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Financial Accounting Series

Statement of Financial Accounting Standards No. 132

(revised 2003)

Employers' Disclosures about Pensions
and Other Postretirement Benefits

an amendment of FASB Statements
No. 87, 88, and 106



Financial Accounting Standards Board
of the Financial Accounting Foundation

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Summary

This Statement revises employers' disclosures about pension plans and other postretirement benefit plans. It does not change the measurement or recognition of those plans required by FASB Statements No. 87, *Employers' Accounting for Pensions*, No. 88, *Employers' Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits*, and No. 106, *Employers' Accounting for Postretirement Benefits Other Than Pensions*. This Statement retains the disclosure requirements contained in FASB Statement No. 132, *Employers' Disclosures about Pensions and Other Postretirement Benefits*, which it replaces. It requires additional disclosures to those in the original Statement 132 about the assets, obligations, cash flows, and net periodic benefit cost of defined benefit pension plans and other defined benefit postretirement plans. The required information should be provided separately for pension plans and for other postretirement benefit plans.

Reasons for Issuing This Statement

This Statement was developed in response to concerns expressed by users of financial statements about their need for more information about pension plan assets, obligations, benefit payments, contributions, and net benefit cost. Users of financial statements cited the significance of pensions for many entities and the need for more information about economic resources and obligations related to pension plans as reasons for requesting this additional information. In light of certain similarities between defined benefit pension arrangements and arrangements for other postretirement benefits, this Statement requires similar disclosures about postretirement benefits other than pensions.

Differences between This Statement and Statement 132

This Statement retains the disclosures required by Statement 132, which standardized the disclosure requirements for pensions and other postretirement benefits to the extent practicable and required additional information on changes in the benefit obligations and fair values of plan assets. Additional disclosures have been added in response to concerns expressed by users of financial statements; those disclosures include information describing the types of plan assets, investment strategy, measurement date(s), plan obligations, cash flows, and components of net periodic benefit cost recognized during interim periods. This Statement retains reduced disclosure requirements for nonpublic entities from Statement 132, and it includes reduced disclosures for certain of the new requirements.

How the Changes in This Statement Improve Financial Reporting and How the Conclusions in This Statement Relate to the Conceptual Framework

FASB Concepts Statement No. 1, *Objectives of Financial Reporting by Business Enterprises*, states that financial reporting should provide information about economic resources of an enterprise, claims to those resources, and the effects of transactions, events, and circumstances that change its resources and claims to those resources. This Statement, including the manner of presentation illustrated in Appendix C, results in more complete information about pension and other postretirement benefit plan assets, obligations, cash flows, and net cost and, thereby, assists users of financial statements in assessing the market risk of plan assets, the amount and timing of cash flows, and reported earnings.

FASB Concepts Statement No. 2, *Qualitative Characteristics of Accounting Information*, identifies relevance and reliability as the characteristics of financial information that make it useful. This Statement enhances disclosures of relevant accounting information by providing more information about the plan assets available to finance benefit payments, the obligations to pay benefits, and an entity's obligation to fund the plan, thus improving the information's predictive value. Reliability of accounting information will be improved by providing more complete and precise information about postretirement benefit resources and obligations.

Benefits and Costs

Entities that prepare financial statements in conformity with generally accepted accounting principles already compile and aggregate information about pension plans and other postretirement benefit plans, including information about plan assets, benefit obligations, and net cost. Information about equity securities, debt securities, real estate, and other assets is likely to be available from asset management records. Reporting of information about pension plans and other postretirement benefit plans required by this Statement may require some additional effort and cost, including amounts that may be paid to entities' auditors and actuaries; however, that information is already essential in complying with Statements 87, 106, and 132 and therefore should be available to, and understood by, preparers of financial statements. Additional costs to compile, analyze, and audit the additional disclosures required by this Statement are believed to be modest in relation to the benefits to be derived by users of financial statements.

Effective Date and Transition

The provisions of Statement 132 remain in effect until the provisions of this Statement are adopted. Except as noted below, this Statement is effective for financial

statements with fiscal years ending after December 15, 2003. The interim-period disclosures required by this Statement are effective for interim periods beginning after December 15, 2003.

Disclosure of information about foreign plans required by paragraphs 5(d), 5(e), 5(g), and 5(k) of this Statement is effective for fiscal years ending after June 15, 2004.

Disclosure of estimated future benefit payments required by paragraph 5(f) of this Statement is effective for fiscal years ending after June 15, 2004.

Disclosure of information for nonpublic entities required by paragraphs 8(c)–(f) and 8(j) of this Statement is effective for fiscal years ending after June 15, 2004.

Until this Statement is fully adopted, financial statements that exclude foreign plans from (a) the actual allocation of assets, (b) the description of investment strategies, (c) the basis used to determine the expected long-term rate-of-return-on-assets assumption, or (d) the amount of accumulated benefit obligation should include, separately for domestic plans, the total fair value of plan assets as of the measurement date(s) used for the latest statement of financial position presented and the overall expected long-term rate of return on assets for the latest period for which a statement of income is presented.

The disclosures for earlier annual periods presented for comparative purposes should be restated for (a) the percentages of each major category of plan assets held, (b) the accumulated benefit obligation, and (c) the assumptions used in the accounting for the plans. The disclosures for earlier interim periods presented for comparative purposes should be restated for the components of net benefit cost. However, if obtaining this information relating to earlier periods is not practicable, the notes to the financial statements should include all available information and identify the information not available.

Early application of the disclosure provisions of this Statement is encouraged.

Statement of Financial Accounting Standards No. 132

(revised 2003)

Employers' Disclosures about Pensions
and Other Postretirement Benefits

an amendment of FASB Statements
No. 87, 88, and 106

December 2003



Financial Accounting Standards Board
of the Financial Accounting Foundation

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Statement of Financial Accounting Standards No. 132 (revised 2003)

Employers' Disclosures about Pensions and Other Postretirement Benefits

an amendment of FASB Statements No. 87, 88, and 106

December 2003

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Statement of Financial Accounting Standards No. 132 (revised 2003)

Employers' Disclosures about Pensions and Other Postretirement Benefits

an amendment of FASB Statements No. 87, 88, and 106

December 2003

INTRODUCTION

1. The Board added a project on pension disclosures to its technical agenda in March 2003 in response to concerns about insufficient information in employers' financial statements about their defined benefit pension plan assets, obligations, cash flows, and net pension costs.¹ The project's objective was to (a) improve the content and organization of annual disclosures about defined benefit pension plans, (b) determine what, if any, disclosures would be required for interim-period financial reports, and (c) determine whether the disclosures to be required for defined benefit pension plans also would be required for other postretirement benefit plans.

2. Despite extensive disclosure requirements for pension plans and other postretirement benefit plans, many users of financial statements told the Board that the information provided for defined benefit pension plans was not adequate. Users of financial statements requested additional information that would assist them in (a) evaluating plan assets and the expected long-term rate of return used in determining net pension cost, (b) evaluating the employer's obligations under pension plans and the effects of those obligations on the employer's future cash flows, and (c) estimating the potential impact of net pension cost on future net income. The Board concluded that disclosures about pensions could be improved to provide information that would better serve users' needs.

3. This Statement incorporates all of the disclosure requirements of FASB Statement No. 132, *Employers' Disclosures about Pensions and Other Postretirement Benefits*. This Statement amends APB Opinion No. 28, *Interim Financial Reporting*, to require interim-period disclosure of the components of net periodic benefit cost and, if significantly different from previously disclosed amounts, the amounts of contributions and projected contributions to fund pension plans and other postretirement benefit

¹The terms *net pension cost*, *net benefit cost*, *net cost*, or other similar terms include net pension income and other postretirement benefit income.

plans. Information required to be disclosed about pension plans should not be combined with information required to be disclosed about other postretirement benefit plans except as permitted by paragraph 12 of this Statement. ***The disclosures that are new or have been changed are identified with an asterisk (*)***. Appendix A provides background information and the basis for the Board’s conclusions in this Statement. Appendix B provides background information and the basis for the Board’s conclusions as originally contained in Statement 132. Appendix C provides illustrations of the required disclosures. Appendix D provides information about the impact of this Statement on the consensus reached on EITF Issues relating to disclosures about pension plans and other postretirement benefit plans. Appendix E provides a glossary of terms that are used in this Statement.

STANDARDS OF FINANCIAL ACCOUNTING AND REPORTING

Scope

4. This Statement replaces the disclosure requirements in FASB Statements No. 87, *Employers’ Accounting for Pensions*, No. 88, *Employers’ Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits*, and No. 106, *Employers’ Accounting for Postretirement Benefits Other Than Pensions*. This Statement retains the disclosure requirements in Statement 132 and contains additional requirements.² This Statement addresses disclosure only; it does not address measurement or recognition.

Disclosures about Pension Plans and Other Postretirement Benefit Plans

5. Certain terms used in this Statement, such as **projected benefit obligation**,³ **accumulated benefit obligation**, **accumulated postretirement benefit obligation**, and *net pension cost*, are defined in Statements 87 and 106. An employer that sponsors one or more defined benefit pension plans or one or more other defined benefit postretirement plans shall provide the following information, separately for pension plans and other postretirement benefit plans. Amounts related to the employer’s results of operations shall be disclosed for each period for which a statement of income is

²Disclosures required by paragraphs 5–11 of Statement 132 are carried forward and included with the new disclosure requirements in paragraphs 5–8 and 11–13 of this Statement.

³Terms defined in Appendix E are set in **boldface type** the first time they appear.

presented. Amounts related to the employer's statement of financial position, unless otherwise stated, shall be disclosed as of the measurement date used for each statement of financial position presented.

- a. A reconciliation of beginning and ending balances of the benefit obligation⁴ showing separately, if applicable, the effects during the period attributable to each of the following: service cost, interest cost, contributions by plan participants, actuarial gains and losses, foreign currency exchange rate changes,⁵ benefits paid, plan amendments, business combinations, divestitures, curtailments, settlements, and special termination benefits.
- b. A reconciliation of beginning and ending balances of the fair value of plan assets showing separately, if applicable, the effects during the period attributable to each of the following: actual return on plan assets, foreign currency exchange rate changes,⁶ contributions by the employer, contributions by plan participants, benefits paid, business combinations, divestitures, and settlements.
- c. The funded status of the plans, the amounts not recognized in the statement of financial position, and the amounts recognized in the statement of financial position, including:
 - (1) The amount of any unamortized prior service cost.
 - (2) The amount of any unrecognized net gain or loss (including asset gains and losses not yet reflected in market-related value).
 - (3) The amount of any remaining unamortized, unrecognized net obligation or net asset existing at the initial date of application of Statement 87 or Statement 106.
 - (4) The net pension or other postretirement benefit prepaid assets or accrued liabilities.
 - (5) Any intangible asset and the amount of accumulated other comprehensive income recognized pursuant to paragraph 37 of Statement 87, as amended.
- d. Information about plan assets:
 - (1) For each major category of plan assets, which shall include, but is not limited to, **equity securities, debt securities**, real estate, and all other assets, the percentage of the fair value of total plan assets held as of the measurement date used for each statement of financial position presented.*

⁴For defined benefit pension plans, the benefit obligation is the projected benefit obligation. For defined benefit postretirement plans, the benefit obligation is the accumulated postretirement benefit obligation.

⁵The effects of foreign currency exchange rate changes that are to be disclosed are those applicable to plans of a foreign operation whose functional currency is not the reporting currency pursuant to FASB Statement No. 52, *Foreign Currency Translation*.

⁶Refer to footnote 5.

- (2) A narrative description of investment policies and strategies, including target allocation percentages or range of percentages for each major category of plan assets presented on a weighted-average basis as of the measurement date(s) of the latest statement of financial position presented, if applicable, and other factors that are pertinent to an understanding of the policies or strategies such as investment goals, risk management practices, permitted and prohibited investments including the use of derivatives, diversification, and the relationship between plan assets and benefit obligations.*
 - (3) A narrative description of the basis used to determine the overall expected long-term rate-of-return-on-assets assumption, such as the general approach used, the extent to which the overall rate-of-return-on-assets assumption was based on historical returns, the extent to which adjustments were made to those historical returns in order to reflect expectations of future returns, and how those adjustments were determined.*
 - (4) Disclosure of additional asset categories and additional information about specific assets within a category is encouraged if that information is expected to be useful in understanding the risks associated with each asset category and the overall expected long-term rate of return on assets.*
- e. For defined benefit pension plans, the accumulated benefit obligation.*
 - f. The benefits (as of the date of the latest statement of financial position presented) expected to be paid in each of the next five fiscal years, and in the aggregate for the five fiscal years thereafter. The expected benefits should be estimated based on the same assumptions used to measure the company's benefit obligation at the end of the year and should include benefits attributable to estimated future employee service.*
 - g. The employer's best estimate, as soon as it can reasonably be determined, of contributions expected to be paid to the plan during the next fiscal year beginning after the date of the latest statement of financial position presented. Estimated contributions may be presented in the aggregate combining (1) contributions required by funding regulations or laws, (2) discretionary contributions, and (3) noncash contributions.*
 - h. The amount of net periodic benefit cost recognized, showing separately the service cost component, the interest cost component, the expected return on plan assets for the period, the amortization of the unrecognized transition obligation or transition asset, the amount of recognized gains or losses, the amount of prior service cost recognized, and the amount of gains or losses recognized due to a settlement or curtailment.
 - i. The amount included within other comprehensive income for the period arising from a change in the additional minimum pension liability recognized pursuant to paragraph 37 of Statement 87, as amended.

