

## Heads Up

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The ASU indefinitely defers the requirement for employee benefit plans within the ASU's scope to disclose quantitative information about significant unobservable inputs used in Level 3 fair value measurements of certain equity investments.

## Targeted Relief

# FASB Defers Certain Disclosure Requirements for Nonpublic Employee Benefit Plans

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On July 8, 2013, the FASB issued [ASU 2013-09](#),<sup>1</sup> which indefinitely defers the requirement for employee benefit plans within the ASU's scope to disclose quantitative information about significant unobservable inputs used in Level 3 fair value measurements<sup>2</sup> of certain equity investments. The deferral was effective upon the ASU's issuance. ASU 2013-09 does not change other disclosure requirements under ASC 820.

### Background

In May 2011, the FASB issued ASU 2011-04,<sup>3</sup> which was effective for annual periods beginning after December 15, 2011, and interim periods thereafter for nonpublic entities.<sup>4</sup> The ASU required entities to, among other things, disclose quantitative information about significant unobservable inputs used in fair value measurements classified within Level 3 of the fair value hierarchy. The ASU would therefore have forced certain employee benefit plans (specifically, employee stock ownership plans) to disclose information about the significant unobservable inputs they used in measuring the fair value of investments in equity securities issued by the plan's sponsor (i.e., the private-company employer or its affiliated entities).

Certain employee benefit plans are required to use the Form 5500 Series<sup>5</sup> to disclose to the U.S. Department of Labor (DOL) financial data prepared in accordance with U.S. GAAP, among other information. The Form 5500 Series and accompanying audited financial statements must be filed electronically and can be used by employee benefit plans to satisfy their annual reporting requirements under the Employee Retirement Income Security Act (ERISA). The plan's filed Form 5500 Series and accompanying materials are available to the public on the DOL's Web site. As the DOL notes:

The Form 5500 Series is part of ERISA's overall reporting and disclosure framework, which is intended to assure that employee benefit plans are operated and managed in accordance with certain prescribed standards and that participants and beneficiaries, as well as regulators, are provided or have access to sufficient information to protect the rights and benefits of participants and beneficiaries under employee benefit plans.

<sup>1</sup> FASB Accounting Standards Update No. 2013-09, *Deferral of the Effective Date of Certain Disclosures for Nonpublic Employee Benefit Plans in Update No. 2011-04*.

<sup>2</sup> This requirement under FASB Accounting Standards Codification (ASC) paragraph 820-10-50-2(bbb) previously applied to both public and nonpublic entities. (For titles of ASC references, see Deloitte's "[Titles of Topics and Subtopics in the FASB Accounting Standards Codification](#).")

<sup>3</sup> FASB Accounting Standards Update No. 2011-04, *Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRS*.

<sup>4</sup> ASU 2011-04 was effective for interim and annual periods beginning after December 15, 2011, for public entities (i.e., one year earlier than nonpublic entities), although nonpublic entities were permitted to adopt the amendments in ASU 2011-04 earlier.

<sup>5</sup> United States Department of Labor, [Form 5500 Series](#).

Upon considering their annual reporting requirements under ERISA, certain stakeholders expressed concern that the disclosures required by ASU 2011-04 could compel employee benefit plans to publicize proprietary information about nonpublic employer plan sponsors or their affiliated entities. Valuation specialists frequently use unobservable inputs to measure the fair value of nonpublic entity equity securities that are based on the valuation specialist's understanding of the assumptions that market participants would make. However, nonpublic employee benefit plans that invest in nonpublic equity securities issued by the plan sponsor or its affiliated entities have access to information about the sponsor's future performance prospects and other nonpublic information. If this proprietary information is included in quantitative, and related qualitative, disclosures about significant unobservable inputs on a Form 5500 Series, it would be publicly available on the DOL's Web site. Public access to this information could competitively disadvantage the plan sponsor and its investors.

The FASB responded to these concerns by issuing ASU 2013-09, which gives certain employee benefit plans an indefinite deferral from the requirement introduced by ASU 2011-04 to disclose quantitative information about significant unobservable inputs.

## Scope and Effective Date of Deferral

The FASB's deferral of the disclosure requirement in ASC 820-10-50-2(bbb)(2) applies only to fair value measurements of investments in (1) nonpublic-entity equity securities issued by the plan sponsor and (2) nonpublic-entity equity securities of the plan sponsor's affiliated entities for employee benefit plans other than those that are subject to the SEC's filing requirements.

The deferral is effective as of July 8, 2013, for financial statements not yet issued.

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**Editor's Note:** Entities might overlook the deferral because it is part of the transition guidance in ASC 820. Specifically, newly added ASC 820-10-65-9 indicates that the requirement in ASC 820-10-50-2(bbb)(2) to disclose quantitative information about significant unobservable inputs is indefinitely deferred for employee benefit plans other than those subject to the SEC's filing requirements but only for investments in equity securities issued by the nonpublic plan sponsor and affiliated entities.

Rather than permanently exempting nonpublic employee benefit plans from the disclosure requirement in ASC 820-10-50-2(bbb)(2), however, the Board decided to indefinitely defer the requirement because the information that would be disclosed is relevant to regulators and plan participants. The indefinite deferral gives (1) nonpublic employee benefit plans relief from the risk of disclosing proprietary financial information about nonpublic employer plan sponsors and their affiliated entities and (2) the FASB time to potentially pursue an alternative solution.

Because the ASU's concept of nonpublic is broader than that used in other authoritative requirements, some questioned whether the ASU changes the definition of "nonpublic" in other authoritative requirements as well. Specifically, they questioned whether under the ASU's broader concept of nonpublic (i.e., an employee benefit plan that is not "subject to the SEC's filing requirements"), entities could take advantage of all other exceptions in U.S. GAAP that are available to nonpublic entities, including disclosure exceptions and delayed effective dates for other ASUs. They also questioned whether the scope of the deferral could change once the FASB completes its project on the definition of nonpublic entity. After considering these questions, the FASB decided to limit the application of the ASU's definition of nonpublic entities (i.e., those not subject to the SEC's filing requirements) to indefinitely deferred disclosures that are the subject of this ASU. Thus, the scope of the deferral will not be affected by future amendments to the definition of nonpublic entity.

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