

# FINANCIAL ACCOUNTING SERIES

## ACCOUNTING STANDARDS UPDATE

No. 2015-12  
July 2015

Plan Accounting:  
Defined Benefit Pension Plans (Topic 960)  
Defined Contribution Pension Plans (Topic 962)  
Health and Welfare Benefit Plans (Topic 965)

- I. Fully Benefit-Responsive Investment Contracts
- II. Plan Investment Disclosures
- III. Measurement Date Practical Expedient

consensuses of the FASB Emerging Issues Task Force

An Amendment of the *FASB Accounting Standards Codification*®

Financial Accounting Standards Board

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# Accounting Standards Update 2015-12

## Plan Accounting:

Defined Benefit Pension Plans (Topic 960)

Defined Contribution Pension Plans (Topic 962)

Health and Welfare Benefit Plans (Topic 965)

July 2015

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# Accounting Standards Update

No. 2015-12 (Part I)  
July 2015

Plan Accounting:  
Defined Contribution Pension Plans (Topic 962)  
Health and Welfare Benefit Plans (Topic 965)

Part I: Fully Benefit-Responsive Investment Contracts

An Amendment of the *FASB Accounting Standards Codification*®

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Financial Accounting Standards Board



# Summary

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## Why Is the FASB Issuing This Accounting Standards Update (Update)?

The Board is issuing this Update to reduce complexity in employee benefit plan accounting, which is consistent with its Simplification Initiative. The objective of the Simplification Initiative is to identify, evaluate, and improve areas of generally accepted accounting principles (GAAP) for which cost and complexity can be reduced while maintaining or improving the usefulness of the information provided to users of financial statements. Part I of this Update is related to one area of several potential simplifications for employee benefit plans submitted by stakeholders.

Topics 962, Plan Accounting—Defined Contribution Pension Plans, and 965, Plan Accounting—Health and Welfare Benefit Plans, require fully benefit-responsive investment contracts to be measured at contract value. Those Topics also require an adjustment to reconcile contract value to fair value, when these measures differ, on the face of the plan financial statements. Fair value is measured using the requirements in Topic 820, Fair Value Measurement.

Some stakeholders suggested that requiring, for purposes of presentation and disclosure, fully benefit-responsive investment contracts to be measured at fair value does not provide decision-useful information when fair value differs from contract value. The American Institute of Certified Public Accountants (AICPA) Statement of Position (SOP) 94-4, *Reporting of Investment Contracts Held by Health and Welfare Benefit Plans and Defined-Contribution Pension Plans* (codified in Topic 962), asserted that contract value is the relevant measure for those contracts because that is the amount participants normally would receive if they were to initiate permitted transactions (for example, withdrawals) under the terms of the underlying plan. Those contracts also are reported at contract value for regulatory reporting.

Part I of this Update designates contract value as the only required measure for fully benefit-responsive investment contracts, which maintains the relevant information while reducing the cost and complexity of reporting for fully benefit-responsive investment contracts.

## Who Is Affected by the Amendments in This Update?

The amendments in Part I of this Update apply only to reporting entities within the scope of Topics 962 and 965 that classify investments as fully benefit-responsive investment contracts as defined in the Master Glossary.

## What Are the Main Provisions and How Do They Differ from Current Generally Accepted Accounting Principles (GAAP) and Why Are They an Improvement?

Although contract value is used to measure fully benefit-responsive investment contracts for purposes of determining the net assets of an employee benefit plan, GAAP also requires fully benefit-responsive investment contracts to be measured at fair value for purposes of presentation and disclosure. This includes providing a reconciliation of contract value to fair value, when those measures differ, on the face of the plan financial statements.

Under the amendments, fully benefit-responsive investment contracts are measured, presented, and disclosed only at contract value.

A plan will continue to provide disclosures that help users understand the nature and risks of fully benefit-responsive investment contracts.

## When Will the Amendments Be Effective?

The amendments in Part I of this Update are effective for fiscal years beginning after December 15, 2015. Earlier application is permitted.

An entity should apply the amendments in Part I of this Update retrospectively for all financial statements presented.



# Amendments to the *FASB Accounting Standards Codification*<sup>®</sup>

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## Introduction

1. The Accounting Standards Codification is amended as described in paragraphs 2–23. In some cases, to put the change in context, not only are the amended paragraphs shown but also the preceding and following paragraphs. Terms from the Master Glossary are in **bold** type. Added text is underlined, and deleted text is ~~struck out~~.

## Amendments to Master Glossary

2. Supersede the Master Glossary term *Benefit-Responsive Investment Contract*, with a link to transition paragraph 962-10-65-1, as follows: **[Note: The definition of *Fully Benefit-Responsive Investment Contract* is shown for convenience.]**

### ~~Benefit-Responsive Investment Contract~~

~~A contract between an insurance entity, a bank, a financial institution, or any financially responsible entity and a plan that provides for a stated return on principal invested over a specified period and that permits withdrawals at contract value for benefit payments, loans, or transfers to other investment options offered to the participant by the plan. Participant withdrawals from the plan are required to be at contract value.~~

### **Fully Benefit-Responsive Investment Contract**

An investment contract is considered fully benefit-responsive if all of the following criteria are met for that contract, analyzed on an individual basis:

- a. The investment contract is effected directly between the plan and the issuer and prohibits the plan from assigning or selling the contract or its proceeds to another party without the consent of the issuer.
- b. Either of the following conditions exists:
  1. The repayment of principal and interest credited to participants in the plan is a financial obligation of the issuer of the investment contract.
  2. Prospective interest crediting rate adjustments are provided to participants in the plan on a designated pool of investments held by the plan or the contract issuer, whereby a financially responsible third party, through a contract generally referred to as a wrapper, must

provide assurance that the adjustments to the interest crediting rate will not result in a future interest crediting rate that is less than zero. If an event has occurred such that realization of full contract value for a particular investment contract is no longer probable (for example, a significant decline in creditworthiness of the contract issuer or wrapper provider), the investment contract shall no longer be considered fully benefit-responsive.

- c. The terms of the investment contract require all permitted participant-initiated transactions with the plan to occur at contract value with no conditions, limits, or restrictions. Permitted participant-initiated transactions are those transactions allowed by the plan, such as any of the following:
  - 1. Withdrawals for benefits
  - 2. Loans
  - 3. Transfers to other funds within the plan.
- d. An event that limits the ability of the plan to transact at contract value with the issuer and that also limits the ability of the plan to transact at contract value with the participants in the plan, such as any of the following, must be probable of not occurring:
  - 1. Premature termination of the contracts by the plan
  - 2. Plant closings
  - 3. Layoffs
  - 4. Plan termination
  - 5. Bankruptcy
  - 6. Mergers
  - 7. Early retirement incentives.
- e. The plan itself must allow participants reasonable access to their funds.

If access to funds is substantially restricted by plan provisions, investment contracts held by those plans may not be considered to be fully benefit-responsive. For example, if plan participants are allowed access at contract value to all or a portion of their account balances only upon termination of their participation in the plan, it would not be considered reasonable access and, therefore, investment contracts held by that plan would generally not be deemed to be fully benefit-responsive. However, in plans with a single investment fund that allow reasonable access to assets by inactive participants, restrictions on access to assets by active participants consistent with the objective of the plan (for example, retirement or health and welfare benefits) will not affect the benefit responsiveness of the investment contracts held by those single-fund plans. Also, if a plan limits participants' access to their account balances to certain specified times during the plan year (for example, semiannually or quarterly) to control the administrative costs of the plan, that limitation generally would not affect the benefit responsiveness of the investment contracts held by that plan. In addition, administrative provisions that place short-term restrictions (for example, three or six months) on transfers to competing fixed-rate investment options to limit

arbitrage among those investment options (equity wash provisions) would not affect a contract's benefit responsiveness.

## Amendments to Subtopic 962-205

3. Amend paragraph 962-205-45-2 and supersede paragraph 962-205-45-3, with a link to transition paragraph 962-10-65-1, as follows:

### **Plan Accounting—Defined Contribution Pension Plans— Presentation of Financial Statements**

#### **Other Presentation Matters**

##### **> Net Assets Available for Benefits**

**962-205-45-2** The statement of net assets available for benefits of the plan shall present amounts for all of the following:

- a. Total assets
- b. Total liabilities
- c. Subparagraph superseded by Accounting Standards Update 2015-12. (Part I). ~~Net assets reflecting all investments at fair value~~
- d. Net assets available for benefits.

**962-205-45-3** Paragraph superseded by Accounting Standards Update 2015-12. (Part I). ~~The amount representing the difference between net assets reflecting all investments at fair value and net assets available for benefits shall be presented on the face of the statement of net assets available for benefits as a single amount, calculated as the sum of the amounts necessary to adjust the portion of net assets attributable to each fully benefit responsive investment contract from fair value to contract value.~~

## Amendments to Subtopic 962-325

4. Amend paragraphs 962-325-35-5 through 35-6, and 962-325-35-9, add paragraph 962-325-35-5A, and supersede paragraph 962-325-35-12, with a link to transition paragraph 962-10-65-1, as follows:

## Plan Accounting—Defined Contribution Pension Plans— Investments—Other

### Subsequent Measurement

#### > Investment and Insurance Contracts

**962-325-35-5** Defined contribution plans, including both health and welfare and pension plans, shall report ~~all~~ investments (including derivative contracts) at fair value ~~(excluding insurance contracts and fully benefit-responsive investment contracts [see paragraph 962-325-35-6 for special provisions on the valuation of insurance contracts and paragraph 962-325-35-5A for special provisions on the valuation of fully benefit-responsive investment contracts])~~. However, ~~contract value is the relevant measurement attribute for that portion of the net assets available for benefits of a defined contribution plan attributable to fully benefit-responsive investment contracts.~~

**962-325-35-5A** Contract value is the relevant measure for the portion of the net assets available for benefits of a defined contribution plan attributable to fully benefit-responsive investment contracts.

~~**962-325-35-6** Defined contribution plans shall report insurance~~Insurance contracts, as defined by Subtopic 944-20, shall be presented in the same manner as specified in the annual report filed by the plan with certain governmental agencies in accordance with required by the Employee Retirement Income Security Act; that is, either at fair value or at amounts determined by the insurance entity (contract value). Plans not subject to the Employee Retirement Income Security Act shall present insurance contracts as if the plans were subject to the reporting requirements of the Act. ~~annual reporting requirements of U.S. Department of Labor Form 5500 or 5500-C/R.~~

#### > Evaluation of Benefit Responsiveness

**962-325-35-9** ~~If a plan holds multiple contracts, each contract shall be evaluated individually for benefit responsiveness. If a plan invests in pooled funds that hold investment contracts, each contract in the pooled fund shall be evaluated individually for benefit responsiveness. However, if the pooled fund places any restrictions on access to funds for the payment of benefits, the underlying investment contracts shall not be considered fully benefit responsive.~~

#### > Application of Benefit Responsiveness

**962-325-35-11** Paragraphs 962-325-55-2 through 55-15 include implementation guidance for the application of the definition of fully benefit-responsive for defined contribution plan investments.

~~962-325-35-12 Paragraph superseded by Accounting Standards Update 2015-12. (Part I). Investment contracts may be valued by discounting the related cash flows based on current yields of similar investments with comparable durations. In determining the similarity of investments, appropriate consideration should be given to the credit quality of the contract issuer. Generally, contract termination (penalty) clauses need not be considered unless it is probable that the plan intends to terminate the contract.~~

5. Amend paragraph 962-325-45-5 and supersede its related heading, with a link to transition paragraph 962-10-65-2, as follows: **[Note: Paragraph 962-325-45-5 also contains amendments from Part II on plan investment disclosures.]**

## **Other Presentation Matters**

### **~~> Nonparticipant Directed Investments~~**

~~962-325-45-5 The presentation of non-participant directed investments Investments measured using fair value in the statement of net assets available for benefits or in the notes shall be ~~detailed~~ presented by general type, such as the following:~~

- a. Registered investment companies (for example, mutual funds)
- b. Government securities
- c. Common-collective trusts
- d. Pooled separate accounts
- e. Short-term securities
- f. Corporate bonds
- g. Common stocks
- h. Mortgages
- i. Subparagraph superseded by Accounting Standards Update No. 2010-25
- j. Real estate.
- k. Self-directed brokerage accounts (that is, an investment option that allows participants to select investments outside the plan's core options).

For the presentation of fully benefit-responsive investment contracts, which are measured at contract value, see paragraphs 962-325-35-5A and 962-325-50-3.

6. Amend paragraphs 962-325-50-3 and 962-325-50-6 and supersede paragraph 962-325-50-4, with a link to transition paragraph 962-10-65-1, as follows: **[Note: Paragraph 962-325-50-6 also contains amendments from Part II on plan investment disclosures.]**

## Disclosure

### > Fully Benefit-Responsive Investment Contracts

**962-325-50-3** Defined contribution plans shall disclose the following in connection with ~~{add glossary link}~~fully benefit-responsive investment contracts~~{add glossary link}~~, in the aggregate:

- a. A description of the nature of those investment contracts (including how they operate) by the type of investment contract (for example, synthetic investment contracts or traditional investment contracts),~~including both of the following:~~
  1. Subparagraph superseded by Accounting Standards Update 2015-12. (Part I). How they operate
  2. Subparagraph superseded by Accounting Standards Update 2015-12. (Part I). The methodology for calculating the interest crediting rate, including all of the following:
    - i. ~~The key factors that could influence future average interest crediting rates~~
    - ii. ~~The basis for and frequency of determining interest crediting rate resets~~
    - iii. ~~Any minimum interest crediting rate under the terms of the contracts.~~

This disclosure shall explain the relationship between future interest crediting rates and the amount reported on the statement of net assets available for benefits representing the adjustment for the portion of net assets attributable to fully benefit responsive investment contracts from fair value to contract value.
- b. Subparagraph superseded by Accounting Standards Update 2015-12. (Part I). The average yield earned by the plan for all fully benefit responsive investment contracts (which may differ from the interest rate credited to participants in the plan) for each period for which a statement of net assets available for benefits is presented. This average yield shall be calculated by dividing the annualized earnings of all fully benefit responsive investment contracts in the plan (irrespective of the interest rate credited to participants in the plan) by the fair value of all fully benefit responsive investment contracts in the plan.
- c. Subparagraph superseded by Accounting Standards Update 2015-12. (Part I). The average yield earned by the plan for all fully benefit responsive investment contracts with an adjustment to reflect the actual interest rate credited to participants in the plan for each period for which a statement of net assets available for benefits is presented. This average yield shall be calculated by dividing the annualized earnings credited to participants in the plan for all fully benefit responsive investment contracts in the plan (irrespective of the actual earnings of those

investments) by the fair value of all fully benefit responsive investment contracts in the plan.

- d. A description of the events that limit the ability of the plan to transact at contract value with the issuer, including a statement as to whether that the occurrence of each of those events that would limit the plan's ability to transact at contract value with participants in the plan is ~~probable or not probable of occurring~~. The following are examples of events that may limit the ability of the plan to transact at contract value:
1. Premature termination of the contracts by the plan
  2. Plant closings
  3. Layoffs
  4. Plan termination
  5. Bankruptcy
  6. Mergers
  7. Early retirement incentives.

The term *probable* is used in this Subtopic consistent with its use in Section 450-20-25.

- e. A description of the events and circumstances that would allow issuers to terminate fully benefit-responsive investment contracts with the plan and settle at an amount different from contract value.
- f. The total contract value of each type of investment contract (for example, synthetic investment contracts or traditional investment contracts).

**962-325-50-4** Paragraph superseded by Accounting Standards Update 2015-12, (Part I). ~~For Employee Retirement Income Security Act covered plans, if a **fully benefit responsive investment contract** does not qualify for contract value reporting in the U.S. Department of Labor Form 5500 but is reported in the financial statements at contract value, and the contract value does not approximate fair value, the Department of Labor's rules and regulations require that a statement explaining the differences between amounts reported in the financial statements and Form 5500 be added to the financial statements.~~

#### > Master Trust Investments

**962-325-50-6** In the notes to financial statements the investments of a master trust measured using fair value shall be detailed-presented by general type, such as the following, as of the date of each statement of net assets available for benefits presented:

- a. Government securities
- b. Short-term securities
- c. Corporate bonds
- d. Common stocks
- e. Mortgages
- f. Real estate.
- g. Self-directed brokerage accounts (that is, an investment option that allows participants to select investments outside the plan's core options).

For the presentation of **fully benefit-responsive investment contracts**, which are measured at contract value, see paragraphs 962-325-35-5A and 962-325-50-3.

7. The effects of the amendments in paragraphs 3 through 6 on Example 2 in paragraph 962-325-55-17 are illustrated in the amendments in Part II on plan investment disclosures.

## Amendments to Subtopic 965-20

8. Amend paragraph 965-20-45-1 and supersede paragraph 965-20-45-2, with a link to transition paragraph 962-10-65-1, as follows:

### **Plan Accounting—Health and Welfare Benefit Plans—Net Assets Available for Plan Benefits**

#### **Other Presentation Matters**

##### **> Statement of Net Assets Available for Benefits**

**965-20-45-1** The statement of net assets available for benefits of the plan shall present amounts for the following:

- a. Total assets
- b. Total liabilities
- c. Subparagraph superseded by Accounting Standards Update 2015-12. (Part I). ~~Net assets reflecting all investments at **fair value** less costs to sell, if significant~~
- d. Net assets available for benefits.

**965-20-45-2** Paragraph superseded by Accounting Standards Update 2015-12. (Part I). ~~The amount representing the difference between net assets reflecting all investments at fair value and net assets available for benefits shall be presented on the face of the statement of net assets available for benefits as a single amount. This amount is calculated as the sum of the amounts necessary to adjust the portion of net assets attributable to each **fully benefit-responsive investment contract** from fair value to contract value.~~

## Amendments to Subtopic 965-325

9. Amend paragraphs 965-325-35-1, 965-325-35-6, and 965-325-35-8 and supersede paragraph 965-325-35-9, with a link to transition paragraph 962-10-65-1, as follows:



## Plan Accounting—Health and Welfare Benefit Plans— Investments—Other

### Subsequent Measurement

#### > Reporting at Fair Value

**965-325-35-1** Plan investments, whether they are in the form of equity or debt securities, real estate, or other investments (excluding insurance contracts and fully benefit-responsive investment contracts [see paragraph 965-325-35-3 for special provisions on the valuation of insurance contracts and paragraph 965-325-35-8 for special provisions on the valuation of fully benefit-responsive investment contracts])(~~excluding insurance contracts~~), shall be reported at their **fair value** less costs to sell, if significant, at the financial statement date.

#### > Insurance Contracts

**965-325-35-3** Insurance contracts, as defined by Subtopic 944-20, shall be presented in the same manner as specified in the annual report filed by the plan with certain governmental agencies pursuant to the Employee Retirement Income Security Act; that is, either at fair value or at amounts determined by the insurance entity (contract value). Plans not subject to the Employee Retirement Income Security Act shall present insurance contracts as if the plans were subject to the reporting requirements of the Act.

#### > Investment Contracts

##### > > Evaluation of Benefit Responsiveness

**965-325-35-6** If a plan holds multiple contracts, each contract shall be evaluated individually for benefit responsiveness. ~~If a plan invests in pooled funds that hold investment contracts, each contract in the pooled fund shall be evaluated individually for benefit responsiveness. However, if the pooled fund places any restrictions on access to funds for the payment of benefits, the underlying investment contracts would not be considered fully benefit-responsive.~~ Contracts that provide for prospective interest adjustments may still be fully benefit-responsive provided that the terms of the contracts specify that the crediting interest rate cannot be less than zero.