- j. On a weighted-average basis, the following assumptions used in the accounting for the plans: assumed discount rates, rates of compensation increase (for pay-related plans), and expected long-term rates of return on plan assets specifying, in a tabular format, the assumptions used to determine the benefit obligation and the assumptions used to determine net benefit cost.*
- k. The measurement date(s) used to determine pension and other postretirement benefit measurements for the pension plans and other postretirement benefit plans that make up at least the majority of plan assets and benefit obligations.*
- l. The assumed health care cost trend rate(s) for the next year used to measure the expected cost of benefits covered by the plan (gross eligible charges), and a general description of the direction and pattern of change in the assumed trend rates thereafter, together with the ultimate trend rate(s) and when that rate is expected to be achieved.
- m. The effect of a one-percentage-point increase and the effect of a one-percentage-point decrease in the assumed health care cost trend rates on (1) the aggregate of the service and interest cost components of net periodic postretirement health care benefit costs and (2) the accumulated postretirement benefit obligation for health care benefits. (For purposes of this disclosure, all other assumptions shall be held constant, and the effects shall be measured based on the substantive plan that is the basis for the accounting.)
- n. If applicable, the amounts and types of securities of the employer and related parties included in plan assets, the approximate amount of future annual benefits of plan participants covered by insurance contracts issued by the employer or related parties, and any significant transactions between the employer or related parties and the plan during the period.
- o. If applicable, any alternative method used to amortize prior service amounts or unrecognized net gains and losses pursuant to paragraphs 26 and 33 of Statement 87 or paragraphs 53 and 60 of Statement 106.
- p. If applicable, any substantive commitment, such as past practice or a history of regular benefit increases, used as the basis for accounting for the benefit obligation.
- q. If applicable, the cost of providing special or contractual termination benefits recognized during the period and a description of the nature of the event.
- r. An explanation of any significant change in the benefit obligation or plan assets not otherwise apparent in the other disclosures required by this Statement.

Employers with Two or More Plans

6. The disclosures required by this Statement shall be aggregated for all of an employer's defined benefit pension plans and for all of an employer's other defined benefit postretirement plans unless disaggregating in groups is considered to provide useful information or is otherwise required by this paragraph and paragraph 7 of this

Statement. Unless otherwise stated, disclosures shall be as of the measurement date for each statement of financial position presented. Disclosure of amounts recognized in the statement of financial position shall present prepaid benefit costs and accrued benefit liabilities separately. Disclosures about pension plans with assets in excess of the accumulated benefit obligation generally may be aggregated with disclosures about pension plans with accumulated benefit obligations in excess of assets. The same aggregation is permitted for other postretirement benefit plans. If aggregate disclosures are presented, an employer shall disclose:

- a. The aggregate benefit obligation and aggregate fair value of plan assets for plans with benefit obligations in excess of plan assets as of the measurement date of each statement of financial position presented
- b. The aggregate pension accumulated benefit obligation and aggregate fair value of plan assets for pension plans with accumulated benefit obligations in excess of plan assets.

7. A U.S. reporting entity may combine disclosures about pension plans or other postretirement benefit plans outside the United States with those for U.S. plans unless the benefit obligations of the plans outside the United States are significant relative to the total benefit obligation and those plans use significantly different assumptions. A foreign reporting entity that prepares financial statements in conformity with U.S. generally accepted accounting principles (GAAP) shall apply the preceding guidance to its domestic and foreign plans.

Reduced Disclosure Requirements for Nonpublic Entities

8. A **nonpublic entity** is not required to disclose the information required by paragraphs 5(a)–(c), 5(h), 5(m), and 5(o)–(r) of this Statement. A nonpublic entity that sponsors one or more defined benefit pension plans or one or more other defined benefit postretirement plans shall provide the following information, separately for pension plans and other postretirement benefit plans. Amounts related to the employer’s results of operations shall be disclosed for each period for which a statement of income is presented. Amounts related to the employer’s statement of financial position shall be disclosed as of the measurement date used for each statement of financial position presented.

- a. The benefit obligation, fair value of plan assets, and funded status of the plan.
- b. Employer contributions, participant contributions, and benefits paid.

- c. Information about plan assets:
 - (1) For each major category of plan assets which shall include, but is not limited to, equity securities, debt securities, real estate, and all other assets, the percentage of the fair value of total plan assets held as of the measurement date used for each statement of financial position presented.*
 - (2) A narrative description of investment policies and strategies, including target allocation percentages or range of percentages for each major category of plan assets presented on a weighted-average basis as of the measurement date(s) of the latest statement of financial position presented, if applicable, and other factors that are pertinent to an understanding of the policies or strategies such as investment goals, risk management practices, permitted and prohibited investments including the use of derivatives, diversification, and the relationship between plan assets and benefit obligations.*
 - (3) A narrative description of the basis used to determine the overall expected long-term rate-of-return-on-assets assumption, such as the general approach used, the extent to which the overall rate-of-return-on-assets assumption was based on historical returns, the extent to which adjustments were made to those historical returns in order to reflect expectations of future returns, and how those adjustments were determined.*
 - (4) Disclosure of additional asset categories and additional information about specific assets within a category is encouraged if that information is expected to be useful in understanding the risks associated with each asset category and the overall expected long-term rate of return on assets.*
- d. For defined benefit pension plans, the accumulated benefit obligation.*
- e. The benefits (as of the date of the latest statement of financial position presented) expected to be paid in each of the next five fiscal years, and in the aggregate for the five fiscal years thereafter. The expected benefits should be estimated based on the same assumptions used to measure the company's benefit obligation at the end of the year and should include benefits attributable to estimated future employee service.*
- f. The employer's best estimate, as soon as it can reasonably be determined, of contributions expected to be paid to the plan during the next fiscal year beginning after the date of the latest statement of financial position presented. Estimated contributions may be presented in the aggregate combining (1) contributions required by funding regulations or laws, (2) discretionary contributions, and (3) noncash contributions.*
- g. The amounts recognized in the statements of financial position, including net pension and other postretirement benefit prepaid assets or accrued liabilities and any intangible asset and the amount of accumulated other comprehensive income recognized pursuant to paragraph 37 of Statement 87, as amended.

- h. The amount of net periodic benefit cost recognized and the amount included within other comprehensive income arising from a change in the minimum pension liability recognized pursuant to paragraph 37 of Statement 87, as amended.
- i. On a weighted-average basis, the following assumptions used in the accounting for the plans: assumed discount rates, rates of compensation increase (for pay-related plans), and expected long-term rates of return on plan assets specifying, in a tabular format, the assumptions used to determine the benefit obligation and the assumptions used to determine net benefit cost.*
- j. The measurement date(s) used to determine pension and other postretirement benefit measurements for the pension plans and other postretirement benefit plans that make up at least the majority of plan assets and benefit obligations.*
- k. The assumed health care cost trend rate(s) for the next year used to measure the expected cost of benefits covered by the plan (gross eligible charges), and a general description of the direction and pattern of change in the assumed trend rates thereafter, together with the ultimate trend rate(s) and when that rate is expected to be achieved.
- l. If applicable, the amounts and types of securities of the employer and related parties included in plan assets, the approximate amount of future annual benefits of plan participants covered by insurance contracts issued by the employer or related parties, and any significant transactions between the employer or related parties and the plan during the period.
- m. The nature and effect of significant nonroutine events, such as amendments, combinations, divestitures, curtailments, and settlements.

Disclosures in Interim Financial Reports

- 9. A **publicly traded entity** shall disclose the following information in its interim financial statements that include a statement of income:
 - a. The amount of net periodic benefit cost recognized, for each period for which a statement of income is presented, showing separately the service cost component, the interest cost component, the expected return on plan assets for the period, the amortization of the unrecognized transition obligation or transition asset, the amount of recognized gains or losses, the amount of prior service cost recognized, and the amount of gain or loss recognized due to a settlement or curtailment*
 - b. The total amount of the employer's contributions paid, and expected to be paid, during the current fiscal year, if significantly different from amounts previously disclosed pursuant to paragraph 5(g) of this Statement. Estimated contributions may be presented in the aggregate combining (1) contributions required by funding regulations or laws, (2) discretionary contributions, and (3) noncash contributions.*

10. A nonpublic entity shall disclose in interim periods, for which a complete set of financial statements is presented, the total amount of the employer's contributions paid, and expected to be paid, during the current fiscal year, if significantly different from amounts previously disclosed pursuant to paragraph 8(f) of this Statement. Estimated contributions may be presented in the aggregate combining (a) contributions required by funding regulations or laws, (b) discretionary contributions, and (c) noncash contributions.*

Defined Contribution Plans

11. An employer shall disclose the amount of cost recognized for defined contribution pension plans and for other defined contribution postretirement benefit plans for all periods presented separately from the amount of cost recognized for defined benefit plans. The disclosures shall include a description of the nature and effect of any significant changes during the period affecting comparability, such as a change in the rate of employer contributions, a business combination, or a divestiture.

Multiemployer Plans

12. An employer shall disclose the amount of contributions to multiemployer plans for each annual period for which a statement of income is presented. An employer may disclose total contributions to multiemployer plans without disaggregating the amounts attributable to pension plans and other postretirement benefit plans. The disclosures shall include a description of the nature and effect of any changes affecting comparability, such as a change in the rate of employer contributions, a business combination, or a divestiture.

13. In some situations, withdrawal from a multiemployer plan may result in an employer having an obligation to the plan for a portion of the unfunded benefit obligation of the pension plans and other postretirement benefit plans. If withdrawal under circumstances that would give rise to an obligation is either probable or reasonably possible, the provisions of FASB Statement No. 5, *Accounting for Contingencies*, shall apply (Statement 87, paragraph 70). If it is either probable or reasonably possible that (a) an employer would withdraw from the plan under circumstances that would give rise to an obligation or (b) an employer's contribution to the fund would be increased during the remainder of the contract period to make up a shortfall in the funds necessary to maintain the negotiated level of benefit coverage (a "maintenance of benefits" clause), the employer shall apply the provisions of Statement 5 (Statement 106, paragraph 83).

Amendments to Existing Pronouncements

14. Statement 132 is superseded by this Statement.
15. The following is added to the list of disclosures in paragraph 30 of Opinion 28:
 - k. The following information about defined benefit pension plans and other defined benefit postretirement benefit plans, disclosed for all periods presented pursuant to the provisions of FASB Statement No. 132 (revised 2003), *Employers' Disclosures about Pensions and Other Postretirement Benefits*:
 - (1) The amount of net periodic benefit cost recognized, for each period for which a statement of income is presented, showing separately the service cost component, the interest cost component, the expected return on plan assets for the period, the amortization of the unrecognized transition obligation or transition asset, the amount of recognized gains or losses, the amount of prior service cost recognized, and the amount of gain or loss recognized due to a settlement or curtailment.*
 - (2) The total amount of the employer's contributions paid, and expected to be paid, during the current fiscal year, if significantly different from amounts previously disclosed pursuant to paragraph 5(g) of Statement 132(R). Estimated contributions may be presented in the aggregate combining (a) contributions required by funding regulations or laws, (b) discretionary contributions, and (c) noncash contributions.*

Amendments Made by Statement 132 Carried Forward in This Statement with Minor Changes

16. Statement 87 is amended as follows:
 - a. Paragraph 54 is replaced by the following:

Refer to paragraphs 5 and 8 of FASB Statement No. 132 (revised 2003), *Employers' Disclosures about Pensions and Other Postretirement Benefits*.
 - b. Paragraph 56 is replaced by the following:

Refer to paragraphs 6 and 7 of Statement 132(R).
 - c. Paragraph 65 is replaced by the following:

Refer to paragraph 11 of Statement 132(R).

- d. Paragraph 69 is replaced by the following:

Refer to paragraph 12 of Statement 132(R).

