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NO. 1025-300 | MARCH 31, 2006

# Financial Accounting Series

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EXPOSURE DRAFT

## Proposed Statement of Financial Accounting Standards

**Employers' Accounting for Defined Benefit Pension  
and Other Postretirement Plans**

**an amendment of FASB Statements No. 87, 88, 106,  
and 132(R)**

This Exposure Draft of a proposed Statement of Financial  
Accounting Standards is issued by the Board for public comment.  
Written comments should be addressed to:

Technical Director  
File Reference No. 1025-300

Comment Deadline: May 31, 2006



Financial Accounting Standards Board  
of the Financial Accounting Foundation

Responses from interested parties wishing to comment on the Exposure Draft must be *received* in writing by May 31, 2006. Interested parties should submit their comments by email to [director@fasb.org](mailto:director@fasb.org), File Reference No. 1025-300. Those without email may send their comments to the “Technical Director—File Reference No. 1025-300” at the address at the bottom of this page. Responses should *not* be sent by fax.

All comments received by the FASB are considered public information. Those comments will be posted to the FASB’s website and will be included in the project’s public record.

Any individual or organization may obtain one copy of this Exposure Draft without charge until May 31, 2006, on written request only. *Please ask for our Product Code No. E189.* For information on applicable prices for additional copies and copies requested after May 31, 2006, contact:

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**Financial Accounting Standards Board**  
of the Financial Accounting Foundation  
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<p style="text-align: center;"><b>Notice for Recipients of This Exposure Draft</b></p>
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This proposed Statement would improve existing reporting for defined benefit postretirement plans by requiring an employer that is a business entity to:

- a. Recognize in its statement of financial position the overfunded or underfunded status of a defined benefit postretirement plan measured as the difference between the fair value of plan assets and the benefit obligation. For a pension plan, the benefit obligation would be the projected benefit obligation; for any other postretirement benefit plan, such as a retiree health care plan, the benefit obligation would be the accumulated postretirement benefit obligation.
- b. Recognize as a component of other comprehensive income, net of tax, the actuarial gains and losses and the prior service costs and credits that arise during the period but pursuant to FASB Statements No. 87, *Employers' Accounting for Pensions*, and No. 106, *Employers' Accounting for Postretirement Benefits Other Than Pensions*, are not recognized as components of net periodic benefit cost. Amounts recognized in accumulated other comprehensive income would be adjusted as they are subsequently recognized as components of net periodic benefit cost pursuant to the recognition and amortization provisions of Statements 87 and 106.
- c. Recognize as an adjustment to the opening balance of retained earnings, net of tax, any transition asset or transition obligation remaining from the initial application of Statement 87 or 106. Those amounts would not be subsequently amortized as a component of net periodic benefit cost.
- d. Measure defined benefit plan assets and defined benefit plan obligations as of the date of the employer's statement of financial position.
- e. Disclose additional information in the notes to financial statements about certain effects on net periodic benefit cost in the upcoming fiscal year that arise from delayed recognition of the actuarial gains and losses and the prior service costs and credits.

This proposed Statement also would apply to a not-for-profit organization or an entity that does not report other comprehensive income but would tailor its requirements to reflect their alternative reporting formats. This proposed Statement would amend Statement 87, FASB Statement No. 88, *Employers' Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits*, Statement 106, and FASB Statement No. 132 (revised 2003), *Employers' Disclosures about Pensions and Other Postretirement Benefits*, and other related accounting literature.

The Board invites comments on all matters in this proposed Statement, particularly on the issues discussed below. Respondents need not comment on each issue and are encouraged to comment on additional matters they believe should be brought to the Board's attention. It would be helpful if comments explain the reasons for the positions taken and include any alternatives the Board should consider.

## **Costs of Implementing the Proposed Statement's Requirement to Recognize a Plan's Overfunded or Underfunded Status in the Employer's Statement of Financial Position**

*Issue 1:* The Board concluded that the costs of implementing the proposed requirement to recognize the overfunded or underfunded status of a defined benefit postretirement plan in the employer's statement of financial position would not be significant. That is because the amounts that would be recognized are presently required to be disclosed in notes to financial statements, and, therefore, new information or new computations, other than those related to income tax effects, would not be required.

Do you agree that implementation of this proposed Statement would not require information (other than that related to income tax effects) that is not already available, and, therefore, the costs of implementation would not be significant? Why or why not? (See paragraphs B20–B34 for the basis for the Board's conclusions.)

### **The Employer's Measurement Date**

*Issue 2:* Unless a plan is sponsored by a subsidiary that is consolidated using a fiscal period that differs from the parent's, this proposed Statement would require that plan assets and benefit obligations be measured as of the date of the employer's statement of financial position. This proposed Statement would eliminate the provisions in Statements 87 and 106 that permit measurement as of a date that is not more than three months earlier than the date of the employer's statement of financial position.

Are there any specific implementation issues associated with this requirement that differ significantly from the issues that apply to other assets and liabilities that are recognized as of the date of the statement of financial position? (See paragraphs B36–B40 for the basis for the Board's conclusions.)

### **Effective Dates and Transition**

#### **Recognition of the Overfunded or Underfunded Status**

*Issue 3(a):* The Board's goal is to issue a final Statement by September 2006. The proposed requirement to recognize the over- or underfunded statuses of defined benefit postretirement plans would be effective for fiscal years ending after December 15, 2006. Retrospective application would be required unless it is deemed impracticable for the reason discussed below.

An entity would be exempt from retrospective application only if the entity determines that it is impracticable to assess the realizability of deferred tax assets that would be recognized in prior periods as a result of applying the proposed Statement.

Should the Board provide an impracticability exemption related to the assessment of the realizability of deferred tax assets? Why or why not? Are there other reasons that retrospective application might be impracticable that the Board should be aware of? (See paragraphs B61–B64 for the basis for the Board's conclusions.)

*Issue 3(b):* Some nonpublic entities (and possibly some public entities) may have contractual arrangements other than debt covenants that reference metrics based on

financial statement amounts, such as book value, return-on-equity, and debt-to-equity. The calculations of those metrics are affected by most new accounting standards, including this proposed Statement.

The Board is interested in gathering information for use in determining the time required to implement this proposed Statement by entities that have such arrangements other than debt covenants. That information includes (a) the types of contractual arrangements that would be affected and what changes to those arrangements, if any, would need to be considered, (b) how the economic status of postretirement plans that is presently included in note disclosures is currently considered in those arrangements, and (c) how the effects of the current requirement in Statement 87 to recognize a minimum pension liability previously were addressed for those contractual arrangements. (See paragraph B65 for the basis for the Board's conclusions.)

### **Measurement Date**

*Issue 4:* This proposed Statement would require a public entity that currently measures plan assets and benefit obligations as of a date other than the date of its statement of financial position to implement the change in measurement date as of the beginning of the fiscal year beginning after December 15, 2006. If that entity enters into a transaction that results in a settlement or experiences an event that causes a curtailment in the last quarter of the fiscal year ending after December 15, 2006, the gain or loss would be recognized in earnings in that quarter. Net periodic benefit cost in the year in which the measurement date is changed would be based on measurements as of the beginning of that year.

Are there any specific impediments to implementation that would make the proposed effective date impracticable for a public entity? How would a delay in implementation to fiscal years ending after December 15, 2007, alleviate those impediments? (See paragraphs B66–B69 for the basis for the Board's conclusions.)

### **Not-for-Profit Organizations and Other Entities That Do Not Report Other Comprehensive Income**

*Issue 5:* This proposed Statement would apply to not-for-profit organizations and other entities that do not report other comprehensive income in accordance with the provisions of FASB Statement No. 130, *Reporting Comprehensive Income*, Paragraphs 7–13 of this proposed Statement provide guidance for reporting the actuarial gains and losses and the prior service costs and credits by those organizations and entities.

Do you agree that those standards provide appropriate guidance for such entities? If not, what additional guidance should be provided? (See paragraphs B53–B58 for the basis for the Board's conclusions.)

### **Public Roundtable Meetings**

The Board plans to hold one or more public roundtable meetings on this Exposure Draft on June 27, 2006, in Norwalk, Connecticut. The purpose of a roundtable meeting is to listen to the views of, and obtain information from, interested constituents about the Exposure Draft. The Board plans to seek participants that represent a wide variety of

constituents to ensure that it receives broad input. Any individual or organization wishing to participate must notify the FASB by sending an email to [director@fasb.org](mailto:director@fasb.org) by May 16, 2006, and must submit comments on the Exposure Draft in writing by May 31, 2006. A roundtable meeting can accommodate a limited number of participants. Depending on the number of responses received, the Board may not be able to accommodate all requests to participate.

## Summary

This proposed Statement would improve existing reporting for defined benefit postretirement plans by requiring that an employer that is a business entity:

- a. Recognize in its statement of financial position the overfunded or underfunded status of a defined benefit postretirement plan measured as the difference between the fair value of plan assets and the benefit obligation. For a pension plan, the benefit obligation would be the projected benefit obligation; for any other postretirement benefit plan, such as a retiree health care plan, the benefit obligation would be the accumulated postretirement benefit obligation.
- b. Recognize as a component of other comprehensive income, net of tax, the actuarial gains and losses and the prior service costs and credits that arise during the period but pursuant to FASB Statements No. 87, *Employers' Accounting for Pensions*, and No. 106, *Employers' Accounting for Postretirement Benefits Other Than Pensions*, are not recognized as components of net periodic benefit cost. Amounts recognized in accumulated other comprehensive income would be adjusted as they are subsequently recognized as components of net periodic benefit cost pursuant to the recognition and amortization provisions of Statements 87 and 106.
- c. Recognize as an adjustment to the opening balance of retained earnings, net of tax, any transition asset or transition obligation remaining from the initial application of Statement 87 or 106. Those amounts would not be subsequently amortized as a component of net periodic benefit cost.
- d. Measure defined benefit plan assets and defined benefit plan obligations as of the date of the employer's statement of financial position.
- e. Disclose additional information in the notes to financial statements about certain effects on net periodic benefit cost in the upcoming fiscal year that arise from delayed recognition of the actuarial gains and losses and the prior service costs and credits.

This proposed Statement also would apply to a not-for-profit organization or an entity that does not report other comprehensive income but would tailor its requirements to reflect their alternative reporting formats. This proposed Statement would amend Statement 87, FASB Statement No. 88, *Employers' Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits*, Statement 106, and FASB Statement No. 132 (revised 2003), *Employers' Disclosures about Pensions and Other Postretirement Benefits*, and other related accounting literature.

### Reasons for Issuing This Proposed Statement

The Board has issued this proposed Statement to address the concern that existing standards on employers' accounting for defined benefit postretirement plans fail to produce representationally faithful and understandable financial statements. That is because existing standards do not require an employer to report the current economic status (the overfunded or underfunded status) of a defined benefit postretirement plan in

its statement of financial position and because they do not provide for complete recognition in comprehensive income of events occurring during the period.

Existing accounting standards allow an employer to recognize in its statement of financial position an asset or liability arising from a defined benefit postretirement plan, which almost always differs from its overfunded or underfunded status. For example, existing standards allow an employer to:

- a. Recognize an asset in its statement of financial position, in some situations, for a plan that is underfunded.
- b. Delay recognition of economic events that affect the costs of providing postretirement benefits—the changes in plan assets and benefit obligations—and allow recognition of a liability that is sometimes significantly less than the underfunded status of the plan.

Existing standards relegate information about the current funded status of a plan to the notes to financial statements. That information is in the form of a reconciliation of the overfunded or underfunded status to amounts recognized in the statement of financial position. The Board has been informed that such presentation makes it difficult for users of financial statements to assess an employer's financial position and ability to satisfy plan obligations.

Insufficient guidance in existing standards may cause incomplete reporting of the employer's financial condition and results of operations, which may lead to the inefficient allocation of resources in the capital markets. This proposed Statement is the first step in a comprehensive project to remedy that situation.

### **How the Proposed Changes Would Improve Financial Reporting**

This proposed Statement would require an employer that sponsors a defined benefit postretirement plan to report the current economic status (the overfunded or underfunded status) of the plan in its statement of financial position, which would eliminate the need for a reconciliation in the notes to financial statements. Moreover, the proposed Statement also would require an employer to measure the plan assets and plan obligations as of the date of its statement of financial position rather than as a measurement date that is up to three months before the end of its fiscal year. As a result of this proposed Statement, reported financial information would be improved by being more complete and more representationally faithful, by measuring plan assets and benefit obligations as of the same date as the employer's other assets and liabilities, and by including, as recognized items, all changes in a plan's overfunded or underfunded status as they arise.

### **How the Conclusions Underlying This Proposed Statement Relate to the FASB's Conceptual Framework**

The application of this proposed Statement would produce financial statements that are more complete and understandable. FASB Concepts Statement No. 1, *Objectives of Financial Reporting by Business Enterprises*, and FASB Concepts Statement No. 4, *Objectives of Financial Reporting by Nonbusiness Organizations*, explain that financial reporting should provide information that is useful in making business and resource



allocation decisions. FASB Concepts Statement No. 2, *Qualitative Characteristics of Accounting Information*, explains that essential elements of decision usefulness are relevance and reliability. For that information to be relevant and reliable it must be timely and complete.

### **Benefits and Costs**

The objective of financial reporting is to provide information that is useful to present and potential investors, creditors, and other capital market participants in making rational investment, credit, and similar resource allocation decisions. The Board recognizes that the benefits of providing information for that purpose should justify the related costs. After careful consideration, the Board concluded that the benefits resulting from the improvements in financial reporting that this proposed Statement would provide outweigh the costs of implementation.

The Board believes that this proposed Statement would provide financial statements that are more complete and easier to understand. Reporting the current funded status of a postretirement benefit plan as an asset or liability in the statement of financial position allows users of financial statements to assess an employer's financial position and its ability to satisfy the plan obligations without referring to a reconciliation in the notes to financial statements. Likewise, recognizing in comprehensive income for a business entity or in a statement of changes in net assets for a not-for-profit organization, the effects of all related events that occur during the period would enhance the usefulness of the financial statements.

The Board believes that the costs of implementing the changes in this proposed Statement would not be significant because the proposed Statement would not change the basic approach to measuring plan assets, benefit obligations, or annual net periodic benefit cost. Employers are currently required to disclose in the notes to financial statements amounts that, under the application of this proposed Statement, would be recognized in the statement of financial position and in other comprehensive income for a business entity or in a statement of changes in net assets for a not-for-profit organization. Therefore, new information or new computations, other than those related to income tax effects, would not be required. The Board acknowledges, however, that certain employers who currently measure plan assets and benefit obligations as of a date other than the date of their financial statements might incur incremental one-time costs when initially applying this proposed Statement. Furthermore, certain entities may have contractual arrangements that reference financial statement metrics, such as book value. As a consequence of applying this proposed Statement, such metrics would be affected and some entities may incur costs associated with revising those contractual arrangements.