##### > > Application of Benefit Responsiveness

**965-325-35-7** Section 965-325-55 includes implementation guidance for the application of the definition of fully benefit-responsive for defined contribution health and welfare plan investments.

~~965-325-35-8~~ Defined contribution health and welfare benefit plans shall report **fully benefit-responsive investment contracts** (including derivative contracts) at fair value. However, ~~contract~~ Contract value is the relevant measure ~~measurement attribute for that~~ the portion of the net assets available for benefits of a defined contribution health and welfare benefit plan attributable to fully benefit-responsive investment contracts.

~~965-325-35-9~~ Paragraph superseded by Accounting Standards Update 2015-12. (Part I). ~~Investment contracts may be valued by discounting the related cash flows based on current yields of similar investments with comparable durations. In determining the similarity of investments, appropriate consideration should be given to the credit quality of the contract issuer. Generally, contract termination (penalty) clauses need not be considered unless it is probable that the plan intends to terminate the contract.~~

10. Amend paragraph 965-325-45-2 and its related heading, with a link to transition paragraph 962-10-65-1, as follows: **[Note: Paragraph 965-325-45-2 also contains amendments from Part II on plan investment disclosures.]**

## Other Presentation Matters

### **> Non-Participant Directed Investments**

~~965-325-45-2~~ The ~~presentation of non-participant directed investments~~ Investments measured using fair value in the statement of net assets available for benefits or in the notes shall be ~~detailed~~ presented by general type, including the following:

- a. Registered investment companies (also known as mutual funds)
- b. Government securities
- c. Short-term securities
- d. Corporate bonds
- e. Common stocks
- f. Mortgages
- g. Subparagraph superseded by Accounting Standards Update No. 2012-04.
- h. Real estate.

For the presentation of **fully benefit-responsive investment contracts**, which are measured at contract value, see paragraphs 965-325-35-8 and 965-325-50-2.

11. Amend paragraph 965-325-50-2 and supersede paragraph 965-325-50-3, with a link to transition paragraph 962-10-65-1, as follows:

## Disclosure

### > Fully Benefit-Responsive Investment Contracts

**965-325-50-2** Health and welfare plans shall disclose the following in connection with ~~{add glossary link}~~fully benefit-responsive investment contracts~~{add glossary link}~~, in the aggregate:

- a. ~~A description of all of the following: the nature of those investment contracts (including how they operate) by the type of investment contract (for example, synthetic investment contracts or traditional investment contracts).~~
  1. ~~Subparagraph superseded by Accounting Standards Update 2015-12. (Part I). The nature of those investment contracts~~
  2. ~~Subparagraph superseded by Accounting Standards Update 2015-12. (Part I). How they operate~~
  3. ~~Subparagraph superseded by Accounting Standards Update 2015-12. (Part I). The methodology for calculating the interest crediting rate, including all of the following:~~
    - i. ~~Key factors that could influence future average interest crediting rates~~
    - ii. ~~The basis for and frequency of determining interest crediting rate resets~~
    - iii. ~~Any minimum interest crediting rate under the terms of the contracts.~~

~~This disclosure shall explain the relationship between future interest crediting rates and the amount reported on the statement of net assets available for benefits representing the adjustment for the portion of net assets attributable to fully benefit-responsive investment contracts from fair value to contract value.~~
- b. ~~Subparagraph superseded by Accounting Standards Update 2015-12. (Part I). The average yield earned by the plan for all fully benefit-responsive investment contracts (which may differ from the interest rate credited to participants in the plan) for each period for which a statement of net assets available for benefits is presented. This average yield shall be calculated by dividing the annualized earnings of all fully benefit-responsive investment contracts in the plan (irrespective of the interest rate credited to participants in the plan) by the fair value of all fully benefit-responsive investment contracts in the plan.~~
- c. ~~Subparagraph superseded by Accounting Standards Update 2015-12. (Part I). The average yield earned by the plan for all fully benefit-responsive investment contracts with an adjustment to reflect the actual interest rate credited to participants in the plan for each period for which a statement of net assets available for benefits is presented. This average yield shall be calculated by dividing the annualized earnings credited to~~

~~participants in the plan for all fully benefit-responsive investment contracts in the plan (irrespective of the actual earnings of those investments) by the fair value of all fully benefit-responsive investment contracts in the plan.~~

- d. A description of the events that limit the ability of the plan to transact at contract value with the issuer, including a statement ~~as to whether that~~ the occurrence of each of those events that would limit the plan's ability to transact at contract value with participants in the plan is ~~probable or not probable of occurring~~ (the term *probable* is used in this Subtopic consistent with its use in Topic 450). Such events might include, among others, all of the following:
  - 1. Premature termination of the contracts by the plan
  - 2. Plant closings
  - 3. Layoffs
  - 4. Plan termination
  - 5. Bankruptcy
  - 6. Mergers
  - 7. Early retirement incentives.
- e. A description of the events and circumstances that would allow issuers to terminate fully benefit-responsive investment contracts with the plan and settle at an amount different from contract value.
- f. The total contract value of each type of investment contract (for example, synthetic investment contracts or traditional investment contracts).

~~**965-325-50-3 Paragraph superseded by Accounting Standards Update 2015-12. (Part I). For Employee Retirement Income Security Act-covered plans, if a fully benefit-responsive investment contract does not qualify for contract value reporting in the Department of Labor Form 5500 but is reported in the financial statements at the contract value of a fully benefit-responsive investment contract, and the contract value does not approximate fair value, the Department's rules and regulations require that a statement explaining the differences between amounts reported in the financial statements and Department of Labor Form 5500 be added to the financial statements.**~~

12. The effects of the amendments in paragraphs 8 through 11 on Example 2 in paragraph 962-325-55-17 are illustrated in the amendments in Part II on plan investment disclosures.

13 Amend paragraph 965-325-55-3, with a link to transition paragraph 962-10-65-1, as follows:

## Implementation Guidance and Illustrations

### > Implementation Guidance

**965-325-55-3** See paragraphs 962-325-55-5 through 55-7 for implementation guidance on a ~~benefit-responsive investment contract~~fully benefit-responsive investment contract.

## Amendments to Subtopic 815-10

14. Add paragraph 815-10-15-68A, with a link to transition paragraph 962-10-65-1, as follows:

### **Derivatives and Hedging—Overall**

#### **Scope and Scope Exceptions**

##### **>>> Certain Investment Contracts**

**815-10-15-68A** The wrapper of a synthetic guaranteed investment contract that meets the definition of a **fully benefit-responsive investment contract** that is held by an employee benefit plan is excluded from the scope of this Subtopic.

## Amendments to Subtopic 825-10

15. Amend paragraph 825-10-50-8, with a link to transition paragraph 962-10-65-1, as follows:

### **Financial Instruments—Overall**

#### **Disclosure**

##### **>> Transactions**

**825-10-50-8** In part, this Subsection requires disclosures about fair value for all financial instruments, whether recognized or not recognized in the statement of financial position, except that the disclosures about fair value prescribed in paragraphs 825-10-50-10 through 50-16 are not required for any of the following:

- a. Employers' and plans' obligations for pension benefits, other postretirement benefits including health care and life insurance benefits, postemployment benefits, employee stock option and stock purchase plans, and other forms of deferred compensation arrangements (see Topics 710; 712; 715; 718; and 960)
- b. Substantively extinguished debt subject to the disclosure requirements of Subtopic 405-20

- c. Insurance contracts, other than financial guarantees (including financial guarantee insurance contracts within the scope of Topic 944) and investment contracts, as discussed in Subtopic 944-20
- d. Lease contracts as defined in Topic 840 (a contingent obligation arising out of a cancelled lease and a guarantee of a third-party lease obligation are not lease contracts and are subject to the disclosure requirements in this Subsection)
- e. Warranty obligations (see Topic 450 and the Product Warranties Subsections of Topic 460)
- f. Unconditional purchase obligations as defined in paragraph 440-10-50-2
- g. Investments accounted for under the equity method in accordance with the requirements of Topic 323
- h. Noncontrolling interests and equity investments in consolidated subsidiaries (see Topic 810)
- i. Equity instruments issued by the entity and classified in stockholders' equity in the statement of financial position (see Topic 505).
- j. Receive-variable, pay-fixed interest rate swaps for which the simplified hedge accounting approach is applied (see Topic 815).
- k. **Fully benefit-responsive investment contracts held by an employee benefit plan.**

16. Add paragraph 962-10-65-1 and its related heading as follows:

**> Transition Related to Accounting Standards Update No. 2015-12 (Part I), Plan Accounting (Topics 962 and 965): Fully Benefit-Responsive Investment Contracts**

**962-10-65-1** The following represents the transition and effective date information related to Accounting Standards Update No. 2015-12 (Part I), *Plan Accounting (Topics 962 and 965): Fully Benefit-Responsive Investment Contracts*:

- a. The pending content that links to this paragraph shall be effective for fiscal years beginning after December 15, 2015. Earlier application is permitted.
- b. An entity shall apply the pending content that links to this paragraph retrospectively to all periods presented.
- c. An entity shall provide the disclosures in paragraph 250-10-50-1(a) in the first annual period the entity adopts the pending content that links to this paragraph.

17. Amend paragraph 815-10-00-1, by adding the following items to the table, as follows:

**815-10-00-1** The following table identifies the changes made to this Subtopic.

<b>Paragraph</b>	<b>Action</b>	<b>Accounting Standards Update</b>	<b>Date</b>
<b>Fully Benefit-Responsive Investment Contract</b>	Added	2015-12 (Part I)	07/31/2015
815-10-15-68A	Added	2015-12 (Part I)	07/31/2015

18. Amend paragraph 825-10-00-1, by adding the following items to the table, as follows:

**825-10-00-1** The following table identifies the changes made to this Subtopic.

<b>Paragraph</b>	<b>Action</b>	<b>Accounting Standards Update</b>	<b>Date</b>
<b>Fully Benefit-Responsive Investment Contract</b>	Added	2015-12 (Part I)	07/31/2015
825-10-50-8	Amended	2015-12 (Part I)	07/31/2015

19. Amend paragraph 962-10-00-1, by adding the following item to the table, as follows:

**962-10-00-1** The following table identifies the changes made to this Subtopic.

<b>Paragraph</b>	<b>Action</b>	<b>Accounting Standards Update</b>	<b>Date</b>
962-10-65-1	Added	2015-12 (Part I)	07/31/2015

20. Amend paragraph 962-205-00-1, by adding the following items to the table, as follows:

**962-205-00-1** The following table identifies the changes made to this Subtopic.

<b>Paragraph</b>	<b>Action</b>	<b>Accounting Standards Update</b>	<b>Date</b>
962-205-45-2	Amended	2015-12 (Part I)	07/31/2015
962-205-45-3	Superseded	2015-12 (Part I)	07/31/2015

21. Amend paragraph 962-325-00-1, by adding the following items to the table, as follows:

**962-325-00-1** The following table identifies the changes made to this Subtopic.

<b>Paragraph</b>	<b>Action</b>	<b>Accounting Standards Update</b>	<b>Date</b>
<b>Benefit-Responsive Investment Contract</b>	Superseded	2015-12 (Part I)	07/31/2015
962-325-35-5	Amended	2015-12 (Part I)	07/31/2015
962-325-35-5A	Added	2015-12 (Part I)	07/31/2015
962-325-35-6	Amended	2015-12 (Part I)	07/31/2015
962-325-35-9	Amended	2015-12 (Part I)	07/31/2015
962-325-35-12	Superseded	2015-12 (Part I)	07/31/2015
962-325-45-5	Amended	2015-12 (Part I)	07/31/2015
962-325-50-3	Amended	2015-12 (Part I)	07/31/2015
962-325-50-4	Superseded	2015-12 (Part I)	07/31/2015
962-325-50-6	Amended	2015-12 (Part I)	07/31/2015

22. Amend paragraph 965-20-00-1, by adding the following items to the table, as follows:

**965-20-00-1** The following table identifies the changes made to this Subtopic.

<b>Paragraph</b>	<b>Action</b>	<b>Accounting Standards Update</b>	<b>Date</b>
<b>Fully Benefit-Responsive Investment Contract</b>	Superseded	2015-12 (Part I)	07/31/2015
965-20-45-1	Amended	2015-12 (Part I)	07/31/2015
965-20-45-2	Superseded	2015-12 (Part I)	07/31/2015

23. Amend paragraph 965-325-00-1, by adding the following items to the table, as follows:

**965-325-00-1** The following table identifies the changes made to this Subtopic.



<b>Paragraph</b>	<b>Action</b>	<b>Accounting Standards Update</b>	<b>Date</b>
<b>Benefit-Responsive Investment Contract</b>	Superseded	2015-12 (Part I)	07/31/2015
<b>Contract Value of a Fully Benefit-Responsive Investment Contract</b>	Superseded	2015-12 (Part I)	07/31/2015
965-325-35-1	Amended	2015-12 (Part I)	07/31/2015
965-325-35-6	Amended	2015-12 (Part I)	07/31/2015
965-325-35-8	Amended	2015-12 (Part I)	07/31/2015
965-325-35-9	Superseded	2015-12 (Part I)	07/31/2015
965-325-45-2	Amended	2015-12 (Part I)	07/31/2015
965-325-50-2	Amended	2015-12 (Part I)	07/31/2015
965-325-50-3	Superseded	2015-12 (Part I)	07/31/2015
965-325-55-3	Amended	2015-12 (Part I)	07/31/2015

*The amendments in Part I of this Update were adopted by the unanimous vote of the seven members of the Financial Accounting Standards Board:*

Russell G. Golden, *Chairman*  
James L. Kroeker, *Vice Chairman*  
Daryl E. Buck  
Thomas J. Linsmeier  
R. Harold Schroeder  
Marc A. Siegel  
Lawrence W. Smith

# Background Information and Basis for Conclusions

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## Introduction

BC1. The following summarizes the Task Force’s considerations in reaching the conclusions in Part I of this Update. It includes the Board’s basis for ratifying the Task Force conclusions when needed to supplement the Task Force’s considerations. It also includes reasons for accepting certain approaches and rejecting others. Individual Task Force and Board members gave greater weight to some factors than to others.

## Background Information

BC2. Examples of fully benefit-responsive investment contracts can include “traditional guaranteed investment contracts” and “synthetic guaranteed investment contracts.” The issuer of a traditional guaranteed investment contract uses deposits from the funds to purchase investments that are held in the issuer’s general account. The issuer is contractually obligated to repay the principal and specified interest guaranteed to the fund.

BC3. Topics 962 and 965 require that fully benefit-responsive investment contracts be measured at contract value with an adjustment to reconcile contract value to fair value (when these measurements differ) presented on the face of the plan financial statements. SOP 94-4 asserted that contract value is considered the relevant measurement attribute because it is the amount participants normally receive if they were to initiate permitted transactions (for example, withdrawals) under the terms of the underlying plan. Those contracts also are reported at contract value for regulatory reporting.

BC4. Diversity in practice exists related to measuring the fair value of fully benefit-responsive investment contracts for purposes of presentation and disclosure. Some preparers use models to determine the fair value, often noting that while changes in interest rates and credit ratings may result in small differences between fair value and contract value, the amount that the participant receives remains constant. Some preparers have said that contract value is a reasonable estimate of fair value and therefore use contract value as the measure for fair value—with no further analysis performed. However, the use of contract value as an appropriate measure for fair value often is challenged by auditors. In addition, even when an entity and its auditor ultimately conclude that contract value is a reasonable estimate of fair value for fully benefit-responsive investment contracts, time and effort are needed to reach that conclusion.

BC5. Because of the unique characteristics and considerations involved in plan accounting, an EITF Working Group was developed to provide insight and expertise relating to employee benefit plan accounting. The Working Group included preparers, practitioners, an investment manager for benefit plans, and a regulatory user.

BC6. At its March 19, 2015 meeting, the Task Force reached a consensus-for-exposure on this Issue. The Board subsequently ratified the consensus-for-exposure and on April 23, 2015, issued a proposed Accounting Standards Update, *Plan Accounting (Topics 962 and 965): Fully Benefit-Responsive Investment Contracts*, for public comment, with a comment period that ended on May 18, 2015. The Board received 34 comment letters on the proposed Update. The majority of respondents were supportive of the proposal, with requests for additional clarification relating, in particular, to the scope of Part I of the final Update. Those clarifications are incorporated into the scope discussion below.

BC7. The Task Force considered the feedback received on the proposed Update at its June 18, 2015 meeting, and reached a consensus. The Board subsequently ratified the consensus, resulting in issuance of Part I of this Update.

## Scope

BC8. The Task Force reached a consensus that the guidance in Part I of this Update should apply to reporting entities within the scope of Topics 962 and 965 that classify investments as fully benefit-responsive investment contracts as defined within the Master Glossary, which is limited to direct investments between the plan and the issuer.

BC9. Some respondents to the proposed Update questioned whether its scope should be expanded to include investment contracts that are effected indirectly between the plan and the issuer of the investment contract (such as stable value common or collective trusts), or to include certain entities that report under Topic 946, Financial Services—Investment Companies. These respondents noted that for indirect investment holdings there is diversity in practice and that some preparers currently treat these investments as fully benefit-responsive investment contracts. The Task Force considered the feedback but ultimately decided that the recommendations to change the scope of the definition were too broad and beyond the objective of Part I of this Update. While the Task Force acknowledged that some plans may have treated indirect holdings as fully benefit-responsive investment contracts in the past, the Task Force noted that those holdings generally are in investment companies that calculate net asset value per share (or its equivalent) in a manner consistent with the measurement principles of Topic 946. As such, while the amendments in Part I of this Update make clear that those investments should no longer be reflected as fully benefit-responsive investment contracts, those investments may qualify for the practical expedient to measure at net asset value in Topic 820. That is, the fair value of those investments could be

estimated using net asset value per share and excluded from the fair value hierarchy, as shown in the example in paragraph 962-325-55-17 in Part II of this Update.

BC10. Other respondents to the proposed Update questioned whether synthetic investment contracts may apply the guidance for fully-benefit responsive investment contracts. Synthetic investment contracts are different from traditional investment contracts because the policyholder (or the plan) owns the assets underlying the synthetic guaranteed investment contract and a third-party wrapper is utilized to provide market and cash flow risk protection. The Task Force determined that synthetic investment contracts may apply the guidance in Part I of this Update if that investment contract meets the definition of a fully benefit-responsive investment contract. This interpretation is consistent with existing implementation guidance in Topic 962 that shows two examples of synthetic guaranteed investment contracts that meet the definition of fully benefit-responsive investment contracts and, therefore, are presented as fully benefit-responsive investments. This also is consistent with current practice for synthetic guaranteed investment contracts that meet the definition.

## Presentation and Disclosure at Fair Value

BC11. The Task Force agreed that there is minimal benefit from measuring fully benefit-responsive investment contracts using the measurement requirements in Topic 820 for purposes of presentation and disclosure because such investments generally transact at contract value. Furthermore, there was consensus among Working Group members that the relevant measure for fully benefit-responsive investment contracts is contract value.

BC12. The Task Force observed that to be classified as fully benefit-responsive investment contracts and measured at contract value, investments must meet requirements within GAAP that effectively, and appropriately, limit the scope of investments that can be measured using contract value. Thus, presentation and disclosure of fair value is not necessary.