17. Paragraph 17 of Statement 88 is replaced by the following:

Refer to paragraphs 5(a), 5(b), 5(h), 5(q), and 8(m) of FASB Statement No. 132 (revised 2003), *Employers' Disclosures about Pensions and Other Postretirement Benefits*.

18. Statement 106 is amended as follows:

- a. Paragraph 74 is replaced by the following:

Refer to paragraphs 5 and 8 of FASB Statement No. 132 (revised 2003), *Employers' Disclosures about Pensions and Other Postretirement Benefits*.

- b. Paragraphs 77 and 78 are replaced by the following:

Refer to paragraphs 6 and 7 of Statement 132(R).

- c. Paragraph 82 is replaced by the following:

Refer to paragraph 12 of Statement 132(R).

- d. Paragraph 106 is replaced by the following:

Refer to paragraph 11 of Statement 132(R).

Effective Date and Transition

19. The provisions of Statement 132 remain in effect until the provisions of this Statement are adopted. Except as noted below, this Statement shall be effective for fiscal years ending after December 15, 2003. The interim-period disclosures required by this Statement shall be effective for interim periods beginning after December 15, 2003.

- a. Disclosure of information about foreign plans required by paragraphs 5(d), 5(e), 5(g), and 5(k) of this Statement shall be effective for fiscal years ending after June 15, 2004.

- b. Estimated future benefit payments required by paragraph 5(f) of this Statement shall be effective for fiscal years ending after June 15, 2004.
- c. Disclosure of information for nonpublic entities required by paragraphs 8(c)–(f) and 8(j) of this Statement shall be effective for fiscal years ending after June 15, 2004.

Until this Statement is fully adopted, financial statements that exclude foreign plans from (a) the actual allocation of assets, (b) the description of investment strategies, (c) the basis used to determine the expected long-term rate-of-return-on-assets assumption, or (d) the amount of accumulated benefit obligation shall include, separately for domestic plans, the total fair value of plan assets as of the measurement date(s) used for the latest statement of financial position presented and the overall expected long-term rate of return on assets for the latest period for which a statement of income is presented.

20. The disclosures for earlier annual periods presented for comparative purposes shall be restated for (a) the percentages of each major category of plan assets held, (b) the accumulated benefit obligation, and (c) the assumptions used in the accounting for the plans. The disclosures for earlier interim periods presented for comparative purposes shall be restated for the components of net benefit cost. However, if obtaining this information relating to earlier periods is not practicable, the notes to the financial statements shall include all available information and identify the information not available. Early application of the disclosure provisions of this Statement is encouraged.

**The provisions of this Statement need
not be applied to immaterial items.**

This Statement was adopted by the unanimous vote of the seven members of the Financial Accounting Standards Board:

Robert H. Herz, *Chairman*
George J. Batavick
G. Michael Crooch
Gary S. Schieneman
Katherine Schipper
Leslie F. Seidman
Edward W. Trott

Appendix A

STATEMENT 132(R): BACKGROUND INFORMATION AND BASIS FOR CONCLUSIONS

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Appendix A

STATEMENT 132(R): BACKGROUND INFORMATION AND BASIS FOR CONCLUSIONS

Introduction

A1. This appendix summarizes considerations that Board members deemed significant in reaching the conclusions in this Statement. It includes reasons for accepting certain views and rejecting others. Individual Board members gave greater weight to some factors than to others.

Objectives of Disclosure

A2. In considering existing and proposed disclosures about pension plans and other postretirement benefit plans, the Board noted that disclosures should provide (a) qualitative information about the items in the financial statements, such as measurement and recognition policies and principles, (b) quantitative information about items recognized or disclosed in the financial statements, such as disaggregated data, (c) information that enables users of financial statements to assess the effect that pension plans and other postretirement benefit plans have on entities' results of operations, and (d) information to facilitate assessments of future earnings and cash flows, including the effects of benefit obligations on long-term liquidity and strategic decisions.

Background

A3. Discussions with users of financial statements indicated that the disclosures required by FASB Statement No. 132, *Employers' Disclosures about Pensions and Other Postretirement Benefits*, although extensive, do not provide sufficient information to users of financial statements in their analysis and understanding of entities' pension plans and other postretirement benefit plans.

A4. The Board identified four types of information sought by users of financial statements that would facilitate analyses of the plans' financial condition, net periodic cost, and cash flows: information about (a) plan assets, (b) benefit obligations, (c) cash flows for both benefit payments to retirees and contributions by the plan sponsor to investment trusts, and (d) net benefit costs. This Statement is intended to improve disclosures about those four aspects of defined benefit pension plans and other defined benefit postretirement benefit plans.

A5. On September 12, 2003, the Board issued an Exposure Draft, *Employers' Disclosures about Pensions and Other Postretirement Benefits*. The Board received 97 letters commenting on the Exposure Draft and redeliberated the issues raised in those comment letters in November 2003, in some cases reaffirming its prior decisions and in other cases revising or eliminating the proposed disclosure requirements.

A6. This Statement continues the standardization of the disclosure requirements of FASB Statements No. 87, *Employers' Accounting for Pensions*, and No. 106, *Employers' Accounting for Postretirement Benefits Other Than Pensions*, to the extent practicable, so that the required information will be easier to prepare and understand. This Statement also continues to require the parallel format for presenting information about pension plans and other postretirement benefit plans.

Benefits and Costs

A7. The mission of the FASB is to establish and improve standards of financial accounting and reporting for the guidance and education of the public, including preparers, auditors, and users of financial information. In fulfilling that mission, the Board endeavors to determine that a proposed standard will fill a significant need and that the costs imposed to meet that standard, as compared with other alternatives, are justified in relation to the overall benefits of the resulting information. Although the costs to implement a new standard may not be borne evenly, investors and creditors—both present and future—and other users of financial information benefit from improvements in financial reporting, thereby facilitating the functioning of markets for capital and credit and the efficient allocation of resources in the economy.

A8. The Board's assessment of the benefits and costs of providing these additional disclosures was based on discussions with certain users of financial statements, preparers of financial statements, and actuaries. Benefits to users of financial statements include information that will facilitate assessments of market risk and cash flows. Costs to preparers of financial statements include time and resources to incorporate the new information needed into existing processes and to validate the data, audit fees for independent verification of the disclosures, and actuarial fees. Some information, such as benefit payments, may require greater effort to obtain. Many, if not most, of the new disclosures represent either disaggregation of information already disclosed, such as the fair value of plan assets, or information already used in the determination of disclosed amounts.

A9. As most of the information required by this Statement is already essential in complying with Statements 87, 106, and 132, and is used by most preparers to monitor funding, it should be available to preparers of financial statements. The Board

considered the availability of data in establishing the effective date and transition provisions of this Statement. Additional costs to compile, analyze, and audit the proposed additional disclosures are believed to be modest in relation to the benefits to be derived by users of financial statements.

International Accounting Standards

A10. The International Accounting Standards Board's (IASB's) IAS 19, *Employee Benefits*, establishes recognition, measurement, and disclosure requirements for financial statements prepared in conformity with international accounting standards. The disclosure requirements of IAS 19 are similar to the requirements of Statement 132, as both require information that describes activity during the period and certain key assumptions used to determine benefit obligations and net periodic benefit cost. The IASB is proposing an amendment of IAS 19. One disclosure being considered for the proposed amendment that is similar to the requirements of this Statement is information about the major categories of plan assets. Other disclosures are dissimilar based on differing assessments by the FASB and IASB regarding users' needs and differences in the recognition and measurement principles applied to pension and other postretirement benefits.

Disclosure Requirements

Plan Assets

A11. The Board concluded in Statements 87 and 132 that disclosure of the fair value of plan assets is essential to understanding the economics of the employer's benefit plans and useful in assessing management's stewardship responsibilities for efficient use of those assets.

A12. In Statement 132, as described in paragraphs B33 and B34 of this Statement, the Board did not require disclosure of the composition of plan assets. The Board noted that the information required to enable users of financial statements to identify and assess concentrations of risk would be extensive and add significant complexity to the disclosure. However, in recent years, users of financial statements have indicated that information about plan assets, in the aggregate, is not adequate for assessing investment risk. This Statement requires disclosure of the major types of plan assets including, but not limited to, equity securities, debt securities, real estate, and all other assets. For each major category of assets, annual disclosures would include the percentage of the fair value of total plan assets held as of the measurement date used for each statement of financial position presented. The Board believes that such information would be useful to users of financial statements in evaluating the plans' exposure to market risk and

potential cash flow demands on the sponsor. In addition, it would enable users to better understand and evaluate management's selection of its expected long-term rate-of-return-on-assets assumption.

A13. In its discussion of asset categories to be disclosed separately, the Board considered requiring narrower categories but decided that the cost of doing so would outweigh the benefits. Those categories included public and nonpublic equity securities, domestic and international equity and debt securities, and government and corporate debt securities. In addition, the Board considered requiring identification of equity securities by expected returns and volatility. The Board concluded that those additional categories would not provide enough incremental benefit to justify the costs of compliance. For example, the Board concluded that disclosure of the amounts invested in international equity and debt securities would not adequately capture the particular market, credit, and exchange risks that exist in each country. The Board intends for the major asset categories to be the minimum level of detail to be provided by plan sponsors. If plan sponsors determine that additional categories and additional information about specific assets within a category would enhance financial statements users' understanding of investment risk or the expected long-term rates of return, they are encouraged to provide additional detail.

A14. Most respondents to the Exposure Draft agreed that information about the allocation of assets would enable users of financial statements to better understand management's investment policies and strategies and allow these users to better assess investment risk and the potential for future volatility in the fair value of assets and the overall expected long-term rate of return on assets. Some asked for additional guidance describing how individual securities should be classified into the major asset categories. The Board decided that the classification would be left to the judgment of the plan sponsor, based on the specific characteristics of each investment and existing accounting literature.

A15. In addition, the Board decided to require all entities that sponsor defined benefit pension plans and other defined benefit postretirement benefit plans to provide a narrative description of the investment strategies employed for those plans. The Board has not identified the specific information to be included in those descriptions because investment strategies are not uniform from plan to plan. Information that might be included in this disclosure is described in paragraph 5(d)(2) of this Statement. Information should be included in the description if it is an important element of the entity's investment strategy.

A16. The Exposure Draft would have required annual disclosure of the target allocation percentage, or range of percentages, for each major category of plan assets, presented

on a weighted-average basis as of the measurement date used for the latest statement of financial position presented. The Board believed that that information would be useful to users of financial statements in understanding and assessing investment strategies as well as market risk and would enable those users to better understand and evaluate management's expected long-term rate-of-return-on-assets assumption by indicating the likely mix of plan assets over time. The Board acknowledged that asset allocation targets are subject to revision, should be based on management's expectations, and should be revised in subsequent annual disclosures as those expectations change. The target asset allocation percentages would be calculated on a weighted-average basis so that the average target percentage, or range of percentages, reflects the relative size of each plan. In its redeliberations, the Board noted that some entities may not use target allocations as part of their investment policies or strategies. The Board decided that entities that do not use target allocations would not be required to create them. All other entities should include target asset allocations within their description of investment policies and strategies.

A17. The Exposure Draft would have required the disclosure of the expected long-term rate of return on assets, presented on a weighted-average basis, by individual asset class, for the latest period for which a statement of income is presented. Respondents who disagreed with the proposal noted that management often derives its overall rate-of-return assumption from its analysis of the portfolio as a whole and not from the sum of individual asset categories (a "building block" method). They pointed out that the "building block" method is only one of several acceptable methods for developing the expected long-term rate-of-return-on-assets assumption and that the disclosure requirement would lead users to expect that this method should be applied. Those expectations might cause some plan sponsors to change to the "building block" method or to perform an allocation solely for purposes of that disclosure. Respondents also indicated that the proposed disclosure (a) represented forward-looking information that should not be included in the financial statements, (b) would change frequently, because most plans are actively managed, (c) would be of limited usefulness because it represents the aggregation of multiple plans and jurisdictions, and (d) would not add sufficiently to the insights users of financial statements would derive from the disclosure of the actual asset allocations. After considering respondents' comments, the Board decided not to require disclosure of the expected long-term rate of return by individual asset category.

A18. A number of respondents favored disclosure of the basis used to determine the overall expected long-term rate-of-return-on-assets assumption. They indicated that this would be a preferable alternative to the disclosure of the expected rate of return by individual asset category. The Board concluded that this information would assist users in assessing management's long-term rate-of-return-on-assets assumption. A descrip-

tion of the basis used to determine the overall expected long-term rate of return on plan assets should reflect significant factors considered, which may vary from plan sponsor to plan sponsor. Therefore, the Board has not specified the information to be included. The disclosure should describe important considerations such as the general approach used, the extent to which the expected long-term rate of return is based on historical returns, the extent to which adjustments were made to those historical returns in order to reflect expectations of future returns, and how those adjustments were determined.