### **Effective Dates and Transition**

For all entities, both public and nonpublic, the requirement to recognize the funded status of a defined benefit postretirement plan and the related disclosure requirements would be effective for fiscal years ending after December 15, 2006. Retrospective application would be required unless retrospective application is impracticable as defined by this proposed Statement.

For a public entity that measures plan assets and benefit obligations as of a date other than the date of its statement of financial position, the requirement to change that date to the year-end reporting date would be applied for fiscal years beginning after December 15, 2006. For a nonpublic entity, including a not-for-profit organization, that measures plan assets and benefit obligations as of a date other than the date of its statement of financial position, the requirement to change that date to the year-end reporting date would be applied for fiscal years beginning after December 15, 2007.

If the employer enters into a transaction that results in a settlement or experiences an event that causes a curtailment of the plan in the last quarter of the fiscal year that precedes the change in measurement date, the related gain or loss would be recognized in earnings in the last quarter of that fiscal year. The proposed amendments related to the measurement date would not be permitted to be applied retrospectively.

**Proposed Statement of Financial Accounting Standards**

**Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans  
an amendment of FASB Statements No. 87, 88, 106, and 132(R)**

**March 31, 2006**

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## **Proposed Statement of Financial Accounting Standards**

### **Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans an amendment of FASB Statements No. 87, 88, 106, and 132(R)**

**March 31, 2006**

#### **OBJECTIVE**

1. This Statement represents the initial phase of a comprehensive project on employers' accounting for defined benefit postretirement plans. The objective of this Statement is to make employers' financial statements with respect to those plans more complete and understandable and, thus, more useful for users of financial statements by amending the recognition and disclosure requirements of 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*, No. 106, *Employers' Accounting for Postretirement Benefits Other Than Pensions*, and No. 132 (revised 2003), *Employers' Disclosures about Pensions and Other Postretirement Benefits*.
2. The changes to accounting and reporting for defined benefit postretirement plans required by this Statement are described in paragraphs 4–23 below. The appendixes include all the detailed amendments that result from the issuance of this Statement. Those amendments are an integral part of this Statement.
3. This Statement also amends Statements 87 and 106 to include guidance related to the selection of assumed discount rates that was previously included in the basis for conclusions of Statement 106.

#### **STANDARDS OF FINANCIAL ACCOUNTING AND REPORTING**

##### **Recognition by a Business Entity of the Funded Status of a Defined Benefit Postretirement Plan**

4. An employer that sponsors one or more defined benefit pension or other postretirement benefit plans shall:
  - a. Recognize in its statement of financial position the overfunded or underfunded status of the defined benefit postretirement plan measured as the difference between the fair value of plan assets and the benefit obligation. For a pension plan, the benefit obligation shall be the projected benefit obligation; for any other postretirement benefit plan, such as a retiree health care plan, the benefit obligation shall be the accumulated postretirement benefit obligation.
  - b. Aggregate the statuses of all overfunded plans and recognize that amount as an asset in its statement of financial position. It also shall aggregate the statuses of

all underfunded plans and recognize that amount as a liability in its statement of financial position. An employer electing to present a classified statement of financial position shall separately report the current and noncurrent portions of that asset or liability in accordance with existing standards.

- c. Recognize as a component of other comprehensive income, net of tax, the actuarial gains and losses and the prior service costs and credits that arise during the period but pursuant to Statements 87 and 106 are not recognized as components of net periodic benefit cost. Amounts recognized in accumulated other comprehensive income shall be adjusted as they are subsequently recognized as components of net periodic benefit cost pursuant to the recognition and amortization provisions of Statements 87 and 106.
- d. Recognize as an adjustment to the opening balance of retained earnings, net of tax, any transition asset or transition obligation remaining from the initial application of Statement 87 or 106. Those amounts shall not be subsequently amortized as a component of net periodic benefit cost.
- e. Apply the provisions of FASB Statement No. 109, *Accounting for Income Taxes*, to determine the applicable income tax effects of items (a)–(d) above.

#### **Measurement Date of Plan Assets and Benefit Obligations**

5. An employer that is a business entity that sponsors a defined benefit pension plan or other postretirement benefit plan shall measure plan assets and benefit obligations as of the date of the employer's statement of financial position, unless the plan is sponsored by a subsidiary that is consolidated using a different fiscal period than the parent, pursuant to ARB No. 51, *Consolidated Financial Statements*. In that case, the employer shall measure that subsidiary's postretirement benefit plan assets and benefit obligations as of the same date used to consolidate the subsidiary's statement of financial position.

#### **Disclosure Requirements**

6. An employer that is a business entity that sponsors one or more defined benefit pension or other postretirement benefit plans shall disclose:

- a. For each period for which a statement of income is presented, the net actuarial gain or loss and the prior service cost or credit recognized in other comprehensive income, separated into amounts initially recognized in other comprehensive income, and amounts subsequently recognized as adjustments to other comprehensive income as those amounts are recognized as components of net periodic benefit cost pursuant to the recognition and amortization provisions of Statements 87 and 106.
- b. For each period for which a statement of financial position is presented, the amount of net actuarial gain or loss and the prior service cost or credit included in accumulated other comprehensive income.
- c. Separately, the estimated portion of the net actuarial gain or loss and the prior service cost or credit in accumulated other comprehensive income that will be recognized as a component of net periodic benefit cost over the fiscal year that follows the most recent statement of financial position presented.

## **Not-for-Profit Organizations and Other Entities That Do Not Report Other Comprehensive Income**

7. A not-for-profit organization that sponsors one or more defined benefit postretirement plans (“a not-for-profit employer”) shall apply the provisions of this Statement by recognizing the overfunded or underfunded status of those plans in its statement of financial position in the same manner as a business entity (paragraphs 4(a) and 4(b) of this Statement) and by similarly measuring plan assets and benefit obligations as of the date of its statement of financial position (see paragraph 5 of this Statement).

8. A not-for-profit employer that presents an intermediate measure of operations (or performance indicator) in its statement of activities that is the functional equivalent of income from continuing operations of a for-profit employer shall recognize, in separate line items apart from that measure, the actuarial gains and losses and the prior service costs and credits that would be recognized in other comprehensive income pursuant to paragraph 4(c) of this Statement. Amounts recognized apart from the intermediate measure of operations shall be subsequently reclassified as components of net periodic benefit cost pursuant to the recognition and amortization provisions of Statements 87 and 106 and reported by their functional classification in accordance with paragraph 26 of FASB Statement No. 117, *Financial Statements of Not-for-Profit Organizations*. For example, a not-for-profit health care provider is required to present an earnings measure in its statement of financial performance that is the functional equivalent of income from continuing operations of a for-profit provider, pursuant to the AICPA Audit and Accounting Guide, *Health Care Organizations*. Other not-for-profit organizations voluntarily choose to present that measure in their statement of activities.

9. A not-for-profit employer that does not present an intermediate measure of operations in its statement of activities that is the functional equivalent of income from continuing operations shall recognize, in separate line items apart from functional expenses, the actuarial gains and losses and the prior service costs and credits that, for a business entity, would be recognized in other comprehensive income pursuant to paragraph 4(c) of this Statement. Those recognized amounts shall be subsequently reclassified as components of net periodic benefit cost pursuant to the recognition and amortization provisions of Statements 87 and 106 and reported by their functional classification in accordance with paragraph 26 of Statement 117. Consistent with the provisions of Statement 117, this Statement does not require presentation of an intermediate measure of operations or prescribe how an organization that presents that measure should determine its components (that is, it does not prescribe whether the actuarial gains and losses and the prior service costs and credits should be included in that measure).

10. A not-for-profit employer shall recognize as an adjustment to the opening balance of unrestricted net assets any transition asset or transition obligation remaining from the initial application of Statement 87 or 106. Consistent with paragraph 4(d) of this Statement for a business entity, those amounts shall not be subsequently amortized as a component of net periodic benefit cost.

11. A not-for-profit employer shall separately disclose:
  - a. For each period for which a statement of activities is presented, the net actuarial gain or loss and the prior service cost or credit recognized as separate line items in the statement of activities in accordance with paragraphs 8 and 9 of this Statement, separated into amounts arising during the period and amounts reclassified as components of net periodic benefit cost during the period.
  - b. For each period for which a statement of financial position is presented, the cumulative amount of net actuarial gain or loss and the prior service cost or credit that have not yet been reclassified as components of net periodic benefit cost.
  - c. Separately, the estimated portion of the cumulative net actuarial gain or loss and the prior service cost or credit that has not yet been reclassified as a component of net periodic benefit cost but will be reclassified over the fiscal year that follows the most recent statement of financial position presented.
12. A not-for-profit employer shall apply the transitional provisions of paragraphs 15–17 of this Statement, with modifications consistent with paragraphs 8–10 of this Statement.
13. Other employers that do not report other comprehensive income in accordance with the provisions of FASB Statement No. 130, *Reporting Comprehensive Income*, shall apply the provisions of paragraphs 7–12 of this Statement in an analogous manner that is appropriate for their method of reporting financial performance and financial position.

### **Effective Date and Transition**

14. The effective dates and transition guidance for the recognition and disclosure provisions of this Statement differ from the effective dates and transition guidance of the provisions related to measuring plan assets and benefit obligations as of the date of the employer's statement of financial position. This Statement also has different effective dates for a public entity than for a nonpublic entity, including not-for-profit organizations, regarding the provisions related to measuring plan assets and benefit obligations as of the date of the employer's statement of financial position. A public entity and nonpublic entity are defined as follows:

A *public entity* is an entity that:

- a. Has issued debt or equity securities that are traded in a public market (a domestic or foreign stock exchange or an over-the-counter market, including local or regional markets); or
- b. Is required to file financial statements with the Securities and Exchange Commission (or that provides financial statements to issue any class of securities in a public market); or
- c. Is controlled by an entity covered by (a) or (b).

*A nonpublic entity* is any entity that does not meet the definition of a public entity.

### **Recognition of a Plan's Funded Status**

15. For all entities, both public and nonpublic, the requirement to recognize the funded status of a defined benefit postretirement plan (see paragraphs 4 and 7) and the disclosure requirements (see paragraphs 6 and 11) shall be effective for fiscal years ending after December 15, 2006. Earlier application is encouraged. The requirements of this Statement shall be applied retrospectively for all financial statements presented pursuant to the requirements of FASB Statement No. 154, *Accounting Changes and Error Corrections*, unless it is impracticable to do so pursuant to paragraph 16 below. To apply this Statement retrospectively, an employer shall:

- a. Recognize as a component of other comprehensive income, net of tax, those actuarial gains and losses and those prior service costs and credits not yet included in net periodic benefit cost for each year for which a statement of income is presented.
- b. Recognize as an adjustment of the opening balance of accumulated other comprehensive income (or other appropriate components of equity or net assets in the statement of financial position), net of tax, those actuarial gains and losses and those prior service costs and credits not yet included in net periodic benefit cost as of the beginning of the first period presented.
- c. Recognize as an adjustment of the opening balance of retained earnings (or other appropriate component of equity), net of tax, the portion of the transition asset or transition obligation related to the initial adoption of Statements 87 and 106 that is unrecognized as of the earliest date to which this Statement is applied retrospectively as of the beginning of that first period presented. The recognized transition asset or transition obligation shall not be subsequently amortized as a component of net periodic benefit cost. Additionally, any previous reported amortization of the transition asset or transition obligation shall be eliminated as a component of net periodic benefit cost for any period presented. The effect of eliminating that amortization shall be recognized without affecting any net periodic benefit cost that may have been capitalized as inventory or other productive assets.

16. The impracticability exemption from retrospective application is limited to a reporting entity that is unable to assess the period-specific realizability of incremental deferred tax assets recognized as a result of applying this Statement in one or more prior years. The impracticability exemption applies both to a reporting entity's ability to assess the realizability of any incremental deferred tax assets recognized in a particular prior period and to that entity's ability to assess the ongoing need for a deferred tax asset valuation allowance in any subsequent period for which retrospective application otherwise would apply. However, if it is practicable to apply this Statement for some but not all years presented, this Statement shall be applied retrospectively to the earliest year practicable.



17. A single method of transition shall be applied consistently for all of an employer's defined benefit plans. An entity shall provide the disclosures related to a change in accounting principle that are required by paragraph 17 of Statement 154.

### **Measurement Date**

#### ***Public Entity***

18. For a public entity, the requirement to measure plan assets and benefit obligations as of the date of the employer's statement of financial position (see paragraph 5) shall be applied for fiscal years beginning after December 15, 2006, and shall not be applied retrospectively. Earlier application is encouraged.

19. For a public entity that previously used a measurement date other than its fiscal year-end, the net periodic benefit cost for the fiscal year beginning after December 15, 2006, shall be determined using a beginning measurement date that corresponds with the end of its immediately preceding fiscal year.

20. Net periodic benefit cost exclusive of any curtailment or settlement gain or loss for the period between the measurement date that would have been used for the immediately preceding fiscal year and the fiscal year beginning after December 15, 2006, shall be recognized, net of tax, as an adjustment of the opening balance of retained earnings. That is, the pretax amount recognized as an adjustment to retained earnings is limited to the net periodic benefit cost (that is, service cost, interest cost, expected long-term return on plan assets, and amortization of gains and losses and prior service costs and credits) that otherwise would have been recognized on a delayed basis during the first interim period for the fiscal year beginning after December 15, 2006. The effects of any gain or loss from a curtailment or settlement in the last quarter of the preceding fiscal year shall be recognized in earnings in that quarter and not as an adjustment to retained earnings.

#### ***Nonpublic Entity, including a Not-for-Profit Organization***

21. For a nonpublic entity, including a not-for-profit organization, the requirement to measure plan assets and benefit obligations as of the date of the employer's statement of financial position (paragraphs 5 and 7) shall be applied for fiscal years beginning after December 15, 2007, and shall not be applied retrospectively. Earlier application is encouraged.

22. For a nonpublic entity, including a not-for-profit organization, that previously used a measurement date other than its fiscal year-end, the net periodic benefit cost for the fiscal year beginning after December 15, 2007, shall be determined using a beginning measurement date that corresponds with the end of its immediately preceding fiscal year.

23. Net periodic benefit cost exclusive of any curtailment or settlement gain or loss for the period between the beginning measurement date that would have been used for the immediately preceding fiscal year and the fiscal year beginning after December 15, 2007, shall be recognized, net of tax, as an adjustment of the opening balance of retained earnings for a for-profit entity and unrestricted net assets for a not-for-profit organization.

That is, the pretax amount recognized as an adjustment to retained earnings for a for-profit entity and unrestricted net assets for a not-for-profit organization is limited to the net periodic benefit cost (that is, service cost, interest cost, expected long-term return on plan assets, and amortization of gains and losses and prior service costs and credits) that otherwise would have been recognized on a delayed basis during the first interim period for the fiscal year beginning after December 15, 2007. The effects of any gain or loss from a curtailment or settlement in the last quarter of the preceding fiscal year shall be recognized in the statement of earnings for a for-profit entity and statement of activities for a not-for-profit organization in that quarter and not as an adjustment to retained earnings for a for-profit entity and unrestricted net assets for a not-for-profit organization.

