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26 November 2014

Proposed Accounting Standards Update, *Technical Corrections and Improvements* (File Reference No. 2014-240)

Dear Ms. Cosper:

We appreciate the opportunity to comment on the proposed Accounting Standards Update (ASU), *Technical Corrections and Improvements*. We support the effort by the Financial Accounting Standards Board (FASB or Board) to address feedback received from stakeholders on the Codification and to make other incremental improvements to US GAAP. For the most part, we agree that the proposed changes would clarify the Codification, correct unintended application of guidance or make minor improvements to the Codification that would not be expected to have a significant effect on current accounting practice or create a significant administrative cost to most entities.

However, we are concerned about certain of the proposed amendments as detailed below and have suggested other changes that are not included in the proposal.

- The proposed transition (paragraph 5) for the amendments in paragraphs 12 and 13 related to personal financial statements would require either a retrospective or a modified retrospective approach. We believe these approaches may result in bias due to the use of hindsight when determining the estimated current value of real estate investments, and we recommend that these amendments be applied prospectively. If the modified retrospective approach is retained, we believe the transition requirements should be clarified, because the references to retained earnings, equity, net assets and the statement of financial position do not apply to personal financial statements. Personal financial statements include a statement of financial condition, which presents net worth (see ASC 274-10-45-4), not equity or net assets. Furthermore, we believe there would be no effect on the statement of financial condition in the year of adoption unless a personal financial statement preparer elects to present a statement of changes in net worth. Those preparers would separately present the effect of any change in the estimated current value of real estate investments as an adjustment to the line item "net worth at the beginning of the year" in that statement. We therefore recommend the following clarifications to the proposed language:

  105-10-65-3(b) An entity shall recognize and present separately the cumulative effect of the change in accounting principle of the pending content that links to this paragraph as an adjustment to the opening balance of retained earnings (or other appropriate components of equity or net assets in the statement of financial position, <u>or net worth for an entity that</u>

> prepares personal financial statements and elects to present a statement of changes in net worth) for the period of adoption. The cumulative-effect adjustment is the difference between the amounts recognized in the statement of financial position (or the statement of financial condition for personal financial statements) before initial application of the pending content that links to this paragraph and the amounts recognized in the statement of financial position (or the statement of financial condition for personal financial statements) at initial application of the pending content that links to this paragraph.

- Paragraphs 41 and 42 propose amendments to Subtopic 470-30 to clarify the debtor's accounting for two types of participating mortgages. Specifically, the proposed amendments clarify the different accounting for participating mortgages related to market value appreciation and participating mortgages related to results of operations. For entities that might have previously recognized a participation liability at inception of the loan for a participating mortgage related to results of operations and subsequently measured the liability at its fair value, the proposed amendments would result in substantive changes. Therefore, we recommend that transition guidance be provided for these amendments. Also, we suggest the following change for improved clarity:

  > **470-30-35-4** Amounts due to a lender pursuant to the lender's participation in the real estate project's results of operations (as defined in the participating mortgage loan agreement) shall be charged to interest expense in the borrower's corresponding financial reporting period, with a corresponding credit to ~~the~~ a participation liability.

- Paragraphs 44 and 45 amend ASC 505-10-45-2 by adding a reference to ASC 210-10-S99-1. We recommend that the term "subscriptions receivable" replace the word "receivable" in the inserted text to improve clarity and conform to other references to this guidance in the Codification. Also, we believe the references to the relevant paragraphs in ASC 210-10-S99-1 should include paragraph 29.

- The proposed deletion of "do not apply in this situation" in ASC 715-30-55-63 (paragraph 49) appears to introduce a requirement for certain not-for-profit entities to provide the full suite of disclosures required by ASC 715-80-50. The Board previously indicated in its basis for conclusions (BC21) in ASU 2011-09 its intent not to require that local chapters of not-for-profit organizations that participate in their national organization's defined benefit pension plan provide the full set of disclosures; rather, they need to provide only the name of the plan and the amount of contributions made to the plan in each annual period for which an income statement is presented. We believe that this is an unintended change and do not agree with the proposed amendment.

  Further, the proposed amendments would delete the reference to related party disclosures required by Subtopic 850-10. However, ASC 715-80-50 does not have specific disclosure requirements for related parties, and therefore, we believe that the reference to Subtopic 850-10 continues to be relevant. It also appears that the reference to ASC 715-80-55 in the last sentence of paragraph 48 should be to ASC 715-80-50.

- We believe the following additional changes to ASC 718-740, which address tax considerations for employee stock ownership plans, are needed for consistency with the proposed amendments to ASC 718-40 in paragraphs 51-56:

  - In ASC 718-740-25-6 (a), remove the glossary link to the first definition of fair value and add a glossary link to the second definition of fair value.

  - In ASC 718-740-45-5, bold the term "fair value" and add a glossary link to the second definition of fair value, since this is the first time the second definition of fair value appears in this section of the Codification.