A19. The Exposure Draft would have required disclosure of information about the maturities of debt securities. The Board believed that that information, when matched with information about expected future benefit payments, would help users of financial statements assess the degree to which investment cash flows are aligned with benefit payments. Numerous respondents asked the Board to eliminate the requirement, noting that debt instruments typically represent only a small proportion of plan assets and, often, are not held to maturity. The Board agreed with respondents' comments and decided not to require that disclosure.

Obligations

A20. The Board discussed two obligations associated with pension plans. The first is the plan sponsor's obligation to contribute cash or other assets to fund the pension plan. For U.S. plans, those assets are set aside in accordance with standards established by the Employee Retirement Income Security Act of 1974 (ERISA) and are used to pay pension benefits to retirees. The second obligation is to pay pension benefits to retirees out of the assets in the pension plan. The Board received requests from users of financial statements for enhanced disclosures about both kinds of obligations. Paragraphs A21–A32 describe the Board's conclusions about those disclosures.

Disclosures about Obligations Not Required by the Board

A21. Some users of financial statements and other respondents suggested requiring disclosure of the pension obligation on an ERISA funding basis and on a Pension Benefit Guaranty Corporation (PBGC) termination funding basis. Those definitions of the pension obligation, they noted, are relevant because they determine entities' funding obligations.

A22. The Board decided not to require disclosures of the obligation measured on an ERISA or other regulatory funding basis because introducing additional measures of the obligation would increase complexity and because the ERISA or other regulatory measures, by themselves, would not convey useful information about funding. To be useful, those disclosures would have to be supplemented with information about

minimum and maximum funding amounts, excess funding credits available to reduce current-period minimum funding requirements, and management's intent regarding voluntary contributions.

A23. The Board decided that pension obligations measured on a PBGC termination funding basis (or similar statutory termination obligation outside the United States) should not be disclosed because that measurement basis is relevant only if a plan will be terminated or partially terminated and because that basis is not consistent with the concept of a going concern. Also, obligations determined on a termination funding basis are not routinely computed by plan actuaries, and disclosure would, therefore, impose additional implementation costs. Respondents who commented on this issue generally agreed with the Board's conclusions.

A24. Prior to issuing the Exposure Draft, the Board considered requests for additional disclosures that would enable users of financial statements to better understand the amounts and timing of benefit payments and to assess the time horizon over which benefit payments would be made. The Board considered requiring the disclosure of the number of plan participants by group (for example, active, terminated-vested, and retired) or the weighted-average duration and amount of the benefit obligation, both stratified by active, terminated-vested, and retired plan participants. The intent of that requirement would be to assist users of financial statements in assessing how well asset maturities align with the duration of the benefit obligation. Users indicated that that information could be compared to plan asset maturities to understand the entity's strategy for investing in plan assets and would enable them to assess the potential effects of changes in certain key assumptions.

A25. The Board excluded these requirements from the Exposure Draft but invited comments on these issues. Some respondents requested that duration information be required because it would facilitate sensitivity analysis. The Board considered that request but decided to exclude the disclosure of duration information from this Statement, concluding that it and the other proposed disclosures would provide minimal information about the amounts and timing of benefit payments. The Board was concerned that information about the weighted-average duration of benefit obligations would not enable users of financial statements to reliably assess the degree to which plan asset and benefit obligation cash flows are aligned, noting that two sets of cash flows could have similar durations but significantly different amounts and timing.

A26. The Board considered requiring additional disclosures about multiemployer pension plans. Among the disclosures considered were (a) a description of the plan, including the number of employees and employee groups covered, (b) the basis on which costs are charged and the cost rate, (c) contributions expected to be made for the

next fiscal year, (d) the funded status of the plan, together with the entity's workforce as a percentage of the total participants in the plan, and (e) the name of each multiemployer plan. Respondents who addressed this issue expressed varying views about whether these disclosures should be required. The Board decided not to require any of those disclosures, concluding that the costs of providing such information would exceed the benefits to users of financial statements.

Disclosures about Obligations Required by the Board

A27. The Exposure Draft would have required the disclosure of future benefit payments included in the determination of the projected benefit obligation. The Board concluded that that information would assist users of financial statements in understanding the cash flow requirements of benefit payments to retirees. Respondents noted that a measure of benefit payments based on employees' past service does not accurately represent the benefits that are actually paid. In addition, respondents noted that information about benefit payments determined on that basis is not readily available to financial statement preparers or actuaries. Discussions with actuaries confirmed that significant cost and effort would be involved in obtaining that information. Respondents suggested that the Board require the disclosure of benefit payments based on amounts that consider benefits attributable to expected future service. Some actuaries refer to those amounts as "expected benefit payments." Respondents also indicated that information systems often are able to provide estimated benefit payments that include benefits attributable to expected future employee service. Plan sponsors often use those estimated benefit payments for cash budgeting purposes.

A28. During its redeliberations, the Board acknowledged that significant cost and effort would be involved in obtaining estimates of benefit payments based on the projected benefit obligation. The Board reaffirmed its view that such estimates are relevant to users of financial statements and decided to adopt respondents' suggestions to require disclosure of estimated future benefits that include benefits attributable to estimated future employee service, recognizing that that information is more readily available from existing actuarial systems. That information would be presented as of the date of the latest statement of financial position presented, for each of the next five fiscal years, and in the aggregate for the five fiscal years thereafter.

A29. Estimated future benefit payments need not be separated between benefit payments made from plan assets and direct payments from the plan sponsor to plan participants (for example, for unfunded plans). Respondents noted that this aggregation impairs the ability to assess the alignment between asset maturities and benefit payments. The Board concluded that this aggregation should be permitted because of

cost and benefit considerations and in the interest of consistency with other provisions of this Statement that permit the combining of individual plans.

A30. The Board decided to require disclosure of the employer's best estimate of the contributions expected to be paid to fund pension plans and other postretirement benefit plans during the next fiscal year beginning after the date of the latest statement of financial position presented, as soon as those amounts can be reasonably determined. Users of financial statements indicated that that information would be useful in analyzing future cash flows between the plan sponsor and its plans. They noted that because of the complexities of funding regulations and the significance of voluntary contributions, disclosure by the employer is the most reliable source of contribution information for users of financial statements. As proposed in the Exposure Draft, that disclosure would have separately identified the required minimum and any additional discretionary funding amounts and the aggregate amount and description of any noncash contributions. Respondents expressed concern that because of the complexities of funding regulations and the uncertain distinction between required and voluntary contributions and cash and noncash contributions, separately identifying those amounts would involve significant judgment and period-to-period volatility. During redeliberations, the Board acknowledged those concerns and decided to require disclosure of management's best estimate, once the information can reasonably be determined, of only the aggregate amount of all contributions expected to be made during the next fiscal year.

A31. An *additional minimum liability* must be recognized if the accumulated benefit obligation exceeds the fair value of plan assets. Recognition of an additional minimum liability may result in the recognition of an intangible asset, a charge to other comprehensive income, or a combination of both, in accordance with paragraphs 36 and 37 of Statement 87. In Statement 132, as described in paragraphs B36 and B37 of this Statement, the Board did not require disclosure of the accumulated benefit obligation for pension plans with assets in excess of the accumulated benefit obligation. The Board reasoned that the accumulated benefit obligation is not used to forecast pension costs or obligations and, therefore, had limited relevance to users of financial statements. The Board did require disclosure of the accumulated benefit obligation for plans with assets less than the accumulated benefit obligation because the accumulated benefit obligation is used to determine the minimum liability. Users of financial statements noted that the accumulated benefit obligation is an input to their analysis of whether plan sponsors are close to recognizing an additional minimum liability. Acknowledging that concern, the Board decided to require annual disclosure of the accumulated benefit obligation for all defined benefit pension plans. That disclosure

will enable users of financial statements to monitor the funded status of the plans, determined in the aggregate, using the accumulated benefit obligation as the measure of the benefit obligation.

A32. Respondents who supported annual disclosure of the accumulated benefit obligation noted that the accumulated benefit obligation is an important factor in the recognition of an additional minimum liability when the accumulated benefit obligation exceeds the fair value of plan assets. A few respondents expressed concern that the disclosure would represent the aggregate accumulated benefit obligation for multiple plans while recognition of an additional minimum liability is determined on a plan-by-plan basis. The Board reaffirmed its previous decision to require disclosure of the accumulated benefit obligation, noting that disclosure of aggregate information for multiple plans is not unique to the accumulated benefit obligation.

Net Benefit Cost or Income

A33. Several types of events and consequences affecting pension plans and other postretirement benefit plans are combined and recognized as net benefit cost. This approach aggregates items that might be reported separately for other parts of an employer's operations, including service cost (representing compensation), interest cost resulting from deferred payment, and the results of investing in plan assets. Users of financial statements have indicated that they want information that will facilitate cost and margin analysis, either over time for a particular entity or comparatively between a reporting entity and other entities. Users of financial statements have stated that they wish to analyze operating results absent the financing elements of pension plans and other postretirement benefit plans and to compare costs and margins across entities with and without those plans or alternative benefit plans or with different actuarial assumptions.

A34. Periodic variation in net benefit cost will affect operating cost trends. Users of financial statements have said that additional disclosures about the effects of net benefit cost on line items of the statement of income will facilitate trend analysis by highlighting the degree to which those costs influence cost trends. Users of financial statements also have said that the additional disclosures would assist them in identifying the effect on operating results of financing elements of net benefit cost, such as expected long-term investment returns. Displaying the net benefit cost by income statement line item would enable users to better identify the effects of pension plans and other postretirement benefit plans on results, including both from a trend and a competitive standpoint.

A35. The Board decided not to include in the Exposure Draft a requirement to disclose the income statement classification of net benefit costs and invited respondents' comments on this issue. Some respondents favored the inclusion of that requirement in this Statement. They reasoned that the information would be useful for performing trend analyses and competitive comparisons. Other respondents expressed concern about the cost of obtaining that information. The Board decided not to require that disclosure, reasoning that existing disclosures adequately convey the operating and financing elements of net benefit cost, and the aggregate amounts of net periodic benefit costs are, for many reporting entities, generally relatively insignificant in relation to individual income statement line items.

Assumptions

A36. The Board observed that disclosures about certain key assumptions would be more useful if those disclosures followed consistent conventions. For example, some entities' disclosures under Statement 132 indicate that the disclosed key assumptions are as of the latest measurement date even though the expected long-term rate-of-return-on-assets assumption is as of an earlier date used to determine current-period assumed investment earnings. In the Exposure Draft, the Board decided to require a tabular format for the disclosure of certain assumptions and to improve clarity about the period and measure to which those assumptions relate by separately disclosing the assumptions used to determine benefit obligations and the assumptions used to determine net benefit cost. Respondents generally supported the Board's decision to improve clarity about key assumptions. Some stated that a standard format for disclosing key assumptions would facilitate financial statement users' analysis, interpretation, and comparisons among the disclosures of different entities.

Measurement Date(s)

A37. The Board discussed the provisions of Statements 87 and 106 that permit measuring plan assets and obligations as of the date of the financial statements presented or as of a date not more than three months prior to that date, as long as the earlier date is used consistently. The Board noted that events that occur after the measurement date but prior to fiscal year-end would affect, but might not be reflected in, plan assets, benefit obligations, and net periodic cost. Examples of such events are changes in equity returns and changes in interest rates.

A38. In the Exposure Draft, the Board proposed that disclosure of the measurement date(s) used to measure pension plans and other postretirement benefit plans be required when an economic event occurs, or economic conditions change, after the measurement date(s) but before the fiscal year-end if those changes would have had a

significant effect on reported amounts for plan assets and obligations had the fiscal year-end date been used as the measurement date. The Exposure Draft also required that the nature of the significant changes be described.

A39. Respondents agreed that the disclosure of the plan measurement date(s) would better enable users of financial statements to understand the key assumptions selected. Most respondents who supported disclosure of the measurement date(s) stated that it should be required at all times; requiring contingent disclosure, they noted, would penalize preparers who use a measurement date other than the fiscal year-end by requiring them to assess the significance of economic events occurring between the measurement date(s) and fiscal year-end. During its redeliberations, the Board agreed with respondents and decided to require disclosure, in all cases, of the measurement date(s) used to determine pension and other postretirement benefit measurements for the plans that make up at least the majority of plan assets and benefit obligations.