BC13. The Task Force considered whether the current disclosure requirements for fully benefit-responsive investment contracts within Topics 962 and 965 are appropriate and determined that some remain relevant—including a general description of the contracts, possible events that limit the ability of plans to transact at contract value, and a description of events and circumstances that allow issuers to terminate the contract with the plan and settle at an amount different from contract value. However, the Task Force decided that the disclosures requiring a fair value calculation, such as the average yield disclosures, should not be retained. The Task Force concluded that retaining such disclosures would negate the cost reduction that is achieved by eliminating other requirements to present and disclose fully benefit-responsive investment contracts at fair value. For similar reasons, the Task Force agreed that the proposed amendments should clarify that

the fair value disclosures in Topic 825 are not applicable to fully benefit-responsive investment contracts.

BC14. The Task Force also decided that fully benefit-responsive investment contracts should disclose contract value by type of investment contract (for example, synthetic investment contracts and traditional investment contracts). An illustrative example of how that requirement may be applied is shown in the example in paragraph 962-325-55-17 in Part II of this Update. The Task Force concluded that such disclosure will provide further detail about the extent of fully benefit-responsive investment contracts that relate to synthetic investment contracts (as opposed to traditional investment contracts), which some members say carry different risk factors.

## Effective Date and Transition

BC15. The Task Force decided that the amendments in Part I of this Update should be effective for employee benefit plans with fiscal years beginning after December 15, 2015. Furthermore, the Task Force decided that earlier application should be permitted.

BC16. The Task Force reached a consensus that an entity should apply the amendments in Part I of this Update retrospectively to all periods presented beginning in an entity's fiscal year of adoption. Thus, plans will remove the fair value of fully benefit-responsive investment contracts for presentation and disclosure purposes. This includes removing fully benefit-responsive investment contracts from the fair value hierarchy and other Topic 820 fair value disclosures for all periods presented. The Task Force believes that it is appropriate for the disclosures to be consistent in all periods presented in a reporting entity's financial statements because it will allow for greater comparability.

BC17. The Task Force considered whether the disclosures about changes in accounting principle in paragraphs 250-10-50-1 through 50-3 should apply to the amendments. Many of the disclosure requirements are not applicable to employee benefit plans because plan financial statements do not have many of the measurements in those disclosures (such as per share amounts or retained earnings). As such, the Task Force concluded that a reporting entity should be required to disclose only the nature of and reason for the change in accounting principle (that is, the requirements of paragraph 250-10-50-1(a)).

## Benefits and Costs

BC18. The primary objective of employee benefit plan financial reporting is to provide financial information that is useful in assessing a plan's present and future ability to pay benefits as they become due. However, the benefits of providing information for that purpose should justify the related costs. The users of plan

financial statements include the U.S. Department of Labor, the U.S. Department of the Treasury (specifically, the Internal Revenue Service), plan sponsors, trustees, and plan participants. The users of financial information benefit from improvements in financial reporting, while the costs to implement new guidance are borne primarily by current plan sponsors and plan participants. The Task Force's assessment of the benefits and costs of issuing new guidance is unavoidably more qualitative than quantitative because there is no method to objectively quantify the value of improved information in financial statements or to measure the costs to implement new guidance.

BC19. The Task Force does not anticipate that entities will incur significant costs as a result of the amendments in Part I of this Update because the amendments will result in no new presentation or disclosure requirements. Instead, the amendments will reduce costs through the elimination of current presentation and disclosure requirements relating to the fair value of fully benefit-responsive investment contracts. Furthermore, the amendments will provide more useful and transparent information through increased consistency of accounting for fully benefit-responsive investment contracts, while still providing disclosures that allow users of financial statements to understand the nature and risks of the investments classified as fully benefit-responsive investment contracts. Thus, because the benefits of presenting and disclosing fully benefit-responsive investment contracts at fair value do not justify the costs of estimating fair value, it is appropriate to measure, present, and disclose those investment contracts using only contract value.

## Amendments to the XBRL Taxonomy

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The amendments to the *FASB Accounting Standards Codification*® in Part I of this Accounting Standards Update do not require changes to the U.S. GAAP Financial Reporting Taxonomy (Taxonomy). Any stakeholders who believe that changes to the Taxonomy are required should provide their comments and suggested changes through [ASU Taxonomy Changes](#) provided at [www.fasb.org](http://www.fasb.org).







# Accounting Standards Update

No. 2015-12 (Part II)  
July 2015

Plan Accounting:  
Defined Benefit Pension Plans (Topic 960)  
Defined Contribution Pension Plans (Topic 962)  
Health and Welfare Benefit Plans (Topic 965)

Part II: Plan Investment Disclosures

An Amendment of the *FASB Accounting Standards Codification*<sup>®</sup>

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Financial Accounting Standards Board



## Summary

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### Why Is the FASB Issuing This Accounting Standards Update (Update)?

The Board is issuing this Update to reduce complexity in employee benefit plan accounting, which is consistent with its Simplification Initiative. The objective of the Simplification Initiative is to identify, evaluate, and improve areas of generally accepted accounting principles (GAAP) for which cost and complexity can be reduced while maintaining or improving the usefulness of the information provided to users of financial statements. Part II of this Update is related to one area of several potential simplifications for employee benefit plans submitted by stakeholders.

Very few changes have been made to the guidance that resulted from FASB Statement No. 35, *Accounting and Reporting by Defined Benefit Pension Plans* (which has been codified in the Plan Accounting Topics 960, Defined Benefit Pension Plans, 962, Defined Contribution Pension Plans, and 965, Health and Welfare Benefit Plans), since it was issued in March 1980. However, as other standards were issued and amendments were made to the Codification, additional disclosure requirements also were applied to employee benefit plan financial statements. Specifically, the interaction between Topic 820, Fair Value Measurement, and Topics 960, 962, and 965 sometimes requires aggregation, or organization of similar investment information, in multiple ways. Stakeholders said that disclosing similar investment information in multiple ways is costly for preparers and makes the financial statements more cumbersome for users.

The objective of Part II of this Update is to simplify and make more effective the investment disclosure requirements under Topic 820 and under Topics 960, 962, and 965 for employee benefit plans.

### Who Is Affected by the Amendments in This Update?

The amendments in Part II of this Update apply only to reporting entities that follow the requirements in Topics 960, 962, and 965.

### What Are the Main Provisions and Why Are They an Improvement?

GAAP requires plans to disclose (1) individual investments that represent 5 percent or more of net assets available for benefits and (2) the net appreciation or

depreciation for investments by general type. Stakeholders said that while less costly to prepare, those disclosures do not provide decision-useful information. The amendments in Part II of this Update will eliminate those requirements for both participant-directed investments and nonparticipant-directed investments. The net appreciation or depreciation in investments for the period still will be required to be presented in the aggregate, but will no longer be required to be disaggregated and disclosed by general type.

Under Topic 820, classes of assets are grouped and disclosed on the basis of nature, characteristics, and risks, and under Topics 960, 962, and 965, classes of assets are grouped and disclosed on the basis of general type. Examples of classes of assets grouped and disclosed by general type include registered investment companies, government securities, common collective trusts, pooled separate accounts, short-term securities, corporate bonds, common stocks, mortgages, and real estate. Classification by general type might be inconsistent with classification by nature, characteristics, and risks, which often results in plans grouping their investments in two different ways. For example, an employee benefit plan may identify mutual funds as a general type of investment but then further break down the mutual fund into index funds, balanced funds, and fixed income funds to group those funds by nature, characteristics, and risks. The amendments in Part II of this Update will require that investments (both participant-directed and nonparticipant-directed investments) of employee benefit plans be grouped only by general type, eliminating the need to disaggregate the investments in multiple ways.

In addition, if an investment is measured using the net asset value per share (or its equivalent) practical expedient in Topic 820 and that investment is in a fund that files a U.S. Department of Labor Form 5500, *Annual Return/Report of Employee Benefit Plan*, as a direct filing entity, disclosure of that investment's strategy will no longer be required.

## When Will the Amendments Be Effective?

The amendments in Part II of this Update are effective for fiscal years beginning after December 15, 2015. Earlier application is permitted.

An entity should apply the amendments in Part II of this Update retrospectively for all financial statements presented.

# Amendments to the *FASB Accounting Standards Codification*<sup>®</sup>

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## Introduction

1. The Accounting Standards Codification is amended as described in paragraphs 2–25. In some cases, to put the change in context, not only are the amended paragraphs shown but also the preceding and following paragraphs. Terms from the Master Glossary are in **bold** type. Added text is underlined, and deleted text is ~~struck out~~.

## Amendments to Subtopic 960-30

2. Amend paragraph 960-30-45-2, with a link to transition paragraph 962-10-65-2, as follows:

### **Plan Accounting—Defined Benefit Pension Plans—Net Assets Available for Plan Benefits**

#### **Other Presentation Matters**

##### **> Changes in Net Assets Available for Benefits**

**960-30-45-1** Information regarding changes in **net assets available for benefits** shall be presented in enough detail to identify the significant changes during the year. This guidance is not intended to limit the amount of detail or manner of presenting information regarding changes in the **net asset information**. Subclassifications and additional classifications may be useful. For example, separately reporting refunds of terminated employees' contributions may be useful. Alternatively, such refunds may be netted against contributions received from participants or included in **benefits** paid. Accordingly, **plan administrators** should use their best judgment in light of the relevant circumstances.

**960-30-45-2** ~~Minimum disclosure shall include all of the following:~~ Information about changes in net assets available for benefits is intended to present the effects of significant changes in net assets during the year and shall present, at a minimum, all of the following:

- a. The net appreciation (depreciation) in fair value. Net appreciation or depreciation includes realized gains and losses on investments that were both purchased and sold during the period as well as unrealized

~~appreciation or depreciation of the investments held at year-end, value for each significant class of investments, segregated between investments whose fair values have been measured by quoted prices in an active market and those whose fair values have been otherwise determined. Realized gains and losses on investments that were both bought and sold during the year shall be included. Such information may be useful in assessing the relative degree of objectivity or subjectivity in measuring the plan's investments and the relationship thereof to investment performance during the year.~~

- b. Investment income (exclusive of [a]).
- c. Contributions from the employer, segregated between cash and noncash contributions. A noncash contribution shall be recorded at fair value. The nature of noncash contributions shall be described, either parenthetically or in a note.
- d. Contributions from participants, including those transmitted by the **sponsor**.
- e. Contributions from other identified sources (for example, state subsidies or federal grants).
- f. Benefits paid to participants.
- g. Payments to insurance entities to purchase contracts that are excluded from plan assets. Paragraph 960-205-50-1(e) requires disclosure of the plan's dividend income related to excluded contracts and permits that income to be netted against this item.
- h. Administrative expenses.
- i. Other changes (for example, transfers of assets to or from other plans) should also be presented if they are significant.

3. Amend paragraphs 960-30-50-1 through 50-2, with a link to transition paragraph 962-10-65-2, as follows:

## Disclosure

### > Master Trust Investments

**960-30-50-1** In the notes to financial statements the investments of a master trust measured using fair value shall be detailed by general type, such as the following, as of the date of each statement of **net assets available for benefits** presented:

- a. Government securities
- b. Short-term securities
- c. Corporate bonds
- d. Common stocks
- e. Mortgages
- f. Real estate.

**960-30-50-2** The net change in the fair value of ~~each significant type of investment~~ investments of the master trust and total investment income of the master trust by type, including interest, dividends, and so forth, ~~also shall also be~~ disclosed in the notes for each period for which a statement of changes in net assets available for benefits is presented.

## Amendments to Subtopic 960-205

4. Amend paragraph 960-205-55-1, with a link to transition paragraph 962-10-65-2, as follows:

### **Plan Accounting—Defined Benefit Pension Plans— Presentation of Financial Statements**

#### **Implementation Guidance and Illustrations**

##### **> Illustrations**

##### **> > Example 1: Illustrative Annual Financial Statements of Defined Benefit Pension Plan**

**960-205-55-1** This Example illustrates certain applications of the requirements of this Subtopic and in particular of paragraphs 960-205-45-1 through 45-4 that are applicable for the 1981 annual financial statements of a hypothetical plan, the C&H Company Pension Plan. It does not illustrate other requirements of this Subtopic that might be applicable in circumstances other than those assumed for the C&H Company Pension Plan. The formats presented and the wording of accompanying notes are only illustrative and do not necessarily indicate a preferred method of presentation. Further, the circumstances assumed for the C&H Company Pension Plan are designed to facilitate illustration of many of this Subtopic's requirements. Therefore, the notes to the illustrative financial statements probably are more extensive than would be expected for a typical plan. Included are illustrations of the following alternatives permitted by paragraphs 960-205-45-1 through 45-2, 960-20-45-8, and 960-20-50-6 through 50-7:

- a. An end-of-year versus beginning-of-year **benefit information date**
- b. Separate versus combined statements for presenting information regarding the following:
  1. The **net assets available for benefits** and the **actuarial present value of accumulated plan benefits**
  2. Changes in the net assets available for benefits and changes in the actuarial present value of accumulated plan benefits.

- c. A separate statement that reconciles the year-to-year change in the actuarial present value of accumulated plan benefits versus presenting the effects of a change in actuarial assumptions on the face of the statement of **accumulated plan benefits**.

Although not illustrated, paragraph 960-20-45-2 permits the information regarding the actuarial present value of accumulated plan benefits and changes therein to be presented as notes to financial statements. The set of illustrative annual financial statements and accompanying notes are as follows.



Exhibit D-1

**C&H COMPANY PENSION PLAN STATEMENT OF NET ASSETS  
AVAILABLE FOR BENEFITS**

	<u>December 31, 1981</u>
<b>Assets:</b>	
Investments, at fair value (Notes B[1] and E)	
United States government securities	\$ 350,000
Corporate bonds and debentures	3,500,000
Common stock:	
C&H Company	690,000
Other	2,250,000
Mortgages	480,000
Real estate	<u>270,000</u>
	7,540,000
Deposit administration contract, at contract value (Notes B[1] and F)	<u>1,000,000</u>
Total investments	<u>8,540,000</u>
Receivables:	
Employees' contributions	40,000
Securities sold	310,000
Accrued interest and dividends	<u>77,000</u>
	<u>427,000</u>
Cash	<u>200,000</u>
Total assets	<u>9,167,000</u>
<b>Liabilities:</b>	
Accounts payable	70,000
Accrued expenses	<u>85,000</u>
Total liabilities	<u>155,000</u>
Net assets available for benefits	<u>\$ 9,012,000</u>

The accompanying notes are an integral part of the financial statements.

Exhibit D-2

**C&H COMPANY PENSION PLAN  
STATEMENT OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS**

	<b>Year Ended December 31, 1981</b>
Investment income	
Net appreciation in fair value of investments (Note E)	\$ 207,000
Interest	345,000
Dividends	130,000
Rents	55,000
	737,000
Less investment expenses	39,000
	698,000
Contributions (Note C)	
Employer	780,000
Employees	450,000
	1,230,000
Total additions	1,928,000
Benefits paid directly to participants	740,000
Purchases of annuity contracts (Note F)	257,000
	997,000
Administrative expenses	65,000
Total deductions	1,062,000
Net increase	866,000
Net assets available for benefits	
Beginning of year	8,146,000
End of year	\$ 9,012,000

The accompanying notes are an integral part of the financial statements.

Exhibit D-3

**C&H COMPANY PENSION PLAN  
STATEMENT OF ACCUMULATED PLAN BENEFITS**

	<b>December 31, 1981</b>
Actuarial present value of accumulated plan benefits (Notes B[2] and C)	
Vested benefits	
Participants currently receiving payments	\$ 3,040,000
Other participants	8,120,000
	11,160,000
Nonvested benefits	2,720,000
Total actuarial present value of accumulated plan benefits	\$ 13,880,000

The accompanying notes are an integral part of the financial statements.

Exhibit D-4

**C&H COMPANY PENSION PLAN  
STATEMENT OF CHANGES IN ACCUMULATED PLAN BENEFITS**

	<b>Year Ended December 31, 1981</b>
Actuarial present value of accumulated plan benefits at beginning of year	\$ 11,880,000
Increase (decrease) during the year attributable to:	
Plan amendment (Note G)	2,410,000
Change in actuarial assumptions (Note B[2])	(1,050,500)
Benefits accumulated	895,000
Increase for interest due to the decrease in the discount period (Note B[2])	742,500
Benefits paid	(997,000)
Net increase	2,000,000
Actuarial present value of accumulated plan benefits at end of year	\$ 13,880,000

The accompanying notes are an integral part of the financial statements.

Exhibit D-5

**C&H COMPANY PENSION PLAN  
STATEMENT OF ACCUMULATED PLAN BENEFITS AND  
NET ASSETS AVAILABLE FOR BENEFITS  
[An alternative for Exhibits D-1 and D-3]**

	<u>December 31, 1981</u>
<i>Accumulated Plan Benefits (Notes B[2] and C)</i>	
Actuarial present value of vested benefits	
Participants currently receiving payments	\$ 3,040,000
Other participants	<u>8,120,000</u>
	11,160,000
Actuarial present value of nonvested benefits	<u>2,720,000</u>
Total actuarial present value of accumulated plan benefits	<u>13,880,000</u>
<i>Net Assets Available for Benefits</i>	
Investments, at fair value (Notes B[1] and E)	
United States government securities	350,000
Corporate bonds and debentures	3,500,000
Common stock	
C&H Company	690,000
Other	2,250,000
Mortgages	480,000
Real estate	<u>270,000</u>
	7,540,000
Deposit administration contract, at contract value (Notes B[1] and F)	<u>1,000,000</u>
Total investments	<u>8,540,000</u>
Receivables	
Employees' contributions	40,000
Securities sold	310,000
Accrued interest and dividends	<u>77,000</u>
	427,000
Cash	<u>200,000</u>
Total assets	<u>9,167,000</u>
Accounts payable	70,000
Accrued expenses	<u>85,000</u>
Total liabilities	155,000
Net assets available for benefits	<u>9,012,000</u>
Excess of actuarial present value of accumulated plan benefits over net assets available for benefits	<u>\$ 4,868,000</u>

The accompanying notes are an integral part of the financial statements.

Exhibit D-6

**C&H COMPANY PENSION PLAN  
STATEMENT OF CHANGES IN ACCUMULATED PLAN BENEFITS  
AND NET ASSETS AVAILABLE FOR BENEFITS  
[An alternative for Exhibits D-2 and D-4]**

	<u>Year Ended December 31, 1981</u>
<i>Net Increase in Actuarial Present Value of Accumulated Plan Benefits</i>	
Increase (decrease) during the year attributable to:	
Plan amendment (Note G)	\$ 2,410,000
Change in actuarial assumptions (Note B[2])	(1,050,500)
Benefits accumulated	895,000
Increase for interest due to the decrease in the discount period (Note B[2])	742,500
Benefits paid	<u>(997,000)</u>
Net increase	<u>2,000,000</u>
<i>Net Increase in Net Assets Available for Benefits</i>	
Investment income	
Net appreciation in fair value of investments (Note E)	207,000
Interest	345,000
Dividends	130,000
Rents	<u>55,000</u>
	737,000
Less investment expenses	<u>39,000</u>
	<u>698,000</u>
Contributions (Note C)	
Employer	780,000
Employees	<u>450,000</u>
	<u>1,230,000</u>
Total additions	1,928,000
Benefits paid directly to participants	740,000
Purchases of annuity contracts (Note F)	<u>257,000</u>
	997,000
Administrative expenses	<u>65,000</u>
Total deductions	<u>1,062,000</u>
Net increase	<u>866,000</u>
Increase in excess of actuarial present value of accumulated plan benefits over net assets available for benefits	1,134,000
Excess of actuarial present value of accumulated plan benefits over net assets available for benefits	
Beginning of year	<u>3,734,000</u>
End of year	<u>\$ 4,868,000</u>

The accompanying notes are an integral part of the financial statements.