- We do not agree with the proposed amendments in paragraphs 70 and 71 because the proposed changes to the guidance on pushdown accounting will be superseded by the amendments in the final ASU relating to Emerging Issues Task Force (EITF) Issue 12-F. We suggest removing the proposed changes from the *Technical Corrections and Improvements* proposal.

- We recommend adding the following underlined language to the paragraph 81 amendment of the Master Glossary term "recorded investment," for improved clarity: "… the amount of that loan's recorded investment should include cumulative fair value hedge adjustments<u>, including subsequent amortization thereof.</u>"

- Paragraphs 83 and 84 propose amendments to delete subparagraph 820-10-15-3(d) because there is no exception to measurement at fair value in Topic 958 and Subtopic 720-25. The proposed amendments would include a new paragraph (820-10-25-3) in the Recognition Section of Topic 820 to add the delay in recognition guidance from Statement 116.

  Consistent with Concepts Statement 5 (CON5), we agree that the question of whether an item has a relevant attribute that is measurable with sufficient reliability is a question of whether to recognize an asset or liability, rather than a question of how to measure the asset or liability. However, we are concerned that the proposed addition of paragraph 820-10-25-3 will create added confusion and inconsistency because it introduces a broad recognition threshold from CON5 (which we note has historically been considered by the Board in its deliberations process on a standard-by-standard basis) into an ASC Topic that deals only with measurement. We do not believe that the guidance is necessary to include in Topic 820 and recommend that the language not be added. However, if the Board decides to include this information, instead of introducing this broad recognition topic in a section on practicability exceptions for measurement, we would suggest that the Board consider amending paragraph 820-10-15-2 to clarify this issue. We also would suggest that the Board use the verbiage from CON5, rather than the verbiage from the original Basis for Statement 116, to clarify the recognition threshold. Our suggested addition is as follows:

  > 820-10-15-2<u>(d)</u> <u>To assets or liabilities that do not qualify for recognition in the statement of financial position because they cannot be measured with sufficient reliability (such as certain contributions in accordance with Topic 958 and Subtopic 720-25).</u>

- Paragraphs 85 and 86 propose an amendment to paragraph 820-10-35-36D to clarify that the paragraphs in Subtopic 820-10 that address a change in valuation technique are applicable to a change from the use of mid-market pricing or other pricing conventions to another valuation technique. We agree with the concept behind the proposed amendment but believe it would be clearer if the proposed addition were included in the existing listing in 820-10-35-25, since that paragraph already lists the circumstances in which a change in valuation technique is considered equally or more representative of fair value.

- Paragraph 102 proposes amending ASC 958-205-45 to clarify that the example in paragraph 45-10 reflects two temporary restrictions (i.e., a purpose restriction and a time restriction). However, the example originated in the basis for conclusions of SFAS 116 (paragraph 166) as an example of a time restriction only. In addition, the remaining discussion on endowment funds in ASC 958-205-45 doesn't suggest that the requirement to invest a term endowment is a purpose restriction, and the NFP AAG (while not authoritative) explicitly refers to this example, noting [emphasis added], "Thus, the related effects of that <u>time-restricted gift</u> should be reported in the period of receipt as well as the period in which the nature of the restriction changes." We therefore do not agree with the proposed changes and suggest that the Board consider a different example of a dual temporary restriction.

- Paragraph 102 also proposes adding an example to address a situation in which two temporary restrictions exist to clarify that if evidence suggests that it is reasonable to conclude that a donor restriction has been met, an implied time restriction should not override that evidence. The example of an unconditional promise to give with payments due in future periods is being used to demonstrate that an entity might imply a time restriction in those circumstances. However, the guidance in ASC 958-605-45-5 creates the presumption that receipts of unconditional promises to give with payments due in future periods include a time restriction, unless explicit donor stipulations or circumstances surrounding the receipt of a promise make clear that the donor intended it to be used to support activities of the current period. We believe that the proposed example will be confusing and will add complexity rather than clarity.

- Paragraph 111 proposes an amendment to correct the use of an identical glossary term with two separate definitions in one Subtopic. We agree with the need for that correction, but not the way in which it has been incorporated into ASC 958-605-25-33. The proposed addition of the phrase "and, if there is a controlling financial interest," is not needed to correct the problem, and the basis for limiting the instances in which the definition of control in Topic 850 would be considered is unclear to us. We recommend that the amendment be limited to removing the glossary link and amending the paragraph to read, "the related party disclosure definition of control in Topic 850."

- The proposed amendment in paragraph 114 would replace the term "contribution" with the term "revenue." We believe that this change may create confusion about whether the transaction should be accounted for as a contribution or an exchange transaction (e.g., contract or grant revenue). In addition, if the transaction is in part an exchange transaction, the guidance would conflict with the pending content in ASU 2014-09. Under the conforming amendments in ASU 2014-09 (paragraph 958-605-25-1), the guidance on exchange transactions in ASC 958-605 will be superseded, and exchange transactions must instead be accounted for in accordance with the guidance in ASC 606. We suggest that the language be changed as follows: "… should be reported as a contribution ~~at fair value~~ at the date received by the NFP only if it is probable that the NFP will be permitted to keep the assets when the arrangement terminates <u>or should be reported as revenue if the property and equipment is part of the consideration in an exchange transaction</u>.