Reduced Disclosure Requirements for Nonpublic Entities

A40. This Statement retains the reduced disclosure requirements for nonpublic entities provided in Statement 132. The Board considered but rejected the establishment of a materiality threshold that would determine when nonpublic entities would be required to provide pension and other postretirement benefits disclosures. In reaching its decision, the Board acknowledged that Statement 132 contained no such threshold. Nonpublic entities are exempt from the requirements of paragraphs 5(a)–(c), 5(h), 5(m), and 5(o)–(r) of this Statement and from the requirement to present interim-period disclosure of the separate components of net periodic benefit cost recognized. Users of financial statements have observed that when analyzing the financial statements of nonpublic entities, they rely on information about the benefit obligation, assets, and cash flows, but they do not require that same level of detail about benefit costs and net income as is provided by publicly traded entities.

A41. Few respondents addressed disclosure requirements for nonpublic entities. Of those that did, most agreed with the Board's decision, indicating that nonpublic entities do not have special circumstances that should exempt them from most of the disclosure requirements. Respondents who disagreed expressed concern about the cost and burden those requirements would impose on small and nonpublic entities. One respondent noted that many nonpublic entities do not perform annual measurements of costs and obligations and that incremental costs of providing some of the new disclosures could be significant. After considering all comments, the Board decided to reaffirm its previous decision to require the same information for nonpublic entities as for publicly traded entities except as described in paragraph A40. The Board concluded that the

disclosures are not inappropriately burdensome and that nonpublic entities should perform measurements of costs and obligations as appropriate to provide reliable information.

Sensitivity Information

A42. The Board considered the requests of users of financial statements for sensitivity information about the effects of hypothetical changes in certain assumptions used in accounting for pension plans and other postretirement benefit plans. The Board was concerned that providing sensitivity information for individual assumptions, while holding all other assumptions constant, may be misunderstood. The effects of hypothetical changes in assumptions determined in this way may not be a reasonable representation of future results. Economic factors and conditions often affect multiple assumptions simultaneously, and the effects of changes in key assumptions are not linear.

A43. In the Exposure Draft, the Board decided not to require disclosure of sensitivity information about hypothetical changes in discount rates, expected long-term rates of return on assets, or rates of future compensation increase; however, the Exposure Draft requested respondents' views on these issues. In addition, the Board retained the requirement to provide the effect of a one-percentage-point increase and the effect of a one-percentage-point decrease in the assumed health care cost trend rates for the reasons identified in Statement 132, including the statement in paragraph B30 of this Statement that "... the effects of a one-percentage-point change in a plan's assumed health care cost trend rate would be difficult to assess because the way in which health care cost assumptions interact with caps, cost-sharing provisions, and other factors in the plan precludes reasonable estimates of the effects of those changes. The effects of changes in other assumptions, such as the weighted-average discount rate, can be more easily approximated."

A44. Most respondents supported the Board's decision not to require the disclosure of sensitivity information. Those who disagreed noted that sensitivity information about hypothetical changes in key assumptions would facilitate forecasts of the effects of changes in assumptions and would enable financial statement users to better compare similar companies that use different assumptions. Respondents expressed the most interest in sensitivity information about changes in discount rates and rates of future compensation increase. They expressed less interest in sensitivity information about changes in the expected long-term rate of return on plan assets. The Board considered those comments and reaffirmed its decision not to require disclosure of sensitivity information about changes in key assumptions. The Board reasoned that sensitivity

information may be misunderstood by investors and may not adequately take into account the interdependency of certain assumptions.

Reconsideration of Certain Statement 132 Disclosures

A45. The Board recognizes that pension and other postretirement benefit disclosures are substantial and that the benefits derived by users of financial statements should exceed the costs of compliance. To balance the addition of numerous disclosures in this project, the Board considered eliminating certain disclosures required by Statement 132. Specifically, the Board considered eliminating the reconciliations of beginning and ending balances of the fair value of plan assets and benefit obligations and replacing those reconciliations with disclosures of ending balances and key categories of activity not disclosed elsewhere, such as actual investment returns, benefit payments, employer contributions, and participant contributions.

A46. The Board's tentative decision to eliminate the reconciliations was included in the Exposure Draft. Most respondents disagreed with the Board's decision. They indicated that, absent that presentation, some users of financial statements might try to reconstruct the reconciliations. They also noted that preparers already have processes in place to provide the reconciliations and that auditors likely would continue to include the reconciliations in their reviews. After considering those comments, the Board decided to retain the Statement 132 requirements to provide a reconciliation of the beginning and ending balances of the fair value of plan assets and benefit obligations.

A47. The Board also considered eliminating the requirement to disclose the amounts and types of securities of the employer and its related parties included in plan assets. Holdings of related-party securities, while limited by ERISA, may not be limited in all jurisdictions and represent important information about plan assets. Therefore, the Board decided to retain that requirement of Statement 132.

Disclosures in Interim Financial Reports

A48. Some users of financial statements asked for the same disclosures in interim financial reports as in annual financial statements, reasoning that pension plans are often significant to enterprises and are subject to the volatility of equity markets and interest rates. However, the Board concluded that requiring all of those disclosures in interim-period financial statements would be overly burdensome to preparers of financial statements. The Board recognized that pension plans are long-term in nature and that many of the elements of net periodic cost are determined on an annual basis. The Board also was concerned about requiring interim-period disclosure of only certain aspects of pension plans. For example, interim-period disclosure of the fair value of

plan assets, without an updated projected benefit obligation, would not provide enough information for users of financial statements to assess changes in the funded status.

A49. The Exposure Draft required interim-period disclosure of the components of net pension and other postretirement benefit costs. Although net benefit cost would not be expected to vary significantly from quarter to quarter because quarterly amounts would be based on the annual measurements, the amount of net benefit cost based on the most recent annual measurements would otherwise not be disclosed until year-end. Interim-period disclosure would better inform users about the effects of the most recent measurements on net benefit cost and would be useful to users in analyzing interim-period results.

A50. Many respondents disagreed with the interim-period disclosure of the components of net benefit cost. They reasoned that the accounting for pensions and other postretirement benefits is based on annual measurements and that certain interim-period amounts are often based on estimates. In addition, they noted that the nature of those benefits is long-term and that short-term information is therefore less meaningful. Finally, they noted that interim-period disclosure of the components of net benefit cost might imply that the disclosed cost was based on quarterly measurements of costs and obligations. During its redeliberations, the Board considered respondents' views and reaffirmed its previous decision to require interim-period disclosure of the components of net pension and other postretirement benefit cost. The Board acknowledged that interim-period financial statements often are based on estimates but concluded that this is not a sufficient reason not to disclose relevant information about amounts recognized.

Materiality

A51. The Board considered whether this Statement should require disclosures only for pension plans and other postretirement benefit plans that are material. The Board considered several possible bases for a materiality threshold including (a) plan assets as a percentage of total assets of the reporting entity, (b) benefit obligations as a percentage of total liabilities of the reporting entity, (c) net periodic benefit cost as a percentage of total income before taxes of the reporting entity, and (d) plan assets as a percentage of plan obligations. The Board decided that no general basis for a materiality threshold could be developed that would take into account all the considerations entering into a judgment about the materiality of pension plans and other postretirement benefit plans. In addition, the Board observed that a quantitative threshold based on net periodic benefit cost and reported income was not practicable because of the volatility of both net periodic benefit cost and reported income, and a threshold based on plan assets or obligations could result in inconsistent year-to-year designations. Based on those

conclusions, the Board decided not to include a materiality threshold but noted that this decision does not imply that the provisions of this Statement should be applied to immaterial amounts.

Effective Date and Transition

A52. The Board believes that application of this Statement should not impose significant costs on most preparers of financial statements because the systems and processes necessary to provide most, if not all, of the required disclosures are already in place. Preparers of financial statements who comply with Statements 87, 106, and 132 have processes in place to compile information about plan assets. In addition, the annual measurements used to determine the benefit obligation are based on expected benefit payment cash flows, which actuaries have indicated should not require excessive effort to provide. For those reasons, the Board anticipates that most entities should have little difficulty providing the disclosures required by this Statement, including comparable prior-year information.

A53. The Board decided to make this Statement effective shortly after issuance for the new disclosures that it understood would be readily available in existing information systems, such as information about domestic plan assets, the accumulated benefit obligation, measurement date(s), estimated contributions, and assumptions. The Board believes that those disclosures are important to users of financial statements and that the data needed is readily available to preparers of financial statements. The Board decided that the other new disclosures might be more difficult to compile quickly, such as the information about benefit payments, along with all of the new disclosure requirements for foreign plans and nonpublic entities; therefore, those disclosures would be effective for fiscal years ending after June 15, 2004.

A54. The Board understands that some plan sponsors disclose aggregate amounts for domestic and foreign plans and that the usefulness of certain disclosures for domestic plans required for years ending after December 15, 2003, will therefore be limited. As a result, the Board decided that sponsors who adopt this Statement for years ending after December 15, 2003, only for domestic plans are also required to provide only domestic information for the fair value of plan assets and the expected long-term rate of return on assets. The Board concluded that the staggered effective date and transition provisions provide entities with adequate time to accumulate and develop the information required by this Statement.

Appendix B

STATEMENT 132: BACKGROUND INFORMATION AND BASIS FOR CONCLUSIONS

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Appendix B

STATEMENT 132: BACKGROUND INFORMATION AND BASIS FOR CONCLUSIONS (Note: Paragraph numbering has been changed from original Statement.)

Introduction

B1. This appendix summarizes considerations that were deemed significant by Board members in reaching the conclusions in this Statement. It includes reasons for accepting certain approaches and rejecting others. Individual Board members gave greater weight to some factors than to others. The Board concluded that it could reach an informed decision on the basis of existing information without a public hearing.

B2. The AICPA Special Committee on Financial Reporting (Special Committee) issued a report, *Improving Business Reporting—A Customer Focus*, in December 1994. In that report, the Special Committee recommended that “standard setters should search for and eliminate less relevant disclosures.” The Special Committee also noted that many users indicated that “they would be willing to give up less important disclosures to make room for more important information.”

B3. Disclosure effectiveness has been a concern of the Board for some time. FASB documents that have addressed this issue include the 1980 Invitation to Comment, *Financial Statements and Other Means of Financial Reporting*, and the 1981 Exposure Draft, *Reporting Income, Cash Flows, and Financial Position of Business Enterprises*. Board members and FASB staff have written numerous articles on the topic. In addition, disclosure effectiveness was discussed at an April 1995 Financial Accounting Standards Advisory Council (FASAC) meeting and at several liaison meetings during 1995.

B4. The Board issued a Prospectus, *Disclosure Effectiveness*, in July 1995. The Prospectus asked readers to consider possible changes to disclosure requirements consistent with one or both of two objectives: to reduce the cost of preparing and disseminating disclosures while providing users with information they need and to eliminate disclosures that are not useful for decision making. The Prospectus also encouraged further research and discussion on improving the effectiveness of financial reporting.

B5. The Board received 71 letters in response to the Prospectus. Respondents generally supported a project to improve disclosure effectiveness, and many respondents suggested

that pensions, other postretirement benefits, income taxes, and leases were topics that required specific attention. Several respondents suggested that the Board develop a framework for disclosure.

B6. At the January 1996 FASAC meeting, several Council members suggested that the Board take an inductive approach to disclosure effectiveness, beginning by evaluating the requirements for disclosure about pensions and other postretirement benefits. A working group of FASAC members was formed to follow up on that suggestion. That group prepared a proposal that was discussed at the July 1996 FASAC meeting and in August 1996 at a public Board meeting with representatives of the Financial Executives Institute, the Association for Investment Management and Research, and other interested parties.

A Conceptual Framework for Disclosure

B7. Some participants in the August 1996 meeting did not favor proceeding with a project before defining the general objectives of disclosure. The Board considered developing a framework for disclosure based on FASB Concepts Statement No. 1, *Objectives of Financial Reporting by Business Enterprises*, and a review of published studies but concluded that not enough information was available to formulate a framework at that time. In October 1996, the Board decided to proceed with an inductive approach to disclosure by initiating a project to examine pensions and other postretirement benefits to determine whether disclosures in that specific area could be improved, and, if so, whether any of the approaches undertaken could be applied to other accounting topics.

B8. In June 1997, the Board issued an Exposure Draft, *Employers' Disclosures about Pensions and Other Postretirement Benefits*. The Board received 90 comment letters in response to that Exposure Draft. Most respondents supported the Board's goal of improving disclosure effectiveness and generally stated that the revised disclosures proposed in the Exposure Draft were an improvement over those required by Statements 87 and 106. A few respondents noted that they were able to easily apply the requirements of the Exposure Draft to their prior year's pension and other postretirement benefits note disclosures and that the requirements resulted in more understandable disclosure.