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

## Appendix A

### IMPLEMENTATION GUIDANCE

#### Introduction

A1. This appendix is an integral part of this Statement. It provides guidance illustrating the retrospective application and transition provisions of this Statement in simplified situations. Applying those provisions to actual situations will require judgment; this appendix is intended to aid in making those judgments.

#### Example 1—Retrospective Application

A2. This Statement requires retrospective application unless the reporting entity determines that it is unable to assess for the periods covered by retrospective application the realizability of any incremental deferred tax assets and whether there is a need for a valuation allowance related to those assets recognized as a result of applying this Statement. This example illustrates retrospective application in situations in which the impracticability exception does not apply.

A3. Company A adopts this Statement as of its fiscal year ended December 31, 2006. For simplicity, this example assumes that Company A's annual report includes a single statement of financial position as of December 31, 2006, and comparative income statements and statements of changes in stockholders' equity for years ended December 31, 2005, and 2006. Additionally, this example does not consider the effects on financial reporting for interim periods. In retrospectively applying this Statement to all periods presented, Company A will:

- a. Recognize the transition obligation remaining at December 31, 2004, net of tax, as an adjustment to beginning retained earnings for 2005 (2005 is the earliest period for which a financial statement is presented) (see paragraph A5(a)).
- b. Recognize the amount of unrecognized prior service cost and unrecognized net actuarial loss at December 31, 2004, net of tax, as an adjustment to beginning accumulated other comprehensive income for 2005 (see paragraph A5(a)).
- c. Retrospectively adjust the amount of net periodic pension cost reported in 2005 and 2006, net of tax, to eliminate the amortization of the transition obligation that was reported in net periodic pension cost in those periods (see paragraph A5(b)).
- d. Recognize as a reclassification from accrued liability to accumulated other comprehensive income for 2005 and 2006 the amortization of prior service cost that was included as a component of net periodic pension cost in 2005 and 2006, net of tax (see paragraph A5(c)).
- e. Recognize the amount of net actuarial loss in other comprehensive income in 2005 and 2006, net of tax (see paragraph A5(d)).

A4. Reconciliations of the funded status of Company A's defined benefit pension plan for years 2004–2006, to amounts recognized prior to making the adjustments necessary to comply with this Statement, are shown below. Company A was not required to recognize any additional minimum pension liabilities during that period. The unrecognized net actuarial loss was less than 10 percent of the greater of the market-related value of plan assets and the projected benefit obligation for all years presented. There were no plan amendments affecting the period between January 1, 2004, and December 31, 2006. Company A's applicable tax rate for all 3 years was 40 percent. All deferred tax assets recognized were evaluated by Company A, and no valuation allowance was considered necessary at any time. Company A did not capitalize any of its net periodic pension costs.

**As of December 31,**  
**2004      2005      2006**  
**(in thousands)**

**Reconciliation of Funded Status to Amounts Recognized**

Projected benefit obligation	\$(2,500)	\$(2,600)	\$(2,525)
Plan assets at fair value	<u>1,465</u>	<u>1,605</u>	<u>1,625</u>
Funded status	<u>(1,035)</u>	<u>(995)</u>	<u>(900)</u>
Items not yet recognized as a component of net periodic pension cost:			
Unrecognized transition obligation	280	260	240
Unrecognized prior service cost	425	400	375
Unrecognized net actuarial loss	<u>220</u>	<u>230</u>	<u>240</u>
Total unrecognized obligation	<u>925</u>	<u>890</u>	<u>855</u>
Accrued pension cost	<u>\$ (110)</u>	<u>\$ (105)</u>	<u>\$ (45)</u>

A5. Calculations of the increases (decreases) to retained earnings and accumulated other comprehensive income resulting from retrospective application of this Statement are shown below.

- a. The transition obligation remaining at December 31, 2004, is recognized as an adjustment to beginning retained earnings for 2005, net of tax, and the unrecognized prior service cost and unrecognized net actuarial loss as of December 31, 2004, are recognized as an adjustment to beginning accumulated other comprehensive income for 2005, net of tax, as follows:

Transition obligation	\$(280)	Prior service cost	\$(425)
Less: income tax	<u>112</u>	Net actuarial loss	(220)
Net charge to retained earnings	<u><u>\$(168)</u></u>	Less: income tax	<u>258</u>
		Net charge to accumulated other comprehensive income	<u><u>\$(387)</u></u>

- b. Net periodic pension cost and net income reported in 2005 and 2006 are retrospectively adjusted to eliminate the amortization of the transition obligation reported in net periodic pension cost in those periods. The change in net income, net of tax, is as follows:

	<u>2005</u>	<u>2006</u>
Amortization of transition obligation reported in net periodic pension cost	\$20	\$20
Less: income tax	<u>(8)</u>	<u>(8)</u>
Net change in net income	<u>\$12</u>	<u>\$12</u>

- c. Other comprehensive income reported in 2005 and 2006 is retrospectively adjusted, net of tax, for the amortization of prior service cost included in net periodic pension cost of those periods. Those amounts are as follows:

	<u>2005</u>	<u>2006</u>
Prior service cost	\$25	\$25
Less: income tax	<u>(10)</u>	<u>(10)</u>
Net adjustment to other comprehensive income	<u>\$15</u>	<u>\$15</u>

- d. The net actuarial loss recognized in other comprehensive income, net of tax, in 2005 and 2006 is as follows:

	<u>2005</u>	<u>2006</u>
Net actuarial loss	\$(10)	\$(10)
Less: income tax	<u>4</u>	<u>4</u>
Net charge to other comprehensive income	<u>\$ (6)</u>	<u>\$ (6)</u>

A6. The following table illustrates the adjustments made to Company A's statement of financial position for December 31, 2006. It is not intended to illustrate the disclosure requirements of this Statement or FASB Statement No. 154, *Accounting Changes and Error Corrections*.

**Company A**  
**Statement of Financial Position**  
**December 31, 2006**  
**(in thousands)**

	Before Application of Statement XXX	Adjustments	After Application of Statement XXX
Cash	\$40,000	\$0	\$40,000
Inventory	720,500	0	720,500
Intangible assets	100,000	0	100,000
Total assets	<u>\$860,500</u>	<u>\$0</u>	<u>\$860,500</u>
Accruals	\$60,000	\$0	\$60,000
Accrued pension cost	45	(a) 855	900
Long-term liabilities	99,955	0	99,955
Deferred income taxes	20,000	(b) (342)	19,658
Total liabilities	<u>180,000</u>	<u>513</u>	<u>180,513</u>
Common stock	150,000	0	150,000
Paid-in capital	300,000	0	300,000
Retained earnings	205,500	(c) (144)	205,356
Accumulated other comprehensive income	25,000	(d) (369)	24,631
Total stockholders' equity	<u>680,500</u>	<u>(513)</u>	<u>679,987</u>
Total liabilities and stockholders' equity	<u>\$860,500</u>	<u>\$0</u>	<u>\$860,500</u>

- (a) 280 Recognition of previously unrecognized transition obligation  
(40) Reversal of amortization of transition obligation in 2005 and 2006  
(50) Reversal of amortization of prior service cost in 2005 and 2006  
425 Recognition of previously unrecognized prior service cost  
220 Recognition of previously unrecognized actuarial net loss  
20 Recognition of additional actuarial net loss in 2005 and 2006  
855
- (b) (112) Recognition of deferred tax asset related to the additional liability for pensions ( $280 \times .40 = 112$ )  
(170) Recognition of deferred tax asset related to the additional liability for pensions ( $425 \times .40 = 170$ )  
(88) Recognition of deferred tax asset related to the additional liability for pensions ( $220 \times .40 = 88$ )  
16 Adjustment of deferred tax asset related to reversal of amortization of transition obligation in 2004 and 2005 ( $40 \times .40 = 16$ )  
20 Adjustment of deferred tax asset related to reversal of amortization of prior service cost in 2005 and 2006 ( $50 \times .40 = 20$ )  
(8) Recognition of deferred tax asset related to the additional liability for pensions ( $20 \times .40 = 8$ )  
(342)
- (c) (280) Recognition of previously unrecognized transition obligation  
112 Recognition of deferred tax asset related to the additional liability for pensions ( $280 \times .40 = 112$ )  
40 Reversal of amortization of transition obligation  
(16) Adjustment of deferred tax asset related to reversal of amortization of transition obligation in 2005 and 2006 ( $40 \times .40 = 16$ )  
(144)

- (d) (425) Recognition of previously unrecognized prior service cost
  - 170 Recognition of deferred tax asset related to the additional liability for pensions ( $425 \times .40 = 170$ )
- (220) Recognition of previously unrecognized actuarial net loss
  - 88 Recognition of deferred tax asset related to the additional liability for pensions ( $220 \times .40 = 88$ )
  - 50 Reversal of amortization of prior service cost in 2005 and 2006
- (20) Adjustment of deferred tax asset related to reversal of amortization of prior service cost in 2004 and 2005 ( $50 \times .40 = 20$ )
- (20) Recognition of additional actuarial net loss in 2005 and 2006
- 8 Recognition of deferred tax asset related to the additional liability for pensions ( $20 \times .40 = 8$ )
- (369)

A7. The following table shows the adjustments made to Company A's income statements for 2005 and 2006 in retrospectively applying the provisions of this Statement. It illustrates that the changes to reported net income are limited to the effects of eliminating the amortization of the transition obligation in 2005 and 2006. It is not intended to illustrate the disclosure requirements of this Statement or Statement 154.

**Company A**  
**Statement of Income**  
**Years Ended December 31, 2005, and 2006**  
**(in thousands)**

	Year Ended December 31, 2005			Year Ended December 31, 2006		
	As Reported	Adjustments	As Adjusted	Before	Adjustments	After
				Application of Statement XXX		Application of Statement XXX
Sales	\$130,000	\$0	\$130,000	\$150,000	\$0	\$150,000
Cost of goods sold	20,667	(e) (5)	20,662	25,000	(e) (5)	24,995
Selling, general, and administrative expense	21,000	(e) (15)	20,985	12,500	(e) (15)	12,485
Income before income taxes	88,333	20	88,353	112,500	20	112,520
Income tax expense	35,333	(f) 8	35,341	45,000	(f) 8	45,008
Net income	\$ 53,000	\$12	\$ 53,012	\$ 67,500	\$12	\$ 67,512

- (e) Reversal of the amortization of the transition obligation included in net periodic pension cost in 2005 and 2006 prior to the application of this Statement.
- (f) Adjustment of the deferred tax asset related to the reversal of the amortization of the transition obligation.

A8. The following table illustrates Company A's statement of changes in stockholders' equity for the years ended December 31, 2005, and 2006, which includes the effects of retrospectively applying the provisions of this Statement. Brackets are used to highlight those effects. The table is not intended to illustrate the disclosure requirements of this Statement or Statement 154.

**Company A**  
**Statement of Changes in Stockholders' Equity**  
**Years Ended December 31, 2005, and 2006**  
**(in thousands)**

	<b>Total</b>	<b>Comprehensive Income</b>	<b>Retained Earnings</b>	<b>Accumulated Other Comprehensive Income</b>	<b>Common Stock</b>	<b>Paid-in Capital</b>
Balance at December 31, 2004, as previously reported	\$560,000		\$ 85,000	\$25,000	\$150,000	\$300,000
Adjustments to retrospectively apply this Statement, net of tax	[ (555) ]		(i) (168)	(g) (387)		
Balance at December 31, 2004, as adjusted	<u>559,445</u>		<u>84,832</u>	<u>24,613</u>	<u>150,000</u>	<u>300,000</u>
Comprehensive income						
Net income as adjusted	53,012	[ (h) \$53,012 ]	53,012			
Other comprehensive income, net of tax						
Prior service cost	15	(j) [ 15 ]				
Net actuarial gain (loss)	(6)	(k) [ (6) ]				
Other comprehensive income		<u>9</u>		9		
Comprehensive income		<u>\$ 53,021</u>				
Balance at December 31, 2005	<u>612,466</u>		<u>137,844</u>	<u>24,622</u>	<u>150,000</u>	<u>300,000</u>
Comprehensive income						
Net income as adjusted	67,512	[(h) \$ 67,512 ]	67,512			
Other comprehensive income, net of tax						
Prior service cost	15	(j) [ 15 ]				
Net actuarial gain (loss)	(6)	(k) [ (6) ]				
Other comprehensive income		<u>9</u>		9		
Comprehensive income		<u>\$ 67,521</u>				
Balance at December 31, 2006	<u>\$679,987</u>		<u>\$205,356</u>	<u>\$24,631</u>	<u>\$150,000</u>	<u>\$300,000</u>

- (g) Includes adjustments, net of tax, to other comprehensive income of \$(255) and \$(132) to adjust comprehensive income for the unrecognized prior service cost and unrecognized net actuarial loss, respectively.
- (h) Includes the reversal of the amortization of the transition obligation, net of tax, of \$12, which was included in net periodic pension cost prior to the application of this Statement.
- (i) The adjustment, net of tax, to recognize the remaining transition obligation in retained earnings.
- (j) The adjustment, net of tax, to reclassify from accrued liability to other comprehensive income the amortization of prior service cost that was included in net periodic pension cost.
- (k) The adjustment, net of tax, to recognize the net actuarial loss in other comprehensive income.



**Example 2—Application of This Statement When It Is Impracticable to Apply It Retrospectively to Any Prior Year**

A9. Using the same assumptions listed in Example 1, Company A initially applies this Statement for only its 2006 financial statements. The company deemed that it would be impracticable to retrospectively apply this Statement to prior years because it would require assumptions in prior years about the amount and timing of future taxable income. Those assumptions were not made in those prior years, and it would not be possible to make those assumptions now without the effects of hindsight (that is, effects due to current knowledge of past events).

A10. In applying this Statement, Company A will:

- a. Recognize the transition obligation remaining at December 31, 2005, net of tax, as an adjustment to beginning retained earnings for 2006 (illustrated in paragraph A11(a)).
- b. Recognize the amount of unrecognized prior service cost and unrecognized net actuarial loss at December 31, 2005, net of tax, as an adjustment to beginning accumulated other comprehensive income for 2006 (illustrated in paragraph A11(a)).
- c. Adjust the amount of net periodic pension cost recognized in interim periods for 2006 to eliminate the amortization of the transition obligation that was reported in net periodic pension cost, net of tax, for those periods (illustrated in paragraph A11(b)).
- e. Recognize as a reclassification from accrued liability to accumulated other comprehensive income for 2006 the amortization of prior service cost that was included as a component of net periodic pension cost in 2006, net of tax (illustrated in paragraph A11(c)).
- f. Recognize the amount of net actuarial loss in other comprehensive income in 2006, net of tax (illustrated in paragraph A11(d)).

A11. Calculations of the increases (decreases) to retained earnings and accumulated other comprehensive income resulting from application of this Statement are shown below.

