

November 15, 2016

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Chairman  
Financial Accounting Standards Board  
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Via email: [director@fasb.org](mailto:director@fasb.org)

File Reference: EITF 16-B *Employee Benefit Plan Master Trust Reporting*

Dear Chairman Golden:

The American Bankers Association<sup>1</sup> (ABA) appreciates the opportunity to comment on the Exposure Draft *Employee Benefit Plan Master Trust Reporting* (ED). The ED seeks to improve the usefulness of the information reported to users of employee benefit plan financial statements, applying more specifically to the reporting by an employee benefit plan (a plan) for its interest in a master trust.

As bank trust companies generally serve as trustees or custodians of master trusts, a roundtable of the largest trust companies was organized by ABA members in order to review the ED. The comments attached address certain questions posed in the ED and reflect the opinions of the trust accounting roundtable participants, based on their vast experience in serving their employee benefit plan clients, as well as their observations from the current outstanding proposal by the U.S. Department of Labor to make certain changes to Form 5500 Schedule of Assets Held in a Master Trust.

Thank you for your attention to these matters and for considering our views. Please feel free to contact me ([mgullette@aba.com](mailto:mgullette@aba.com); 202-663-4986) if you would like to discuss our views.

Sincerely,



Michael L. Gullette

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<sup>1</sup> The American Bankers Association is the voice of the nation's \$16 trillion banking industry, which is composed of small, regional and large banks that together employ more than 2 million people, safeguard \$12 trillion in deposits and extend more than \$8 trillion in loans.

**Question 1: Should a plan's interest in a master trust and the change in its interest in the master trust be presented in single line items in the plan's statement of net assets available for benefits and in the statement of changes in net assets available for benefits, respectively? Why or why not?**

Yes. Presentation of a plan's interest in a master trust and the change in its interest in a master trust as single line items, coupled with further details in the footnotes, is an effective and efficient way to provide the information. This presentation is seen used in practice today by most of our plan sponsors with plans participating in a master trust.

**Question 2: Should a plan with a divided interest in a master trust be required to disclose the dollar amount of its interest in each general type of investment held by the master trust as well as the total investments held by the master trust, presented by general type? Why or why not?**

Yes. Given that each plan's exposure to the investments of a master trust can vary depending on the plan's percentage ownership of various investment pools into which the master trust may be divided, such a disclosure would provide useful information regarding each plan's actual exposure to various types of investments held within the master trust.

Master trusts are currently required to disclose similar information in Form 5500 filings that are required for each "Master Trust Investment Account" (MTIA). Since an investing plan's fractional ownership of each asset in an MTIA investment pool is the same as its fractional ownership in the pool, it may be more efficient to require that the general types of assets be reported at the MTIA level, rather than at the level of each plan. MTIAs are already required to break out assets by general type on line 1c of Form 5500 Schedule H.

To the extent that assets of a master trust are required to be categorized other than as on line 1c of Form 5500 Schedule H, we believe FASB could clarify the meaning of the term "general type". FASB could also clarify that the use of "general type" would not preclude flexibility, including the use of more granular presentations that are consistent with other disclosures. For example, pension plan sponsors who are required to prepare disclosures following ASC 715 use nature and risk as the basis for presenting investment categorization. Using the same asset breakdowns by both the sponsor and the plan itself facilitates disclosures that are consistent, and is efficient and convenient.

Also for purposes of convenience to the preparer, FASB should consider permitting assets and liabilities to be classified within this new disclosure using similar criteria that are or will be prescribed by the DOL, for Form 5500 Schedule H.

**Question 3: Should a plan be required to disclose a master trust's other assets and liabilities (for example, amounts due from brokers for securities sold, amounts due to brokers for securities purchased, accrued interest and dividends, and other accrued expenses) and the dollar amount of the plan's interest in each of those assets and liabilities? Why or why not?**

Yes. All other assets and liabilities should be included to ensure that the sum of the values reported by all plans participating in a master trust sum to the grand total value reported by the master trust.

Without including the other assets and liabilities of the master trust, the financial statement user is less able to reconcile each plan's total interest to the master trust. These values are included when determining the value of a plan's interest in the master trust, so they should not be omitted.

While the proposal refers to balances such as receivables and payables related to derivatives, it would be helpful to state explicitly that reporting entities are able to utilize the same categories here as would be used by a plan to report assets held directly (i.e. not held within a master trust). In our view, new required subcategorization should not be introduced here. The benefit is consistency in disclosure as well as reduced cost for preparers.

**Question 4: Should a health and welfare benefit plan not be required to include the 401(h) account investment disclosures? If so, should the health and welfare benefit plan be required to disclose the name of the defined benefit pension plan in which those 401(h) account investments are legally held? Why or why not?**

Yes. Reducing redundancy benefits both financial statement users and plan sponsors. In such case, health and welfare benefit plan providers should be required to disclose the name of the defined benefit plan or trust holding the 401(h) account.