We believe that the following additional changes to the Codification are needed:

Loans insured under an FHA or VA program

EITF 87-9, *Profit Recognition on Sales of Real Estate with Insured Mortgages or Surety Bonds*, was codified in ASC 360-20, *Property, Plant, and Equipment — Real Estate Sales*. However, the final paragraph of EITF 87-9, which amended previous discussions, does not appear to have been codified. As a result, ASC 360-20-55-3 (see excerpt below) allows the initial and continuing investment tests to be evaluated using Federal Housing Administration (FHA) or Veterans Administration (VA) criteria rather than the criteria set out in ASC 360-20-55-1 (i.e., the minimum initial investment criteria) provided the loan is *fully insured* under these programs. However, the Task Force ultimately concluded (see excerpt below) that such loans did not need to be *fully insured* and amended EITF 87-9 to reflect that conclusion. ASC 360-20 does not reflect that decision to amend the guidance. We suggest that the term "fully" should be deleted to conform ASC 360-20-55-3 with the subsequent EITF discussions permitting profit recognition under the full accrual method for all loans insured under the current FHA or VA programs.

Excerpt: ASC 360-20-55-3 A seller of owner-occupied single-family residential homes that finances a sale under an Federal Housing Administration or Veterans Administration government-insured program may use the normal down payment requirements or loan limits established under those programs as a surrogate for the down payment criteria set forth in paragraphs 360-20-55-1 through 55-2 and may record profit under the full accrual method provided that the mortgage receivable is **fully** [emphasis added] insured from loss under the Federal Housing Administration or Veterans Administration program. In that specific circumstance, departure from the minimum initial investment criteria of this Section is justified because all of the credit risk associated with the receivable from the sale is transferred to the governmental agency. However, in all other circumstances (for example, Federal Housing Administration or Veterans Administration programs that provide for less than full insurance or seller financing using private mortgage insurance) the minimum initial investment criteria set forth in this Section shall be followed.

Excerpt: EITF 87-9 On the second issue, the Task Force reached a consensus that mortgage insurance should *not* be considered the equivalent of an irrevocable letter of credit in the determination of whether it is appropriate to recognize profit under the full accrual method because the purchase of mortgage insurance is not deemed to demonstrate a commitment by the buyer to honor its obligation to pay for the property.

With respect to the subissue, the Task Force reached a consensus that a seller of owner-occupied single-family residential homes that finances a sale under an FHA or VA government-insured program may use the normal down payment requirements or loan limits established under those programs as a surrogate for the down payment criteria set forth in paragraphs 53 and 54 of Statement 66 and may record profit under the full accrual method provided that the mortgage receivable is *fully insured* from loss under the FHA or VA program. In that specific circumstance, the Task Force believes that departure from the minimum initial investment criteria of Statement 66 is justified because all of the credit risk associated with the receivable from the sale is transferred to the governmental agency. However, the Task Force emphasized that in all other circumstances (for example, FHA or VA programs that provide for less than full insurance or seller financing using private mortgage insurance) the minimum initial investment criteria set forth in Statement 66 should be followed.

Subsequently, several Task Force members indicated that they did not recall the consensus being limited to transactions that are *fully* insured under the FHA and VA programs. Some Task Force members indicated their belief that the consensus should be applied to all sales of residential property for which the seller provides financing under the FHA or VA program and the buyer has complied with the normal lending terms for those programs in the specific location of the property, irrespective of whether the mortgage is *fully* insured. Others suggested that they are uncomfortable addressing transactions that are not fully insured under those programs without a better understanding of how the programs insure the seller in the event of a default by the buyer.

At a subsequent meeting, the Task Force discussed the FHA mortgage insurance program and the VA loan guarantee program with representatives from the FHA and the VA. An FHA representative confirmed that the FHA program normally insures 100 percent of the outstanding mortgage principal, and a VA representative stated that the VA program generally provides first-dollar loss coverage of either 40 or 50 percent of the qualified loan amount, but coverage of not more than $36,000. Coverage under the VA program is reduced on a pro rata basis as the principal of the loan is paid off. Neither program provides for split coverage with private insurers. Also, in the event of a default by the borrower, both the FHA and the VA programs provide for recourse against the borrower.

The Task Force reached a consensus that the term *fully* should be deleted from the consensus reached above, thus permitting profit recognition under the full accrual method for all loans insured under the current FHA or VA programs. Task Force members noted that the consensus applies only to FHA and VA coverage and not to private mortgage insurance.

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We would be pleased to discuss our comments with the Board members or the FASB staff at your convenience.

Very truly yours,

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