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# FASB Expands Disclosures About Postretirement Benefit Plan Assets.

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## Background

On December 30, 2008, the FASB issued FSP FAS 132(R)-1,[1] which amends Statement 132(R)[2] to require more detailed disclosures about employers' plan assets, including employers' investment strategies, major categories of plan assets, concentrations of risk within plan assets, and valuation techniques used to measure the fair value of plan assets. The FSP also:

- Updates the disclosure examples in Statement 132(R) to illustrate the required additional disclosures, including those associated with fair value measurement.
- Includes a technical correction. When amendments to Statement 158[3] were applied to Statement 132(R), the requirement that nonpublic entities disclose net periodic benefit costs was inadvertently deleted. The FSP restores this requirement.

The FASB hopes that the FSP will address financial statement users' concerns "about the lack of transparency surrounding the types of assets and associated risks in an employer's defined benefit pension or other postretirement plan and [address] events in the economy and markets that could have a significant effect on the value of plan assets."

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## Investment Policy and Strategy Disclosures

The FSP requires that an employer disclose, in narrative form, a description of its investment policies and strategies. This description must include information about target allocations (or ranges) for the major categories of plan assets and additional information that would help financial statement users understand investment policies and 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."

## Plan Asset Disclosures

Statement 132(R) currently requires employers that sponsor defined benefit postretirement plans to disclose separately the percentage of the fair value of each major plan asset category, including "equity securities, debt securities, real estate, and all other assets." Paragraph 9 of the FSP requires that these disclosures be provided on the basis of the "nature and risks of assets in an employer's plan(s)." In addition, the Board concluded

[1] FASB Staff Position No. FAS 132(R)-1, "Employers' Disclosures About Postretirement Benefit Plan Assets."
[2] FASB Statement No. 132(R), *Employers' Disclosures About Pensions and Other Postretirement Benefits* — an amendment of FASB Statements No. 87, 88, and 106.
[3] FASB Statement No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans* — an amendment of FASB Statements No. 87, 88, 106, and 132(R).

in paragraph A7 of the FSP that "management's investment policies and strategies should be considered in determining how to identify categories of plan assets." The FSP gives the following examples of major plan asset categories:

- Cash and cash equivalents.
- Equity securities (segregated by industry type, company size, or investment objective).
- Debt securities issued by national, state, and local governments.
- Corporate debt securities.
- Asset-backed securities.
- Structured debt.
- Derivatives on a gross basis (segregated by type of underlying risk in the contract).
- Investment funds (segregated by type of fund).
- Real estate.

The FASB notes that even though Statement 132(R) encourages additional disclosure of asset categories, few employers provide more than the listed categories.

Employers must also disclose significant concentrations of risk within the plan assets.

**Editor's Note:** In comment letters on the proposed FSP, many constituents asked the Board how to categorize investment funds or other investment vehicles that hold underlying investments. In its redeliberations of the proposed FSP, the Board concluded that it would not prescribe how an employer should determine its categorization for these types of investments. The Board concluded that "employers should consider the examples of categories of plan assets listed in the FSP, the illustrations in Appendix C of Statement 132(R) [as amended], and the overall objectives of the FSP in determining what major categories of plan assets to disclose."

The FASB notes that even though Statement 132(R) encourages additional disclosure of asset categories, few employers provide more than the listed categories.

## Fair Value Measurement Disclosures

Because the disclosures about fair value measurements for postretirement plans are outside the scope of Statement 157,[4] the FASB included in the FSP certain required disclosures about fair value measurements for plan assets.

The FSP requires that the following information about the fair value measurements of plan assets be disclosed separately for each annual period for each plan asset category:

a. The level within the fair value hierarchy in which the fair value measurements in their entirety fall, [footnote omitted] segregating fair value measurements using quoted prices in active markets for identical assets or liabilities (Level 1), [footnote omitted] significant other observable inputs (Level 2), [footnote omitted] and significant unobservable inputs (Level 3) [footnote omitted]

b. For fair value measurements of plan assets using significant unobservable inputs (Level 3), a reconciliation of the beginning and ending balances, separately presenting changes during the period attributable to the following:

   (1) Actual return on plan assets (as defined in Statements 87[5] and 106[6]), separately identifying the amount related to assets still held at the reporting date and the amount related to assets sold during the period

   (2) Purchases, sales, and settlements (as defined in FASB Statement No. 88, *Employers' Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits*, and Statement 106), net

   (3) Transfers in and/or out of Level 3 (for example, transfers due to changes in the observability of significant inputs)

c. Information about the valuation technique(s) and inputs used to measure fair value and a discussion of changes in valuation techniques and inputs, if any, during the period.

[4] FASB Statement No. 157, *Fair Value Measurements*.

[5] FASB Statement No. 87, *Employers' Accounting for Pensions*.

[6] FASB Statement No. 106, *Employers' Accounting for Postretirement Benefits Other Than Pensions*.

The purpose of these additional fair value measurement disclosures is to provide financial statement users with more transparent information about the inputs and valuation techniques that employers used to measure the fair value of plan assets.

## Effective Date

An entity must provide the FSP's disclosures in financial statements for fiscal years ending after December 15, 2009. The technical amendment became effective on December 30, 2008.

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