- a. The transition obligation remaining at December 31, 2005, is recognized as an adjustment to beginning retained earnings for 2006, net of tax, and the unrecognized prior service cost and unrecognized net actuarial loss as of December 31, 2005, are recognized as an adjustment to beginning accumulated other comprehensive income for 2006, net of tax, as follows:

Transition obligation	\$(260)	Net actuarial loss	\$(230)
Less: income tax	<u>104</u>	Prior service cost	(400)
Net charge to retained earnings	<u>\$(156)</u>	Less: income tax	<u>252</u>
		Net charge to accumulated other comprehensive income	<u>\$(378)</u>

- b. Net periodic pension cost and net income reported in 2006 are adjusted to eliminate the amortization of the transition obligation reported in net periodic pension cost. The change in net income, net of tax, is as follows:

	<b><u>2006</u></b>
Amortization of transition obligation reported in net periodic pension cost	\$20
Less: applicable income tax	<u>(8)</u>
Net change in net income	<u>\$12</u>

- c. Other comprehensive income reported in 2006 is adjusted to reclassify to net periodic pension cost the amortization of prior service cost. The adjustment to other comprehensive income, net of tax, is as follows:

	<b><u>2006</u></b>
Prior service cost	\$25
Less: income tax	<u>(10)</u>
Net adjustment to other comprehensive income	<u>\$ 15</u>

- d. The net actuarial loss recognized in other comprehensive income, net of tax, in 2006 is as follows:

	<b><u>2006</u></b>
Net actuarial loss	\$(10)
Less: income tax	<u>4</u>
Net charge to other comprehensive income	<u>\$ (6)</u>

A12. The following table illustrates the adjustments made to Company A's statement of financial position for December 31, 2006. It is not intended to illustrate the disclosure requirements of this Statement or Statement 154.

**Company A**  
**Statement of Financial Position**  
**December 31, 2006**  
**(in thousands)**

	Before Application of Statement	Adjustments	After Application of Statement
	XXX		XXX
Cash	\$40,000	\$0	\$40,000
Inventory	720,500	0	720,500
Intangible assets	100,000	0	100,000
Total assets	\$860,500	\$0	\$860,500
Accruals	\$60,000	\$0	\$60,000
Accrued pension cost	45	(a) 855	900
Long-term liabilities	99,955	0	99,955
Deferred income taxes	20,000	(b) (342)	19,658
Total liabilities	180,000	513	180,513
Common stock	150,000	0	150,000
Paid-in capital	300,000	0	300,000
Retained earnings	205,500	(c) (144)	205,356
Accumulated other comprehensive income	25,000	(d) (369)	24,631
Total stockholders' equity	680,500	(513)	679,987
Total liabilities and stockholders' equity	\$860,500	\$0	\$860,500

- (a) 240 Recognition of previously unrecognized transition obligation  
375 Recognition of previously unrecognized prior service cost  
240 Recognition of previously unrecognized actuarial net loss  
855
- (b) (342) Additional deductible temporary difference due to recognition of additional pension liability  
(855 × .40 = 342)
- (c) (240) Recognition of previously unrecognized transition obligation  
96 Allocation of tax benefit (240 × .40 = 96)  
(144)
- (d) (615) Recognition of previously unrecognized net actuarial loss and prior service cost  
246 Allocation of deferred tax benefit (615 × .40 = 246)  
(369)

A13. The following table shows the adjustments made to Company A's income statement for 2006 in applying the provisions of this Statement. It illustrates that the changes to reported net income are limited to the effects of eliminating the amortization of the transition obligation. It is not intended to illustrate the disclosure requirements of this Statement or Statement 154.

**Company A**  
**Statement of Income**  
**Year Ended December 31, 2006**  
(in thousands)

	Year Ended December 31, 2006		
	Before		After
	Application		Application
	of		of
Statement	Adjustments		Statement
	XXX		XXX
Sales	\$150,000	\$0	\$150,000
Cost of goods sold	25,000	(e) (5)	24,995
Selling, general, and administrative expense	12,500	(e) (15)	12,485
Income before income taxes	112,500	20	112,520
Income tax expense	45,000	(f) 8	45,008
Net income	\$ 67,500	\$12	\$ 67,512

(e) Reversal of the amortization of the transition obligation included in net periodic pension cost in 2006 prior to application of this Statement.

(f) Reversal of the deferred tax benefit applicable to the amortization of the transition obligation.

A14. The following table illustrates Company A's statement of changes in stockholders' equity for the years ended December 31, 2005, and 2006, that shows the effects of applying this Statement. Brackets are used to highlight those effects. The following table is not intended to illustrate the disclosure requirements of this Statement or Statement 154.

**Company A**  
**Statement of Changes in Stockholders' Equity**  
**Years Ended December 31, 2005, and 2006**  
**(in thousands)**

	<b>Total</b>	<b>Comprehensive Income</b>	<b>Retained Earnings</b>	<b>Accumulated Other Comprehensive Income</b>	<b>Common Stock</b>	<b>Paid-in Capital</b>
Balance at December 31, 2004	\$560,000		\$ 85,000	\$25,000	\$150,000	\$300,000
Comprehensive income						
Net income	53,000	\$ 53,000	53,000			
Balance at December 31, 2005	613,000		138,000	25,000	150,000	300,000
Adjustments to beginning balances, net of tax	[ (534) ]		(i) (156)	(g) (378) ]		
Beginning balance, as adjusted	612,466		137,844	24,622	150,000	300,000
Comprehensive income						
Net income	67,512	(h) \$67,512	67,512			
Other comprehensive income, net of tax						
Prior service cost	15	(j) 15				
Net actuarial gain (loss)	(6)	(k) (6)				
Other comprehensive income				9		
Comprehensive income		\$ 67,521				
Balance at December 31, 2006	\$679,987		\$205,356	\$24,631	\$150,000	\$300,000

(g) Includes adjustments, net of tax, to other comprehensive income of \$(240) and \$(138) to adjust comprehensive income for the unrecognized prior service cost and unrecognized net actuarial loss, respectively.

(h) Includes the reversal of the amortization of the transition obligation, net of tax, of \$12, which was included in net periodic pension cost prior to the application of this Statement.

(i) The adjustment, net of tax, to recognize the remaining transition obligation in retained earnings.

(j) The adjustment, net of tax, to reclassify from accrued liability to other comprehensive income the amortization of prior service cost that was included in net periodic pension cost.

(k) The adjustment, net of tax, to recognize the net actuarial loss in other comprehensive income.

### **Example 3(a)—Change in the Measurement Date**

A15. Pursuant to this Statement, Company B changes the measurement date for its one defined benefit pension plan from September 30 to December 31 beginning with its 2007 financial statements. Company B retrospectively applied all the other provisions of this Statement at the end of 2006. In changing the measurement date beginning with its 2007 financial statements, Company B will:

- a. Recognize any settlement or curtailment gain or loss for the fourth quarter of 2006 in net income of that quarter (not applicable for this example because it is assumed that Company B did not have a settlement or curtailment).
- b. Recognize the change in net actuarial gain (loss) between September 30, 2006, and December 31, 2006, net of tax, as an adjustment to beginning accumulated other comprehensive income for 2007 (illustrated in paragraph A17(a)).
- c. Recognize the additional net periodic pension cost incurred between September 30, 2006, and December 31, 2006, net of tax, as an adjustment to retained earnings at January 1, 2007 (illustrated in paragraph A17(b)).
- d. Recognize the change in prior service cost between September 30, 2006, and December 31, 2006, net of tax, as an adjustment to beginning accumulated other comprehensive income for 2007 (illustrated in paragraph A17(c)).

A16. The funded status of Company B's plan as of September 30, 2005, September 30, 2006, December 31, 2006, and December 31, 2007, and amounts included in accumulated other comprehensive income to be recognized as a component of net periodic pension cost are shown below. The unrecognized net loss was less than 10 percent of the greater of the market-related value of plan assets and the projected benefit obligation for all years presented. Company B's applicable tax rate for all 3 years was 40 percent. All deferred tax assets recognized were evaluated by Company B, and no valuation allowance was considered necessary at any time.

	<u>September 30,</u>		<u>December 31,</u>	
	<u>2005</u>	<u>2006</u>	<u>2006</u>	<u>2007</u>
	<u>(in thousands)</u>			
Projected benefit obligation	\$(2,540)	\$(3,660)	\$(3,440)	\$(3,670)
Plan assets at fair value	<u>1,640</u>	<u>2,600</u>	<u>2,350</u>	<u>2,510</u>
Funded status	<u>\$ (900)</u>	<u>\$(1,060)</u>	<u>\$(1,090)</u>	<u>\$(1,160)</u>
Items not yet recognized as a component of net periodic pension cost:				
Prior service cost	\$500	\$400	\$375	\$275
Net actuarial loss	<u>100</u>	<u>265</u>	<u>285</u>	<u>315</u>
	<u>\$600</u>	<u>\$665</u>	<u>\$660</u>	<u>\$590</u>
Projected net periodic pension cost for subsequent fiscal year	<u>\$260</u>	<u>\$280</u>		

A17. Additional information related to the adjustments to retained earnings and accumulated other comprehensive income resulting from the change in measurement date is shown below:

- a. The additional net actuarial loss recognized in other comprehensive income is as follows:

	<u>9/30/05–9/30/06</u>	<u>9/30/06–12/31/06</u>	<u>12/31/06–12/31/07</u>
Net actuarial loss	\$165	\$20	\$30
Less: income tax benefit	<u>(66)</u>	<u>(8)</u>	<u>(12)</u>
	<u>\$ 99</u>	<u>\$ 12</u>	<u>\$ 18</u>

- b. The projected net periodic pension cost is as follows:

	<u>9/30/06–12/31/06</u>
Net periodic pension cost	\$280 / 4 = \$70
Less: income tax benefit	<u>(28)</u>
	<u>\$42</u>

- c. The prior service cost amortization as a component of net periodic pension cost is as follows:

	<u>9/30/05–9/30/06</u>	<u>9/30/06–12/31/06</u>	<u>12/31/06–12/31/07</u>
Prior service cost	\$100	\$25	\$100
Less: income tax benefit	<u>(40)</u>	<u>(10)</u>	<u>(40)</u>
	<u>\$ 60</u>	<u>\$ 15</u>	<u>\$ 60</u>

A18. The following table illustrates Company B's statement of changes in stockholders' equity for 2006 and 2007 that shows the effects of the change in measurement date. It is not intended to illustrate the disclosure requirements of this Statement or Statement 154.

**Company B**  
**Statement of Changes in Stockholders' Equity**  
**Years Ended December 31, 2006, and 2007**  
**(in thousands)**

	<b>Total</b>	<b>Comprehensive Income</b>	<b>Retained Earnings</b>	<b>Accumulated Other Comprehensive Income</b>	<b>Common Stock</b>	<b>Paid-in Capital</b>
Balance at December 31, 2005	\$289,140		\$50,000	\$(360)	\$200,000	\$39,500
Comprehensive income						
Net income	10,500	\$10,500	10,500			
Other comprehensive income, net of tax						
Prior service cost	60	60				
Net actuarial loss	(99)	(99)				
Other comprehensive income		(39)		(39)		
Comprehensive income		\$ 10,461				
Balance at December 31, 2006	299,601		60,500	(399)	200,000	39,500
Net periodic pension cost and actuarial loss October 1–December 31, net of tax	[ (39) ]		(a) (42)	(b) 3 ]		
Comprehensive income						
Net income	12,000	\$ 12,000	12,000			
Other comprehensive income, net of tax						
Prior service cost	60	60				
Net actuarial loss	(18)	(18)				
Other comprehensive income		42		42		
Comprehensive income		\$12,042				
Balance at December 31, 2007	\$311,604		\$72,458	\$(354)	\$200,000	\$39,500

- (a) The adjustment, net of tax, to beginning retained earnings for the change in net periodic pension cost (includes the change in prior service cost of \$(15)).
- (b) Includes adjustments, net of tax, to beginning other comprehensive income of \$15 and \$(12) for the changes in prior service cost and net actuarial loss, respectively.



### **Example 3(b)—Plan Settlement and Change in the Measurement Date**

A19. Pursuant to this Statement, Company C changes the measurement date for its one defined benefit pension plan from September 30 to December 31, beginning with its 2007 financial statements. Company C had a plan settlement on December 31, 2006, resulting in a loss of \$60,000. Due to this significant event, Company C remeasures its plan assets and obligations as of December 31, 2006. Company C retrospectively applies all the other provisions of this Statement at the end of 2006. In recognizing the effects of the plan settlement and change in measurement date, Company C will:

- a. Recognize any settlement or curtailment gain or loss for the fourth quarter of 2006 in net income of that quarter (illustrated in paragraph A21(a)).
- b. Recognize the change in net actuarial gain (loss) between September 30, 2006, and December 31, 2006, net of tax, as an adjustment to ending accumulated other comprehensive income for 2006 (illustrated in paragraph A21(a)).
- c. Recognize the additional net periodic pension cost incurred between September 30, 2006, and December 31, 2006, net of tax, as an adjustment to retained earnings at December 31, 2006 (illustrated in paragraph A21(b)).
- d. Recognize the change in prior service cost between September 30, 2006, and December 31, 2006, net of tax, as an adjustment to ending accumulated other comprehensive income for 2006 (illustrated in paragraph A21(c)).

A20. The funded status of Company C's plan as of September 30, 2005, September 30, 2006, December 31, 2006, and December 31, 2007, and amounts included in accumulated other comprehensive income to be recognized as a component of net periodic pension cost are shown below. The unrecognized net loss was less than 10 percent of the greater of the market-related value of plan assets and the projected benefit obligation for all years presented. Company C's applicable tax rate for all 3 years was 40 percent. All deferred tax assets recognized were evaluated by Company C, and no valuation allowance was considered necessary at any time.