Exhibit D-7

**C&H COMPANY PENSION PLAN**  
**STATEMENT OF NET ASSETS AVAILABLE FOR BENEFITS**  
**[If a beginning-of-year benefit information date is selected]**

	<u>December 31,</u>	
	<u>1981</u>	<u>1980</u>
<b>Assets</b>		
Investments, at fair value (Notes B[1] and E)		
United States government securities	\$ 350,000	\$ 270,000
Corporate bonds and debentures	3,500,000	3,670,000
Common stock		
C&H Company	690,000	880,000
Other	2,250,000	1,860,000
Mortgages	480,000	460,000
Real estate	270,000	240,000
	<u>7,540,000</u>	<u>7,380,000</u>
Deposit administration contract at contract value (Notes B[1] and F)	1,000,000	890,000
Total investments	<u>8,540,000</u>	<u>8,270,000</u>
Receivables		
Employees' contributions	40,000	35,000
Securities sold	310,000	175,000
Accrued interest and dividends	77,000	76,000
	<u>427,000</u>	<u>286,000</u>
Cash	200,000	90,000
Total assets	<u>9,167,000</u>	<u>8,646,000</u>
<b>Liabilities</b>		
Accounts payable		
Securities purchased	-	400,000
Other	70,000	60,000
	<u>70,000</u>	<u>460,000</u>
Accrued expenses	85,000	40,000
Total liabilities	<u>155,000</u>	<u>500,000</u>
Net assets available for benefits	<u>\$ 9,012,000</u>	<u>\$ 8,146,000</u>

The accompanying notes are an integral part of the financial statements.

Exhibit D-8

**C&H COMPANY PENSION PLAN**  
**STATEMENT OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS**  
 [If a beginning-of-year benefit information date is selected]

	<b>Year Ended December 31</b>	
	<b>1981</b>	<b>1980</b>
Investment income		
Net appreciation (depreciation) in fair value of investments (Note E)	\$ 207,000	\$ (72,000)
Interest	345,000	320,000
Dividends	130,000	110,000
Rents	<u>55,000</u>	<u>43,000</u>
	737,000	401,000
Less investment expenses	<u>39,000</u>	<u>35,000</u>
	<u>698,000</u>	<u>366,000</u>
Contributions (Note C)		
Employer	780,000	710,000
Employees	<u>450,000</u>	<u>430,000</u>
	<u>1,230,000</u>	<u>1,140,000</u>
Total additions	<u>1,928,000</u>	<u>1,506,000</u>
Benefits paid directly to participants	740,000	561,000
Purchases of annuity contracts (Note F)	<u>257,000</u>	<u>185,000</u>
	997,000	746,000
Administrative expenses	<u>65,000</u>	<u>58,000</u>
Total deductions	<u>1,062,000</u>	<u>804,000</u>
Net increase	866,000	702,000
Net assets available for benefits		
Beginning of year	<u>8,146,000</u>	<u>7,444,000</u>
End of year	<u>\$ 9,012,000</u>	<u>\$ 8,146,000</u>

The accompanying notes are an integral part of the financial statements.

Exhibit D-9

**C&H COMPANY PENSION PLAN**  
**STATEMENT OF ACCUMULATED PLAN BENEFITS**  
 [If a beginning-of-year benefit information date is selected]

	<b>December 31, 1980</b>
Actuarial present value of accumulated plan benefits (Notes B[2] and C)	
Vested benefits	
Participants currently receiving payments	\$ 2,950,000
Other participants	6,530,000
	9,480,000
Nonvested benefits	2,400,000
Total actuarial present value of accumulated plan benefits	\$ 11,880,000

At December 31, 1979, the total actuarial present value of accumulated plan benefits was \$10,544,000.

During 19X0 the actuarial present value of accumulated plan benefits increased \$700,000 as a result of a change in actuarial assumptions (Note B(2)). Also see Note G.

The accompanying notes are an integral part of the financial statements.

**C&H COMPANY PENSION PLAN**

Notes to Financial Statements

[Note: The notes are for the accompanying illustrative financial statements that use an end-of-year benefit information date. Modifications necessary to accompany the illustrative financial statements that use a beginning-of-year benefit information date are bracketed.]

A. Description of Plan

The following brief description of the C&H Company Pension Plan (Plan) is provided for general information purposes only.

Participants should see the Plan agreement for more complete information.

1. General. The Plan is a **defined benefit pension plan** covering substantially all employees of C&H Company (Company). It is subject to the provisions of the Employee Retirement Income Security Act of 1974.
2. **Pension Benefits. Employees** with 10 or more years of **service** are entitled to annual pension **benefits** beginning at normal retirement age (65) equal to 1 1/2% of their final 5-year average annual compensation for each year of service.



The Plan permits early retirement at ages 55-64. Employees may elect to receive their pension benefits in the form of a joint and survivor annuity.

If employees terminate before rendering 10 years of service, they forfeit the right to receive the portion of their accumulated plan benefits attributable to the Company's contributions.

Employees may elect to receive the value of their accumulated plan benefits as a lump-sum distribution upon retirement or termination, or they may elect to receive their benefits as a life annuity payable monthly from retirement.

For each employee electing a life annuity, payments will not be less than the greater of the employee's accumulated contributions plus interest or an annuity for five years.

3. **Death and Disability Benefits.** If an active employee dies at age 55 or older, a death benefit equal to the value of the employee's accumulated pension benefits is paid to the employee's beneficiary.

Active employees who become totally disabled receive annual disability benefits that are equal to the normal retirement benefits they have accumulated as of the time they become disabled.

Disability benefits are paid until normal retirement age at which time disabled participants begin receiving normal retirement benefits computed as though they had been employed to normal retirement age with their annual compensation remaining the same as at the time they became disabled.

## B. Summary of Accounting Policies

The following are the significant accounting policies followed by the Plan:

1. **Valuation of Investments.** If available, quoted market prices are used to value investments. The amounts shown in Note E for securities that have no quoted market price represent estimated fair value. Many factors are considered in arriving at that fair value. In general, however, corporate bonds are valued based on yields currently available on comparable securities of issuers with similar credit ratings. Investments in certain restricted common stocks are valued at the quoted market price of the issuer's unrestricted common stock less an appropriate discount. If a quoted market price for unrestricted common stock of the issuer is not available, restricted common stocks are valued at a multiple of current earnings less an appropriate discount. The multiple chosen is consistent with multiples of similar companies based on current market prices.

Mortgages have been valued on the basis of their future principal and interest payments discounted at prevailing interest rates for similar instruments. The fair value of real estate investments, principally rental

property subject to long-term net leases, has been estimated on the basis of future rental receipts and estimated residual values discounted at interest rates commensurate with the risks involved.

The Plan's deposit administration contract with the National Insurance Company (National) (Note F) is valued at **contract value**. Contract value represents contributions made under the contract, plus interest at the contract rate, less funds used to purchase annuities and pay administration expenses charged by National. Funds under the contract that have been allocated and applied to purchase annuities (that is, National is obligated to pay the related pension benefits) are excluded from the Plan's assets.

2. Actuarial Present Value of Accumulated Plan Benefits. Accumulated plan benefits are those future periodic payments, including lump-sum distributions, that are attributable under the Plan's provisions to the service employees have rendered. Accumulated plan benefits include benefits expected to be paid to retired or terminated employees or their beneficiaries, beneficiaries of employees who have died, and present employees or their beneficiaries. Benefits under the Plan are based on employees' compensation during their last five years of credited service. The accumulated plan benefits for active employees are based on their average compensation during the five years ending on the date as of which the **benefit information** is presented (the valuation date). Benefits payable under all circumstances—retirement, death, disability, and termination of employment—are included, to the extent they are deemed attributable to employee service rendered to the valuation date. Benefits to be provided via annuity contracts excluded from plan assets are excluded from accumulated plan benefits.

The actuarial present value of accumulated plan benefits is determined by an actuary from the AAA Company and is that amount that results from applying actuarial assumptions to adjust the accumulated plan benefits to reflect the time value of money (through discounts for interest) and the probability of payment (by means of decrements such as for death, disability, withdrawal, or retirement) between the valuation date and the expected date of payment. The significant actuarial assumptions used in the valuations as of December 31, 1981 [1980], and December 31, 1980 [1979], were life expectancy of participants (the 1971 Group Annuity Mortality Table was used), retirement age assumptions (the assumed average retirement age was 60), and investment return. The 1981 [1980] and 1980 [1979] valuations included assumed average rates of return of 7% [6.25%] and 6.25% [6.75%], respectively, including a reduction of .2% to reflect anticipated administrative expenses associated with providing benefits. The foregoing actuarial assumptions are based on the presumption that the Plan will continue. Were the Plan to terminate,

different actuarial assumptions and other factors might be applicable in determining the actuarial present value of accumulated plan benefits.

### C. Funding Policy

As a condition of participation, employees are required to contribute 3% of their salary to the Plan. Present employees' accumulated contributions at December 31, 1981 [1980], were \$2,575,000 [\$2,325,000], including interest credited at an interest rate of 5% compounded annually. The Company's funding policy is to make annual contributions to the Plan in amounts that are estimated to remain a constant percentage of employees' compensation each year (approximately 5% for 1981 [and 1980]), such that, when combined with employees' contributions, all employees' benefits will be fully provided for by the time they retire. Beginning in 1982, the Company's contribution is expected to increase to approximately 6% to provide for the increase in benefits attributable to the Plan amendment effective July 1, 1981 (Note G). The Company's contributions for 1981 [and 1980] exceeded the minimum funding requirements of the Employee Retirement Income Security Act.

Although it has not expressed any intention to do so, the Company has the right under the Plan to discontinue its contributions at any time and to terminate the Plan subject to the provisions set forth in the Employee Retirement Income Security Act.

### D. Plan Termination

In the event the Plan terminates, the net assets of the Plan will be allocated, as prescribed by the Employee Retirement Income Security Act and its related regulations, generally to provide the following benefits in the order indicated:

- a. Benefits attributable to employee contributions, taking into account those paid out before termination.
- b. Annuity benefits former employees or their beneficiaries have been receiving for at least three years, or that employees eligible to retire for that three-year period would have been receiving if they had retired with benefits in the normal form of annuity under the Plan. The priority amount is limited to the lowest benefit that was payable (or would have been payable) during those three years. The amount is further limited to the lowest benefit that would be payable under plan provisions in effect at any time during the five years preceding plan termination.
- c. Other **vested benefits** insured by the Pension Benefit Guaranty Corporation (a U.S. governmental agency) up to the applicable limitations (discussed below).
- d. All other vested benefits (that is, vested benefits not insured by the Pension Benefit Guaranty Corporation).
- e. All nonvested benefits.

Benefits to be provided via contracts under which National (Note F) is obligated to pay the benefits would be excluded for allocation purposes.

Certain benefits under the Plan are insured by the Pension Benefit Guaranty Corporation if the Plan terminates. Generally, the Pension Benefit Guaranty Corporation guarantees most vested normal age retirement benefits, early retirement benefits, and certain disability and survivor's pensions. However, the Pension Benefit Guaranty Corporation does not guarantee all types of benefits under the Plan, and the amount of benefit protection is subject to certain limitations. Vested benefits under the Plan are guaranteed at the level in effect on the date of the Plan's termination. However, there is a statutory ceiling on the amount of an individual's monthly benefit that the Pension Benefit Guaranty Corporation guarantees. For plan terminations occurring during 1981 and 1980, that ceiling, which is adjusted periodically, was \$X,XXX.XX and \$1,159.09 per month, respectively. That ceiling applies to those pensioners who elect to receive their benefits in the form of a single-life annuity and are at least 65 years old at the time of retirement or plan termination (whichever comes later). For younger annuitants or for those who elect to receive their benefits in some form more valuable than a single-life annuity, the corresponding ceilings are actuarially adjusted downward. Benefit improvements attributable to the Plan amendment effective July 1, 1981 (Note G), may not be fully guaranteed even though total benefit entitlements fall below the aforementioned ceilings. For example, none of the improvement would be guaranteed if the plan were to be terminated before July 1, 1982. After that date the Pension Benefit Guaranty Corporation would guarantee 20% of any benefit improvements that resulted in benefits below the ceiling, with an additional 20% guaranteed each year the plan continued beyond July 1, 1982. If the amount of the benefit increase below the ceiling is also less than \$100, \$20 of the increase (rather than 20%) becomes guaranteed by the Pension Benefit Guaranty Corporation each year following the effective date of the amendment. As a result, only the primary ceiling would be applicable after July 1, 1986.

Whether all participants receive their benefits should the Plan terminate at some future time will depend on the sufficiency, at that time, of the Plan's net assets to provide those benefits and may also depend on the level of benefits guaranteed by the Pension Benefit Guaranty Corporation.

#### E. Investments Other Than Contract with Insurance Entity

Except for its deposit administration contract (Note F), the Plan's investments are held by a bank-administered trust fund. (See paragraph 962-325-55-17 for a detailed Example of plan investment disclosures.) ~~The following table presents the fair values of those investments. Investments that represent 5% or more of the Plan's net assets are separately identified.~~

	December 31, 1981		December 31, 1980	
	Number of Shares or Principal Amount	Fair Value	Number of Shares or Principal Amount	Fair Value
<b>Investments at Fair Value as Determined by Quoted Market Price</b>				
United States government securities		\$ 350,000		\$ 270,000
Corporate bonds and debentures				
National Locomotive 6% series C bonds due 1990	\$ 600,000	480,000	\$ 600,000	492,000
General Design Corp. 5½% convertible debentures due 1993	\$ 700,000	520,000	\$ 350,000	250,000
Other		2,260,000		2,618,000
Common stocks				
C&H Company	25,000	690,000	25,000	880,000
Reliable Manufacturing Corp.	12,125	625,000	9,100	390,000
American Automotive, Inc.	5,800	475,000	6,800	510,000
Other		680,000		500,000
		<u>6,080,000</u>		<u>6,910,000</u>
<b>Investments at Estimated Fair Value</b>				
Corporate bonds and debentures		240,000		310,000
Common stocks		470,000		460,000
Mortgages		480,000		460,000
Real estate		270,000		240,000
		<u>1,460,000</u>		<u>1,470,000</u>
		<u>\$ 7,540,000</u>		<u>\$ 7,380,000</u>

During 1981 [and 1980], the Plan's investments (including investments bought, sold, as well as held during the year) appreciated [(depreciated)] in value by \$207,000 [and (\$72,000), respectively], as follows.

**Net Appreciation (Depreciation) in Fair Value**

	Year Ended- December 31- 1981	Year Ended- December 31- 1980
<b>Investments at Fair Value as Determined by Quoted Market Price</b>		
United States government securities	\$ (10,000)	\$ 8,000
Corporate bonds and debentures	(125,000)	50,000
Common stocks	228,000	(104,000)
	<u>93,000</u>	<u>(46,000)</u>
<b>Investments at Estimated Fair Value</b>		
Corporate bonds and debentures	(11,000)	9,000
Common stocks	100,000	(49,000)
Mortgages	(5,000)	4,000
Real estate	30,000	10,000
	<u>114,000</u>	<u>(26,000)</u>
	<u>\$ 207,000</u>	<u>\$ (72,000)</u>

#### F. Contract with Insurance Entity

In 1978, the Company entered into a deposit administration contract with the National Insurance Company under which the Plan deposits a minimum of \$100,000 a year. National maintains the contributions in an unallocated fund to which it adds interest at a rate of 8%. The interest rate is guaranteed through 1983 but is subject to change for each succeeding five-year period. When changed, the new rate applies only to funds deposited from the date of change. At the direction of the Plan's administrator, a single premium to buy an annuity for a retiring employee is withdrawn by National from the unallocated fund. Purchased annuities are contracts under which National is obligated to pay benefits to named employees or their beneficiaries. The premium rates for such annuities to be purchased in the future and maximum administration expense charges against the fund are also guaranteed by National on a five-year basis. The annuity contracts provide for periodic dividends at National's discretion on the basis of its experience under the contracts. Such dividends received by the Plan for the year[s] ended December 31, 1981, [and 1980] were \$25,000 [and \$24,000, respectively]. In reporting changes in net assets, those dividends have been netted against amounts paid to National for the purchase of annuity contracts.

#### G. Plan Amendment

Effective July 1, 1981, the Plan was amended to increase future annual pension benefits from 1 1/4% to 1 1/2% of final 5-year average annual compensation for each year of service, including service rendered before the effective date. The retroactive effect of the Plan amendment, an increase in the actuarial present value of accumulated plan benefits of \$2,410,000, was accounted for in the year ended December 31, 1981. [The actuarial present values of accumulated plan benefits at December 31, 1980, and December 31, 1979, do not reflect the effect of that Plan amendment. The Plan's actuary estimates that the amendment's retroactive effect on the actuarial present value of accumulated plan benefits at December 31, 1980, was an increase of approximately \$1,750,000, of which approximately \$1,300,000 represents an increase in vested benefits.]

#### H. Accounting Changes

In 1981, the Plan changed its method of accounting and reporting to comply with the provisions of the defined benefit plan accounting standard issued by the Financial Accounting Standards Board. Previously reported financial information pertaining to 1980 [and 1979] has been restated to present that information on a comparable basis.

## Amendments to Subtopic 960-325

5. Amend paragraph 960-325-45-1 and add paragraph 960-325-45-2, with a link to transition paragraph 962-10-65-2, as follows:

### **Plan Accounting—Defined Benefit Pension Plans— Investments—Other**

#### **Other Presentation Matters**

**960-325-45-1** Information regarding a plan's investments ~~shall be presented in enough detail to identify the types of investments and that are measured using fair value~~ shall indicate whether reported fair values have been measured by quoted prices in an active market or are fair values otherwise determined.

**960-325-45-2** Investments measured using fair value in the statement of **net assets available for benefits** or in the notes shall be presented by general type, such as the following:

- a. Registered investment companies (for example, mutual funds)
- b. Government securities
- c. Common-collective trusts
- d. Pooled separate accounts
- e. Short-term securities
- f. Corporate bonds
- g. Common stocks
- h. Mortgages
- i. Real estate.

6. Amend paragraph 960-325-50-1, supersede paragraph 960-325-50-2, and add paragraph 960-325-50-6 and its related heading, with a link to transition paragraph 962-10-65-2, as follows:

#### **Disclosure**

**960-325-50-1** Disclosure of the plan's accounting policies shall include a description of valuation techniques and inputs used to measure the fair value of investments (as required by Section 820-10-50) and a description of the methods and significant assumptions used to measure the reported value of contracts with insurance entities. However, defined benefit pension plans are exempt from the requirements in paragraph 820-10-50-2B(a) to disaggregate assets by nature, characteristics, and risks. The disclosures of information by classes of assets required by Section 820-10-50 shall be provided by general type of plan assets consistent with paragraph 960-325-45-2.

~~960-325-50-2 Paragraph superseded by Accounting Standards Update 2015-12 (Part II). Financial statement disclosures shall also include the identification of investments that represent 5 percent or more of the **not assets available for benefits**. Identification of other investments, however, is not proscribed.~~

**960-325-50-3** The historical cost of plan investments presented at fair value is neither required nor proscribed.

#### **> Investments Measured Using the Net Asset Value per Share Practical Expedient**

**960-325-50-6** If an investment is measured using the net asset value per share (or its equivalent) practical expedient in paragraph 820-10-35-59 and that investment is in a fund that files U.S. Department of Labor Form 5500 as a direct filing entity, disclosure of that investment's significant investment strategy, as discussed in paragraph 820-10-50-6A(a), is not required.

