

May 30, 2013

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

File Reference No. 2013-260

Dear Ms. Cosper:

McGladrey LLP is pleased to comment on the Proposed Accounting Standards Update, *Fair Value Measurement (Topic 820): Deferral of the Effective Date of Certain Disclosures for Nonpublic Employee Benefit Plans in Update No. 2011-04* (the "proposed ASU"). McGladrey has been providing tax, audit and accounting services to ESOP companies since the 1970s. Currently, we serve more than 100 ESOP companies, most of which are privately held. We support the proposal to indefinitely defer the effective date of certain required disclosures in ASU 2011-04 (Topic 820) of quantitative disclosure of information about the significant unobservable inputs used in Level 3 fair value measurement for investments held by a nonpublic employee benefit plan in its plan sponsor's own nonpublic entity equity securities. Our responses to the specific questions raised in the proposed ASU follow.

Question 1: *Do you agree with the indefinite deferral, as well as the Board's decision to defer for investments held by nonpublic employee benefit plans, only the quantitative information about the significant unobservable inputs used in Level 3 fair value measurement of its plan sponsor's own nonpublic entity equity securities, and not the qualitative information, required by paragraph 820-10-50-2(bbb)? Why or why not?*

Yes, we agree with the indefinite deferral of the quantitative information on unobservable inputs. We have been educating our clients on the requirements of ASU 2011-4 since it was finalized. A number of common themes arose from those meetings. Our clients recognize that such disclosures might be valuable to certain participants in the plan as they make decisions with respect to their diversification elections or distribution options. But they generally believed that it would be the rare plan participant who could evaluate this disclosure information in that context. Further, the most relevant information to such a participant is likely to be the disclosure of the methods and nature of the relevant inputs, as those are the items which influence value. Offsetting this possible benefit to an individual participant is the strong expectation of adverse consequences to the company stock price associated with the public disclosure of such confidential information on the Department of Labor's EFAST2 database. This disclosure requirement was presenting ESOP fiduciaries with the quandary on whether to comply with the reporting and disclosure rules by making such disclosures, but put the value of plan investments at risk through the public display of confidential data to competitors, potential buyers of the business or other parties with adverse interests or to refuse to present those disclosure and protect the confidentiality of such information but face potential penalties for failing to meet the reporting and disclosure requirements of ERISA.

FASB's prompt action on this matter may remove that conflict.

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Question 2: *Do you agree with the limited scope of plan sponsor's own nonpublic entity equity securities covered by the proposed Update? If not, what other investments should be included or excluded from the guidance in the proposed Update and why?*

We would like FASB to consider including in the scope of deferral certain insurance company investment contracts as described below in other observations.

Question 3: *Do you agree with the scope of the employee benefit plans in this proposed Update? If not, which other employee benefit plans should be included or excluded from the guidance in the proposed Update and why?*

We agree with the proposed scope of this project with respect to the included employee benefit plans.

Question 4: *Do you agree with the definition of nonpublic employee benefit plan? Is it understandable and operable?*

We believe that there is uncertainty as to the meaning of this term as it currently resides in the ASC. If an employee benefit plan is sponsored by a publicly traded company, but that benefit plan is not subject to registration, we believe that such benefit plan should be considered a "nonpublic employee benefit plan." However, the current language could lead to the conclusion that any benefit plan which is controlled by a public company through the process of funding, control to amend or terminate, etc. could be considered to be a public employee benefit plan because of such public company control.

Therefore we agree with the proposed definition in the exposure draft that a nonpublic employee benefit plan is an employee benefit plan other than those that are subject to the SEC Form 11-K filing requirements. We believe that you should consider applying this proposed definition to all Topics and not just limiting it to this specific Topic.

Other Observations: We want to take this opportunity to provide the FASB with insight on other issues of ASC 820 which are problematic to the employee benefit plan community. Benefit plans have been required to report plan assets at fair value since ERISA became effective for plan years beginning on or after January 1, 1976. Many plan investments are unique instruments that have been designed specifically for the retirement plan community and are not evident in other enterprises. This includes insurance company investment contracts with no stated maturity dates (sometimes referred to as evergreen), which are similar to bank savings accounts. These contracts receive periodic contributions from the employer or plan participants. They earn a guaranteed interest rate and may have periodic adjustments to that rate as determined by the insurance company. At some point in time, the contract may be converted to a paid up annuity contract based upon the same guaranteed interest rate. There are no specific assets pledged to fund this obligation. Instead, it is a promise to pay from the insurance company backed up by the general assets of the insurer; however no assets are specifically earmarked for the contracts. These contracts are bought and sold between the plan and the insurer at "contract value" which is typically the issue price plus credited earnings. Typically there are some restrictions on how rapidly such contracts may be exchanged for other investments or converted to cash, but generally such transactions occur at "contract value." The insurers regularly assert that "contract value" is "fair value" for such contracts (similar to bank savings accounts where carrying value is stated to represent fair value.) Due to the absence of a public market for such contracts, they are typically classified in Level 3 under ASC 820. The plan is then required to provide evidence to substantiate the assertion that "contract value" is "fair value" and, this year, will be required to provide the associated unobservable inputs. However, there are no "key inputs" to disclose due to the nature of the evergreen contracts—what you receive is based on very factual terms of the contract—you receive accumulated contributions and earnings at whatever rate was set. Currently all of that pertinent information is disclosed along with the crediting rates and average yields and any restrictions. Since, absent some significant financial catastrophe of the issuer, these contracts are always exchanged at contract value, it would seem

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appropriate for FASB to establish a practical expedient governing such contracts to be reported at contract value which represents fair value, and provide relief from the expanded disclosures similar to what is provided to investments using NAV option available under ASU 2009-12 as described under ASC 820-10-50-2(bb).

We appreciate this opportunity to provide feedback on the proposed guidance and 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 Becky Miller (612.387.8548).

Sincerely,

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

McGladrey LLP