	<u>September 30,</u>		<u>December 31,</u>	
	<u>2005</u>	<u>2006</u>	<u>2006</u>	<u>2007</u>
	<u>(in thousands)</u>			
Projected benefit obligation	\$(2,540)	\$(3,660)	\$(3,440)	\$(3,670)
Plan assets at fair value	<u>1,640</u>	<u>2,600</u>	<u>2,350</u>	<u>2,510</u>
Funded status	<u>\$ (900)</u>	<u>\$(1,060)</u>	<u>\$(1,090)</u>	<u>\$(1,160)</u>
Items not yet recognized as a component of net periodic pension cost:				
Prior service cost	\$500	\$400	\$375	\$275
Net actuarial loss	<u>100</u>	<u>265</u>	<u>285</u>	<u>315</u>
	<u>\$600</u>	<u>\$665</u>	<u>\$660</u>	<u>\$590</u>
Projected net periodic pension cost for subsequent 12 months	<u>\$260</u>	<u>\$280</u>		

A21. Additional information related to the adjustments to retained earnings and accumulated other comprehensive income resulting from the settlement loss and change in measurement date is shown below:

- a. The additional net actuarial loss recognized in other comprehensive income is as follows:

	<u>9/30/05–9/30/06</u>	<u>9/30/06–12/31/06</u>	<u>12/31/06–12/31/07</u>
Net actuarial loss	\$165	\$80 <sup>a</sup>	\$30
Less: income tax benefit	<u>(66)</u>	<u>(32)</u>	<u>(12)</u>
	<u>\$99</u>	<u>\$48</u>	<u>\$18</u>

- b. The projected net periodic pension cost recognized as an adjustment to retained earnings is as follows:

	<u>9/30/06–12/31/06</u>
Net periodic pension cost	\$280 / 4 = \$70
Less: income tax benefit	<u>(28)</u>
	<u>\$42</u>

<sup>a</sup>(Net actuarial loss at 12/31/06) – (Net actuarial loss at 9/30/06) + (Plan settlement loss)

- c. The prior service cost amortization as a component of net periodic pension cost is as follows:

	<u>9/30/05–9/30/06</u>	<u>9/30/06–12/31/06</u>	<u>12/31/06–12/31/07</u>
Prior service cost	\$100	\$25	\$100
Less: income tax benefit	<u>(40)</u>	<u>(10)</u>	<u>(40)</u>
	<u>\$60</u>	<u>\$15</u>	<u>\$ 60</u>

A22. The following table illustrates Company C's statement of changes in stockholders' equity for 2006 and 2007 that shows the effects of the settlement loss and change in measurement date. It is not intended to illustrate the disclosure requirements of this Statement or Statement 154.

**Company C**  
**Statement of Changes in Stockholders' Equity**  
**Years Ended December 31, 2006, and 2007**  
**(in thousands)**

	<b>Total</b>	<b>Comprehensive Income</b>	<b>Retained Earnings</b>	<b>Accumulated Other Comprehensive Income</b>	<b>Common Stock</b>	<b>Paid-in Capital</b>
Balance at December 31, 2005	\$289,140	\$0	\$55,000	\$(360)	\$195,000	\$39,500
Comprehensive income						
Net income	5,500	(a) 5,500	5,500			
Other comprehensive income, net of tax						
Settlement loss	36	36				
Prior service cost	60	60				
Net actuarial loss	(99)	(99)				
Other comprehensive income		(3)		(3)		
Comprehensive income		<u>\$ 5,497</u>				
Net periodic pension cost and actuarial loss						
October 1–December 31, net of tax	[ (75) ]		(b) (42)	(c) (33)		
Balance at December 31, 2006	<u>294,562</u>		<u>60,458</u>	<u>(396)</u>	<u>195,000</u>	<u>39,500</u>
Comprehensive income						
Net income	12,000	\$12,000	12,000			
Other comprehensive income, net of tax						
Prior service cost		66				
Net actuarial loss		(12)				
Other comprehensive income	54	<u>54</u>		54		
Comprehensive income		<u>\$12,054</u>				
Balance at December 31, 2007	<u>\$306,616</u>		<u>\$72,458</u>	<u>\$(342)</u>	<u>\$195,000</u>	<u>\$39,500</u>

- (a) Includes the settlement loss of \$60,000 (\$36,000 net of tax).
- (b) The adjustment, net of tax, to ending retained earnings for the change in net periodic pension cost (includes the change in prior service cost of \$(15)).
- (c) Includes adjustments, net of tax, to ending other comprehensive income of \$15 and \$(48) for the changes in prior service cost and net actuarial loss, respectively.

## Appendix B

### BACKGROUND INFORMATION AND BASIS FOR CONCLUSIONS

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## **Appendix B**

### **BACKGROUND INFORMATION AND BASIS FOR CONCLUSIONS**

#### **Introduction**

B1. This appendix summarizes considerations that Board members deemed significant 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.

#### **Background Information**

B2. In November 2005, the Board added a project to its agenda to reconsider the guidance 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*, No. 106, *Employers' Accounting for Postretirement Benefits Other Than Pensions*, and No. 132 (revised 2003), *Employers' Disclosures about Pensions and Other Postretirement Benefits*. The project was undertaken because of concerns about the current accounting requirements for defined benefit postretirement obligations, including pensions.

B3. Statement 87 was issued in 1985 and was effective for financial statements for fiscal years beginning after December 15, 1986. It establishes standards of financial reporting and accounting for an employer that offers pension benefits to its employees. Statement 87 prescribes the measurement of net periodic pension cost and requires recognition of a liability that at least equals the excess, if any, of the accumulated benefit obligation over the fair value of plan assets. Statement 87 does not limit the amount that could be recognized as an employer's asset (for example, contributions to the plan in excess of net periodic pension cost recognized), even if the plan is significantly underfunded.

B4. Statement 106 was issued in 1990 and was effective for financial statements for fiscal years beginning after December 15, 1992. Prior to the issuance of that Statement, employers generally recognized, on a cash basis, the costs arising from the exchange of employee service for postretirement benefits other than pensions (principally, retiree health care). That is, the costs were recognized when the obligation was satisfied rather than when it was incurred. Statement 106 requires an employer to recognize the cost incurred over the periods in which employees render service in exchange for the promise to provide postretirement benefits. Statement 106 does not require that a minimum liability be recognized under certain circumstances. Similar to Statement 87, Statement 106 does not limit the amount that could be recognized as an asset by the employer (for example, contributions to the plan in excess of net periodic postretirement benefit cost recognized).

B5. Statements 87 and 106 took similar approaches to the delayed recognition of certain economic events in measuring and reporting net periodic benefit cost and benefit

obligations, to net reporting of periodic benefit cost reporting, and to offsetting assets and liabilities. Delayed recognition allows changes in the value of plan assets or in the benefit obligation (including changes resulting from plan amendments) that were not anticipated in measuring the net periodic benefit cost or benefit obligation to be recognized over subsequent periods instead of as they occur.

B6. Net periodic benefit cost reporting means that the recognized consequences of different types of events and transactions affecting a postretirement benefit plan are aggregated into a single net amount (net periodic benefit cost) in the employer's financial statements. That reporting aggregates certain items that usually would be reported separately for any other part of an employer's operations, such as compensation cost of benefits promised, interest cost resulting from deferred payment of those benefits, and results of investing in assets to prefund the obligation.

B7. Asset and liability offsetting refers to combining in the employer's statement of financial position the recognized effects of investing in plan assets and incurring liabilities for benefits, even though the liability has not been settled, the assets may still be largely controlled by the employer, and substantial risks and rewards associated with both of those amounts are borne by the employer.

B8. The primary criticisms of those and other features of the existing and past standards of accounting for postretirement benefit arrangements include the following:

- a. The standards permit an employer that sponsors a defined benefit plan not to recognize the economic events that affect the cost of providing postretirement benefits—the changes in plan assets and benefit obligations—as those changes take place.
- b. The standards relegate important information about postretirement plans to the notes to financial statements, in the form of reconciliations of the overfunded or underfunded statuses to amounts recognized in the statement of financial position.
- c. Net reporting of periodic benefit cost obscures the employer's reported results of operations by combining the effects of compensation, investing, and financing activities.

B9. The Board understood and acknowledged the first two of those issues when it developed Statement 87. The Board noted in Statement 87 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. However, it concluded that those approaches would be too great a change from past practice to be adopted at the present time" (paragraph 107). The Board also noted in that same Statement that "because gains and losses may reflect refinements in estimates as well as real changes in economic values and because some gains in one period may be offset by losses in another or vice versa, this Statement does not require recognition of gains and losses as components of net pension cost of the period in which they arise" (paragraph 29; footnote reference omitted).

B10. The Board improved disclosures twice since Statements 87 and 106 were issued. FASB Statement No. 132, *Employers' Disclosures about Pensions and Other Postretirement Benefits*, issued in 1998, standardized the disclosure requirements for pensions and other postretirement benefits. Statement 132(R) added requirements for disclosures about:

- a. The types of plan assets held and the related investment strategy
- b. The employer's annual measurement date(s) used in the accounting for the benefit arrangements
- c. Plan obligations and expected near-term cash flows
- d. Components of net periodic benefit cost recognized during interim periods.

B11. Some constituents believe the disclosures that are required by Statement 132(R) compensate for the lack of transparency that results from delayed recognition and net reporting. However, the Board observed in Statement 87 that:

Footnote disclosure is not an adequate substitute for recognition. The argument that the information is equally useful regardless of how it is presented could be applied to any financial statement element, but the usefulness and integrity of financial statements are impaired by each omission of an element that qualifies for recognition. . . . if the argument were valid, the consequences of recognition would not be different from those of not recognizing but disclosing the same information. . . . [paragraph 116]

B12. Statements 87 and 106 represented avowedly evolutionary improvements in accounting at the time they were issued. However, many years have passed since those Statements were issued. Requests that the Board address issues related to employers' accounting for defined benefit postretirement plans have increased in recent years. Those requests have been made by users of financial statements and others, including the SEC staff (in its June 2005 report to Congress on off-balance-sheet arrangements, required by the Sarbanes-Oxley Act of 2002), members of the Board's Financial Accounting Standards Advisory Council and User Advisory Council, and representatives of the Pension Benefit Guaranty Corporation. Those constituents urged the Board to undertake a project that would improve the transparency and understandability of the employer's financial statements regarding the costs and obligations of providing postretirement benefits. Those improved financial statements would better serve the informational needs of equity owners, creditors, employees, retirees, and other users.

B13. In light of the Board's discussions in the development of Statement 87, particularly the conclusions summarized in paragraph B9 of this Statement, as well as requests from certain constituents, the Board concluded that the accounting for defined benefit postretirement plans should be reconsidered. Although the trend of sponsoring defined benefit postretirement plans, particularly defined benefit pension plans, has declined in recent years, the long-term nature and the magnitude of existing arrangements are such that the perceived deficiencies in the accounting would continue for a long time unless addressed by the FASB.



## Scope

B14. The Board plans to comprehensively reconsider the accounting for postretirement benefits. A project to improve, and potentially converge internationally, that accounting will take years to complete. Thus, to provide timely and significant improvements in postretirement benefit accounting, the Board decided to conduct the short-term project that led to this Statement.

B15. The objective of this Statement is to improve the understandability and representational faithfulness of the amounts reported on the employer's statement of financial position by recognizing the overfunded or underfunded statuses of defined benefit postretirement plans as an asset or a liability, respectively.

B16. This Statement does not change the basic approach to measuring plan assets, benefit obligations, or net periodic benefit cost. This Statement requires additional amounts recognized related to actuarial gains and losses and prior service costs and credits that have not yet been recognized as components of net periodic benefit cost to be recognized by a business entity in other comprehensive income. To more accurately reflect the economic statuses of defined benefit plans and further improve the understandability of the financial statements, this Statement also requires that the measurement of plan assets and benefit obligations be as of the date of the sponsoring employer's statement of financial position, not up to three months earlier as had been permitted by Statements 87 and 106.

B17. Some constituents suggested that before requiring recognition of the funded statuses of defined benefit postretirement plans in the employer's statement of financial position, the Board should reconsider measurement of the benefit obligation, specifically, whether the measurement of the obligation should be based on accumulated benefits or on projected benefits. The issue is whether and, if so, how to include the effects of future increases in compensation when a defined benefit plan's formula incorporates compensation in determining the pension benefit. In deciding to exclude that measurement issue in establishing the scope of this Statement, the Board considered the following factors:

- a. The Board concluded in Statement 87 that the projected benefit obligation is the most relevant measure of the benefit obligation after extensive debate of the issue. That conclusion was not one of the departures from the conceptually preferable alternatives acknowledged by Statement 87. The Board's current decision, therefore, is consistent with that conclusion.
- b. Certain users of financial statements believe the projected benefit obligation reflects the employer's economic obligation and the terms of the substantive plan, and few have suggested a measure that excludes the effects of future compensation increases (see also (e) below).
- c. Using a measure of the obligation other than the projected benefit obligation might necessitate changing how other assumptions are determined, specifically

the discount rate. Views on that issue are described in paragraphs 140–142 of Statement 87’s basis for conclusions.

- d. For most plans that provide postretirement benefits other than pensions, there is no measure of the obligation that is analogous to the accumulated benefit obligation in a pension plan. Therefore, if the Board was to require that the accumulated benefit obligation be used to measure the pension obligation, the Board also would have to determine the equivalent measure for other postretirement benefits. Thus, the issue is broader than pension plans alone.
- e. Paragraph 139 of Statement 87’s basis for conclusions states:

Among those respondents who argued that obligations dependent on future compensation increases are excluded by the definition of a liability, very few were prepared to accept a measure of net periodic pension cost that was based only on compensation to date. The Board notes that under the double entry accounting system, recognition of an accrued cost as a charge against operations requires recognition of a liability for that accrued cost. Thus, excluding future compensation from the liability and including it in net periodic pension cost are conflicting positions.

B18. The Board intends to readdress many issues that were initially addressed by Statement 87, as well as those that have been raised since on the measurement of pension obligations, including evolving changes in benefit plan design (for example, cash balance plans and plans with lump-sum benefits payable upon an employee’s termination). However, the Board’s commitment to readdress issues in this area should not be viewed as a conclusion that the present measurement of defined benefit postretirement obligations is inappropriate. The issues on the measurement of the pension benefit obligation are complex and considering them will require substantial time. Therefore, considering those issues as part of this Statement would delay other improvements the Board concluded should be made now. In the second multiyear phase of the project, the Board will comprehensively reconsider other issues in accounting for postretirement benefit obligations, including:

- a. How the items that affect the cost of providing postretirement benefits should be recognized and displayed in earnings or other comprehensive income
- b. How to measure an employer’s benefit obligations, including whether more or different guidance should be provided about measurement assumptions
- c. Whether postretirement benefit trusts should be consolidated by the plan sponsor.

B19. The Board expects that the second phase of the project will benefit from:

- a. Progress on the project to complete, improve, and converge the FASB’s conceptual framework with the International Accounting Standards Board’s (IASB) framework
- b. Progress on the joint IASB-FASB project on reporting financial performance

- c. Research and analysis on the accounting for cash balance pension plans and plans with lump-sum benefits payable upon an employee's termination.

However, the Board does not intend that progress on the second phase must await completion of any other project on its agenda.

## **Amendments Considered and Made**

### **Recognition of the Funded Status**

B20. The Board wishes to implement significant improvements in financial reporting on a more timely basis than would be possible in the context of its comprehensive project described in paragraph B18. Therefore, the Board decided not to consider in this Statement changes in either the basic approach to measuring plan assets and benefit obligations or the basic approach for measuring and reporting the amount of net periodic benefit cost recognized in annual or interim financial statements. As described in paragraph B17, the Board concluded in Statement 87 that the projected benefit obligation is the conceptually appropriate and preferable measure of the benefit obligation. Statement 87's basis for conclusions explains the Board's reasons for that conclusion. This Statement does not require preparers of financial statements to obtain any information about postretirement plans not already required by existing standards.

B21. The Board reasoned that financial reporting will be significantly improved by requiring recognition in an employer's statement of financial position of the funded statuses of its defined benefit postretirement plans. The Board believes that recognition requirement will significantly improve the understandability of reported financial information, thereby facilitating analysis of employers' financial reports.