## Amendments to Subtopic 962-205

7. Amend paragraph 962-205-45-7, with a link to transition paragraph 962-10-65-2, as follows:

### **Plan Accounting—Defined Contribution Pension Plans— Presentation of Financial Statements**

#### **Other Presentation Matters**

##### **> Changes in Net Assets Available for Benefits**

**962-205-45-6** The statement of changes in net assets available for benefits shall be prepared on a basis that reflects income credited to participants in the plan and net appreciation or depreciation in the fair value of only those investment contracts that are not deemed to be fully benefit-responsive. Paragraph 962-325-35-5 provides guidance on the accounting for fully benefit-responsive investment contracts.

**962-205-45-7** Information ~~regarding about~~ changes in net assets available for benefits is intended to present the effects of significant changes in net assets during the year and shall present, at a minimum, all of the following:

- a. The ~~net appreciation or depreciation change~~ in fair value. Net appreciation or depreciation includes realized gains and losses on investments that were both purchased and sold during the period as well as unrealized appreciation or depreciation of the investments held at year end value of each significant type of investment including participant-



~~directed and self-directed investments held in brokerage accounts. Gains and losses from investments sold need not be segregated from unrealized gains and losses relating to investments held at year end. Realized gains and losses on investments that were both bought and sold during the period should be included. This information may be presented in the accompanying footnotes.~~

- b. Investment income, exclusive of changes in fair value described in (a).
- c. Contributions from employers, segregated between cash and noncash contributions (a noncash contribution shall be recorded at fair value; the nature of noncash contributions shall be described either parenthetically or in a note).
- d. Contributions from participants, including those transmitted by the **sponsor**.
- e. Contributions from other identified sources (for example, state subsidies or federal grants).
- f. Benefits paid to participants.
- g. Payments to insurance entities to purchase contracts that are excluded from plan assets.
- h. Administrative expenses.

## Amendments to Subtopic 962-325

8. Supersede paragraphs 962-325-45-1 through 45-4 and their related heading and paragraph 962-325-45-7 and amend paragraph 962-325-45-5 and supersede its related heading, with a link to transition paragraph 962-10-65-2, as follows: **[Note: Paragraph 962-325-45-5 also contains amendments from Part I on fully benefit-responsive investment contracts.]**

## **Plan Accounting—Defined Contribution Pension Plans—Investments—Other**

### **Other Presentation Matters**

#### **> Participant Directed Investments**

**962-325-45-1** Paragraph superseded by Accounting Standards Update 2015-12 (Part II). Paragraphs ~~962-325-45-2 through 45-4 and 962-325-45-7~~ apply to all defined contribution plans with participant directed investment programs.

**962-325-45-2** Paragraph superseded by Accounting Standards Update 2015-12 (Part II). Defined contribution plans are not required to present participant directed plan investments in the statement of net assets available for benefits by general type.

~~962-325-45-3 Paragraph superseded by Accounting Standards Update 2015-12 (Part II). Participant directed plan investments may be shown in the aggregate, as a one-line item, in the statement of net assets available for benefits.~~

~~962-325-45-4 Paragraph superseded by Accounting Standards Update 2015-12 (Part II). The presentation shall indicate whether the fair values of the investments have been measured by quoted market prices in an active market or were determined otherwise.~~

#### **> Nonparticipant Directed Investments**

~~962-325-45-5 The presentation of non participant directed investments measured using fair value in the statement of net assets available for benefits or in the notes shall be detailed presented by general type, such as the following:~~

- a. Registered investment companies (for example, mutual funds)
- b. Government securities
- c. Common-collective trusts
- d. Pooled separate accounts
- e. Short-term securities
- f. Corporate bonds
- g. Common stocks
- h. Mortgages
- i. Subparagraph superseded by Accounting Standards Update No. 2010-25
- j. Real estate.
- k. Self-directed brokerage accounts (that is, an investment option that allows participants to select investments outside the plan's core options).

For the presentation of **fully benefit-responsive investment contracts**, which are measured at contract value, see paragraphs 962-325-35-5A and 962-325-50-3.

~~962-325-45-6 The presentation shall indicate whether the fair values of the investments have been measured by quoted market prices in an active market or were determined otherwise.~~

~~962-325-45-7 Paragraph superseded by Accounting Standards Update 2015-12 (Part II). In addition to the requirement to identify those investments that represent 5 percent or more of net assets available for benefits (see paragraph 962-325-50-1A), defined contribution plans shall specifically identify those investments that represent 5 percent or more of net assets available for benefits that are non-participant directed.~~

9. Amend paragraphs 962-325-50-1 and 962-325-50-6 through 50-7, supersede paragraph 962-325-50-1A, and add paragraph 962-325-50-9 and its related heading, with a link to transition paragraph 962-10-65-2, as follows: **[Note:**

**Paragraph 962-325-50-6 also contains amendments from Part I on fully benefit-responsive investment contracts.]**

## **Disclosure**

**962-325-50-1** Disclosure of a defined contribution plan's accounting policies shall include a description of the valuation techniques and inputs used to measure the **fair value** less costs to sell, if significant, of investments (as required by Section 820-10-50) and a description of the methods and significant assumptions used to measure the reported value of insurance contracts (if any). However, defined contribution pension plans are exempt from the requirements in paragraph 820-10-50-2B(a) to disaggregate assets by nature, characteristics, and risks. The disclosures of information by classes of assets required by Section 820-10-50 shall be provided by general type of plan assets consistent with paragraph 962-325-45-5.

**962-325-50-1A** ~~Paragraph superseded by Accounting Standards Update 2015-12 (Part II). Financial statement disclosures also shall include the identification of investments that represent 5 percent or more of the **not assets available for benefits** as of the end of the year. Consideration should be given to disclosing provisions of insurance contracts included as plan assets that could cause an impairment of the asset value upon liquidation or other occurrence (for example, surrender charges and fair value adjustments).~~

### **> Master Trust Investments**

**962-325-50-6** In the notes to financial statements the investments of a master trust measured using fair value shall be ~~detailed~~presented by general type, such as the following, as of the date of each statement of net assets available for benefits presented:

- a. Government securities
- b. Short-term securities
- c. Corporate bonds
- d. Common stocks
- e. Mortgages
- f. Real estate.
- g. Self-directed brokerage accounts (that is, an investment option that allows participants to select investments outside the plan's core options).

For the presentation of **fully benefit-responsive investment contracts**, which are measured at contract value, see paragraphs 962-325-35-5A and 962-325-50-3.

~~962-325-50-7~~ The total net change in the fair value of each significant type of investment investments of the master trust and total investment income of the master trust by type, for example, interest, and dividends, also shall also be disclosed in the notes for each period for which a statement of changes in net assets available for benefits is presented.

**> Investments Measured Using the Net Asset Value per Share Practical Expedient**

~~962-325-50-9~~ If an investment is measured using the net asset value per share (or its equivalent) practical expedient in paragraph 820-10-35-59 and that investment is in a fund that files U.S. Department of Labor Form 5500 as a direct filing entity, disclosure of that investment's significant investment strategy, as discussed in paragraph 820-10-50-6A(a), is not required.

10. Supersede paragraph 962-325-55-16 and its related heading and add paragraph 962-325-55-17 and its related heading, with a link to transition paragraph 962-10-65-2, as follows:

**[For ease of readability, superseded paragraph 962-325-55-16 is not shown here.]**

## **Implementation Guidance and Illustrations**

### **> Illustrations**

#### **>> Example 2: Illustrative Financial Statements and Disclosures of a Defined Contribution Plan**

~~962-325-55-17~~ This Example illustrates certain applications of the provisions of this Subtopic to the annual financial statements of a defined contribution plan. The following are illustrative financial statements and disclosures.

Key assumptions in the Example include:

- a. The stable value collective trust fund that is referenced throughout the financial statements files Form 5500 as a direct filing entity, and, as a result, the plan has not disclosed that investment's significant investment strategies as allowed under paragraph 962-325-50-9.
- b. The plan assets are measured as of the plan's fiscal year-end on December 31, 20X1, and December 31, 20X0.

**[For ease of readability, the new tables are not underlined.]**

**XYZ Company 401(k) Plan  
Statements of Net Assets Available for Benefits**

	December 31,	
	20X1	20X0
<b>Assets:</b>		
Investments at fair value (See Note C)	\$ 7,397,000	\$ 7,014,000
Investments at contract value (See Note D)	1,500,000	650,000
Receivables:		
Employer contributions	14,000	10,000
Participant contributions	52,000	50,000
Notes receivable from participants	300,000	350,000
Total receivables	366,000	410,000
Total assets	9,263,000	8,074,000
<b>Liabilities:</b>		
Accrued expenses	10,000	20,000
Excess contributions payable	15,000	-
Total liabilities	25,000	20,000
Net assets available for benefits	\$ 9,238,000	\$ 8,054,000

See accompanying notes to the financial statements.

**XYZ Company 401(k) Plan  
Statement of Changes in Net Assets Available for Benefits**

	<u>Year Ended December 31, 20X1</u>
<b>Additions:</b>	
Additions to net assets attributed to:	
Investment income:	
Net appreciation in fair value of investments	\$ 280,000
Interest	369,000
Dividends	165,000
	814,000
Interest income on notes receivable from participants	20,000
Contributions:	
Employer (see Note A)	599,000
Participants	800,000
Rollovers (see Note E)	200,000
	1,599,000
Total additions	2,433,000
<b>Deductions:</b>	
Deductions from net assets attributed to:	
Benefits paid to participants	526,000
Administrative expenses	10,000
Total deductions	536,000
Net increase	1,897,000
Transfer to GHI plan (see Note A)	713,000
Net assets available for benefits:	
Beginning of year	8,054,000
End of year	\$ 9,238,000

See accompanying notes to the financial statements.

## Notes to Financial Statements

### A. Description of Plan

The following description of the XYZ Company (Company) 401(k) Plan (Plan) provides only general information. Participants should refer to the plan agreement for a more complete description of the Plan's provisions.

1. General. The Plan is a defined contribution plan covering all full-time employees of the Company and its wholly owned subsidiaries who have 1 year of service and are age 21 or older. The Plan is subject to the provisions of the Employment Retirement Income Security Act of 1974 (ERISA). In November 20X1, the Company sold its wholly owned subsidiary, Sub Company. As a result of its sale, on December 1, 20X1, the accounts of all Sub Company employees were transferred out of the Plan to GHI Plan (an existing plan controlled by the acquiring company).
2. Contributions. Each year, participants may contribute up to XX percent of pretax annual compensation, as defined in the Plan. Participants who have attained age 50 before the end of the Plan year are eligible to make catch-up contributions. Participants also may contribute amounts representing distributions from other qualified defined benefit or defined contribution plans (rollover). Participants direct the investment of their contributions into various investment options offered by the Plan. The Plan includes an auto-enrollment provision whereby all newly eligible employees are automatically enrolled in the Plan unless they affirmatively elect not to participate in the Plan. Automatically enrolled participants have their deferral rate set at 2 percent of eligible compensation and their contributions invested in a designated balanced fund until changed by the participant. The Company contributes 25 percent of the first 6 percent of base compensation that a participant contributes to the Plan. The matching Company contribution is invested as directed by the participant.
3. Participant accounts. Each participant's account is credited with the participant's contributions and the Company's matching contributions, as well as allocations of Plan earnings. Participant accounts are charged with an allocation of administrative expenses. Allocations are based on participant earnings, account balances, or specific participant transactions, as defined. The benefit to which a participant is entitled is the benefit that can be provided from the participant's vested account.
4. Vesting. Participants are vested immediately in their contributions plus actual earnings on the contributions. Vesting in the Company's contribution portion of their accounts is based on years of continuous service. A participant is 100 percent vested after 3 years of credited service.
5. Notes receivable from participants. Participants may borrow from their fund accounts a minimum of \$1,000 up to a maximum equal to the lesser of \$50,000 or 50 percent of their account balance. The loans are secured

- by the balance in the participant's account. The loan interest rate, determined quarterly, is set at 2 percent above the prime rate, as defined. Principal and interest is paid ratably through monthly payroll deductions.
6. Payment of benefits. On termination of service due to death, disability, or retirement, a participant may elect to receive either a lump-sum amount equal to the value of the participant's vested interest in his or her account or annual installments over a 10-year period. For termination of service for other reasons, a participant may receive the value of the vested interest in his or her account as a lump-sum distribution.
7. Forfeited accounts. At December 31, 20X1, and 20X0, forfeited nonvested accounts totaled \$7,500 and \$5,000, respectively. These accounts will be used to reduce future employer contributions. Also, in 20X1, employer contributions were reduced by \$5,000 from forfeited nonvested accounts.

## B. Summary of Accounting Policies

### Basis of Accounting

The financial statements of the Plan are prepared on the accrual basis of accounting.

Investments held by a defined contribution plan are required to be reported at fair value, except for fully benefit-responsive investment contracts. Contract value is the relevant measure for the portion of the net assets available for benefits of a defined contribution plan attributable to fully benefit-responsive investment contracts because contract value is the amount participants normally would receive if they were to initiate permitted transactions under the terms of the Plan.

### Use of Estimates

The preparation of financial statements in accordance with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and changes in those assets and liabilities, and disclosure of contingent assets and liabilities. Actual results could differ from those estimates.

### Investment Valuation and Income Recognition

Investments are reported at fair value (except for fully benefit-responsive investment contracts, which are reported at contract value). Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The Plan's Investment Committee determines the Plan's valuation policies utilizing information provided by the investment advisers, custodians, and insurance company. See Note C for discussion of fair value measurements.

Purchases and sales of securities are recorded on a trade-date basis. Interest income is recorded on the accrual basis. Dividends are recorded on the ex-



dividend date. Net appreciation includes the Plan's gains and losses on investments purchased and sold as well as held during the year.

#### Notes Receivable from Participants

Notes receivable from participants are measured at their unpaid principal balance plus any accrued but unpaid interest. Interest income is recorded on the accrual basis. Related fees are recorded as administrative expenses and are expensed when they are incurred. No allowance for credit losses has been recorded as of December 31, 20X1, or 20X0. Delinquent participant loans are recorded as distributions on the basis of the terms of the Plan agreement.

#### Excess Contributions Payable

Amounts payable to participants for contributions in excess of amounts allowed by the Internal Revenue Service are recorded as a liability with a corresponding reduction to contributions. The Plan distributed the 20X1 excess contributions to the applicable participants before March 15, 20X2.

#### Payment of Benefits

Benefits are recorded when paid.

#### Expenses

Certain expenses incurred maintaining the Plan are paid directly by the Company and are excluded from these financial statements. Investment-related expenses are included in net appreciation of fair value of investments.

#### Subsequent Events

The Plan has evaluated subsequent events through [insert date], the date the financial statements were available to be issued.

### C. Fair Value Measurements

The framework for measuring fair value provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). Valuation techniques maximize the use of relevant observable inputs and minimize the use of unobservable inputs. The three levels of the fair value hierarchy under Topic 820 are described as follows:

**[For ease of readability, the new table is not underlined.]**

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Level 1      Inputs to the valuation methodology are quoted prices (unadjusted) in active markets for identical assets or liabilities that the Plan can access at the measurement date.

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Level 2      Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly, such as:

- a. Quoted prices for similar assets or liabilities in active markets
- b. Quoted prices for identical or similar assets or liabilities in inactive markets
- c. Inputs other than quoted prices that are observable for the asset or liability
- d. Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

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Level 3      Inputs that are unobservable inputs for the asset or liability.

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Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at December 31, 20X1, and 20X0.

1. Common stocks. Valued at the closing price reported on the active market on which the individual securities are traded.
2. Self-directed brokerage accounts. Accounts primarily consist of mutual funds and common stocks that are valued on the basis of readily determinable market prices.
3. Corporate bonds. Valued using pricing models maximizing the use of observable inputs for similar securities. This includes basing the value on yields currently available on comparable securities of issuers with similar credit ratings. When quoted prices are not available for identical or similar bonds, those corporate bonds are valued under a discounted cash flow

approach that maximizes observable inputs, such as current yields or similar instruments, but includes adjustments for certain risks that may not be observable, such as credit and liquidity risks.

4. Mutual funds. Valued at the daily closing price as reported by the fund. Mutual funds held by the Plan are open-end mutual funds that are registered with the U.S. Securities and Exchange Commission. These funds are required to publish their daily net asset value and to transact at that price. The mutual funds held by the Plan are deemed to be actively traded.
5. Stable value collective trust fund. A stable value fund that is composed primarily of fully benefit-responsive investment contracts that is valued at the net asset value of units of the bank collective trust. The net asset value is used as a practical expedient to estimate fair value. This practical expedient would not be used if it is determined to be probable that the fund will sell the investment for an amount different from the reported net asset value. Participant transactions (purchases and sales) may occur daily. If the Plan initiates a full redemption of the collective trust, the issuer reserves the right to require 12 months' notification in order to ensure that securities liquidations will be carried out in an orderly business manner.
6. U.S. government securities. Valued using pricing models maximizing the use of observable inputs for similar securities.

The following table sets forth by level, within the fair value hierarchy, the Plan's assets at fair value as of December 31, 20X1, and 20X0. Classification within the fair value hierarchy table is based on the lowest level of any input that is significant to the fair value measurement.

**[For ease of readability, the new tables are not underlined.]**

<b>Assets at Fair Value as of December 31, 20X1</b>				
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
Mutual funds	\$ 4,437,500	\$ -	\$ -	\$ 4,437,500
Self-directed brokerage account	25,000	-	-	25,000
Common stock	960,000	-	-	960,000
U.S. government securities	-	225,000	-	225,000
Corporate bonds (Aaa credit rating & noninvestment grade)	-	307,500	20,000	327,500
<b>Total assets in the fair value hierarchy</b>	<b>5,422,500</b>	<b>532,500</b>	<b>20,000</b>	<b>5,975,000</b>
Investments measured at net asset value <sup>(a)</sup>	-	-	-	1,422,000
<b>Investments at fair value</b>	<b>\$ 5,422,500</b>	<b>\$ 532,500</b>	<b>\$ 20,000</b>	<b>\$ 7,397,000</b>

<b>Assets at Fair Value as of December 31, 20X0</b>				
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
Mutual funds	\$ 3,630,000	\$ -	\$ -	\$ 3,630,000
Self-directed brokerage account	20,000	-	-	20,000
Common stock	870,000	-	-	870,000
U.S. government securities	-	120,000	-	120,000
Corporate bonds (Aaa credit rating & noninvestment grade)	-	255,000	19,000	274,000
<b>Total assets in the fair value hierarchy</b>	<b>4,520,000</b>	<b>375,000</b>	<b>19,000</b>	<b>4,914,000</b>
Investments measured at net asset value <sup>(a)</sup>	-	-	-	2,100,000
<b>Investments at fair value</b>	<b>\$ 4,520,000</b>	<b>\$ 375,000</b>	<b>\$ 19,000</b>	<b>\$ 7,014,000</b>

(a) In accordance with Subtopic 820-10, certain investments that were measured at net asset value per share (or its equivalent) have not been classified in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the line items presented in the statement of net assets available for benefits.

### Transfers between Levels

For years ended December 31, 20X1, and 20X0, there were no significant transfers between Levels 1 and 2 and no transfers in or out of Level 3.

