718-40-25-2 discusses the put option between the participant and the plan sponsor or plan. The put option is governed by IRC §409(h). The price to be paid under the put option is the appraised price, as discussed above. As such, we believe this disclosure should refer to the “ESOP fiduciary’s determination of value,” rather than “fair value” under ASC 820 in the first sentence. In the second sentence, there is a reference to “Public entity” sponsors. Because of the fact that securities quoted on the OTCBB are “public” entities, but the put option is required to be at appraised value, not traded value, we believe this sentence should also refer to fair value for those entities whose shares are not required to be appraised and appraised value for other shares.

- Paragraph 718-40-25-14 discusses the return for value rule under IRC §404(k) and other benefit equivalency standards set by plan design. These rules are based upon the value used by the ESOP fiduciary in administering the plan and not based upon fair value as described in Topic 820. As such, to avoid having to add another definition to the glossary, we submit the revision to the last sentence of this paragraph should refer to the “value determined by the ESOP fiduciary.”
- Paragraph 718-40-45-7 describes the conversion feature for preferred stock held by the ESOP. The definition of permissible, convertible preferred shares is found in §409(l)(3). The conversion privilege is based upon the determination of value applied by the ESOP fiduciary. As such, for example, the shares issuable to the plan participant in the event of a withdrawal from the plan could be different under the plan’s actual operations than what would happen if the Topic 820 fair value concept was applied. Consider the impact of the OTCBB financial institution noted above where the trading price was nearly 40 percent higher than the appraised price. Since the purpose of this disclosure is to highlight what might actually happen under such circumstances, we submit that the accuracy, completeness and reliability of the disclosure would be improved by using the share value as determined by the ESOP fiduciary, rather than the Topic 820 fair value concept.
- Paragraph 718-40-50-1 discusses the disclosures for employers sponsoring an ESOP. Our specific comment pertains to item f., the disclosure of the fair value of the allocated shares. This is required as part of the disclosure of the repurchase obligation. That is, what is the potential call upon company assets in the event the plan was terminated? Plan distributions are valued based upon the ESOP fiduciary’s determination of the stock value. As such, we believe this paragraph should also refer to that concept and not the ASC 820 measurement of fair value.

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.

As described in the following, we believe there are additional technical corrections the Board should consider including in the proposed Update.

Topic 805 Disclosures

We believe the following changes to the disclosure requirements of Topic 805 should be considered:

- ASU 2010-02 amended Topic 805 to add the disclosure requirements in paragraphs 805-10-50-2(g)(3) and 2(g)(4). However, these disclosure requirements are not included in the disclosure illustration in paragraph 805-10-55-48. The disclosure illustration should be updated to incorporate those disclosure requirements.
- Paragraphs 805-50-50-3 and 4 specifically point out the disclosure requirements included therein apply to the receiving entity in a combination between entities under common control. However, paragraph 805-50-50-2 does not specifically point out that its disclosure requirements apply to the receiving entity. Paragraph 805-50-50-2 should be updated to indicate that it applies to the receiving entity.
- The disclosure illustration in paragraph 805-10-55-43 includes the following:
 - “The fair value of the contingent consideration arrangement of \$1,000 was estimated by applying the income approach.”
 - “As of December 31, 20X2, the amount recognized for the contingent consideration arrangement, the range of outcomes, and the assumptions used to develop the estimates had not changed.”

The fair value of the contingent consideration should reflect the time value of money. As such, all other things being equal, the amount recognized for the contingent consideration arrangement would be expected to have changed between June 30, 20X2 and December 31, 20X2. The Board should consider changing the illustration to reflect the amount recognized for the contingent consideration changing between June 30, 20X2 and December 31, 20X2.

Disclosures Related to Fair Value

In addition to the currently proposed amendments to Topics 820 and 825, we believe additional changes should be made to the disclosure requirements of those Topics so the disclosures prescribed by the Codification are consistent with the Board's intent as described ASU 2011-04.

