Defining Issues®

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Contents

EITF Reaches Final Consensus on Employee Benefit Plan Reporting Issues

The FASB's Emerging Issues Task Force (EITF) reached a final consensus on employee benefit plan master trust reporting issues at its November 17 meeting.[1] The consensus would clarify how employee benefit plans should present and disclose investments in master trusts. The FASB will consider these decisions at its November 30 meeting.

The SEC staff also announced a conforming amendment to guidance in U.S. GAAP related to accounting for tax benefits resulting from investments in affordable housing projects.

Background. A master trust is a trust for which a regulated financial institution serves as a trustee or custodian. It holds assets of more than one employee benefit plan sponsored by a single employer or by a group of employers under common control.

Employee benefit plan investments in master trusts may be held as divided interests, undivided interests, or a combination of the two. Defined contribution plans typically have a divided interest because they have an interest in specific assets of the master trust rather than an undivided proportionate interest in all assets.

Primarily because defined contribution plans have become more common than defined benefit plans, stakeholders asked the FASB to clarify the presentation and disclosure requirements that plans must follow related to master trusts.

Employee Benefit Plan Master Trust Issues	Final Consensus
1 – Presentation of Balances and Activity. How should balances and activity related to master trusts be reflected in plan financial statements?	The net master trust balances and activity would be shown in a single line item on each plan's financial statement.

[1] EITF Issue No. 16-B, Employee Benefit Plan Master Trust Reporting, available at www.fasb.org.

Employee Benefit Plan Master Trust Issues	Final Consensus
2 – Disclosure of Investments. Should plans disclose the general types of investments held by the master trust and a plan's interest in those investments?	Yes, plans would disclose the total master trust investment amounts by general type and the dollar amount of the plan's interest in each general type of investment.
3 – Disclosure of Other Assets and Liabilities. Should plans be required to disclose other master trust account balances (e.g., investment-related accruals such as trust-related receivables or payables)?	Yes, plans would disclose the master trust's other assets and liabilities and the dollar amount of the plan's interest in each balance.
4 – Section 401(h) Accounts. What disclosures should be required for a Section 401(h) account owned by a defined benefit plan that is used to fund the benefits of a health and welfare plan?	Investment-related disclosures about the account would be included in the defined benefit plan's financial statements. Those disclosures would not be required in the financial statements of the health and welfare plan, which would be required to disclose the name of the defined benefit plan in whose financial statements those investment disclosures are provided.
5 – Plan Disclosures for Underlying Investments Held by a Master Trust. Should disclosures be required for the underlying investments held by the master trust, such as disclosures related to securities lending activities, derivatives, and fair value measurements?	No new requirements would be added to U.S. GAAP for these *lookthrough* disclosures.

Effective Date. The consensus would be effective for fiscal years beginning after December 15, 2018. Early adoption is permitted, however, an entity must adopt all issues at the same time.

Transition. The EITF decided to require retrospective transition, and to require disclosure about the nature and reason for the change in the period of adoption.

KPMG Observation

In response to certain nonauthoritative AICPA guidance, many plans have adopted accounting policies under which they disclose information related to the underlying investments held by a master trust.[2] Even though the EITF decided not to add additional disclosures to U.S. GAAP related to Issue 5, a change in a plan's policies about disclosing information related to the underlying investments held by a master trust would represent a change in accounting policy. This change would be accounted for using U.S. GAAP for accounting changes.[3] This would include preferability considerations, which would be separate from adopting the guidance in EITF Issue 16-B.

SEC Staff Announcement

The SEC staff announced at the November 17 EITF meeting that it is conforming the SEC Observer Comment: *Accounting for Tax Benefits Resulting from Investments in Affordable Housing Projects* to guidance included in a subsequent accounting standard.[4]

The SEC guidance in U.S. GAAP indicates that the decision to apply the effective yield method of accounting to certain qualified investments is an accounting policy decision that should not be applied to analogous situations. This guidance has been amended to replace references to the effective yield method with references to the proportional amortization method. The accounting guidance for qualified affordable housing project investments includes the proportional amortization method.[5]

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[2] AICPA Technical Practice Aid TIS 6931.11 and Employee Benefit Plans: Audit and Accounting Guide.

[3] FASB ASC Topic 250, Accounting Changes and Error Corrections, available at www.fasb.org.

[4] The SEC Observer Comment is codified in ASC paragraph 323-740-S99-2, which will be conformed to guidance in Accounting Standards Update 2014-01, Accounting for Investments in Qualified Affordable Housing Projects, both available at www.fasb.org.

[5] FASB ASC Subtopic 323-740, Investments—Equity Method and Joint Ventures – Income Taxes, available at www.fasb.org.