### Changes in Fair Value of Level 3 Assets and Related Gains and Losses

The following table sets forth a summary of changes in the fair value of the Plan's Level 3 assets for the year ended December 31, 20X1.

**[For ease of readability, the new table is not underlined.]**

	<b>Level 3 Assets</b>	
	<b>Year Ended</b>	
	<b>December 31, 20X1</b>	
	<b>(Corporate Bonds)</b>	
Balance, beginning of year	\$	19,000
Realized gains/(losses)		500
Unrealized gains/(losses) relating to instruments still held at the reporting date		2,000
Purchases		-
Sales		(1,500)
Transfers in and/or out of Level 3		-
Balance, end of year	<u>\$</u>	<u>20,000</u>
The amount of total gains or losses for the period attributable to the change in unrealized gains or losses relating to assets still held at the reporting date	<u>\$</u>	<u>2,000</u>

Quantitative Information about Significant Unobservable Inputs Used in Level 3 Fair Value Measurements

The following table represents the Plan's Level 3 financial instruments, the valuation techniques used to measure the fair value of those financial instruments, and the significant unobservable inputs and the ranges of values for those inputs.

**[For ease of readability, the new table is not underlined.]**

<u>Instrument</u>	<u>Fair Value</u>	<u>Principal Valuation Technique</u>	<u>Unobservable Inputs</u>	<u>Range of Significant Input Values</u>	<u>Weighted Average</u>
Corporate bonds	\$20,000	Discounted cash flow	Credit risk (basis points)	xx-xxx	Y%
			Liquidity risk (basis points)	xx-xxx	Y%

#### Investments Measured Using the Net Asset Value per Share Practical Expedient

The following table summarizes investments for which fair value is measured using the net asset value per share practical expedient as of December 31, 20X1, and 20X0, respectively. There are no participant redemption restrictions for these investments; the redemption notice period is applicable only to the Plan.

**[For ease of readability, the new table is not underlined.]**

<u>December 31, 20X1</u>	<u>Fair Value</u>	<u>Unfunded Commitments</u>	<u>Redemption Frequency (If Currently Eligible)</u>	<u>Redemption Notice Period</u>
Stable value collective trust fund	\$1,422,000	n/a	Daily	12 months

<u>December 31, 20X0</u>	<u>Fair Value</u>	<u>Unfunded Commitments</u>	<u>Redemption Frequency (If Currently Eligible)</u>	<u>Redemption Notice Period</u>
Stable value collective trust fund	\$2,100,000	n/a	Daily	12 months

#### D. Fully Benefit-Responsive Investment Contracts

The Plan holds a portfolio of investment contracts that comprises a traditional investment contract and a portfolio of synthetic investment contracts. These contracts meet the fully benefit-responsive investment contract criteria and therefore are reported at contract value. Contract value is the relevant measure for fully benefit-responsive investment contracts because this is the amount received by participants if they were to initiate permitted transactions under the terms of the Plan. Contract value represents contributions made under each contract, plus earnings, less participant withdrawals, and administrative expenses. The following represents the disaggregation of contract value between types of investment contracts held by the Plan.

**[For ease of readability, the new table is not underlined.]**

	<u>20X1</u>	<u>20X0</u>
Synthetic investment contracts	\$ 1,250,000	\$ 500,000
Traditional Investment contract	<u>250,000</u>	<u>150,000</u>
Total	<u>\$ 1,500,000</u>	<u>\$ 650,000</u>

The key difference between a synthetic investment contract and a traditional investment contract is that the Plan owns the underlying assets of the synthetic investment contract. A synthetic investment contract includes a wrapper contract, which is an agreement for the wrap issuer, such as a bank or insurance company, to make payments to the Plan in certain circumstances. The wrapper contract typically includes certain conditions and limitations on the underlying assets owned by the Plan. With traditional investment contracts, the Plan owns only the contract itself. Synthetic and traditional investment contracts are designed to accrue interest based on crediting rates established by the contract issuers.

The synthetic investment contracts held by the Plan include wrapper contracts that provide a guarantee that the credit rate will not fall below 0 percent. Cash flow volatility (for example, timing of benefit payments) as well as asset underperformance can be passed through to the Plan through adjustments to future contract crediting rates. Formulas are provided in each contract that adjusts renewal crediting rates to recognize the difference between the fair value and the book value of the underlying assets. Crediting rates are reviewed monthly for resetting.

The traditional investment contract held by the Plan is a guaranteed investment contract. The contract issuer is contractually obligated to repay the principal and interest at a specified interest rate that is guaranteed to the Plan. The crediting rate is based on a formula established by the contract issuer but may not be less than 4 percent. The crediting rate is reviewed on a quarterly basis for resetting. The contract cannot be terminated before the scheduled maturity date.

The Plan's ability to receive amounts due in accordance with fully benefit-responsive investment contracts is dependent on the third-party issuer's ability to meet its financial obligations. The issuer's ability to meet its contractual obligations may be affected by future economic and regulatory developments.

Certain events might limit the ability of the Plan to transact at contract value with the contract issuer. These events may be different under each contract. Examples of such events include the following:

1. The Plan's failure to qualify under Section 401(a) of the Internal Revenue Code or the failure of the trust to be tax-exempt under Section 501(a) of the Internal Revenue Code

2. Premature termination of the contracts
3. Plan termination or merger
4. Changes to the Plan's prohibition on competing investment options
5. Bankruptcy of the plan sponsor or other plan sponsor events (for example, divestitures or spinoffs of a subsidiary) that significantly affect the Plan's normal operations.

No events are probable of occurring that might limit the ability of the Plan to transact at contract value with the contract issuers and that also would limit the ability of the Plan to transact at contract value with the participants.

In addition, certain events allow the issuer to terminate the contracts with the Plan and settle at an amount different from contract value. Those events may be different under each contract. Examples of such events include the following:

1. An uncured violation of the Plan's investment guidelines
2. A breach of material obligation under the contract
3. A material misrepresentation
4. A material amendment to the agreements without the consent of the issuer.

#### E. Rollover Contributions

On January 20, 20X1, XYZ Company acquired ABC Company and approved an amendment to terminate the ABC 401(k) Plan effective November 1, 20X1. All participants in the ABC 401(k) Plan became 100 percent vested in that plan upon termination and were provided with the option to have their account balance rolled into any qualified plan (including the Plan) or IRA, receive a lump-sum distribution, or be paid through an annuity contract. An aggregate of \$XXX,000 was rolled into the Plan during the year ended December 31, 20X1, and is included in rollovers on the statement of changes in net assets available for benefits.

#### F. Related-Party Transactions and Party-in-Interest Transactions

Certain Plan investments are shares of mutual funds managed by Prosperity Investments. Prosperity Investments is the trustee as defined by the Plan, and, therefore, these transactions qualify as party-in-interest transactions. Fees incurred and paid directly by the Plan for the investment management services were \$10,000.

#### G. Plan Termination

Although it has not expressed any intent to do so, the Company has the right under the Plan to discontinue its contributions at any time and to terminate the Plan subject to the provisions of ERISA. In the event of Plan termination, participants would become 100 percent vested in their employer contributions.

#### H. Tax Status



The IRS has determined and informed the Company by a letter dated August 30, 20XX, that the Plan and related trust are designed in accordance with applicable sections of the Internal Revenue Code. Although the Plan has been amended since receiving the determination letter, the Plan administrator and the Plan's tax counsel believe that the Plan is designed, and is currently being operated, in compliance with the applicable requirements of the Internal Revenue Code and, therefore, believe that the Plan is qualified and that the related trust is tax-exempt.

**I. Risks and Uncertainties**

The Plan invests in various investment securities. Investment securities are exposed to various risks, such as interest rate, market, and credit risks. Because of the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect participants' account balances and the amounts reported in the statement of net assets available for benefits.

**J. Reconciliation of Financial Statements to Form 5500**

The following is a reconciliation of net assets available for benefits per the financial statements at December 31, 20X1, and 20X0, to Form 5500:

**[For ease of readability, the new tables are not underlined.]**

	<u>20X1</u>	<u>20X0</u>
Net assets available for benefits per the financial statements	\$9,238,000	\$8,054,000
Amounts allocated to withdrawing participants	<u>(50,000)</u>	<u>(35,000)</u>
Net assets available for benefits per the Form 5500	<u>\$9,188,000</u>	<u>\$8,019,000</u>

The following is a reconciliation of benefits paid to participants per the financial statements for the year ended December 31, 20X1, to Form 5500:

Benefits paid to participants per the financial statements	\$ 526,000
Add: Amounts allocated to withdrawing participants at December 31, 20X1	50,000
Less: Amounts allocated to withdrawing participants at December 31, 20X0	<u>(35,000)</u>
Benefits paid to participants per Form 5500	<u>\$ 541,000</u>

Amounts allocated to withdrawing participants are recorded on Form 5500 for benefit claims that have been processed and approved for payment before year-end, but not yet paid as of that date.

## Amendments to Subtopic 965-20

11. Amend paragraph 965-20-45-3, with a link to transition paragraph 962-10-65-2, as follows:

### **Plan Accounting—Health and Welfare Benefit Plans—Net Assets Available for Plan Benefits**

#### **Other Presentation Matters**

##### **> Statement of Changes in Net Assets Available for Benefits**

**965-20-45-3** The statement of changes in net assets available for benefits shall be presented in enough detail to identify the significant changes during the year, including, as applicable, the following:

- a. Contributions from employers, segregated between cash and noncash contributions
- b. The nature of noncash contributions described either parenthetically or in a note
- c. Contributions from participants, including those collected and remitted by the sponsor
- d. Contributions from other identified sources (for example, state subsidies or federal grants)
- e. The net appreciation or depreciation in fair value ~~for each significant class of investments, segregated between investments whose fair values have been measured by quoted prices in an active market and those whose fair values have been otherwise determined.~~ Net appreciation or depreciation includes realized gains and losses on investments that were both purchased and sold during the period as well as unrealized appreciation or depreciation of the investments held at year-end.
- f. Investment income, excluding the net appreciation or depreciation
- g. Income taxes paid or payable, if applicable
- h. Payments of claims, excluding payments made by an insurance entity pursuant to contracts that are excluded from **plan assets**
- i. Payments of premiums to insurance entities to purchase contracts that are excluded from plan assets
- j. Operating and administrative expenses
- k. Other changes (such as transfers of assets to or from other plans), if significant.

## Amendments to Subtopic 965-205

12. Amend paragraphs 965-205-55-4, 965-205-55-6, and 965-205-55-8, with a link to transition paragraph 962-10-65-2, as follows:

### **Plan Accounting—Health and Welfare Benefit Plans— Presentation of Financial Statements**

#### **Implementation Guidance and Illustrations**

##### **> Illustrations**

##### **> > Example 1: Multiemployer Defined Benefit Health and Welfare Plan— Retirees Contribute a Portion of Medical Coverage Cost**

**965-205-55-2** This Example illustrates the guidance in paragraphs 965-205-10-1 and 965-205-45-1 through 45-2.

**965-205-55-3** The plan in this Example pays all **benefits** directly from **plan assets**. It is assumed that the plan provides health benefits and life insurance coverage to both active and retired participants. This Example also assumes that the plan provides long-term disability benefits and limited coverage during periods of unemployment based on **accumulated eligibility credits**.

**965-205-55-4** [Note: Only the section “Allied Industries Health Care Benefit Plan Notes to Financial Statements—Note 3: Investments” is shown here because that is the only part of this paragraph that has been amended.]

##### **NOTE 3: INVESTMENTS**

The Plan’s investments are held by a bank-administered trust fund. ~~During 20X2 and 20X1 the Plan’s investments (including investments bought, sold, and held during the year) appreciated in value by \$300,000 and \$200,000, respectively, as follows. (See paragraph 962-325-55-17 for a detailed Example of plan investment disclosures.)~~

	20X2		20X1	
	Net Increase-(Decrease) in Value During Year	Fair Value at End of Year	Net Increase-(Decrease) in Value During Year	Fair Value at End of Year
Fair value as determined by quoted market price:				
U.S. government securities	\$ 200,000	\$ 5,000,000	\$ (75,000)	\$ 4,000,000
Corporate bonds and debentures	(25,000)	1,750,000	50,000	1,375,000
Common stocks	100,000	1,000,000	200,000	600,000
	275,000	7,750,000	175,000	5,975,000
Fair value as estimated by Plan's board of trustees:				
Corporate bonds	25,000	250,000	25,000	225,000
	\$ 300,000	\$ 8,000,000	\$ 200,000	\$ 6,200,000

The fair value of individual investments that represent 5.0 percent or more of the Plan's net assets are as follows.

	20X2	20X1
Commonwealth Power Co., 9.0% bonds due 2014 (\$500,000 face amount)	\$ 475,000	\$ 450,000
ABC Company common stock (2,000 shares)	500,000	450,000
U.S. Treasury bond, 8.5% due 20X6 (\$360,000 face amount)		350,000

### > > Example 2: Single Employer Plan-Displays Benefit Obligation Information on Face of Financial Statements

**965-205-55-5** This Example illustrates the guidance in paragraphs 965-205-10-1 and 965-205-45-1 through 45-2.

**965-205-55-6** [Note: Only the section "Classic Enterprises Benefit Plan Notes to Financial Statements—Note 3: Investments" is shown here because that is the only part of this paragraph that has been amended.]

#### NOTE 3: INVESTMENTS

The Plan's investments are held by a bank-administered trust fund. ~~During 20X2 and 20X1, the plan's investments (including investments bought, sold, and held during the year) appreciated in value by \$300,000 and \$200,000, respectively, as follows. (See paragraph 962-325-55-17 for a detailed Example of plan investment disclosures.)~~

	20X2		20X1	
	Net Increase-(Decrease) in Value During Year	Fair Value at End of Year	Net Increase-(Decrease) in Value During Year	Fair Value at End of Year
Fair value as determined by quoted market price:				
U.S. government securities	\$ 200,000	\$ 5,000,000	\$ (75,000)	\$ 4,000,000
Corporate bonds and debentures	(25,000)	1,750,000	50,000	1,375,000
Common stocks	100,000	1,000,000	200,000	600,000
	275,000	7,750,000	175,000	5,975,000
Fair value as estimated by Plan's board of trustees:				
Corporate bonds	25,000	250,000	25,000	225,000
	\$ 300,000	\$ 8,000,000	\$ 200,000	\$ 6,200,000

The fair value of individual investments that represent 5.0 percent or more of the Plan's net assets is as follows.

	20X2	20X1
Commonwealth Power Co., 9.0% bonds due 2014 (\$500,000 face amount)	\$ 475,000	\$ 450,000
ABC Company common stock (2,000 shares)	500,000	450,000
U.S. Treasury bond, 8.5% due 20X6 (\$360,000 face amount)		350,000

#### > > Example 4: Health and Welfare Benefit Plan with Related 401(h) Account Disclosures—Single Line Presentation Approach

**965-205-55-8** This Example illustrates the guidance in paragraphs 965-205-45-6 through 45-8 and 965-205-50-3.

**[Note: Only the section “Notes to Financial Statements—E. 401(h) Account” is shown here because that is the only part of this paragraph that has been amended.]**

#### E. 401(h) Account

A portion of the Plan's obligations are funded through contributions to the Company's [defined benefit pension plan] in accordance with Internal Revenue Code Section 401(h). The following table presents the components of the net assets available for such obligations and the related changes in net assets available.

	<u>December 31,</u>	
	<u>20X1</u>	<u>20X0</u>
Investments at fair value:		
U.S. government securities	\$ 14,000	\$ 150,000
Money market fund	<u>900,000</u>	<u>800,000</u>
	1,040,000	950,000
Cash	20,000	10,000
Employer's contribution receivable <sup>(a)</sup>	20,000	15,000
Accrued interest	<u>7,000</u>	<u>6,000</u>
Total assets	1,087,000	981,000
Accrued administrative expenses	<u>(15,000)</u>	<u>(15,000)</u>
Net assets available	<u>\$ 1,072,000</u>	<u>\$ 966,000</u>

(a) A receivable from the employer must meet the requirements of paragraphs 960-310-25-1 through 25-2.

	<u>For the Year Ended December 31, 20X1</u>
<del>Net appreciation in fair value of investments:</del>	
<del>    U.S. government securities</del>	<del>\$ 10,800</del>
<del>    Interest</del>	<del>80,200</del>
<del>Net appreciation in fair value of investments</del>	<del>\$ 10,800</del>
<del>Interest</del>	<del>80,200</del>
	91,000
Employer contributions	40,000
Health and welfare benefits paid to retirees	(10,000)
Administrative expenses	<u>(15,000)</u>
Net increase in net assets available	<u>\$ 106,000</u>

## Amendments to Subtopic 965-325

13. Amend paragraph 965-325-45-2 and supersede its related heading, with a link to transition paragraph 962-10-65-2, as follows: **[Note: Paragraph 965-325-45-2 also contains amendments from Part I on fully benefit-responsive investment contracts.]**

# Plan Accounting—Health and Welfare Benefit Plans— Investments—Other

## Other Presentation Matters

### ~~> Non-Participant-Directed Investments~~

~~965-325-45-2~~ The presentation of non-participant directed investments Investments measured using fair value in the statement of net assets available for benefits or in the notes shall be detailed presented by general type, including the following:

- a. Registered investment companies (also known as mutual funds)
- b. Government securities
- c. Short-term securities
- d. Corporate bonds
- e. Common stocks
- f. Mortgages
- g. Subparagraph superseded by Accounting Standards Update No. 2012-04.
- h. Real estate.

For the presentation of fully benefit-responsive investment contracts, which are measured at contract value, see paragraphs 965-325-35-8 and 965-325-50-2.

14. Amend paragraph 965-325-50-1, supersede paragraph 965-325-50-1A, and add paragraph 965-325-50-4 and its related heading, with a link to transition paragraph 962-10-65-2, as follows:

## Disclosure

~~965-325-50-1~~ Disclosure of a **health and welfare benefit plan's** accounting policies shall include a description of the valuation techniques and inputs used to measure the **fair value** less costs to sell, if significant, of investments (as required by Section 820-10-50) and a description of the methods and significant assumptions used to measure the reported value of insurance contracts. However, health and welfare benefit plans are exempt from the requirements in paragraph 820-10-50-2B(a) to disaggregate assets by nature, characteristics, and risks. The disclosures of information by classes of assets required by Section 820-10-50 shall be provided by general type of plan assets consistent with paragraph 965-325-45-2.

~~965-325-50-1A~~ Paragraph superseded by Accounting Standards Update 2015-12 (Part II). Financial statement disclosures also shall include the identification of investments that represent 5 percent or more of the **not assets available for**

~~benefits as of the end of the year. Consideration should be given to disclosing provisions of insurance contracts included as plan assets that could cause an impairment of the asset value upon liquidation or other occurrence (for example, surrender charges and market value adjustments).~~

**> Investments Measured Using the Net Asset Value per Share Practical Expedient**

**965-325-50-4** If an investment is measured using the net asset value per share (or its equivalent) practical expedient in paragraph 820-10-35-59 and that investment is in a fund that files U.S. Department of Labor Form 5500 as a direct filing entity, disclosure of that investment's significant investment strategy, as discussed in paragraph 820-10-50-6A(a), is not required.