- Specifically, it is our understanding that the Board intended the requirement to disclose the categorization by level of the fair value hierarchy for items that are not measured at fair value in the statement of financial position, but for which the fair value of such items is required to be disclosed be applicable only to public entities. However, as incorporated in the Codification in paragraph 825-10-50-10(d), this requirement, as related to the fair value of financial instruments, applies to both public and nonpublic entities unless the scope exception for certain nonpublic entities provided in paragraph 825-10-50-3 is met. Accordingly, paragraph 825-10-50-10(d) should be updated to clarify this requirement only applies to public entities. Furthermore, the disclosure illustrations in Section 825-10-55 have not been amended to reflect the paragraph 825-10-50-10(d) disclosure requirements. The illustrations in Section 825-10-55 should be updated to reflect this requirement where applicable.
- In the "Background Information and Basis for Conclusions" section of ASU 2011-04, the Board indicates that additional disclosures requirements of this standard do not apply to entities that use reported net asset value ("NAV") to estimate the fair value of an investment in an investment company entity. In paragraph BC90 of ASU 2011-04 the Board concludes "disclosures about the fair value of those assets and liabilities that are subject to the practical expedient and categorized within Level 3 of the fair value hierarchy would not be meaningful for such instruments because the determination of the level in the hierarchy is made on the basis of the reporting entity's ability to redeem its investment, rather than on the basis of whether the inputs used in the measurement are observable or unobservable." This discussion implies that the other disclosure requirements in Topic 820 for assets and liabilities measured at fair value on a recurring or nonrecurring basis do not apply to entities that use NAV to estimate the fair value of an investment in an investment company entity. However, the disclosure requirements for fair value measurements of investments in certain entities that calculate NAV ("NAV disclosures") as currently incorporated into the Codification seem to be in addition to and not in place of any other relevant fair value measurement disclosures (i.e., an entity with an investment in an investment company entity that calculates NAV would provide both the disclosures for recurring measurements located in paragraph 820-10-50-2 and the NAV disclosures as provided in paragraph 820-10-50-6A). If, as implied by the discussion in ASU 2011-04, the NAV disclosures are in place of and not in addition to the other disclosure requirements of Topic 820, the Board should make changes to clarify the scope of the fair value measurement disclosures for investments in an investment company that calculates NAV.

Disclosures about Troubled Debt Restructurings

The disclosures about troubled debt restructurings required by paragraphs 310-10-50-31 through 34 link to the transition guidance in paragraph 310-40-65-1, which is the transition and effective date information related to ASU 2011-02. While this link provides the correct transition guidance for public entities, the link provides incorrect effective date information for nonpublic entities. The disclosures about troubled debt restructurings established by ASU 2010-20 were not deferred for nonpublic entities. Therefore, the original effective date of ASU 2010-20 still applies for nonpublic

entities. That is, for nonpublic entities, the disclosures about troubled debt restructurings required in paragraphs 310-10-50-31 through 34 are effective for annual reporting periods ending on or after December 15, 2011, not annual periods ending on or after December 15, 2012 as indicated by the link to paragraph 310-40-65-1. We recommend that for nonpublic entities paragraphs 310-10-50-31 through 34 be linked to the transition guidance for ASU 2010-20, paragraph 310-10-65-2.

Question 4: Are there any significant operational issues that the Board should consider in determining the appropriate effective date for the final amendments?

Other than those previously mentioned, we are aware of no significant operational issues the Board should consider.

Question 5: The proposed amendments in this proposed Update would apply to public and nonpublic entities. Should any proposed amendments be different for nonpublic entities? If so, which proposed amendment(s) and why?

We agree with the Board's decision to make the proposed amendments applicable to both public and nonpublic entities.

We would be pleased to respond to any questions the Board or its staff may have concerning our comments. Please direct any questions to Rick Day (563-888-4017) or Ginger Buechler (952-893-7043).

Sincerely,

A handwritten signature in cursive script that reads "McGladrey & Pullen, LLP".

McGladrey & Pullen, LLP