



FASB Requires Additional Asset Disclosures for Pension and OPEB Plans

The Financial Accounting Standards Board (FASB) issued on December 30, 2008 a 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 are required for fiscal years ending after December 15, 2009, with prospective application only and earlier adoption permitted. The staff position also includes an unrelated technical correction concerning the net periodic benefit cost to be reported by nonpublic entities that is effective immediately.

Staff Position Amending FASB Statement No. 132(R)

FASB Staff Position (FSP) FAS 132(R)-1, *Employers Disclosures about Postretirement Benefit Plan Assets*, is intended to improve the transparency of asset disclosures. This FSP retains most of the provisions of the proposed version issued in March, 2008 (see our May 19, 2008 [For Your Information](#)). Under the FSP, information is to be provided in the notes to the financial statements of plan sponsors to give users of those statements an understanding of the following –

- how investment allocation decisions for plan assets are made
- the types of investments for plan assets
- the inputs and valuation techniques used to determine the fair value of assets in accordance with FAS 157
- changes in the fair value of assets that use significant unobservable inputs for measurement
- significant concentrations of risk within the plan assets.

To meet these objectives, the FSP amends FAS 132(R) to require the following.

More refined breakdown of asset categories. The preparer is to disclose the fair value of each major category of assets in the plan as of each annual reporting date. Major asset categories (e.g., cash and cash equivalents, equity securities (allocated by industry type, company size or investment objective), corporate debt, hedge funds, derivatives segregated by type of underlying risk in the contract, private equity funds), if significant, should be disclosed along with any additional categories as appropriate. The FSP also requires the description of the basis used to determine the overall expected rate of return on assets that was previously required by FAS 132(R) to include relevant information for the various categories of assets being reported.

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 the additional information required under the FSP.*

Also, the change regarding the expected return assumption indicates that an expected return by asset category should be provided if those values were used to derive the overall rate being disclosed.

Enhanced description of investment policies and strategies. The employer must include target allocation percentages or a range of percentages for the major categories of plan assets disclosed as of the latest statement of financial position. Other factors, such as risk management practices, limitations on the types of investments within each major asset category and investment goals, should also be included. If mutual or pooled investment funds is one of the categories of assets used in the disclosure, the significant investment strategies of those funds must be provided.

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.

The FSP requires that a breakdown of the fair value of assets for each major asset category by the level of input used to determine the fair value be disclosed. For Level 3 assets, a reconciliation of the beginning and ending balances is required which would present the changes during the period attributable to (a) actual return on plan assets, separately shown for assets still held at the reporting date and those sold during the period, (b) purchases, sales and settlements, and (c) transfers in and out of Level 3.

A discussion of valuation techniques and inputs and any changes in such methods during the period is also required.

Concentration of risk. 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. FASB, in reaction to comments received on the proposed FSP, decided not to prescribe how a significant concentration of risk in plan assets should be identified and reported. However, preparers must take into account the stated objective for the asset disclosures to provide users with an understanding of significant concentrations of risk in the plan assets. The FSP provides an example (in Appendix C) of a format that is intended to satisfy the disclosure requirements.

Technical Correction on Disclosure of Net Periodic Benefit Cost

When FASB's September 2006 amendments to FAS 158 were applied to FAS 132(R), the requirement for nonpublic entities to disclose net periodic benefit cost was inadvertently eliminated. The FSP reinstates this requirement.

Effective Date

The FSP is effective for fiscal years ending after December 15, 2009 (one year later than was initially proposed).

BUCK COMMENT. *Because of the requirement to provide a reconciliation of the changes in fair value of Level 3 assets during the year, preparers must ensure that the information necessary to provide the sources of such changes is maintained and reported by their trustees or investment advisors from the start of the 2009 fiscal year.*

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.