B22. After determining that the funded statuses of all plans should be recognized, the Board considered how those recognized amounts should be displayed. The Board decided to require separate recognition of assets for overfunded plans and separate recognition of liabilities for underfunded plans. The Board rejected the alternative of aggregating all plans and reporting the net amount as a single net asset or net liability because the employer does not have the ability to offset excess assets of one plan against the underfunded obligations of another plan, other than through a legal merger that may or may not be possible. In reaching that conclusion, the Board affirms paragraph 156 of Statement 87's basis for conclusions, which states:

The Board believes that an employer with one well-funded plan and another less well funded or unfunded plan is in a different position than an employer with similar obligations and assets in a single plan. The Board was not convinced that combining plans would be easy or even possible in many cases. For example, the Board believes it would be difficult to combine a qualified plan with an unqualified plan or a flat benefit plan with a final-pay plan. Further, netting all plans would be inconsistent with other standards that preclude offsetting assets and liabilities unless a right of offset exists.

## **Actuarial Gains and Losses**

B23. Actuarial gains and losses are changes in measures of the benefit obligation or plan assets that occur during a period because of differences between experience and assumptions or that occur as a result of changes in one or more actuarial assumptions. For example, actuarial gains and losses can arise from differences between the expected return and actual return on plan assets, from changes in the benefit obligation due to changes in discount rates, or from changes in assumptions about future compensation, retirement dates, mortality rates, employee turnover, retiree participation rates, health care cost trend rates, or government subsidies. Actuarial gains and losses subsequent to an employer's initial application of Statement 87 or 106 that have not yet been recognized in net periodic benefit cost are referred to as the net unrecognized gain or loss.

B24. The Board acknowledges that delayed recognition of actuarial gains and losses is often the principal reason why the overfunded or underfunded statuses of postretirement benefit plans were not recognized in the sponsoring employer's statement of financial position prior to this Statement. In developing the provisions of this Statement, the Board considered how previously unrecognized actuarial gains and losses should be recognized, specifically, whether they should be recognized by a business entity in other comprehensive income. The Board decided to require that actuarial gains and losses that have not been recognized as a component of net periodic benefit cost be recognized as increases or decreases in other comprehensive income. Actuarial gains and losses recognized in other comprehensive income are adjusted as they are subsequently recognized as a component of net periodic benefit cost based on the amortization and recognition requirements of Statements 87 and 106.

B25. In reaching its conclusions about the recognition of previously unrecognized actuarial gains and losses, the Board noted that the recognition requirements of this Statement obviate any need to recognize a minimum pension liability. In addition, recognition of previously unrecognized actuarial gains and losses through other comprehensive income would be consistent with the prior required accounting for any net unrecognized gain or loss that was recognized when an additional minimum pension liability was recognized. That treatment is consistent with the objective of this Statement not to change how net periodic benefit cost is recognized. It continues the past practice of delaying recognition of actuarial gains and losses as a component of net periodic benefit cost, reflecting the long-term nature of postretirement benefit arrangements. Furthermore, that treatment is consistent with the practice of including in other comprehensive income certain changes in value that have not been recognized in earnings (for example, unrealized gains or losses on available-for-sale securities).

## **Unrecognized Prior Service Costs and Credits**

B26. Under Statements 87 and 106, the effect of a plan amendment that retrospectively changes benefits attributable to prior employee service is not fully recognized as part of net periodic benefit cost in the period the amendment is adopted. The Board considered the following two alternatives for a business entity for recognizing the remaining

unamortized prior service costs or credits that resulted from previous plan amendments or initiations:

- a. Recognition through other comprehensive income
- b. Recognition as an intangible asset (or negative intangible asset) that would be considered as reducing employee-related intangible assets, some of which are unrecognized.

B27. The Board decided to adopt the first alternative and require prior service costs and credits to be recognized initially through other comprehensive income and subsequently as a component of net periodic benefit cost based on the existing amortization requirements in Statements 87 and 106.

B28. The Board supported that approach and pointed to the reasoning in paragraph 286 of Statement 106:

Some Board members support immediate recognition of prior service cost as an expense, particularly the portion related to existing retirees. Although some intangible economic benefits of a plan initiation or amendment may be received in future periods from benefit improvements for active plan participants, they believe that those intangible benefits do not qualify for recognition as an asset. Therefore, they believe there is little basis for delaying recognition of the underlying prior service cost to future periods. Other Board members believe that a plan initiation or amendment is made with a view to benefiting the employer's future operations through reduced employee turnover, improved productivity, or reduced demands for increases in cash compensation.

B29. That approach also is consistent with the treatment of previously unrecognized actuarial gains and losses, and the majority of the Board reasoned that there is not a sufficient distinction between unrecognized actuarial gains and losses and unrecognized prior service costs and credits to support different accounting treatment at this time. In addition, the resulting accounting is simple, transparent, and symmetrical. The Board believes that an amendment that increases benefits attributable to service already rendered does not give rise to an asset and the reduction of benefits by a negative plan amendment does not give rise to a liability. The Board rejected the notion of a negative intangible asset on both conceptual and understandability grounds. The Board also concluded that recognition of prior service costs and credits related to both retired employees and active employees should be considered in the second, comprehensive phase of the project. Doing so takes full advantage of the ongoing work in the conceptual framework project related to the definitions of an asset and a liability.

B30. The Board members who supported the alternative to classify prior service costs and credits in the statement of financial position on an aggregate basis for all plans as a net intangible asset (or net negative intangible asset) considered that approach to be consistent with the accounting required when an additional minimum pension liability previously was recognized and an intangible asset was recognized to the extent of any unrecognized

prior service cost. Those Board members also noted that unrecognized prior service costs and credits are not characterized as losses or gains in Statements 87 and 106. Therefore, they are unlike other items presently recognized in other comprehensive income. Although those Board members questioned whether the effects of plan amendments qualify conceptually for recognition as an asset or negative asset, they concluded that the characterization of such effects as they are set forth in Statements 87 and 106 would best be reconsidered during the comprehensive phase.

#### **Unrecognized Transition Assets and Obligations**

B31. Upon initial application of Statement 87 or 106, a reporting entity typically had an unrecognized net asset or an unrecognized net obligation measured as the difference between the fair value of plan assets and the benefit obligation. For postretirement benefits other than pensions, it often was a net obligation because those benefits are not typically funded by plan assets. Statement 87 required delayed recognition for the net transition asset or obligation by requiring prospective recognition (amortization) as part of net periodic benefit cost.

B32. The transition guidance in Statement 106 permitted, but did not require, reporting entities to delay recognition and amortize the transition asset or obligation on a basis similar to Statement 87's requirements. The Board observed that even though Statement 87 was issued in 1985, and Statement 106 was issued in 1990, certain reporting entities have yet to completely amortize the transition asset or obligation.

B33. The Board considered various alternatives for a business entity to recognize any remaining transition asset or obligation upon initial application of this Statement, including:

- a. Adjust beginning retained earnings. This approach is similar to the accounting for changes in an accounting principle.
- b. Recognize an intangible asset for a transition obligation or recognize an increase in beginning accumulated other comprehensive income for a transition asset.
- c. Recognize an increase or decrease in beginning accumulated other comprehensive income. This approach is similar to the recognition treatment for unrecognized actuarial gains and losses.
- d. Elect either Alternative A or B.

B34. The Board chose Alternative A, which requires that any remaining transition amounts be recognized as direct charges or credits to beginning retained earnings, net of applicable income taxes. Those amounts are not subsequently recognized as a component of net periodic benefit cost. The Board views any remaining transition asset or obligation as similar to the cumulative effect resulting from a change in accounting principle that should not affect current or future reported earnings. In addition, Alternative A is expected to reduce recordkeeping costs and improve the comparability of ongoing net periodic benefit cost reported between an entity that elected immediate recognition of the transition amount for Statement 106 and one that did not.

## **Classification of Recognized Assets and Liabilities**

B35. The Board discussed the present requirement to recognize postretirement benefit assets or liabilities as current or noncurrent in a classified statement of financial position. The Board decided to include in this Statement classification guidance along the lines of Question and Answer No. 41 in FASB Special Report, *A Guide to Implementation of Statement 87 on Employers' Accounting for Pensions*, to explicitly articulate the present requirement.

## **Measurement Date**

B36. Statements 87 and 106 required that plan assets and benefit obligations be measured as of the date of the employer's statement of financial position or, if used consistently from year to year, as of a date not more than three months prior to that date. The Board decided in this Statement to eliminate the choice of a measurement date other than the date of the employer's statement of financial position. The Board reasoned that allowing alternative measurement dates adds complexity and reduces understandability because potentially significant changes in plan assets and benefit obligations that arise after the measurement date but before the fiscal year-end are not recognized until the following period. Also, the use of a measurement date other than the reporting date requires additional footnote disclosures to reconcile the employer's statement of financial position as of the reporting date to the footnote disclosures of plan assets and benefit obligations as of that earlier measurement date. The reconciliation for a plan that is funded relates to the movement of funds between the employer and the plan for the employer's interim period that follows the measurement date. That reconciliation adds complexity and reduces the understandability of the other information provided. Furthermore, the Board's decision to require recognition of the funded statuses of postretirement plans in the statement of financial position increases the importance of measuring postretirement assets and obligations as of the same date as the entity's other reported assets and liabilities.

B37. The Board believes that by requiring the measurement date for plan assets and benefit obligations to be the same as the employer's financial reporting date, reported postretirement benefit information will be more representationally faithful and understandable. Also, eliminating the choice of an earlier measurement date will increase the comparability of financial statements of entities with similar fiscal years that previously did not use the same measurement date.

B38. The Board noted that many employers already measure postretirement plan assets and obligations, at least for some of their plans, as of their fiscal year-ends, suggesting that it is often practicable to obtain the necessary data as of the reporting date.

B39. In considering the implementation issues associated with performing a second measurement in the year the measurement date is changed, the Board noted that Statements 87 and 106 do not require that all measurement procedures related to postretirement obligations be performed as of the measurement date. In Statement 87, the Board stated that "[a]s with other financial statement items requiring estimates, much of the information can be prepared as of an earlier date and projected forward to account for

subsequent events. . . .” (paragraph 52). That statement applies to data on the demographics of plan participants; discount rates and measurements for most plan assets should not be prepared as of an earlier date and projected forward.

B40. The Board acknowledges that a change in measurement date will affect the amounts of net periodic benefit costs for some entities. However, those changes in amounts are not the result of a fundamental change in how the amounts are determined. Therefore, those changes are not inconsistent with the objectives and scope of the first phase of the comprehensive project.

## **Footnote Disclosures**

### **Amendments to Existing Disclosure Requirements Made Necessary by Changes in Recognition**

#### ***Reconciliation of the Funded Status to Amounts Recognized***

B41. This Statement eliminates the existing requirement in paragraph 5(c) of Statement 132(R) to reconcile the funded status of the plan to amounts recognized in the employer’s statement of financial position. This Statement’s recognition requirements for actuarial gains and losses, prior service costs and credits, and any remaining unrecognized transition assets or obligations related to the initial application of Statements 87 and 106 eliminate all differences between a plan’s funded status and amounts recognized in the employer’s statement of financial position.

B42. This Statement also eliminates disclosures that reference the additional minimum pension liability (paragraphs 5(i), 8(g), and 8(h) of Statement 132(R)). Those disclosures are no longer relevant because this Statement eliminates the notion of the additional minimum liability.

#### ***Disclosure of Amounts Recognized By a Business Entity in Other Comprehensive Income and Accumulated Other Comprehensive Income***

B43. The Board discussed the items that are recognized in other comprehensive income pursuant to this Statement and subsequently recognized as components of net periodic benefit cost based on the recognition and amortization provisions of Statements 87 and 106. The Board concluded that the amounts initially recognized in other comprehensive income for the period and those that are adjusted as they are subsequently recognized as components of net periodic benefit cost should be disclosed separately for each source of changes in plan assets and benefit obligations. That disclosure provides information about the nature of the items affecting the employer’s financial statements.

B44. The Board also decided to require in the footnote disclosures about postretirement benefits disclosure of the accumulated amounts recognized in other comprehensive income. Those accumulated balances represent past changes in the funded status that will be recognized as components of net periodic benefit cost in future periods. The Board recognizes that that disclosure is duplicative, given paragraphs 17 and 24–26 of FASB Statement No. 130, *Reporting Comprehensive Income*. However, that duplication makes



the footnotes describing postretirement benefits complete. It will not be necessary to analyze multiple parts of the financial statements and footnotes to find all relevant information about the accounting for postretirement benefits. Furthermore, Statement 130 allows alternative disclosure formats. Requiring certain disclosures in the footnotes describing postretirement benefits will result in more consistent disclosure of the information by all entities.

#### *Measurement Date*

B45. This Statement's requirement to use only the reporting date as the measurement date eliminates the need for disclosure of the measurement date. Therefore, the current requirements in paragraphs 5(k) and 8(j) of Statement 132(R) to disclose the measurement date are eliminated, effective when the requirement to measure plan assets and benefit obligations as of the date of the employer's statement of financial position is effective.

#### *Estimated Amount of Amortization for the Next Fiscal Year*

B46. The Board discussed constituents' requests for additional disclosures about the effect of Statements 87's and 106's delayed recognition provisions on net periodic benefit cost for future periods. The Board considered three alternatives:

- a. Require separate disclosure of the amounts of items subject to amortization (that is, actuarial gains and losses beyond the corridor established by paragraphs 32 and 33 of Statement 87 and paragraphs 59 and 60 of Statement 106, respectively, and prior service costs and credits) and the average period over which each item is amortized
- b. Require disclosure of the estimated portion of the net actuarial gain or loss and the prior service cost or credit in accumulated other comprehensive income that will be recognized as a component of net periodic benefit cost over the fiscal year that follows the most recent statement of financial position presented
- c. Permit an entity to choose either Alternative A or Alternative B and require that disclosure only if the amount was expected to differ significantly from the current period.

B47. The Board evaluated those alternatives in light of its decision to make only those changes in disclosure requirements that are directly related to the changes to recognition made by this Statement. The Board chose Alternative B because that alternative is straightforward and easily understood in that it provides a forecast (and not merely the information that could be used to form a forecast) and because the data to prepare that forecast should be readily available to the reporting entity. The Board noted that Alternative A might be of limited usefulness, and potentially misleading, if the reclassification pattern is other than straight line. The Board concluded that it could reach a decision on this disclosure without expanding the limited scope of this project and without expending significant Board and staff resources. The Board also noted that the disclosure is analogous to that required by Statement 130 for certain other items of other comprehensive income.

### **Footnote Disclosures Considered but Not Required**

B48. The Board considered, but decided not to require, the following disclosures. Each proposed disclosure was rejected for reasons noted below as well as one or more of the following reasons: the disclosed information would have limited usefulness, the disclosure had been considered and rejected by the Board during previous projects, such as Statement 132(R), or the disclosure was outside the scope of the first phase of the comprehensive project.

