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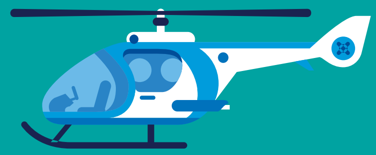

Defining Issues®

FASB amends defined benefit plan disclosures

August 29, 2018

As part of its disclosure framework project, the FASB recently changed the disclosures required for defined benefit pension and other postretirement benefit plans.[1]

Applicability

All companies that provide defined benefit pension or other postretirement benefit plans for their employees.

Key facts and impacts

- The amendments to the defined benefit pension and other postretirement benefit plan disclosures are part of the FASB's disclosure review project that tests the effectiveness of its new disclosure framework.[2]
- The FASB also made changes to its fair value measurement disclosure requirements. It is continuing its review of disclosures in interim periods and for inventory, income taxes and government grants.[3]
- The modifications, additions and deletions to specific disclosures aim to improve the overall usefulness of the disclosure requirements for defined benefit plans to financial statement users and to reduce unnecessary costs to companies by eliminating disclosures that may not be decision-useful.
- The amendments eliminate the requirement for public companies to disclose the effects of a one-percentage-point change in the assumed healthcare cost trend rate.

Testing the disclosure framework

The accounting for defined benefit pension and other postretirement plans includes many disclosure requirements for public and nonpublic companies.

These disclosures provide information to financial statement users about the company's retirement plans, plan amendments, financial statement amounts and assumptions.

To test the disclosure framework, the FASB applied it to its disclosure requirements for defined benefit plans to ensure that the changes provided decision-useful information to financial statements users, but did not impose significant costs on preparers.

The FASB concluded that most of the existing disclosure requirements were appropriate when applied against the disclosure framework and therefore, most of the existing disclosure requirements remain unchanged by the ASU.

[1] ASU 2018-14, Disclosure Framework -- Changes to the Disclosure Requirements for Defined Benefit Plans, August 28, 2018

[2] FASB Concepts Statement 8, Conceptual Framework for Financial Reporting – Chapter 8, Notes to Financial Statements, August 28, 2018

[3] ASU 2018-13, Disclosure Framework – Changes to the Disclosure Requirements for Fair Value Measurement, August 28, 2018

Eliminated disclosures

Based on the FASB's review, and input provided by a variety of stakeholders, the FASB eliminated some disclosures about defined benefit pension and other postretirement benefit plans. The FASB concluded that these disclosures do not provide information that is beneficial given the cost.

Table 1: Eliminated disclosure requirements	
Disclosure	**Why?**
Amounts in accumulated other comprehensive income expected to be recognized as components of net periodic benefit cost over the next fiscal year.	It doesn't meet the new disclosure framework's criteria to require future-oriented information – expectations and assumptions – related only to inputs to current measures in the financial statements or notes.
— Amount and timing of plan assets expected to be returned to the company. — Japanese welfare pension insurance law disclosures. — Amount of future annual benefits covered by insurance and annuity contracts, and significant transactions between the company or related parties and the plan.	These disclosures are not relevant to most companies.
For nonpublic companies, the reconciliation of opening to closing balances of Level 3 plan assets.	Based on input from the Private Company Council and other constituents, the FASB decided to remove this requirement for all nonpublic companies. The Board retained and clarified some of the information from the reconciliation (see Table 2).
For public companies, the effects of a one-percentage-point change in the assumed healthcare cost trend rate on the aggregate of the service and interest cost components of net periodic benefit cost and on the benefit obligation for postretirement healthcare benefits.	— Instead of adding this requirement for nonpublic companies as proposed, the FASB eliminated it for public companies. — This decision was partially based on its reduced significance and relevance to users. Also, some companies voluntarily provide similar information in other sections of their financial reporting package.

New disclosure requirements

The FASB added new disclosures and clarified others that it believes will be decision-useful to financial statement users that can be provided in a cost-beneficial manner.

Table 2: New disclosure requirements and clarifications	
New	**Why?**
Weighted-average interest rate used to credit cash balance and similar plans that have a promised interest credit.	The number of cash balance plans has significantly increased. This is a significant assumption for cash balance plans for which disclosure was not previously required.

Table 2: New disclosure requirements and clarifications	
Clarified	**Why?**
Reasons for significant gains and losses affecting benefit obligations.	Users cannot determine from other disclosures what the causes of significant changes are (i.e. internal or external causes such as economic conditions or interest rates versus plan participant demographic changes).
When aggregate disclosures are presented for pension plans, companies disclose the: — projected benefit obligation (PBO) and fair value of plan assets for plans when the PBO exceeds plan assets; and — accumulated benefit obligation (ABO) and fair value of plan assets for plans when the ABO exceeds plan assets. When aggregate disclosures are presented for other postretirement benefit plans, companies disclose the accumulated postretirement benefit obligation (APBO) and fair value of plan assets for plans with APBO in excess of plan assets.	To reduce confusion and misunderstanding about underfunded plans when applying the previous guidance.
For nonpublic companies, transfers and purchases of Level 3 assets.	The FASB eliminated the reconciliation of Level 3 plans assets (see Table 1). However, information about the Level 3 assets transfers is important so it is still required.

Status quo

Based on outreach and comment letter feedback, the FASB decided not to implement several of its proposed amendments.

Table 3: Proposals that did not result in changes	
The FASB did not	**Why not?**
Eliminate existing disclosures about the amount of pension ABO.	Although the ABO is an alternate measure and not presented on the statement of financial position, it helps financial statement users understand a company's financial condition.
Add quantitative and qualitative disclosures about plan assets measured at net asset value when using the practical expedient under fair value measurement guidance.[4]	— Unlike information about general investment assets of the company, net asset value disclosures about plan assets are generally not relevant to financial statement users. — It can be costly to get the information from trustees holding the plan assets.
Change existing guidance about materiality considerations when developing disclosures.	The FASB decided not to amend its guidance at this time because the guidance is relevant to all framework review projects, not just defined benefit plan disclosures.

[4] ASC 820-10-15-4

Table 3: Proposals that did not result in changes	
The FASB did not	**Why not?**
Add disclosures to describe the nature of the benefits provided, employee groups covered, and the type of benefit plan formula.	It would be difficult to summarize and synthesize this information in a meaningful way.
Eliminate disclosures about discretionary contributions.	Although the disclosure framework only indicates that an entity should disclose the contributions required by funding regulations or laws, financial statement users find them useful, particularly during times of economic downturn.
Amend existing disclosures for US and non-US plans.	— The proposal would have required companies to disaggregate between *foreign* and *domestic* plans, which was confusing to many respondents. — They questioned whether domestic meant US or the parent company's country of incorporation. Ultimately the Board decided that the existing disclosure requirements were clear and relevant.

Effective dates and transition

	Public business entities	All other entities
Annual periods – Fiscal years ending after	December 15, 2020	December 15, 2021
Interim periods	No amendments were made to interim disclosure requirements.	
Early adoption allowed?	Yes	
Retrospection transition required?	Yes	

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