General Considerations

B9. Discussions with certain users of financial statements indicated that the disclosures required by Statements 87 and 106, although extensive, did not provide sufficient information to understand the changes in the benefit obligation or to analyze the quality of earnings. This Statement is intended to enhance the utility of the information disclosed.

B10. As a result of those discussions, the Board identified two distinct sets of information used by analysts. Some requested information that enabled them to analyze the benefit obligation, fair value of plan assets, and changes in both during the period, including unrecognized gains and losses. The Board stated in Statement 87 that it believed that “it would be conceptually appropriate and preferable to recognize a net pension liability or asset measured as the difference between the projected benefit obligation and plan assets, either with no delay in recognition of gains and losses, or perhaps with gains and losses reported currently in comprehensive income but not in earnings” (paragraph 107). However, because Statement 87 did not require that accounting, the Board decided that this Statement should require disclosure of additional information about the changes in the benefit obligation and the fair value of plan assets during the period, including unrecognized gains and losses.

B11. The second set of information was most often requested by those analysts who follow publicly traded companies. Those users stated that they needed information about the quality of current earnings, including recognized and unrecognized amounts, that is useful in forecasting earnings for future periods in an effective and efficient manner.

B12. This Statement standardizes the disclosure requirements of Statements 87 and 106 to the extent practicable so that the required information should be easier to prepare and easier to understand. This Statement also suggests a parallel format for presenting information about pensions and other postretirement benefits in a more understandable manner.

Benefits and Costs

B13. Most or all of the additional information required by this Statement should be already available in actuarial or accounting calculations used to account for an employer’s pension and other postretirement benefit plans. The Board believes that standardizing the format of the disclosures and eliminating some of the current requirements may reduce preparation time. The benefits to users are in the form of additional relevant amounts and reduced time and effort required to read and understand the pension and other postretirement benefit notes to the financial statements.

Specific Disclosure Requirements

Benefit Obligation and Fair Value of Plan Assets

B14. The Board concluded in Statements 87 and 106 that disclosure of the benefit obligation and fair value of plan assets is essential to an understanding of the economics

of the employer's benefit plans and that disclosure of the fair value of plan assets is useful in assessing management's stewardship responsibilities for efficient use of those assets.

B15. Because the obligation and plan assets are offset in determining the amounts recognized in the statement of financial position and offsetting of assets and liabilities generally is not appropriate unless a right of offset exists,⁷ disclosure of the amounts offset provides essential information about future economic benefits and sacrifices.

Explanation of the Changes in the Benefit Obligation and the Fair Value of Plan Assets

B16. This Statement amends Statements 87 and 106 to include disclosure of the changes in the benefit obligation and plan assets during the period, including the effects of economic events during the period (including amendments, combinations, divestitures, curtailments, and settlements). Statement 87 required disclosure of the nature and effect of significant matters affecting comparability of information for all periods presented. Statement 106 required the same disclosure but specifically referred to business combinations or divestitures. In practice, those requirements have not resulted in the anticipated level of disclosure. The Board believes that an explanation of the changes in the benefit obligation and fair value of plan assets in the form of a reconciliation of the beginning and ending balances will provide a format for more complete disclosure that also should be more understandable to users of financial statements.

B17. Disclosure of the benefit obligation, fair value of plan assets, and changes in them during the period is consistent with the Board's conceptual framework, which states that "financial reporting should provide information about the economic resources of an enterprise, the claims to those resources (obligations of the enterprise to transfer resources to other entities and owners' equity), and the effects of transactions, events, and circumstances that change resources and claims to those resources" (Concepts Statement 1, paragraph 40; footnote reference omitted).

Reconciliation of the Funded Status with the Amounts Recognized in the Financial Statements

B18. Both Statement 87 and Statement 106 require a reconciliation of the funded status of the plan with the amounts recognized in the financial statements. The Board considered eliminating those requirements but decided to retain them in this Statement after financial analysts commented that information about unamortized balances of prior service cost and transition amounts is useful in assessing current earnings and forecasting future amortization. The Board also concluded, as it did in Statement 87, that the amount

⁷Refer to APB Opinion No. 10, *Omnibus Opinion—1966*, paragraph 7.

recognized in the financial statements as a net benefit liability or asset does not reflect fully the underlying financial status of the plan and that a reconciliation of the amounts is essential to an understanding of the relationship between the accounting methodology and the funded status of the plan. For those reasons the Board decided to retain disclosure of the unrecognized amounts, including unamortized prior service cost, unamortized transition amounts, and unrecognized gains and losses.

B19. If an additional minimum liability is recognized, the reconciliation includes disclosure of any amount recognized as an intangible asset or included in accumulated other comprehensive income. The format recommended in Statement 87 disclosed those amounts as an additional minimum liability. The format that is illustrated in this Statement includes all amounts recognized.

Components of Net Periodic Benefit Cost

B20. The Exposure Draft proposed eliminating the requirement in Statements 87 and 106 to disclose the components of net periodic benefit cost. Several respondents suggested that that disclosure be retained to provide greater visibility of the amounts included in the employer's results of operations. In addition, certain users, primarily equity analysts, stated that information included in that disclosure was useful in forecasting an employer's net income. In response to those concerns, the Board decided to retain the requirement in Statements 87 and 106 to disclose the components of net periodic benefit cost and to add disclosures about the expected return on plan assets, the amortization of the transition obligation or asset, and the recognition of gains and losses.

Employers with Two or More Plans

B21. Both Statement 87 and Statement 106 required additional disclosure of certain benefit plan information if an employer has plans with benefit obligations in excess of plan assets and plans with assets in excess of benefit obligations. Statement 87 required separate schedules reconciling the funded status of the plan with amounts reported in the employer's statement of financial position for plans with assets in excess of accumulated pension benefit obligations and plans with accumulated pension benefit obligations in excess of plan assets. Statement 106 required separate disclosure of the aggregate plan assets and the aggregate benefit obligation of underfunded plans. The Board decided to change the requirements for pension plans to parallel those for other postretirement benefit plans because those requirements are less complex and provide satisfactory information about the financial position of an employer's plans. The Board decided to retain disclosure of the accumulated pension benefit obligation for pension plans with accumulated benefit obligations in excess of plan assets because that disclosure is useful to regulators and other users of financial information. The Board included a requirement

to disclose separately amounts recognized as prepaid benefit costs and accrued benefit costs so that users could determine the amounts included in the statement of financial position.

B22. Some respondents to the Exposure Draft, including preparers, disagreed with the Board's decision to permit aggregation of disclosures about plans with different characteristics. They stated that users of financial statements could draw incorrect conclusions about an employer's funding policies or that employers would be able to offset underfunded plans with well-funded plans. The Board decided that permitting the aggregation of disclosures about multiple plans will simplify disclosure and will conform disclosures about pensions to those about other postretirement plans while continuing to provide users with sufficient information about the employer's plans. The Board also noted that, while aggregation of disclosures about plans is permitted by this Statement, an employer may disclose additional disaggregated information if the employer believes doing so provides more meaningful information.

Foreign Plans

B23. Statement 87 specified that disclosures about plans outside the United States should not be combined with those about U.S. plans unless those plans use similar assumptions. Statement 106 required separate presentation for foreign plans if the benefit obligations are significant relative to the total benefit obligation for all plans. The Board decided to harmonize those disclosures with this Statement. Accordingly, the Board decided that disclosures about U.S. plans may be combined with those about foreign plans unless the benefit obligations of the foreign plans are significant relative to the employer's total benefit obligation and those plans use significantly different assumptions.

B24. Some respondents to the Exposure Draft noted that some foreign plans typically are not funded because there are no tax advantages to funding plans in those jurisdictions. Those respondents suggested that the benefit obligation related to foreign plans be disclosed separately because combining disclosures about foreign and U.S. plans might be misleading. The Board believes that the requirements of paragraph 6 of this Statement will adequately inform users about the presence of underfunded plans. The Board also decided that whether aggregation of disclosures about underfunded plans was appropriate should not depend on whether the plans are located within the United States or abroad.

Assumed Health Care Cost Trend Rates

B25. Statement 106 requires disclosure of the assumed health care cost trend rate for the next year used to measure the expected cost of benefits covered by the plan (gross eligible

charges) and a general description of the direction and pattern of change in assumed trend rates thereafter, together with the ultimate trend rate and when that rate was expected to be achieved. All other requirements for disclosure of plan assumptions in Statements 87 and 106 call for disclosure of weighted-average rates. The Exposure Draft that led to Statement 106 proposed disclosure of a weighted average of the assumed health care cost trend rates, but in its deliberations the Board decided that a weighted-average rate can mask differences in an employer's assumptions about year-by-year health care cost trend rates. In the Exposure Draft that led to this Statement, the Board reconsidered the disclosure requirement for assumed health care cost trend rates and decided that disclosure of a weighted-average rate would provide for better comparability among entities and with other assumptions that are disclosed on a weighted-average basis.

B26. Some respondents to the Exposure Draft stated that the cost of calculating that disclosure could be significant and argued that the increased cost was not justified in the circumstances. Others reiterated the comments made prior to the issuance of Statement 106 about the potential for the use of a weighted-average rate to mask differences in year-by-year health care cost assumptions. Although some Board members continue to believe that disclosure of the weighted-average rate is more effective, the Board ultimately decided that the disclosures about health care cost trend rate assumptions in Statement 106 provide satisfactory information and that disclosure of a weighted-average measure should not be required, primarily because of respondents' assertions about the incremental cost to provide that information.

The Effects of a One-Percentage-Point Change in the Assumed Health Care Cost Trend Rates

B27. Statement 106 requires disclosure of the effects of a one-percentage-point increase in the assumed health care cost trend rates for each future year on (a) the aggregate of the service and interest cost components of net periodic postretirement health care benefit cost and (b) the accumulated postretirement benefit obligation for health care benefits. The Board decided to retain the sensitivity analysis disclosure in Statement 106 and, in addition, to require disclosure of the effects of a one-percentage-point decrease in the assumed health care cost trend rates on (a) the aggregate of the service and interest cost components of net periodic postretirement health care benefit cost and (b) the accumulated postretirement benefit obligation for health care benefits. Most respondents to the Exposure Draft commented on that additional disclosure requirement. The majority stated that the effects of a one-percentage-point decrease should not be required, and many respondents opposed any sensitivity information.

B28. Some Board members questioned the usefulness of a disclosure that focuses on the effects of a change in a single assumption underlying the calculation of the benefit

obligation. They noted that calculating the accumulated postretirement benefit obligation requires numerous assumptions and estimates. Changes in certain of those assumptions and estimates may have a much more significant effect on the employer's obligation than changes in the assumed health care cost trend rates. Moreover, those Board members noted that many assumptions and estimates underlie an entity's financial statements and that one should not focus on the change in a single factor to the exclusion of others that may be equally or more important. Those Board members advocated eliminating the sensitivity analysis as described in the Exposure Draft in favor of examining outside of this project the broader issue of disclosures about risks and uncertainties.

B29. Those Board members also noted that the disclosure of a one-percentage-point increase required by Statement 106 was included in that Statement because, at the time, ". . . users [were] considerably less familiar with postretirement health care measurements than with pension measurements and with the subjectivity of the health care cost trend rate and the significant effect that assumption may have on measurement of the postretirement health care obligation" (paragraph 355). Those Board members believe that users are now sufficiently familiar with the effects of changes in health care trend rates on the postretirement health care obligation and, therefore, this disclosure is no longer useful. Accordingly, they expressed strong reservations about retaining it in this Statement.

B30. However, a majority of the Board concluded that disclosure of the effects of a one-percentage-point increase and a one-percentage-point decrease in the assumed health care cost trend rate provides useful information to users of financial statements. As previously stated in Statement 106, requiring ". . . sensitivity information will assist users in assessing the comparability of information reported by different employers as well as the extent to which future changes in assumptions or actual experience different from that assumed may affect the measurement of the obligation and cost. In addition, the sensitivity information may assist users in understanding the relative significance of an employer's cost-sharing policy as encompassed by the employer's substantive plan" (paragraph 354). The Board concluded that those considerations remain relevant today. It noted that sensitivity disclosures are consistent with the recommendations of the AICPA Special Committee for improved disclosure about the uncertainty inherent in the measurement of certain assets and liabilities. Some Board members also noted that the effects of a one-percentage-point change in a plan's assumed health care cost trend rate would be difficult to assess because the way in which health care cost assumptions interact with caps, cost-sharing provisions, and other factors in the plan precludes reasonable estimates of the effects of those changes. The effects of changes in other assumptions, such as the weighted-average discount rate, can be more easily approximated.