#### ***Market-Related Value***

B49. The market-related value of plan assets is the amount of plan assets used to determine the expected long-term return on plan assets. The market-related value also is one of the elements that establish the minimum amortization threshold (that is, 10 percent of the greater of the market-related value of plan assets or the benefit obligation) for actuarial gains and losses not yet recognized as a component of net periodic benefit cost. The Board considered, but decided not to require, disclosure of the market-related value of plan assets and the method used to determine it. Certain users of financial statements asked the Board to consider that disclosure because it would help them forecast the expected return on plan assets and amortization of net actuarial gains and losses in future periods because those gains and losses exceeded the 10 percent threshold. The Board observed that the new disclosure discussed in paragraphs B46 and B47 would be responsive, in part, to the request. In addition, the Board observed that disclosure of the market-related value of plan assets might not add sufficient benefits to justify the additional costs of compliance. An aggregate market-related value would not necessarily be useful for an employer with multiple plans. To make the information more useful, reporting entities with several plans with different characteristics would need to provide disaggregated information about market-related values. The Board concluded that requiring that level of disclosure was beyond the limited scope of this Statement.

#### ***Sensitivity of the Postretirement Benefit Obligation to Changes in Interest Rates***

B50. The Board acknowledged that the requirements of this Statement may increase both the amounts and volatility of certain balance sheet items. However, the Board reasoned that sensitivity analysis focusing only on the postretirement benefit obligation could be misleading because some changes in plan obligations and assets have the same cause. For example, a change in interest rates would affect the amounts of both plan assets and plan obligations, particularly if the plan has a dedicated bond portfolio. In addition, the Board observed that disclosure of sensitivity information had been considered during the Statement 132(R) project in 2003 and would be better readdressed in the second phase of this project.

#### ***Alternative Amortization Method***

B51. The Board considered whether it should require disclosure of the method used to amortize actuarial gains and losses if that method differs from the minimum amortization required by Statements 87 and 106. The Board observed that paragraph 5(o) of Statement

132(R) requires disclosure of any alternative method used to amortize actuarial gains and losses or prior service costs and credits.

#### ***Expected Contributions to the Plan***

B52. The Board considered whether it should require disclosure of significant plan contributions that might be triggered by the Employee Retirement Income Security Act's or other funding requirements. The Board concluded that existing disclosures (that is, those required by FASB Statements and, for public companies, SEC regulations) should provide sufficient information about future contributions to the plans. In developing disclosures that focus solely on certain U.S. regulatory requirements that apply only in limited circumstances, the Board would have had to consider whether there are similar requirements elsewhere in the world applicable to plans of multinational companies. That effort was beyond the scope and not considered necessary to meet the objectives of this Statement.

#### **Not-for-Profit Organizations and Other Entities That Do Not Report Other Comprehensive Income**

B53. The Board employs a "differences approach" in setting accounting standards for not-for-profit organizations. Under that approach, the Board deviates from the standards applicable to for-profit entities only when substantive transactional or reporting considerations justify different accounting or reporting. In the deliberations that led to Statements 87 and 106, the Board concluded that the guidance developed for for-profit business entities should also apply to not-for-profit organizations. The Board similarly concluded that the changes to Statements 87 and 106 made by this Statement should apply equally to not-for-profit organizations. The Board concluded that reporting the funded statuses of postretirement benefit plans in the statement of financial position of a not-for-profit employer would make it easier for creditors, donors, and others to assess the not-for-profit organization's financial position and liquidity.

B54. The Board acknowledged that its decision to require recognition by a business entity of actuarial gains and losses and prior service costs and credits in other comprehensive income in the periods in which they arise cannot be applied by not-for-profit organizations and other entities that are not required to report other comprehensive income. Not-for-profit organizations that prepare financial statements under the provisions of FASB Statement No. 117, *Financial Statements of Not-for-Profit Organizations*, are explicitly excluded from the scope of Statement 130. The Board decided to provide guidance for applying this Statement for those entities by focusing on the reporting by not-for-profit organizations.

B55. Statement 117 neither requires nor prohibits a not-for-profit organization from reporting an intermediate measure of operations (or performance indicator) within the statement of activities (changes in net assets), nor does it prescribe the components of such a measure if it is presented. The Board noted, however, that other authoritative accounting pronouncements (in particular, the AICPA's SOP 02-02, *Accounting for Derivative Instruments and Hedging Activities by Not-for-Profit Health Care*

*Organizations, and Clarification of the Performance Indicator*, and its Audit and Accounting Guide, *Health Care Organizations*) require a not-for-profit health care provider to present a performance indicator that is the functional equivalent of income from continuing operations of a for-profit provider. The Board also noted that other not-for-profit organizations may elect to present a performance indicator that is the functional equivalent of income from continuing operations. The Board decided that those entities should apply the provisions of this Statement in the same manner as a for-profit entity, that is, by reporting actuarial gains and losses and prior service costs and credits outside of the performance indicator in the period in which they arise. Those entities would subsequently reclassify those amounts to net periodic benefit cost pursuant to the recognition and amortization provisions of Statements 87 and 106.

B56. The Board considered how this Statement would be applied by organizations that present an intermediate measure of operations that is not the functional equivalent of income from continuing operations or by organizations that elect not to present an intermediate measure of operations. Consistent with the provisions of Statement 117, the Board decided not to prescribe how actuarial gains and losses and prior service costs and credits should be reported by those organizations in the periods in which they arise. However, the Board decided to require that those actuarial gains and losses and prior service costs and credits be presented in separate line items on the statement of activities apart from functional expenses. The Board also decided to require that those amounts be reported by functional classification in the periods in which they are subsequently reclassified as components of net periodic benefit cost pursuant to the recognition and amortization provisions of Statements 87 and 106. The Board noted that the actuarial gains or losses and the prior service costs or credits could be significant and, thus, decided that the separate line item reporting requirement would make it easier for users to compare the financial statements of different organizations.

B57. Because there are no equivalents to retained earnings or accumulated other comprehensive income in the financial statements of a not-for-profit organization, the Board considered amending Statements 87 and 106 to require that not-for-profit organizations report actuarial gains and losses and prior service costs and credits in net periodic benefit cost (and, therefore, functional expenses) in the period in which they arise. The Board decided that given the objective and scope of the project that led to this Statement (see paragraphs B2–B19), it would be preferable to include reconsideration of the measurement of net periodic benefit cost for this one sector in its broad reconsideration of that issue. Thus, this Statement changes neither the way in which a not-for-profit organization measures its net periodic benefit cost nor the way in which it reports that cost by functional classification.

B58. The Board decided that for reasons similar to those described in paragraphs B53–B57, entities other than not-for-profit organizations that do not report other comprehensive income in accordance with the provisions of Statement 130 would apply the guidance that is applicable to not-for-profit organizations in an analogous manner that is appropriate for their method of reporting financial performance and financial position.

## **Guidance on Discount Rates**

B59. The Board decided to amend Statements 87 and 106 to incorporate guidance on the selection of appropriate discount rates that currently resides in other literature (such as in paragraph 186 of Statement 106's basis for conclusions). The Board considered whether codifying only that guidance without a complete consideration of other guidance on various aspects of Statements 87 and 106 was consistent with the Board's objectives for this Statement.

B60. The Board does not consider the codification to be a change to existing standards. However, it acknowledges that codification might result in changes to current practice as a result of information being moved from the footnotes to the basic financial statements and the increased internal controls and audit scrutiny that similar changes have fostered. Certain constituents advocated that the existing standards should provide all necessary guidance on the objective and method of selecting the discount rate assumptions and that codifying the guidance would improve consistency between Statements 87 and 106. They noted that the wording in paragraph 186 was specifically cited in a September 22, 1993 letter from the SEC to the Chairman of the Emerging Issues Task Force. In that letter, the SEC staff stated its belief “. . . that the guidance that is provided in paragraph 186 of Statement 106 for selecting discount rates to measure the postretirement benefit obligation also is appropriate guidance for measuring the pension benefit obligation.” Paragraph 186 of Statement 106 is incorporated into the *Current Text*, General Standards, and EITF Topic No. D-36, “Selection of Discount Rates Used for Measuring Defined Benefit Pension Obligations and Obligations of Postretirement Benefit Plans Other Than Pensions.” The Board believes its decision to incorporate the paragraph is consistent with the objectives of both this project and its broader codification project. The Board further decided to emphasize that the determination of the assumed discount rates is separate from the determination of the expected return on plan assets whenever the actual portfolio of plan assets differs from the hypothetical portfolio of high-quality fixed-income investments described in paragraph 44 of Statement 87, as amended, and paragraph 31 of Statement 106, as amended.

## **Effective Date and Transition**

### **Recognition of the Funded Status**

B61. The Board decided to require retrospective application of this Statement effective for fiscal years ending after December 15, 2006, for all changes except those that relate to the measurement date (see paragraphs B66–B70). The Board selected that effective date because the information needed to apply the Statement is already required for other purposes and the Board wants to implement improvements in financial reporting for postretirement benefits as soon as possible.

B62. Retrospective application is consistent with the accounting for a change in accounting principle in FASB Statement No. 154, *Accounting Changes and Error Corrections*. That method of transition improves interperiod comparability by recognizing

the funded statuses of postretirement benefit plans in the employer's statements of financial position presented on a comparative basis and, for a business entity, the changes in accumulated other comprehensive income for each prior year presented.

B63. Although all information should be available to recognize the overfunded or underfunded statuses of postretirement benefit plans, some reporting entities may find it impracticable to retrospectively assess the realizability of any incremental deferred tax assets recognized as a result of this Statement. For example, an entity may find it impracticable to determine, without the use of hindsight, what would have been its forecasts in earlier periods of future taxable income. The Board decided to permit an exception to full retrospective application based on impracticability only for an entity that is not able to assess the realizability of incremental deferred tax assets recognized for all prior years presented. If it is practicable to apply this Statement for more recent years presented, then this Statement should be applied retrospectively to the earliest year practicable.

B64. The Board considered whether it should specify only a single item, the assessment of the realizability of incremental deferred tax assets, that would justify an "impracticability" exception for this Statement, and whether that specification would establish a precedent. The Board concluded that there is, in fact, only one impediment to retrospective application. Therefore, there is no reason not to be specific. Also, the issues addressed by this Statement are sufficiently idiosyncratic that the Board believes no precedent has been set.

B65. The Board decided to require a nonpublic entity, including a not-for-profit organization, to apply the recognition provisions of this Statement as of the same effective date as a public entity. The Board does not consider the implementation issues for a nonpublic entity, including a not-for-profit organization, to be sufficiently different from those of a public entity as to justify a delayed effective date. The Board concluded that because the information necessary to recognize the funded statuses of defined benefit postretirement plans already is determined and included in note disclosures, a nonpublic entity, including a not-for-profit organization, would be able to apply the provisions of this Statement related to recognition for fiscal years ending after December 15, 2006. The Board also discussed the potential consequences of this Statement for contractual arrangements, other than debt covenants, that reference certain financial metrics, including book value, return on equity, and debt to equity. The calculations of those metrics are affected by many changes in accounting standards, including this Statement. The Board decided to gather additional information through the Notice for Recipients of the Exposure Draft for use in determining the time required to implement this Statement by nonpublic entities, including not-for-profit organizations, which have such contractual arrangements.

#### **Elimination of an Earlier Measurement Date**

B66. The Board considered whether eliminating the earlier measurement date alternative should be applied retrospectively because that application necessitates conducting an additional measurement of plan assets and benefit obligations for each individual plan as

of the financial reporting date for each prior year presented if the entity had been using an alternative measurement date. The Board acknowledges that retrospective application could be impracticable because of the need to determine the fair value of certain plan assets. For that reason, and to reduce the costs of implementation, the Board decided not to require or permit retrospective application for the provisions of this Statement related to changes in measurement date.

B67. The Board considered two alternative effective dates for a public entity for the change in measurement date. Under the first alternative, the change would be effective for fiscal years beginning after December 15, 2006. Upon adoption, an entity would adjust, net of applicable taxes, the opening balance of retained earnings for service cost, interest accretion, investment earnings, and amortization of actuarial gains and losses and prior service costs and credits that would have been recognized in net periodic benefit cost on a delayed basis. Curtailment and settlement gains or losses during that period would be recognized in earnings in that period (the last interim period for fiscal year 2006) and not as direct adjustments to retained earnings. The opening balance of accumulated other comprehensive income would be adjusted for other changes in plan assets and benefit obligations arising during that period.

B68. Under the second alternative, the change would be effective for fiscal years ending after December 15, 2007. Under this alternative, the year-end statement of financial position would reflect measurements as of that same date. However, net periodic benefit cost recognized during that fiscal year would be based on the earlier measurement date used in the prior fiscal year (for example, September 30, 2006). Events occurring during the period between the prior and new measurement dates would be accounted for in the same way as under the first alternative.

B69. Both alternatives produce the desired result of a change in measurement date for plan assets and benefit obligations for all entities as of the end of the first fiscal year beginning after December 15, 2006. However, the Board considered the first alternative to be preferable because it requires net periodic benefit cost for that fiscal year to be based on measurements as of the beginning of the year. Thus, results of operations for each interim period and the fiscal year will be more representationally faithful of the events occurring during those periods. The Board considered the costs that could be incurred to conduct the necessary measurements under both alternatives and concluded that the costs are likely to be similar.

B70. The Board decided to require a nonpublic entity, including a not-for-profit organization, to apply the provisions of this Statement related to measuring plan assets and benefit obligations as of the date of the employer's statement of financial position for fiscal years beginning after December 15, 2007, using the approach described in paragraph B67. The Board concluded that an additional year relative to the effective date for a public entity would enable certain organizations that have limited internal and external resources the time necessary to consider and implement the provisions of this Statement in a cost-effective manner, including coordinating with external service providers that are involved with the valuation of plan assets and measurement of benefit obligations. This may also free up external resources for public entities.

## **Amendments Considered but Not Made**

### **Separate Line Item Presentation**

B71. The Board considered whether to require that postretirement benefit-related assets and liabilities be presented as separate line items in the sponsoring employer's statement of financial position. That presentation would be consistent with this Statement's objective to increase the transparency of the funded statuses of the postretirement benefit plans in the employer's statement of financial position.

B72. The Board decided not to specify the display of postretirement benefit assets or liabilities at this time. The Board reasoned that the footnotes provide adequate disclosure about amounts recognized. In addition, SEC registrants are already subject to certain reporting requirements for significant assets and liabilities.

### **Interim-Period Remeasurement**

B73. Because the primary objective of the first phase of the comprehensive project is recognition of the funded statuses of the employer's postretirement benefit plans, the Board considered whether the status of each plan should be updated each interim reporting period and whether interim-period recognition could be based on a limited remeasurement approach. The Board decided not to require that plan assets and benefit obligations be remeasured for interim-period reporting because:

- a. There would be additional costs to implement that change.
- b. It would raise additional issues not addressed by Statements 87 or 106.
- c. It would represent a fundamental change in the measurement of net periodic benefit cost, and measurement issues are beyond the scope of and objectives for this Statement.

