



FASB Proposes Additional Asset Disclosures for Pension Plans

The Financial Accounting Standards Board (FASB) has issued a proposed staff position requiring sponsors of defined benefit pension plans and other postretirement benefit plans (OPEBs) to disclose additional information about their plans' invested assets. The additional disclosures would be required for fiscal years ending after December 15, 2008, with prospective application only. The proposal also includes an unrelated technical correction concerning the net periodic benefit cost to be reported by nonpublic entities.

Proposed Staff Position Amending FASB Statement No. 132(R)

Proposed FASB Staff Position (FSP) No. 132(R)-a, *Employers Disclosures about Postretirement Benefit Plan Assets*, is intended to improve the transparency of asset disclosures.

More refined breakdown of asset categories. The preparer is to disclose (i.e., in the footnotes) the fair value of each major category of assets in the plan as of each annual reporting date. Major asset categories (e.g., cash, equity securities, corporate debt, hedge funds, derivatives, private equity funds), if significant, should be disclosed along with any additional categories as appropriate.

BUCK COMMENT. *Today's financial statements rarely show more than a breakdown of the fair value of assets into equities, debt, real estate, and other investments. Plan sponsors should check that their trustees are prepared to timely provide this additional information.*

Concentration of risk. Preparers are to disclose significant concentrations of risk, for example concentrations in a single entity, industry, country, commodity or investment fund.

Disclosures about fair value measurements of plan assets. FAS 157, *Fair Value Measurements*, establishes a 3-level hierarchy for determining fair values to be reported in financial statements. The first level consists of assets for which there are quoted prices in active markets; the second level consists of assets for which significant other observable inputs are used to establish fair value; and the third level requires significant unobservable inputs to determine fair value. FAS 157 also sets forth disclosure requirements, but these are specifically not applicable to pension and OPEB assets.

FSP 132(R)-a would require disclosure of the following information for pension and OPEB plans, similar to the disclosures required by FAS 157 for other assets of the plan sponsor –

- for each major category of plan assets, the level within the fair value hierarchy in which the fair value measurements fall

- for fair value measurements of plan assets using significant unobservable inputs (third level), a reconciliation of the beginning and ending balances showing changes arising from (a) return on plan assets, (b) purchases, sales, and net settlements, and (c) transfers in and out of the third level
- information about the valuation techniques and inputs used to measure fair value and a discussion of changes in valuation techniques and inputs, if any, during the period.

BUCK COMMENT. *In general, it is the preparer's responsibility to determine what measures and descriptions are most useful in providing information about investment strategies, including whether or not there is a concentration of risk that should be reported. The FSP describes the kind of information that is helpful to users and should be disclosed, but it does not set forth specific rules on how to disclose that information.*

Description of expected rate of return on plan assets. The narrative describing the determination of the rate of return on assets assumption should consider the major categories in which the plan assets are invested.

Technical Correction on Disclosure of Net Periodic Benefit Cost

In September 2006, FAS 158 amended FAS 132(R) and inadvertently eliminated the requirement for nonpublic entities to disclose net periodic benefit cost. The FSP would correct FAS 132(R) to reinstate this requirement.

BUCK COMMENT. *It is not clear whether any nonpublic entity ever acted on the error.*

Conclusion

Buck's consultants are prepared to discuss the implications of the FSP on your financial statements.

This FYI is intended to provide general information. It does not offer legal advice or purport to treat all the issues surrounding any one topic.