B31. The Board decided to retain the requirement to disclose the effects of both an increase and a decrease in the assumed health care cost trend rates because the effects of an increase and a decrease are not necessarily symmetrical for a plan due to the way in which health care cost assumptions interact with caps or other cost-sharing provisions and for other reasons. In addition, because the growth in the rate of health care costs has decreased for many plans since the issuance of Statement 106, disclosure of the effects of a decrease in the assumed health care cost trend rates may provide more relevant information than the effects of an increase.

Related Party Transactions

B32. Both Statement 87 and Statement 106 required disclosure of the amounts and types of securities of the employer and related parties included in plan assets and the approximate amount of future annual benefits of plan participants covered by insurance contracts issued by the employer or related parties. The Board decided to retain those disclosure requirements in this Statement. The Board also decided to require added disclosures about any significant transactions between the plan and the employer during the period, including noncash transactions, because of the relevance of information about related party transactions, as described in the basis for conclusions to FASB Statement No. 57, *Related Party Disclosures*.

Other Disclosures Considered

Concentrations of Market Risk

B33. The Board considered whether an employer should disclose concentrations of market risk in plan assets. FASB Statement No. 124, *Accounting for Certain Investments Held by Not-for-Profit Organizations*, requires disclosure of the nature of and carrying amount for each individual investment or group of investments that represents a significant concentration of market risk. The Board concluded that disclosures needed about plan assets differ from those about investments held by not-for-profit organizations because trustees of benefit plans are usually constrained to follow policies for the sole benefit of the plan beneficiaries, whereas fund managers of not-for-profit organizations may be constrained only by donor restrictions. Also, provisions of the Employee Retirement Income Security Act generally require that plan trustees diversify plan investments. Consequently, the usefulness of that disclosure requirement for U.S. plans could be limited.

B34. Several respondents to the Exposure Draft asked that the Board also consider requiring disclosure of the composition of plan assets as a means of enabling users to assess concentrations of risk in the plan's portfolio. The Board noted that disclosure of the

type of information about plan assets that would be required to enable the user to identify and assess concentrations of risk would be extensive, in certain circumstances requiring disclosure about individual securities. The Board decided that requiring extensive disclosures about the composition of plan assets in the employer's financial statements would add significant complexity to the disclosure and was generally inconsistent with its objective of promoting more effective disclosure.

Components of the Benefit Obligation

B35. Statements 87 and 106 required disclosure of several components of the benefit obligation. Statement 87 required disclosure of the accumulated pension benefit obligation and the vested pension benefit obligation. Statement 106 required disclosure of the portions of the plan obligation attributable to retirees, other fully eligible plan participants, and other active plan participants.

B36. Disclosure of the accumulated pension benefit obligation and vested pension benefit obligation was considered relevant when Statement 87 was issued because there was less agreement at that time as to the best measure of the pension benefit obligation. Some respondents to the Exposure Draft that led to Statement 87 would have limited the recognized liability to the vested pension benefit obligation. In the deliberations preceding the issuance of Statement 87, the Board considered a minimum liability based on the vested pension benefit obligation but concluded that the time at which benefits vest should not be the primary point for recognition of either cost or liabilities. The disclosure requirements of Statement 106 for the portion attributable to retirees, other fully eligible plan participants, and other active plan participants are proxies for disclosure of the vested and nonvested benefit obligation for other postretirement benefit obligations.

B37. The Board decided to eliminate the requirement to disclose (a) accumulated pension benefit obligations for plans with assets that exceed that amount, (b) vested pension benefit obligations, and (c) the portions of other postretirement benefit plan obligations attributable to retirees, other fully eligible plan participants, and other active plan participants. None of those amounts are used to forecast pension or other postretirement benefit costs or obligations, and, therefore, those amounts have limited relevance to users of financial statements. The Board decided to retain disclosure of the accumulated pension benefit obligation for plans with accumulated pension benefit obligations in excess of plan assets because that component is used to determine the minimum liability and may be relevant to users of financial statements.

General Descriptive Information

B38. Both Statement 87 and Statement 106 required disclosure of general descriptive information about the employer's benefit plans, including employee groups covered, type of benefit formula, funding policy, types of assets held, and significant nonbenefit liabilities, if any. This Statement does not require that disclosure because the Board believes it provides only limited useful information to users of financial statements due to the general nature of the information provided, particularly after aggregating information about multiple plans with different characteristics. In lieu of that disclosure, this Statement requires disclosure of significant events occurring during the period that are otherwise not apparent in the disclosures, as that information is more relevant to users of financial statements. Several respondents to the Exposure Draft stated that the description of the plan required by Statements 87 and 106 can provide useful information about the plan. The Board therefore encourages an employer to provide a description of its plans if such a description would provide meaningful information, such as when the employer sponsors only a single plan.

Materiality

B39. The Board considered whether this Statement should include a materiality threshold for requiring certain disclosures about pension and other postretirement benefit plans. Materiality and relevance are both defined in terms of what influences or makes a difference to a decision maker. The Board's position is that "no general standards of materiality could be formulated to take into account all the considerations that enter into an experienced human judgment," but that quantitative materiality criteria may be given by the Board in specific standards, as appropriate (FASB Concepts Statement No. 2, *Qualitative Characteristics of Accounting Information*, paragraph 131).

B40. The Board considered implementing materiality thresholds for pension and other postretirement benefit disclosures, including thresholds based on the gross obligations for plan benefits and the employer's assets, equity, revenues, or net income. Each measure had disadvantages. Because a materiality threshold should take into account the information most likely to influence or make a difference to a decision maker, net income appeared to be the most relevant element for publicly traded companies. Some analysts use information about current benefit costs and the funded status of the plan to assess the quality of current earnings and the employer's financial condition. They also use that information to prepare their forecasts of future earnings, measuring the impact on net income as precisely as possible. The Board concluded that a precise threshold in terms of net income was not practicable because of the natural volatility of net income and the resulting difficulty in making materiality judgments with a relatively simple materiality rule. Therefore, this Statement does not include a materiality threshold. However, that

does not imply that the provisions of this Statement must be applied to immaterial items. Some entities may determine that some or all pension or other postretirement benefit disclosures are not material after evaluation of all the relevant facts and circumstances.

Nonpublic Entities

B41. The *Report of the Committee on Generally Accepted Accounting Principles for Smaller and/or Closely Held Businesses*, issued by the AICPA in August 1976, observed that some disclosures merely provide additional or analytical data and may not be appropriate for all entities. The Committee also observed, however, that analytical data may be appropriate in certain circumstances for certain types of entities.

B42. Before issuing the Exposure Draft, the Board had asked certain users of financial statements of nonpublic entities to comment on the usefulness of current and proposed disclosure requirements. Those users observed that they did not require the same level of precision in assessing benefit costs and net income when analyzing the financial statements of nonpublic entities but that they did rely on information about the benefit obligations, assets, and cash flows. Based on the input of those users, the Board concluded that a reduced disclosure set would be appropriate for nonpublic entities. The Board determined that a nonpublic entity should, at a minimum, provide the same information about the benefit obligations, plan assets, recognized assets or liabilities, cash flows, benefit costs, actuarial assumptions, and related party transactions as required for a public entity.

B43. The Exposure Draft would have required that a nonpublic entity disclose all of the information in paragraph 5 if total unrecognized pension and other postretirement benefit amounts exceeded 5 percent of equity (or unrestricted net assets). Many respondents objected to that provision out of concern that it might be viewed as the establishment of a materiality standard that could be applied in other circumstances. The Board decided not to require that disclosure but, rather, to provide for reduced disclosures for all nonpublic entities. The Board concluded that introducing a specific threshold was therefore unnecessary.

B44. However, because nonpublic entities are not required to provide a reconciliation of the benefit obligation or the fair value of plan assets under the provisions of this Statement, the Board decided to require disclosure of information about the effects of significant nonroutine events during the period, such as amendments, combinations, divestitures, curtailments, and settlements, whenever those events occur. The Board believes that that disclosure is necessary for users of financial statements to understand the effects of those changes that otherwise might not be apparent. Even though this Statement permits reduced disclosures for nonpublic entities, the Board concluded that

the incremental information required by paragraph 5 improves understanding and, therefore, encourages those entities to disclose that information.

Effective Date and Transition

B45. This Statement is effective for fiscal years beginning after December 15, 1997. Earlier application is encouraged. The Board decided that the disclosures required by this Statement should be provided for earlier periods presented for comparative purposes, unless that information is not readily available. The Board believes that application of this Statement should not impose a hardship on most preparers of financial statements because the systems necessary to provide most, if not all, of the required disclosures are already in place. For that reason, disclosure of comparable prior-year information should not be difficult for most entities.

Appendix C

ILLUSTRATIONS

C1. This appendix illustrates the following pension and other postretirement benefit disclosures:

- a. Illustration 1—Disclosures about Pension and Other Postretirement Benefit Plans in the Annual Financial Statements of a Publicly Traded Entity
- b. Illustration 2—Interim-Period Disclosures of a Publicly Traded Entity
- c. Illustration 3—Interim-Period Disclosures of a Nonpublic Entity in a Complete Set of Financial Statements.

The financial statements of a nonpublic entity would be similarly presented but would not be required to include the information contained in paragraphs 5(a)–(c), 5(h), 5(m), and 5(o)–(r) of this Statement. The items presented in these examples have been included for illustrative purposes. Certain assumptions have been made to simplify the computations and focus on the disclosure requirements. Illustration 1 replaces Illustrations 1, 2, and 3 in Statement 132, which superseded Illustration 6 in Statement 87 and Illustration 7 in Statement 106.

Illustration 1—Disclosures about Pension and Other Postretirement Benefit Plans in the Annual Financial Statements of a Publicly Traded Entity

C2. The following illustrates the fiscal 20X3 financial statement disclosures for an employer (Company A) with multiple defined benefit pension plans and other postretirement benefit plans. Narrative descriptions of the basis used to determine the overall expected long-term rate-of-return-on-assets assumption (paragraph 5(d)(3)) and investment policies and strategies for plan assets (paragraph 5(d)(2)) are not included in this illustration. These narrative descriptions are meant to be entity-specific and should reflect an entity's basis for selecting the expected long-term rate-of-return-on-assets assumption and the most important investment policies and strategies.

C3. During 20X3, Company A acquired FV Industries and amended its plans. For one of the defined benefit pension plans, the accumulated benefit obligation exceeds the fair value of plan assets, and Company A recognized an additional minimum liability in accordance with the provisions of paragraphs 36 and 37 of Statement 87.

Notes to Financial Statements

Pension and Other Postretirement Benefit Plans

Company A has both funded and unfunded noncontributory defined benefit pension plans that together cover substantially all of its employees. The plans provide defined benefits based on years of service and final average salary.

Company A also has other postretirement benefit plans covering substantially all of its employees. The health care plans are contributory with participants' contributions adjusted annually; the life insurance plans are noncontributory. The accounting for the health care plans anticipates future cost-sharing changes to the written plans that are consistent with the company's expressed intent to increase retiree contributions each year by 50 percent of health care cost increases in excess of 6 percent. The postretirement health care plans include a limit on the company's share of costs for recent and future retirees.

Company A acquired FV Industries on December 27, 20X3, including its pension plans and other postretirement benefit plans. Amendments made at the end of 20X3 to Company A's plans increased the pension benefit obligations by \$70 and reduced the other postretirement benefit obligations by \$75.

Company A uses a December 31 measurement date for the majority of its plans.

Obligations and Funded Status

At December 31

	<u>Pension Benefits</u>		<u>Other Benefits</u>	
	<u>20X3</u>	<u>20X2</u>	<u>20X3</u>	<u>20X2</u>
Change in benefit obligation				
Benefit obligation at beginning of year	\$1,246	\$1,200	\$ 742	\$ 712
Service cost	76	72	36	32
Interest cost	90	88	55	55
Plan participants' contributions			20	13
Amendments	70		(75)	
Actuarial loss	20		25	
Acquisition	900		600	
Benefits paid	<u>(125)</u>	<u>(114)</u>	<u>(90)</u>	<u>(70)</u>
Benefit obligation at end of year	<u>2,277</u>	<u>1,246</u>	<u>1,313</u>	<u>742</u>
Change in plan assets				
Fair value of plan assets at beginning of year	1,068	894	206	87
Actual return on plan assets	29	188	5	24
Acquisition	1,000		25	
Employer contribution	75	100	137	152
Plan participants' contributions			20	13
Benefits paid	<u>(125)</u>	<u>(114)</u>	<u>(90)</u>	<u>(70)</u>
Fair value of plan assets at end of year	<u>2,047</u>	<u>1,068</u>	<u>303</u>	<u>206</u>
Funded status	(230)	(178)	(1,010)	(536)
Unrecognized net actuarial loss (gain)	94	18	(11)	(48)
Unrecognized prior service cost (benefit)	<u>210</u>	<u>160</u>	<u>(92)</u>	<u>(22)</u>
Net amount recognized	<u>\$ 74</u>	<u>\$ 0</u>	<u>\$(1,113)</u>	<u>\$(606)</u>

Note: Nonpublic entities are not required to provide information in the above tables; they are required to disclose the employer's contributions, participants' contributions, benefit payments, funded status, and the net amount recognized.