15. Amend paragraph 965-325-55-8, with a link to transition paragraph 962-10-65-2, as follows:

## Implementation Guidance and Illustrations

### > Illustrations

**965-325-55-8** See Example 42 (paragraph ~~962-325-55-16~~ 962-325-55-17) for financial statements that illustrate certain applications of the provisions of this Subtopic that apply to the annual financial statements of a defined contribution plan ~~with participant directed and non-participant directed investments.~~

16. Add paragraph 962-10-65-2 and its related heading as follows:

**> Transition Related to Accounting Standards Update No. 2015-12 (Part II), Plan Accounting (Topics 960, 962, and 965): Plan Investment Disclosures**

**962-10-65-2** The following represents the transition and effective date information related to Accounting Standards Update No. 2015-12 (Part II), *Plan Accounting (Topics 960, 962, and 965): Plan Investment Disclosures*:

- a. The pending content that links to this paragraph shall be effective for fiscal years beginning after December 15, 2015. Earlier application is permitted.
- b. An entity shall apply the pending content that links to this paragraph retrospectively to all periods presented.
- c. An entity shall provide the disclosures in paragraph 250-10-50-1(a) in the first annual period the entity adopts the pending content that links to this paragraph.

17. Amend paragraph 960-30-00-1, by adding the following items to the table, as follows:



**960-30-00-1** The following table identifies the changes made to this Subtopic.

<b>Paragraph</b>	<b>Action</b>	<b>Accounting Standards Update</b>	<b>Date</b>
960-30-45-2	Amended	2015-12 (Part II)	07/31/2015
960-30-50-1	Amended	2015-12 (Part II)	07/31/2015
960-30-50-2	Amended	2015-12 (Part II)	07/31/2015

18. Amend paragraph 960-205-00-1, by adding the following item to the table, as follows:

**960-205-00-1** The following table identifies the changes made to this Subtopic.

<b>Paragraph</b>	<b>Action</b>	<b>Accounting Standards Update</b>	<b>Date</b>
960-205-55-1	Amended	2015-12 (Part II)	07/31/2015

19. Amend paragraph 960-325-00-1, by adding the following items to the table, as follows:

**960-325-00-1** The following table identifies the changes made to this Subtopic.

<b>Paragraph</b>	<b>Action</b>	<b>Accounting Standards Update</b>	<b>Date</b>
960-325-45-1	Amended	2015-12 (Part II)	07/31/2015
960-325-45-2	Added	2015-12 (Part II)	07/31/2015
960-325-50-1	Amended	2015-12 (Part II)	07/31/2015
960-325-50-2	Superseded	2015-12 (Part II)	07/31/2015
960-325-50-6	Added	2015-12 (Part II)	07/31/2015

20. Amend paragraph 962-10-00-1, by adding the following item to the table, as follows:

**962-10-00-1** The following table identifies the changes made to this Subtopic.

<b>Paragraph</b>	<b>Action</b>	<b>Accounting Standards Update</b>	<b>Date</b>
962-10-65-2	Added	2015-12 (Part II)	07/31/2015

21. Amend paragraph 962-205-00-1, by adding the following item to the table, as follows:

**962-205-00-1** The following table identifies the changes made to this Subtopic.

<b>Paragraph</b>	<b>Action</b>	<b>Accounting Standards Update</b>	<b>Date</b>
962-205-45-7	Amended	2015-12 (Part II)	07/31/2015

22. Amend paragraph 962-325-00-1, by adding the following items to the table, as follows:

**962-325-00-1** The following table identifies the changes made to this Subtopic.

<b>Paragraph</b>	<b>Action</b>	<b>Accounting Standards Update</b>	<b>Date</b>
962-325-45-1 through 45-4	Superseded	2015-12 (Part II)	07/31/2015
962-325-45-5	Amended	2015-12 (Part II)	07/31/2015
962-325-45-7	Superseded	2015-12 (Part II)	07/31/2015
962-325-50-1	Amended	2015-12 (Part II)	07/31/2015
962-325-50-1A	Superseded	2015-12 (Part II)	07/31/2015
962-325-50-6	Amended	2015-12 (Part II)	07/31/2015
962-325-50-7	Amended	2015-12 (Part II)	07/31/2015
962-325-50-9	Added	2015-12 (Part II)	07/31/2015
962-325-55-16	Superseded	2015-12 (Part II)	07/31/2015
962-325-55-17	Added	2015-12 (Part II)	07/31/2015

23. Amend paragraph 965-20-00-1, by adding the following item to the table, as follows:

**965-20-00-1** The following table identifies the changes made to this Subtopic.

<b>Paragraph</b>	<b>Action</b>	<b>Accounting Standards Update</b>	<b>Date</b>
965-20-45-3	Amended	2015-12 (Part II)	07/31/2015

24. Amend paragraph 965-205-00-1, by adding the following items to the table, as follows:

**965-205-00-1** The following table identifies the changes made to this Subtopic.

<b>Paragraph</b>	<b>Action</b>	<b>Accounting Standards Update</b>	<b>Date</b>
965-205-55-4	Amended	2015-12 (Part II)	07/31/2015
965-205-55-6	Amended	2015-12 (Part II)	07/31/2015
965-205-55-8	Amended	2015-12 (Part II)	07/31/2015

25. Amend paragraph 965-325-00-1, by adding the following items to the table, as follows:

**965-325-00-1** The following table identifies the changes made to this Subtopic.

<b>Paragraph</b>	<b>Action</b>	<b>Accounting Standards Update</b>	<b>Date</b>
965-325-45-2	Amended	2015-12 (Part II)	07/31/2015
965-325-50-1	Amended	2015-12 (Part II)	07/31/2015
965-325-50-1A	Superseded	2015-12 (Part II)	07/31/2015
965-325-50-4	Added	2015-12 (Part II)	07/31/2015
965-325-55-8	Amended	2015-12 (Part II)	07/31/2015

*The amendments in Part II of this Update were adopted by the unanimous vote of the seven members of the Financial Accounting Standards Board:*

Russell G. Golden, *Chairman*  
James L. Kroeker, *Vice Chairman*  
Daryl E. Buck  
Thomas J. Linsmeier  
R. Harold Schroeder  
Marc A. Siegel  
Lawrence W. Smith

# Background Information and Basis for Conclusions

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## Introduction

BC1. The following summarizes the Task Force's considerations in reaching the conclusions in Part II of this Update. It includes the Board's basis for ratifying the Task Force conclusions when needed to supplement the Task Force's considerations. It also includes reasons for accepting certain approaches and rejecting others. Individual Task Force and Board members gave greater weight to some factors than to others.

## Background Information

BC2. GAAP requires plans to make investment disclosures under Topic 820 and under Topics 960, 962, and 965. Disclosing similar investment information in multiple ways is costly for preparers and makes the financial statements more cumbersome for users.

BC3. The disclosures required by Topic 820 generally require more time and resources to compile than those required by Topics 960, 962, and 965. That is, in part, because the disclosures required by Topics 960, 962, and 965 are typically less detailed or provide a higher level of aggregation than the disclosures required by Topic 820 and because the disclosures required by Topic 820 are more subjective (for example, when assessing measurement risk and determining the appropriate categorization within the fair value hierarchy disclosures). Most of the disclosures required by Topics 960, 962, and 965 can be sourced directly from investment statements, which are provided by the service providers who manage a plan's investments, and are less costly to prepare while aligning more closely with regulatory reporting.

BC4. Conversely, the disclosures required by Topic 820 are usually manually prepared, which makes the costs to prepare those investment disclosures greater than the costs to prepare the disclosures required by Topics 960, 962, and 965.

BC5. The Topic 820 investment disclosures provide significantly more valuation information about a plan's investment portfolio (for example, valuation methodologies and categorization of investments based on measurement risk). At least one regulatory user said that it relies on the Topic 820 disclosures to assess whether plans are meeting their fiduciary responsibilities by providing sufficient investment options to plan participants and to pinpoint certain types of investments that may require further investigation (that is, these disclosures are used as a "red

flag” approach). Similar information is not provided in the disclosures required by Topics 960, 962, and 965 or in the regulatory filing of Form 5500.

BC6. Other stakeholders said that the costs of preparing the Topic 820 disclosures do not justify the benefits for all investments, particularly for participant-directed investments. Those stakeholders noted that participant-directed investments already have different reporting requirements within GAAP that originated with American Institute of Certified Public Accountants (AICPA) Statement of Position (SOP) 99-3, *Accounting for and Reporting of Certain Defined Contribution Plan Investments and Other Disclosure Matters* (now codified within Topics 962 and 965). SOP 99-3 provides the basis for guidance, such as paragraph 962-325-45-3, which states that participant-directed investments may be shown in the aggregate, as one line item, in the statement of net assets available for benefits, and not disaggregated by general type in the notes. Conversely, nonparticipant-directed investments are required to be further disaggregated by general type.

BC7. SOP 99-3 reduced the amount of information that was required to be presented in a plan’s financial statements for participant-directed investments on the basis that financial information for those investments is available to plan participants, often with greater frequency and in a more timely manner than the issuance of plan financial statements (for example, through prospectuses on mutual funds, summaries of annual reports, and other retirement and financial planning resources from provider websites). Thus, the cost of providing the additional detailed investment information in financial statements is not warranted. SOP 99-3 indicated that more detailed investment information is necessary for nonparticipant-directed investments because such “information is useful in providing information about plan resources and how the plan trustee’s stewardship responsibility for those resources has been discharged.” Some stakeholders stated that the reduction in information provided by SOP 99-3 was negated by the disclosures required by Topic 820.

BC8. While some stakeholders recommend reducing disclosures for participant-directed investments, not all users viewed participant-directed and nonparticipant-directed investments as inherently different. One regulatory user stated that both types of investments have a degree of measurement risk. That regulatory user indicated that it is not only concerned with who directs the investments, but also with how accurately all investments are measured and reported. To that point, if investments are inaccurately measured and reported at the plan level, they are likely to be inaccurate in the information provided to the plan participants (that is, outside of the financial statements), which is a key concern of that user. Furthermore, it is important for the regulator to understand whether participants have been offered sufficient investment alternatives.

BC9. Because of the unique characteristics and considerations involved in plan accounting, an EITF Working Group was developed to provide insight and expertise relating to employee benefit plan accounting. The Working Group

included preparers, practitioners, an investment manager for benefit plans, and a regulatory user.

BC10. At its March 19, 2015 meeting, the Task Force reached a consensus-for-exposure on this Issue. The Board subsequently ratified the consensus-for-exposure and on April 23, 2015, issued proposed Accounting Standards Update, *Plan Accounting (Topics 960, 962, and 965): Plan Investment Disclosures*, for public comment, with a comment period that ended on May 18, 2015. The Board received 32 comment letters on the proposed Update. The majority of comment letter respondents were generally supportive of the proposal.

BC11. The Task Force considered the feedback received on the proposed Update at its June 18, 2015 meeting, and reached a consensus. The Board subsequently ratified the consensus, resulting in issuance of Part II of this Update.

## Scope

BC12. The Task Force reached a consensus that the amendments in Part II of this Update should apply to reporting entities that follow the requirements in Topics 960, 962, and 965.

## Disaggregation of Investments

BC13. Under Topic 820, classes of assets are based on nature, characteristics, and risks, and under Topics 960, 962, and 965, classes of assets are based on general type.

BC14. The Task Force understands that, in practice, investments are typically tracked by general type, which aligns closely with regulatory reporting requirements, and then further disaggregated by nature, characteristics, and risks for purposes of meeting the Topic 820 disclosures requirements. Often, those preparing plan financial statements manually compile the investment information by nature, characteristics, and risks because service providers generally do not provide information in that format.

BC15. While classification by nature, characteristics, and risks is more costly, it can provide more information about measurement risk for users of financial statements.

BC16. The Working Group recommended that all investments (that is, both participant-directed and nonparticipant-directed investments) should be disaggregated based on general type. While the Topic 820 disclosures may be more detailed, the Working Group did not believe that the benefits of further disaggregation justified the costs. The Task Force agreed with the Working Group recommendation.

BC17. The Working Group also recommended that self-directed brokerage accounts should be reported as a single type of investment. Self-directed brokerage accounts are a specific type of participant-directed investment option offered by some plans that allow the participant to select investments outside the plan's core investment options. Current practice generally is to disaggregate the investments within a self-directed brokerage account by nature, characteristics, and risks and by general type. Disaggregating the information in those self-directed brokerage accounts can be very time consuming and costly for preparers because the information comes from multiple sources. Furthermore, self-directed brokerage accounts are reported in one line item on Form 5500. The Task Force agreed with the Working Group recommendation.

## Details about Investments

BC18. Under Topic 820, an entity is required to disclose detailed information about financial assets by class of investment (for example, quantitative disclosures of fair value measurements, reconciliations of the opening and closing balances of recurring fair value measurement categorized within Level 3, and descriptions of valuation techniques). Under Topics 960, 962, and 965, a plan is required to identify investments that represent 5 percent or more of net assets available for benefits as of the end of the year.

BC19. The Task Force understands that, in practice, some have noted challenges with inherent subjectivity required to prepare the investment disclosures under Topic 820. Furthermore, service providers do not typically provide the level of detail necessary to prepare the Topic 820 disclosures about investments, which results in the disclosure process being manual and very time consuming, often with significant effort spent understanding the service providers' valuation methodologies.

BC20. While the disclosures under Topic 820 are more costly to prepare, the Task Force observed that they are beneficial particularly to one user. That is, one regulatory user noted the disclosure information provided by Topic 820 is critical to its analysis of a plan's financial statements and is not otherwise available. However, some stakeholders question whether that information should be required if it is not broadly beneficial to other users. This is particularly the case given the cost of providing that information.

BC21. Conversely, while the details about investment disclosures under Topics 960, 962, and 965 are less costly to prepare, users noted that the information provided (that is, a list of individual investments over 5 percent in the notes to the plan financial statements) is not beneficial.

BC22. The Working Group recommended eliminating the disclosure of individual investments that represent 5 percent or more of net assets available for benefits for all types of investments (that is, both participant-directed and nonparticipant-directed investments) and retain the disclosure requirements in Topic 820. The

Working Group agreed that the valuation information provided will be useful and acknowledged that the costs of preparing the disclosures, while significant, will be reduced by the requirement to disaggregate investments by general type because the information provided will not be as disaggregated as it is today and will align more closely with the typical format received from service providers. Furthermore, the volume of investments included in many of the Topic 820 disclosures, particularly the fair value hierarchy and disclosures about inputs into the valuation of an investment classified in Level 3 of the fair value hierarchy, is expected to decrease significantly as a result of the amendments set forth in Part I of this Update that require fully benefit-responsive investment contracts to be measured only at contract value (and not fair value), and Accounting Standards Update No. 2015-07, *Fair Value Measurement (Topic 820): Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)*, that remove investments measured using the net asset value per share (or its equivalent) practical expedient in paragraph 820-10-35-59 from the fair value hierarchy. The Task Force agreed with the Working Group recommendations. The Task Force also noted that while the disclosure requirement for investments that represent 5 percent or more of net assets available for benefits will be eliminated, plans are still required to comply with the disclosure requirements in Topics 275, Risks and Uncertainties, and 825, Financial Instruments, relating to concentrations of credit risk.

BC23. Additionally, some Working Group members questioned whether the required disclosures for investments measured using the net asset value per share practical expedient, particularly the redemption restriction and investment strategy disclosures, are necessary, noting that they are costly to prepare. However, the regulatory user noted that the investment strategy disclosure is used to better understand whether participants have been provided with appropriate opportunities to diversify their investments and mitigate risks, and the restriction disclosures are used to better understand liquidity risk. Nevertheless, some Working Group members suggested that the investment strategy disclosure should not be required for funds that file Form 5500 as direct filing entities because a regulatory user could access similar information related to an investment strategy by looking at the underlying assets within the fund. While some Task Force members were comfortable removing the investment strategy disclosures for all investments in plans measured using the net asset value per share practical expedient, other Task Force members questioned whether it is appropriate to exclude disclosures that would otherwise be considered appropriate on the basis that users can get the information elsewhere. The Task Force ultimately agreed with the recommendation to remove that disclosure for only investments in a fund that separately files a Form 5500 because of the availability of additional information on such investments. Given the feedback from the regulatory user, the Task Force decided not to remove any information related to restrictions on the redemption of investments measured using the net asset value per share (or its equivalent) practical expedient.



## Changes in Investments

BC24. Under Topic 820, an entity is required to disclose a rollforward of all investments categorized as Level 3. This rollforward includes breaking out realized gains or losses, unrealized gains or losses, sales, purchases, and transfers. Under Topics 960, 962, and 965, a plan is required to disclose the net appreciation or depreciation for investments by general type.

BC25. The Working Group recommended eliminating the disclosure requiring net appreciation or depreciation by general type, noting that the information provided was not useful. Some Working Group members also questioned the usefulness of the Level 3 rollforward. However, some members noted that similar to the above discussion on details about investments, the cost of preparing that disclosure should be significantly reduced because many of the investments (particularly the participant-directed investments) categorized as Level 3 today are measured using the net asset value per share (or its equivalent) practical expedient in paragraph 820-10-35-59 or are fully benefit-responsive investment contracts. As such, those investments will no longer be reflected in the fair value hierarchy. Therefore, the Working Group agreed that it was reasonable to retain the Level 3 rollforward for the remaining investments (that is, for both participant-directed and nonparticipant-directed investments).

BC26. The Task Force considered the Working Group recommendations and determined it was appropriate to retain the disclosure requirements under Topic 820 for plans because those disclosures provide necessary information to users. The Task Force also agreed with eliminating the disclosure of net appreciation or depreciation by general type, noting that the disclosure does not provide useful information.

## Participant-Directed Investments

BC27. For each of the decisions noted above, the Working Group and the Task Force considered whether a distinction for participant-directed investments should be allowed, similar to the considerations made in SOP 99-3. However, the Working Group did not recommend, and the Task Force did not conclude, that a distinction was appropriate in this circumstance.

BC28. The Task Force concluded that a distinction is not necessary for three main reasons. First, the regulatory user did not see a distinction between participant-directed investments and nonparticipant-directed investments. Second, the decisions reached provide relief beyond participant-directed investments. That is, the simplifications have been proposed for all investments and not solely participant-directed investments. Third, the effect from other decisions, particularly the requirement to remove investments measured using the net asset value per share (or its equivalent) practical expedient in paragraph 820-10-35-59 from the fair value hierarchy and the proposal to measure, present, and disclose fully

benefit-responsive investment contracts at contract value will significantly reduce the volume of investments included in many of the Topic 820 disclosures.

## Effective Date and Transition

BC29. The Task Force decided that the amendments in Part II of this Update should be effective for employee benefit plans with fiscal years beginning after December 15, 2015. Furthermore, the Task Force decided that earlier application is permitted.

BC30. The Task Force reached a consensus that an entity should apply the amendments in Part II of the Update retrospectively to all periods presented beginning in an entity's fiscal year of adoption. The Task Force believes that it is appropriate for the disclosures to be consistent in all periods presented in a reporting entity's financial statements because it will allow for greater comparability.

BC31. The Task Force considered whether the disclosures related to changes in accounting principle in paragraphs 250-10-50-1 through 50-3 should apply to the amendments. Many of the disclosure requirements are not applicable to employee benefit plans because plan financials do not have many of these measurements (such as per share amounts or retained earnings). As such, the Task Force concluded that a reporting entity should only be required to disclose the nature of and reason for the change in accounting principle (that is, the requirements of paragraph 250-10-50-1(a)).