**Question 5: The Task Force decided not to require other disclosures (for example, those required by Topics 815 and 820) for the underlying investments held by a master trust. Do you agree that such disclosures should not be required for the underlying investments held by the master trust? Why or why not?**

While we recognize FASB's objective of aligning the presentation of investments in a master trust with how investments in other commingled investment vehicles are presented in the financial statements of the investor, the FASB proposal may result in an unintended, overall reduction in the transparency to the holdings and valuation practices of the master trust, because some plan sponsors currently provide that information voluntarily, pursuant to certain AICPA recommendations. A FASB decision to not require other disclosures for the underlying investments held by a master trust may result in plans discontinuing their current practice.

Requiring only a look-through to the master trust for a disclosure of holdings by general type, without the additional disclosures (such as the fair value leveling information, disclosures of investments valued at net asset value (NAV) related to outstanding commitments and redemption restrictions, and derivatives disclosures), provides less transparency to the plans' true investment exposure.

In the case of a fund investment, stakeholders typically rely on the financial statements of the fund for more information. However, financial statements are not required by the FASB for a master trust (although a schedule of assets must be included as part of Form 5500 Schedule H for each MTIA). While some large plan sponsors currently prepare financial statements of the master trust and engage the auditor to perform an audit over the master trust financial information, this practice appears to be limited.

If a plan is not required to look through and report on the detail assets held by the master trust, then consideration should be given by the FASB to require a master trust to prepare financial statements. According to BC16, the Board observed that such “[...] disclosures would be more appropriate within master trust financial statements, when prepared – as opposed to plan financial statements.” However, this observation only supports omitting such disclosures by the plan if a master trust is indeed required by FASB to prepare financial statements.

**Question 6: Should plans be required to provide the Topic 820 disclosures for a plan’s interest in the master trust (that is, consistent with the single line item that is presented in the statement of net assets available for benefits)? For example, should a plan be required to disclose the fair value hierarchy level of its interest in the master trust and if its interest in the master trust is classified as Level 3, then also the relevant Level 3 disclosures? Why or why not?**

Yes. It makes sense that a plan should provide Topic 820 disclosures for its interest in a master trust, similar to any other assets reported at fair value. However, unique guidance may be needed related to assigning a level to an interest in a master trust.

While ASU 2015-07 has increased awareness regarding whether funds meet the criteria for relying on NAV as a practical expedient, diversity in practice continues. For an interest in a master trust, FASB could consider inclusion in the fair value hierarchy disclosure, but exclusion from classification as level 1, 2, or 3. Even if excluded from level classification, plans should still be required to include a narrative description of the valuation methods used by the master trust, as well as the methods utilized for allocating earnings to the participating plans.

**Question 7: Are there other disclosures that should be required in the plan’s financial statements related to the plan’s interest in the master trust or related to the master trust’s activity?**

FASB could clarify (within ASC 960-325-50-7, 962-325-50-7, and 965-325-50-7) that the net change in the fair value of investments in a master trust may be presented in the aggregate, rather than by type. Within p. 1 of the ED, it is stated that current requirements of a plan are to disclose “...the net change in the fair value of each significant type of investment of the master trust.” However, this language (“each significant type”) was eliminated pursuant to ASU 2015-12.

Clarity is also needed whether only net appreciation or depreciation may be reported in the aggregate, but other investment income (e.g. interest and dividends) is expected to be disclosed by type. Although it may require additional resources by the plan, consideration could also be given to requiring the same level of disaggregation to the earnings of a plan’s interest in a master trust as would be required when plans hold the investments directly.

**Question 9: What costs do you anticipate would be incurred if the proposed amendments were implemented?**

To support our clients, additional reporting will need to be developed by custodian banks to assist clients with the presentation of a breakdown of a plan's interest in the holdings of a master trust, disaggregated by general type. For larger plan sponsors with a greater number of benefit plans that invest in multiple pools, which in some cases involve multi-layered structures, the disclosures are more challenging to prepare. We anticipate that larger plan sponsors with a greater number of benefit plans that invest in multiple pools will look to their custodians to provide the pro-rata holdings at the plan level.

**Question 11: How much time would be needed to implement the proposed amendments? Should early adoption be permitted?**

The lead time for developing new custody reports varies, depending on other reporting changes that are currently prioritized. To accommodate, the new disclosure should not be required sooner than for plan years beginning after December 31, 2016.

Consideration could also be given to aligning the timing of these new disclosure requirements with Form 5500 reporting changes currently proposed by the DOL, which may increase the opportunity to coordinate needed development for both.