Amounts recognized in the statement of financial position consist of:

	Pension Benefits		Other Benefits	
	20X3	20X2	20X3	20X2
Prepaid benefit cost	\$ 227	\$ 127	\$ 0	\$ 0
Accrued benefit cost	(236)	(180)	(1,113)	(606)
Intangible assets	50	53	0	0
Accumulated other comprehensive income	33	0	0	0
Net amount recognized	<u>\$ 74</u>	<u>\$ 0</u>	<u>\$(1,113)</u>	<u>\$(606)</u>

The accumulated benefit obligation for all defined benefit pension plans was \$1,300 and \$850 at December 31, 20X3, and 20X2, respectively.

Information for pension plans with an accumulated benefit obligation in excess of plan assets

	December 31	
	20X3	20X2
Projected benefit obligation	\$263	\$247
Accumulated benefit obligation	237	222
Fair value of plan assets	84	95

Components of Net Periodic Benefit Cost

	Pension Benefits		Other Benefits	
	20X3	20X2	20X3	20X2
Service cost	\$ 76	\$ 72	\$ 36	\$32
Interest cost	90	88	55	55
Expected return on plan assets	(85)	(76)	(17)	(8)
Amortization of prior service cost	20	16	(5)	(5)
Amortization of net (gain) loss	0	0	0	0
Net periodic benefit cost	<u>\$101</u>	<u>\$100</u>	<u>\$ 69</u>	<u>\$74</u>

Note: Nonpublic entities are not required to separately disclose components of net periodic benefit cost.

Additional Information

	<u>Pension Benefits</u>		<u>Other Benefits</u>	
	<u>20X3</u>	<u>20X2</u>	<u>20X3</u>	<u>20X2</u>
Increase in minimum liability included in other comprehensive income	\$33	\$0	N/A	N/A

Assumptions

Weighted-average assumptions used to determine benefit obligations at December 31

	<u>Pension Benefits</u>		<u>Other Benefits</u>	
	<u>20X3</u>	<u>20X2</u>	<u>20X3</u>	<u>20X2</u>
Discount rate	6.75%	7.25%	7.00%	7.50%
Rate of compensation increase	4.25	4.50		

Weighted-average assumptions used to determine net periodic benefit cost for years ended December 31

	<u>Pension Benefits</u>		<u>Other Benefits</u>	
	<u>20X3</u>	<u>20X2</u>	<u>20X3</u>	<u>20X2</u>
Discount rate	7.25%	7.50%	7.50%	7.75%
Expected long-term return on plan assets	8.00	8.50	8.10	8.75
Rate of compensation increase	4.50	4.75		

(Entity-specific narrative description of the basis used to determine the overall expected long-term rate of return on assets, as described in paragraph 5(d)(3) would be included here.)

Assumed health care cost trend rates at December 31

	<u>20X3</u>	<u>20X2</u>
Health care cost trend rate assumed for next year	12%	12.5%
Rate to which the cost trend rate is assumed to decline (the ultimate trend rate)	6%	5%
Year that the rate reaches the ultimate trend rate	20X9	20X9

Assumed health care cost trend rates have a significant effect on the amounts reported for the health care plans. A one-percentage-point change in assumed health care cost trend rates would have the following effects:

	<u>1-Percentage- Point Increase</u>	<u>1-Percentage- Point Decrease</u>
Effect on total of service and interest cost	\$ 22	\$ (20)
Effect on postretirement benefit obligation	173	(156)

Note: Nonpublic entities are not required to provide the above information about the impact of a one-percentage-point increase and one-percentage-point decrease in the assumed health care cost trend rates.

Plan Assets

Company A's pension plan weighted-average asset allocations at December 31, 20X3, and 20X2, by asset category are as follows:

<u>Asset Category</u>	<u>Plan Assets at December 31</u>	
	<u>20X3</u>	<u>20X2</u>
	Equity securities	50%
Debt securities	30	31
Real estate	10	12
Other	<u>10</u>	<u>9</u>
Total	<u>100%</u>	<u>100%</u>

(Entity specific narrative description of investment policies and strategies for plan assets, including weighted-average target asset allocations [if used as part of those policies and strategies] as described in paragraph 5(d)(2) would be included here.)

Equity securities include Company A common stock in the amounts of \$80 million (4 percent of total plan assets) and \$64 million (6 percent of total plan assets) at December 31, 20X3, and 20X2, respectively.

Company A's other postretirement benefit plan weighted-average asset allocations at December 31, 20X3, and 20X2, by asset category are as follows:

<u>Asset Category</u>	Plan Assets	
	at December 31	
	<u>20X3</u>	<u>20X2</u>
Equity securities	60%	52%
Debt securities	30	27
Real estate	5	13
Other	<u>5</u>	<u>8</u>
Total	<u>100%</u>	<u>100%</u>

Equity securities include Company A common stock in the amounts of \$12 million (4 percent of total plan assets) and \$8 million (4 percent of total plan assets) at December 31, 20X3, and 20X2, respectively.

Cash Flows

Contributions

Company A expects to contribute \$125 million to its pension plan and \$150 million to its other postretirement benefit plan in 20X4.

Estimated Future Benefit Payments

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid:

	Pension	Other
	Benefits	Benefits
20X4	\$ 200	\$150
20X5	208	155
20X6	215	160
20X7	225	165
20X8	235	170
Years 20X9–20Y3	1,352	984

Illustration 2—Interim-Period Disclosures of a Publicly Traded Entity

C4. The following illustrates the disclosures of a publicly traded entity for the first fiscal quarter beginning after December 15, 20X3.

Components of Net Periodic Benefit Cost

Three months ended March 31

	<u>Pension Benefits</u>		<u>Other Benefits</u>	
	<u>20X4</u>	<u>20X3</u>	<u>20X4</u>	<u>20X3</u>
Service cost	\$ 35	\$ 19	\$16	\$ 9
Interest cost	38	23	23	14
Expected return on plan assets	(41)	(21)	(6)	(4)
Amortization of prior service cost	7	5	(3)	(1)
Amortization of net (gain) loss	<u>2</u>	<u>0</u>	<u>0</u>	<u>0</u>
Net periodic benefit cost	<u>\$ 41</u>	<u>\$ 26</u>	<u>\$30</u>	<u>\$18</u>

Employer Contributions

Company A previously disclosed in its financial statements for the year ended December 31, 20X3, that it expected to contribute \$125 million to its pension plan in 20X4. As of March 31, 20X4, \$20 million of contributions have been made. Company A presently anticipates contributing an additional \$120 million to fund its pension plan in 20X4 for a total of \$140 million.

Illustration 3—Interim-Period Disclosures of a Nonpublic Entity in a Complete Set of Financial Statements

C5. The following illustrates the disclosures for a nonpublic entity (Entity A) for the first fiscal quarter beginning after December 15, 20X3.

Entity A previously disclosed in its financial statements for the year ended December 31, 20X3, that it expected to contribute \$125 million to its pension plan in 20X4. As of March 31, 20X4, \$20 million of contributions have been made. Entity A presently anticipates contributing an additional \$120 million to fund its pension plan in 20X4 for a total of \$140 million.

Appendix D

IMPACT ON RELATED LITERATURE

D1. This appendix addresses the impact of this Statement on the consensuses reached on EITF Issues relating to disclosures about pension and other postretirement benefits. This appendix does not address the impact of this Statement on other authoritative accounting literature included in categories (b), (c), and (d) in the GAAP hierarchy discussed in AICPA Statement on Auditing Standards No. 69, *The Meaning of “Present Fairly in Conformity with Generally Accepted Accounting Principles” in the Independent Auditor’s Report*.

EITF Consensuses

D2. The following table lists EITF Issues and Topics relating to employers’ disclosures about pension plans and other postretirement benefit plans and indicates (a) the status of that literature after issuance of this Statement and (b) the impact of this Statement on that literature (if any) or the reasons that the literature is beyond the scope of this Statement.

Status Legend

N/A Guidance is either outside the scope of this Statement or unaffected by this Statement.

<u>EITF Issue No.</u>	<u>Title</u>	<u>Status</u>	<u>Commentary</u>	<u>Status Section Update</u>
92-12	Accounting for OPEB Costs by Rate-Regulated Enterprises	N/A	The consensus in Issue 92-12 states that a rate-regulated enterprise should disclose a description of the regulatory treatment of OPEB costs, the status of any pending regulatory action, the amount of any Statement 106 costs deferred, and the period over which the deferred amounts are expected to be recovered in rates.	This Statement does not affect the guidance provided by the EITF on the OPEB disclosures for rate-regulated enterprises.
92-13	Accounting for Estimated Payments in Connection with the Coal Industry Retiree Health Benefit Act of 1992	N/A	The consensus in Issue 92-13 states that enterprises should disclose the impact of the Act, including the estimated amount of their total obligation and the method of accounting adopted.	This Statement does not affect the guidance provided by the EITF on the required disclosures from the Coal Industry Retiree Health Benefit Act of 1992.
03-2	Accounting for the Transfer to the Japanese Government of the Substitutional Portion of Employee Pension Fund Liabilities	N/A	The consensus in Issue 03-2 states that the difference between the obligation settled and assets transferred to the government should be disclosed separately as a subsidy from the government.	This Statement does not affect the guidance provided by the EITF on the disclosure of the transfer to the Japanese government of the substitutional portion of employee pension fund liabilities.

Appendix E

GLOSSARY

E1. This appendix contains definitions of certain terms used in this Statement.

Accumulated benefit obligation

The actuarial present value of pension benefits (whether vested or unvested) attributed to employee service rendered before a specified date and based on employee service and compensation (if applicable) prior to that date. The accumulated benefit obligation differs from the projected benefit obligation in that it includes no assumption about future compensation levels. For plans with flat-benefit or non-pay-related pension benefit formulas, the accumulated benefit obligation and the projected benefit obligation are the same.

Accumulated postretirement benefit obligation

The actuarial present value of benefits attributed to employee service rendered to a particular date. Prior to an employee's full eligibility date, the accumulated postretirement benefit obligation as of a particular date for an employee is the portion of the expected postretirement benefit obligation attributed to that employee's service rendered to that date; on and after the full eligibility date, the accumulated and expected postretirement benefit obligations for an employee are the same.

Debt security

Any security representing a creditor relationship with an enterprise. It also includes (a) preferred stock that by its terms either must be redeemed by the issuing enterprise or is redeemable at the option of the investor and (b) a collateralized mortgage obligation (CMO) (or other instrument) that is issued in equity form but is required to be accounted for as a nonequity instrument regardless of how that instrument is classified (that is, whether equity or debt) in the issuer's statement of financial position. However, it excludes option contracts, financial futures contracts, forward contracts, and lease contracts. Thus, the term *debt security* includes, among other items, U.S. Treasury securities, U.S. government agency securities, municipal securities, corporate bonds, convertible debt, commercial paper, all securitized debt instruments, such as CMOs and real estate mortgage investment conduits (REMICs), and interest-only and principal-only strips. Trade accounts receivable arising from sales on credit by industrial or commercial enterprises and loans receivable arising from consumer, commercial, and real estate lending activities of financial institutions are examples of

receivables that do not meet the definition of *security*; thus, those receivables are not debt securities (unless they have been securitized, in which case they would meet the definition).

Equity security

Any security representing an ownership interest in an enterprise (for example, common, preferred, or other capital stock) or the right to acquire (for example, warrants, rights, and call options) or dispose of (for example, put options) an ownership interest in an enterprise at fixed or determinable prices. However, the term does not include convertible debt or preferred stock that by its terms either must be redeemed by the issuing enterprise or is redeemable at the option of the investor.

Nonpublic entity

Any entity other than one (a) whose debt or equity securities trade in a public market either on a stock exchange (domestic or foreign) or in the over-the-counter market, including securities quoted only locally or regionally, (b) that makes a filing with a regulatory agency in preparation for the sale of any class of debt or equity securities in a public market, or (c) that is controlled by an entity covered by (a) or (b).

Projected benefit obligation

The actuarial present value as of a date of all benefits attributed by the pension benefit formula to employee service rendered prior to that date. The projected benefit obligation is measured using assumptions as to future compensation levels if the pension benefit formula is based on those future compensation levels (pay-related, final-pay, final-average-pay, or career-average-pay plans).

Publicly traded entity

Any entity that does not meet the definition of a *nonpublic entity*.