## Benefits and Costs

BC32. The primary objective of employee benefit plan financial reporting is to provide financial information that is useful in assessing a plan's present and future ability to pay benefits as they become due. However, the benefits of providing information for that purpose should justify the related costs. The users of plan financial statements include the U.S. Department of Labor, the U.S. Department of the Treasury (specifically, the Internal Revenue Service), the Pension Benefit Guaranty Corporation, plan sponsors, trustees, and plan participants. The users of financial information benefit from improvements in financial reporting, while the costs to implement new guidance are borne primarily by current plan sponsors and plan participants. The Task Force's assessment of the costs and benefits of issuing new guidance is unavoidably more qualitative than quantitative because there is no method to objectively measure the costs to implement new guidance or to quantify the value of improved information in financial statements.

BC33. The Task Force does not anticipate that entities will incur significant costs as a result of the amendments in Part II of this Update because the amendments will result in no new disclosure requirements for participant-directed or

nonparticipant-directed investments. Instead, the Task Force believes that the amendments in Part II of this Update will reduce costs through the elimination of current disclosure requirements (including the requirements in Topics 960, 962, and 965 to disclose investments that represent 5 percent or more of net assets available for benefits and to disclose the net appreciation or depreciation for investments by general type) while simplifying other disclosures (such as, the fair value hierarchy table, which will be retained but disaggregated based only on general type as opposed to nature, characteristics, and risks). Because users have agreed that the disclosures that will be eliminated generally do not provide decision-useful information, the benefits of requiring disclosures of similar investment information in multiple ways would not justify the related costs.

## Amendments to the XBRL Taxonomy

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The amendments to the *FASB Accounting Standards Codification*<sup>®</sup> in Part II of this Accounting Standards Update do not require changes to the U.S. GAAP Financial Reporting Taxonomy (Taxonomy). Any stakeholders who believe that changes to the Taxonomy are required should provide their comments and suggested changes through [ASU Taxonomy Changes](#) provided at [www.fasb.org](http://www.fasb.org).



# Accounting Standards Update

No. 2015-12 (Part III)

July 2015

Plan Accounting:  
Defined Benefit Pension Plans (Topic 960)  
Defined Contribution Pension Plans (Topic 962)  
Health and Welfare Benefit Plans (Topic 965)

Part III: Measurement Date Practical Expedient

An Amendment of the *FASB Accounting Standards Codification*®

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Financial Accounting Standards Board



# Summary

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## Why Is the FASB Issuing This Accounting Standards Update (Update)?

The Board is issuing this Update to reduce complexity in employee benefit plan accounting, which is consistent with its Simplification Initiative. The objective of the Simplification Initiative is to identify, evaluate, and improve areas of generally accepted accounting principles (GAAP) for which cost and complexity can be reduced while maintaining or improving the usefulness of the information provided to users of financial statements. Part III of this Update is related to one area of several potential simplifications for employee benefit plans submitted by stakeholders.

Accounting Standards Update No. 2015-04, *Compensation—Retirement Benefits (Topic 715): Practical Expedient for the Measurement Date of an Employer’s Defined Benefit Obligation and Plan Assets*, provides a practical expedient that allows employers to measure defined benefit plan assets on a month-end date that is nearest to the employer’s fiscal year-end (“alternative measurement date”), when the fiscal period does not coincide with a month-end. If that practical expedient is elected, employers are required to apply it consistently from year to year, adjust the measurement of defined benefit plan assets and obligations to reflect contributions and significant events made between the alternative measurement date and the employer’s fiscal year-end, and disclose the use of the practical expedient and the alternative measurement date.

The amendments in Part III of this Update provide a similar measurement date practical expedient for employee benefit plans.

## Who Is Affected by the Amendments in This Update?

The amendments in Part III of this Update apply only to entities that have a fiscal year-end that does not coincide with a month-end and follow the requirements in Topics 960, Defined Benefit Pension Plans, 962, Defined Contribution Pension Plans, and 965, Health and Welfare Benefit Plans.

## What Are the Main Provisions and Why Are They an Improvement to Current GAAP?

The amendments in Part III of this Update provide a practical expedient to permit plans to measure investments and investment-related accounts (for example, a liability for a pending trade with a broker) as of a month-end date that is closest to

the plan's fiscal year-end, when the fiscal period does not coincide with a month-end.

If a plan applies the practical expedient and a contribution, distribution, and/or significant event occurs between the alternative measurement date and the plan's fiscal year-end, the plan should disclose the amount of the contribution, distribution, and/or significant event. The plan also should disclose the accounting policy election and the date used to measure investments and investment-related accounts.

The amendments simplify the measurement of investments and investment-related accounts while not significantly reducing the relevance of the information to users. Furthermore, the disclosures increase the transparency of the measurement date used and events that occur between the measurement date and the plan's fiscal year-end.

## When Will the Amendments Be Effective?

The amendments in Part III of this Update are effective for fiscal years beginning after December 15, 2015. Earlier application is permitted.

An entity should apply the amendments in Part III of this Update prospectively.



# Amendments to the *FASB Accounting Standards Codification*<sup>®</sup>

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## Introduction

1. The Accounting Standards Codification is amended as described in paragraphs 2–12. In some cases, to put the change into context, not only are the amended paragraphs shown but also the preceding and following paragraphs. Terms from the Master Glossary are in **bold** type. Added text is underlined, and deleted text is ~~struck out~~.

## Amendments to Subtopic 960-325

2. Add paragraph 960-325-35-4, with a link to transition paragraph 962-10-65-3, as follows:

### **Plan Accounting—Defined Benefit Pension Plans— Investments—Other**

#### **Subsequent Measurement**

**960-325-35-1** Plan investments—whether equity or debt securities, real estate, or other types (excluding insurance contracts)—shall be presented at their fair value at the **reporting date**. A contract with benefit-responsive provisions shall be reported as an investment contract if it cannot otherwise be considered an insurance contract (see paragraph 960-325-35-3).

**960-325-35-2** If significant, the fair value of an investment shall be reduced by brokerage commissions and other costs normally incurred in a sale (similar to fair value less cost to sell).

**960-325-35-3** Insurance contracts shall be presented in the same manner as specified in the annual report filed by the plan with certain governmental agencies pursuant to the Employee Retirement Income Security Act; that is, either at fair value or at amounts determined by the insurance entity (**contract value**). The credit quality of the issuer also must be evaluated when using contract value to report an investment contract with significant insurance risk. A plan not subject to the Employee Retirement Income Security Act shall present its insurance contracts as if the plan were subject to the reporting requirements of that Act.

**960-325-35-4** If a plan's fiscal year-end does not coincide with a month-end, the plan may measure investments and investment-related accounts (for example, a

liability for a pending trade with a broker) using the month-end that is closest to the plan's fiscal year-end. That election shall be applied consistently from year to year.

3. Add paragraphs 960-325-50-4 through 50-5, with a link to transition paragraph 962-10-65-3, as follows:

## **Disclosure**

**960-325-50-4** If applicable, a plan shall disclose the accounting policy election to measure investments and investment-related accounts using the month-end that is closest to the plan's fiscal year-end in accordance with paragraph 960-325-35-4 and the month-end measurement date.

**960-325-50-5** If a plan measures investments and investment-related accounts in accordance with paragraph 960-325-35-4 and contributions, distributions, and/or significant events (such as a plan amendment, a merger, or a termination) occur between the month-end date used to measure investments and investment-related accounts and the plan's fiscal year-end, the plan shall disclose the amounts of those contributions, distributions, and/or significant events.

## **Amendments to Subtopic 962-325**

4. Add paragraph 962-325-35-1B, with a link to transition paragraph 962-10-65-3, as follows:

## **Plan Accounting—Defined Contribution Pension Plans—Investments—Other**

### **Subsequent Measurement**

#### **> Reporting at Fair Value**

**962-325-35-1** Plan investments should generally be presented at their **fair value** at the reporting date (see paragraph 965-325-35-3 for special provisions concerning the valuation of insurance contracts and paragraph 962-325-35-5 for special provisions concerning the valuation of fully benefit-responsive investment contracts).

**962-325-35-1A** If significant, the fair value of an investment shall be reduced by brokerage commissions and other costs normally incurred in a sale (similar to fair value less cost to sell).

**962-325-35-1B** If a plan's fiscal year-end does not coincide with a month-end, the plan may measure investments and investment-related accounts (for example, a

liability for a pending trade with a broker) using the month-end that is closest to the plan's fiscal year-end. That election shall be applied consistently from year to year.

5. Add paragraphs 962-325-50-2A through 50-2B, with a link to transition paragraph 962-10-65-3, as follows:

## **Disclosure**

**962-325-50-2A** If applicable, a plan shall disclose the accounting policy election to measure investments and investment-related accounts using the month-end that is closest to the plan's fiscal year-end in accordance with paragraph 962-325-35-1B and the month-end measurement date.

**962-325-50-2B** If a plan measures investments and investment-related accounts in accordance with paragraph 962-325-35-1B and contributions, distributions, and/or significant events (such as a plan amendment, a merger, or a termination) occur between the month-end date used to measure investments and investment-related accounts and the plan's fiscal year-end, the plan shall disclose the amounts of those contributions, distributions, and/or significant events.

## **Amendments to Subtopic 965-325**

6. Add paragraph 965-325-35-2A, with a link to transition paragraph 962-10-65-3, as follows:

### **Plan Accounting—Health and Welfare Benefit Plans— Investments—Other**

#### **Subsequent Measurement**

##### **> Reporting at Fair Value**

**965-325-35-2** Investment contracts held by defined benefit **health and welfare benefit plans** shall be reported at their fair values.

**965-325-35-2A** If a plan's fiscal year-end does not coincide with a month-end, the plan may measure investments and investment-related accounts (for example, a liability for a pending trade with a broker) using the month-end that is closest to the plan's fiscal year-end. That election shall be applied consistently from year to year.

7. Add paragraphs 965-325-50-1B through 50-1C, with a link to transition paragraph 962-10-65-3, as follows:

## **Disclosure**

**965-325-50-1B** If applicable, a plan shall disclose the accounting policy election to measure investments and investment-related accounts using the month-end that is closest to the plan's fiscal year-end in accordance with paragraph 965-325-35-2A and the month-end measurement date.

**965-325-50-1C** If a plan measures investments and investment-related accounts in accordance with paragraph 965-325-35-2A and contributions, distributions, and/or significant events (such as a plan amendment, a merger, or a termination) occur between the month-end date used to measure investments and investment-related accounts and the plan's fiscal year-end, the plan shall disclose the amounts of those contributions, distributions, and/or significant events.

8. Add paragraph 962-10-65-3 and its related heading as follows:

**> Transition Related to Accounting Standards Update No. 2015-12 (Part III), Plan Accounting (Topics 960, 962, and 965): Measurement Date Practical Expedient**

**962-10-65-3** The following represents the transition and effective date information related to Accounting Standards Update No. 2015-12 (Part III), Plan Accounting (Topics 960, 962, and 965): Measurement Date Practical Expedient:

- a. The pending content that links to this paragraph shall be effective for fiscal years beginning after December 15, 2015. Earlier application is permitted.
- b. An entity shall apply the pending content that links to this paragraph prospectively.
- c. An entity shall provide the disclosures in paragraph 250-10-50-1(a) in the first annual period the entity adopts the pending content that links to this paragraph.

9. Amend paragraph 960-325-00-1, by adding the following items to the table, as follows:

**960-325-00-1** The following table identifies the changes made to this Subtopic.

<b>Paragraph</b>	<b>Action</b>	<b>Accounting Standards Update</b>	<b>Date</b>
960-325-35-4	Added	2015-12 (Part III)	07/31/2015
960-325-50-4	Added	2015-12 (Part III)	07/31/2015
960-325-50-5	Added	2015-12 (Part III)	07/31/2015

10. Amend paragraph 962-10-00-1, by adding the following item to the table, as follows:

**962-10-00-1** The following table identifies the changes made to this Subtopic.

<b>Paragraph</b>	<b>Action</b>	<b>Accounting Standards Update</b>	<b>Date</b>
962-10-65-3	Added	2015-12 (Part III)	07/31/2015

11. Amend paragraph 962-325-00-1, by adding the following items to the table, as follows:

**962-325-00-1** The following table identifies the changes made to this Subtopic.

<b>Paragraph</b>	<b>Action</b>	<b>Accounting Standards Update</b>	<b>Date</b>
962-325-35-1B	Added	2015-12 (Part III)	07/31/2015
962-325-50-2A	Added	2015-12 (Part III)	07/31/2015
962-325-50-2B	Added	2015-12 (Part III)	07/31/2015

12. Amend paragraph 965-325-00-1, by adding the following items to the table, as follows:

**965-325-00-1** The following table identifies the changes made to this Subtopic.

<b>Paragraph</b>	<b>Action</b>	<b>Accounting Standards Update</b>	<b>Date</b>
965-325-35-2A	Added	2015-12 (Part III)	07/31/2015
965-325-50-1B	Added	2015-12 (Part III)	07/31/2015
965-325-50-1C	Added	2015-12 (Part III)	07/31/2015

*The amendments in Part III of this Update were adopted by the unanimous vote of the seven members of the Financial Accounting Standards Board:*

Russell G. Golden, *Chairman*  
 James L. Kroeker, *Vice Chairman*  
 Daryl E. Buck  
 Thomas J. Linsmeier  
 R. Harold Schroeder  
 Marc A. Siegel  
 Lawrence W. Smith

# Background Information and Basis for Conclusions

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## Introduction

BC1. The following summarizes the Task Force's considerations in reaching the conclusions in Part III of this Update. It includes the Board's basis for ratifying the Task Force conclusions when needed to supplement the Task Force's considerations. It also includes reasons for accepting certain approaches and rejecting others. Individual Task Force and Board members gave greater weight to some factors than to others.

BC2. At its March 19, 2015 meeting, the Task Force reached a consensus-for-exposure on this Issue. The Board subsequently ratified the consensus-for-exposure and on April 23, 2015, issued a proposed Accounting Standards Update, *Plan Accounting (Topics 960, 962, and 965): Measurement Date Practical Expedient*, for public comment, with a comment period that ended on May 18, 2015. The Board received 20 comment letters on the proposed Update. Comment letter respondents generally were supportive of the proposal.

BC3. The Task Force considered the feedback received on the proposed Update at its June 18, 2015 meeting, and reached a consensus. The Board subsequently ratified the consensus, resulting in issuance of Part III of this Update.

## Scope

BC4. The Task Force reached a consensus that the amendments in Part III of this Update should apply to entities that follow the requirements in Topics 960, 962, and 965.

## Measurement Date Practical Expedient

BC5. For employee benefit plans with fiscal year-ends that do not coincide with month-ends, it often is difficult to measure investments and investment-related accounts as of the date of the statement of net assets when the valuation information received from third parties is provided as of the month-end. Those plans often must estimate the fair value of investments and investment-related accounts as of their fiscal year-ends by adjusting the valuation information provided by third parties as of the month-end.

BC6. The Board provided a practical expedient for employers following Topic 715 that allows those entities to measure defined benefit plan assets using an alternative measurement date (that is, the month-end date that is nearest to the

employer's fiscal year-end) when the fiscal period does not coincide with a month-end. If they elect the practical expedient, employers will be required to (a) adjust the fair value of defined benefit plan assets and obligations at the measurement date to reflect contributions and significant events made between the alternative measurement date and the employer's fiscal year-end, (b) apply the practical expedient consistently from year to year, and (c) disclose the use of the practical expedient and the alternative measurement date.

BC7. Stakeholders recommended that a similar practical expedient also should be allowed for defined benefit plans, defined contribution plans, and health and welfare plans. The Task Force agreed that extending a similar practical expedient to employee benefit plans is logical, particularly considering that many plans use the same fiscal year-end as the employer's fiscal year-end. Therefore, an employer with a fiscal year-end that does not fall on the end of the month is likely to have plans with the same issue.

BC8. However, members of the EITF Working Group that was formed to provide input to the Task Force on employee benefit plan accounting recommended two main changes from what is provided for employers. First, plans should not adjust investments and investment-related accounts for events that occur between the fiscal year-end and the alternative measurement date because adjusting for those events may require an allocation to the various investments in order to reconcile to the U.S. Department of Labor Form 5500, *Annual Return/Report of Employee Benefit Plan*. That allocation would be cumbersome and the reconciliation to the Form 5500 could be confusing to users. The Task Force agreed with that recommendation. Second, distributions between the alternative measurement date and the plan's fiscal year-end should be disclosed, in addition to contributions and significant events (such as a plan amendment, a merger, or a termination). Distributions were not included for employers because the benefit obligations and plan assets would be reduced equally. Thus, there is no overall effect on the employer's financial statements. However, in a plan's statement of net assets available for benefits, distributions reduce only the plan assets because there is no offsetting obligation. The Task Force also agreed with the members of the Working Group that the effects of distributions (along with contributions and significant events) should be included in the plan's disclosures.

BC9. Stakeholders also noted that, in practice, many plans already use an alternative measurement date and may not be adjusting for, or disclosing, the effects of contributions, distributions, or significant events. Thus, the practical expedient could result in more transparent information for users of plan financial statements.

## Effective Date and Transition

BC10. The Task Force decided that the amendments in Part III of this Update should be effective for all employee benefit plans with fiscal years beginning after

December 15, 2015. Furthermore, the Task Force decided that earlier application should be permitted.

BC11. The Task Force reached a consensus that an entity shall apply the amendments in Part III of this Update prospectively. This is consistent with the transition requirements for the practical expedient for employers following Topic 715.

BC12. The Task Force considered whether the disclosures related to changes in accounting principle in paragraphs 250-10-50-1 through 50-3 should apply to the amendments. Many of the disclosure requirements are not applicable to employee benefit plans because plan financials do not have many of these measurements (such as per-share amounts or retained earnings). As such, the Task Force concluded that a reporting entity should be required to only disclose the nature of and reason for the change in accounting principle (that is, the requirements of paragraph 250-10-50-1(a)). This also is consistent with the transition disclosure requirements for the practical expedient for employers following Topic 715.

## Benefits and Costs

BC13. The primary objective of employee benefit plan financial reporting is to provide financial information that is useful in assessing a plan's present and future ability to pay benefits as they become due. However, the benefits of providing information for that purpose should justify the related costs. The users of plan financial statements include the U.S. Department of Labor, the U.S. Department of the Treasury (specifically, the Internal Revenue Service), the Pension Benefit Guaranty Corporation, plan sponsors, trustees, and plan participants. The users of financial information benefit from improvements in financial reporting, while the costs to implement new guidance are borne primarily by current plan sponsors and plan participants. The Task Force's assessment of the benefits and costs of issuing new guidance is unavoidably more qualitative than quantitative because there is no method to objectively quantify the value of improved information in financial statements or to measure the costs to implement new guidance.

BC14. The Task Force anticipates that the amendments in Part III of this Update will reduce the costs of measuring investments and investment-related accounts for plans with fiscal year-ends that do not coincide with a month-end by permitting those plans to measure as of the closest month-end, which is consistent with the valuation information provided by third parties. The Task Force expects that the amendments in Part III of this Update will not significantly reduce the relevance of the information about the fair value of investments and investment-related accounts because the alternative measurement date will be close to a plan's fiscal year-end and that date will be disclosed.



## Amendments to the XBRL Taxonomy

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The amendments to the *FASB Accounting Standards Codification*<sup>®</sup> in Part III of this Accounting Standards Update do not require changes to the U.S. GAAP Financial Reporting Taxonomy (Taxonomy). Any stakeholders who believe that changes to the Taxonomy are required should provide their comments and suggested changes through [ASU Taxonomy Changes](#) provided at [www.fasb.org](http://www.fasb.org).