However, if measures of both the benefit obligation and plan assets are available as of a more current date or if a significant event occurs, such as a plan amendment, that would ordinarily call for remeasurement, the employer's statement of financial position would be adjusted to reflect the overfunded or underfunded statuses of the affected defined benefit postretirement plans according to the provisions of this Statement. The Board will deliberate the accounting issues related to interim periods during the second phase of the project.

### **Implementation Guidance**

B74. When they were issued, Statements 87, 88, and 106 represented fundamental changes in the accounting for defined benefit postretirement plans, changes in the depiction of those plans, and changes in their effects in the employer's financial statements. Examples were included in those Statements to illustrate the application of certain accounting and disclosure requirements.



B75. Many of those illustrations would require extensive, mostly formatting, changes to implement the provisions of this Statement. The Board concluded that the changes that would be necessary include eliminating reconciliations of the funded status to amounts recognized in the employer's statement of financial position; references to the additional minimum pension liability; references to unrecognized gains and losses and unrecognized prior service costs and credits to reflect that those items now would be recognized in accumulated other comprehensive income; and amortization of transition obligations or assets.

B76. The Board believes the original need for those illustrations, particularly those relating to the transition provisions of the Statements, are not essential to understanding or applying the provisions of this Statement. Accordingly, those illustrations have been superseded.

### **Benefit-Cost Considerations**

B77. The objective of financial reporting is to provide information that is useful to present and potential investors, creditors, donors, and other capital market participants in making rational investment, credit, and similar resource allocation decisions. However, the benefits of providing information for that purpose should justify the related costs. Investors, creditors, donors, and other users of financial information benefit from improvements in financial reporting, while the costs to implement a new standard are borne primarily by the reporting entity. The Board's assessment of the costs and benefits of issuing an accounting standard is unavoidably more qualitative than quantitative because there is no method to objectively measure the costs to implement an accounting standard or to quantify the value of improved information in financial statements.

### **Benefits**

B78. The benefits of this Statement are:

- a. Financial reporting of postretirement benefit obligations will be more complete. Under the prior accounting standards, significant obligations were not recognized in the statement of financial position. Important information about the nature and amount of an employer's obligations for postretirement benefits, including those for retiree healthcare plans (which are not usually funded), was relegated to the notes to financial statements.
- b. Financial statements will be easier to understand. Users of financial statements will be better able to assess an employer's financial position and its ability to carry out the obligations of its pension and other postretirement benefit plans.
- c. Recognition in the financial statements, either as net periodic benefit cost or other comprehensive income, of the events that affect the costs of providing postretirement benefits will be more timely, including changes in plan assets and benefit obligations that occur during a period because of differences between experience and assumptions, or that occur as a result of changes in one or more actuarial assumptions.

- d. The understandability of footnote disclosures will be enhanced by eliminating the reconciliations between the funded status and the amounts recognized in the statement of financial position.
- e. The comparability of financial statements between entities will be improved, and the representational faithfulness of statements of financial position enhanced, by requiring that plan assets and benefit obligations be measured as of the date of the sponsoring employer's statement of financial position, not up to three months earlier, as was previously permitted.

B79. This Statement requires the recognition of information about events that affect postretirement benefit obligations and plan assets that previously was included only in footnote disclosures. The Board believes that disclosure is not a substitute for recognition in financial reporting. The changes in accounting for postretirement benefits that are required by this Statement provide a benefit because of the increased credibility and representational faithfulness of financial reporting that results from requiring the recognition (and not merely the disclosure) of the funded statuses of an employer's postretirement benefit obligations. Furthermore, this Statement should reduce or eliminate the effort required by users to adjust financial statements by including on a pro forma basis unrecognized benefit obligations or plan assets in the employer's statement of financial position.

#### **Costs**

B80. Based on input from constituents, the Board believes that the incremental costs of implementing the principal provisions of this Statement will not be significant given that all of the information needed to recognize a plan's funded status (for example, actuarial gains and losses and prior service costs and credits) already is determined and previously was required to be included in annual footnote disclosures.

B81. In addition, the Board took certain steps to reduce the costs of implementation. For example, the Board reduced the costs of retrospective application by not permitting in prior periods the amount of net periodic benefit cost previously capitalized as inventory or other productive assets to be affected by the elimination of any remaining initial transition effects from applying Statements 87 and 106.

B82. This Statement requires the measurement of plan assets and benefit obligations as of the date of the employer's statement of financial position. A reporting entity that previously used an earlier measurement date (that is, up to three months earlier pursuant to the provisions of Statements 87 and 106) will incur cost to perform an additional measurement in the year the new requirement is implemented to align the measurement date with the date of the employer's statement of financial position. For example, to have beginning balances for the year that the change in measurement date provision is effective, a reporting entity with a calendar year-end that used September 30 as its measurement date will perform an additional measurement at December 31. Time and other resources will be needed to collect, process, and validate information used in that measurement.

B83. Incremental one-time costs associated with measuring plan assets as of the financial reporting date (that is, if plan assets and benefit obligations are not already being measured as of that date) may include the following:

- a. Costs to implement changes in systems and processes used to gather and roll forward demographic information and other data related to measurement assumptions
- b. Fees paid to external consultants involved in the measurement of benefit obligations or the valuation of plan assets
- c. Fees paid to external auditors to audit the results of a second measurement of plan assets, benefit obligations, and related effects on net periodic benefit cost.

B84. The Board acknowledges those incremental one-time costs. However, the Board believes the ongoing financial reporting benefits derived from measuring postretirement benefit assets and obligations included in the employer's statement of financial position as of the same date as all other assets and liabilities included in that statement will exceed those one-time costs. To reduce the costs of implementation for nonpublic entities, including not-for-profit organizations, the Board decided to delay the effective date for the measurement date provisions to fiscal years beginning after December 15, 2007.

#### **Potential Economic Consequences of Recognition of the Funded Status**

B85. Some constituents said that required recognition of the funded statuses of an employer's plans may have undesirable economic consequences. They suggested that such recognition is likely to cause some entities to reduce, eliminate, or otherwise revise their postretirement benefit plans. Some also contended that such recognition will raise the cost of capital for entities whose plans are significantly underfunded.

B86. The Board is aware that changes in behavior of lenders, employers, and others may occur as a result of this Statement. However, it is not the Board's intention to affect the likelihood of those changes. FASB Concepts Statement No. 2, *Qualitative Characteristics of Accounting Information*, explains neutrality. It states:

Neutrality means that either in formulating or implementing standards, the primary concern should be the relevance and reliability of the information that results, not the effect that the new rule may have on a particular interest.

To be neutral, accounting information must report economic activity as faithfully as possible, without coloring the image it communicates for the purpose of influencing behavior in *some particular direction*. [paragraphs 98 and 100]

B87. Neutrality does not imply that improved financial reporting should have no economic consequences. To the contrary, a change in accounting standards that results in financial statements that are more relevant and representationally faithful, and thus more useful for decision making, presumably will have economic consequences. For example, required recognition of a plan's funded status and the effects of events that affect that

plan's status based on the provisions of this Statement results in recognizing to a greater degree the difference between a defined benefit plan and a defined contribution plan.

B88. The Board believes it is the economic nature of postretirement benefit arrangements that determines decisions made by employers, lenders, investors, donors, and others. That economic nature is not affected by the financial accounting treatment of those arrangements. However, the decision usefulness of information about those arrangements is affected by the reporting standards that govern how those arrangements are depicted in the financial statements. The Board believes that this Statement will result in a more relevant, complete, representationally faithful, and comparable depiction of postretirement benefit plans in the financial statements of employers.

### **International Accounting Comparison**

B89. The U.S. and international accounting standards for employers' accounting for defined benefit postretirement plans are similar to delayed recognition of certain events in measuring net periodic benefit cost, net periodic benefit cost reporting, and offsetting of liabilities and assets. Under those standards, returns on invested assets are recognized based on an expected long-term rate of return, the individual elements of net periodic benefit cost are combined and reported as a single amount in the employer's financial statements, and the values of assets contributed and liabilities recognized are shown net in the employer's statement of financial position. The U.S. and international accounting standards differ in some areas, including the following:

- a. Statements 87 and 106 require, at a minimum, that actuarial gains and losses be amortized as a component of net periodic benefit cost if the accumulated unrecognized amount exceeds 10 percent of the greater of the market-related value of plan assets or the benefit obligation. Under IAS 19, *Employee Benefits*, amortization is required using a similar formula except that in applying the threshold plan assets are measured at fair value, not at market-related value.
- b. IAS 19 requires prior service costs to be recognized as a component of net periodic benefit cost over the vesting period. If the benefits vest immediately, the cost is recognized immediately. Statements 87 and 106 allow the cost (for vested and nonvested benefits) generally to be recognized over the active plan participants' future service periods.
- c. IAS 19 requires plan assets to be measured at fair value for purposes of determining the expected return on plan assets; Statements 87 and 106 allow the use of fair values that are averaged over a period of up to five years (that is, market-related values).

B90. This Statement was issued as a result of a limited-scope phase of a comprehensive project conducted by the FASB. The Board expects to conduct the second phase of the project cooperatively with the IASB. The objective of that phase is to develop a single, converged, and high-quality accounting standard that will cover all aspects of employers' accounting for defined benefit postretirement plans.

B91. The limited amendments adopted by this Statement that relate to recognition of the funded statuses of postretirement benefit plans differ from the provisions of IAS 19. This Statement requires that actuarial gains and losses and prior service costs and credits not recognized by a business entity as part of net periodic benefit cost be recognized as increases or decreases in the employer's assets or liabilities and as corresponding adjustments to other comprehensive income. IAS 19 does not require recognition of all actuarial gains and losses. However, it permits an entity to adopt a policy of recognizing all actuarial gains and losses in the period in which they occur—but outside profit or loss—in a statement of changes in equity titled statement of recognized income and expense” (IAS 19, paragraph 93B).

B92. This Statement's requirement to measure plan assets and benefit obligations as of the date of the employer's statement of financial position is similar to IAS 19, which requires that measurements of plan assets and benefit obligations be determined with sufficient regularity that the amounts recognized in the financial statements do not differ materially from those that would be determined at the date of the statement of financial position.

## Appendix C

### AMENDMENTS TO STATEMENTS 87 AND 88

C1. This appendix contains the amendments to FASB Statements No. 87, *Employers' Accounting for Pensions*, and No. 88, *Employers' Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits*, as a result of this Statement. The following principal topics are addressed:

- a. Amendments related to the recognition of the funded status of a defined benefit pension plan, that is, recognition of actuarial gains and losses, prior service costs and credits, and transition assets and obligations associated with the initial adoption of Statement 87 that were previously unrecognized as of the date this Statement is initially applied. Recognition of those items results in the recognition in the employer's statement of financial position of the funded statuses of defined benefit postretirement plans required by this Statement.
- b. Amendments to codify into Statement 87 the guidance from the basis for conclusions of Statement 106 that describes the objective of selecting assumed discount rates from a portfolio of high-quality debt instruments.
- c. Amendments related to measuring plan assets and benefit obligations as of the date of the employer's statement of financial position, eliminating the alternative of selecting a measurement date not more than three months prior to the date of the employer's statement of financial position.
- d. Other amendments to conform the terms in the glossary of Statement 87 to this Statement.
- e. Amendments needed to provide additional guidance for applying the amendments noted in (a) above to not-for-profit organizations and other entities that do not report other comprehensive income in accordance with the provisions of FASB Statement No. 130, *Reporting Comprehensive Income*.

C2. Statement 87 is amended as follows: [Added text is underlined and deleted text is ~~struck out~~.]

- a. Paragraph 16:

Net periodic pension cost has often been viewed as a single homogeneous amount, but in fact it is made up of several *components* that reflect different aspects of the employer's financial arrangements as well as the cost of benefits earned by employees. The cost of a benefit can be determined without regard to how the employer decides to finance the plan. The **service cost component** of net periodic pension cost is the **actuarial present value** of benefits attributed by the plan's benefit formula to services rendered by employees during the period. The service cost component is conceptually the same for an unfunded plan, a plan with minimal funding, and a well-funded plan. The other components of net periodic pension cost are **interest cost**<sup>4</sup> (interest on the **projected benefit obligation**, which is a discounted

amount), **actual return on plan assets, amortization** of any remaining ~~unrecognized~~ prior service cost or credit included in accumulated other comprehensive income, and **gain or loss**, which includes, to the extent recognized, amortization of the net gain or loss included in accumulated other comprehensive income. Both the return on plan assets and interest cost components are in substance financial items rather than employee compensation costs.

- b. Paragraphs 19A and 19B are added as follows:

19A. An employer that sponsors one or more defined benefit pension plans shall recognize in its statement of financial position the funded statuses of those plans. The status for each plan shall be measured as the difference between the fair value of plan assets and the projected benefit obligation as it is defined in this Statement.

19B. The statuses of all overfunded plans shall be aggregated and recognized as an asset in the employer's statement of financial position. The statuses of all underfunded plans shall be aggregated and recognized as a liability in the employer's statement of financial position. The current and noncurrent portions of that asset or liability shall be separated in a classified statement of financial position, as required by existing standards.

- c. Paragraph 20:

The following components shall be included in the net pension cost recognized for a period by an employer **sponsoring** a defined benefit pension plan:

- a. Service cost
- b. Interest cost
- c. Actual return on plan assets, if any
- d. Amortization of ~~unrecognized~~any remaining prior service cost or credit previously recognized in accumulated other comprehensive income, if any
- e. Amortization of the net ~~Gain~~gain or loss (including the effects of changes in assumptions) included in accumulated other comprehensive income to the extent required by ~~recognized~~ (paragraph 34).
- f. ~~Amortization of the unrecognized net obligation (and loss or cost) or unrecognized net asset (and gain) existing at the date of initial application of this Statement (paragraph 77).~~

d. Paragraph 25:

~~The cost of retroactive benefits (including benefits that are granted to retirees) is the increase in the projected benefit obligation. A plan amendment that retroactively increases benefits (including benefits that are granted to retirees) shall be recognized by an increase in the projected benefit obligation and a corresponding charge to other comprehensive income at the date of the amendment. Except as specified in paragraphs 26 and 27, that prior service cost shall be amortized as a component of net periodic pension cost by assigning an equal amount to each future period of service of each employee active at the date of the amendment who is expected to receive benefits under the plan. If all or almost all of a plan's **participants** are inactive, the cost of retroactive plan amendments affecting benefits of inactive participants shall be amortized based on the remaining life expectancy of those participants instead of based on the remaining service period. Accumulated other comprehensive income is adjusted each period as a result of amortizing prior service cost.~~

e. Paragraph 26:

To reduce the complexity and detail of the computations required, consistent use of an alternative ~~amortization~~ approach that more rapidly ~~reduces~~ amortizes the ~~unrecognized~~ cost of retroactive amendments is acceptable. For example, a straight-line amortization of the cost over the average remaining service period of employees expected to receive benefits under the plan is acceptable. The alternative method used shall be disclosed.

f. Paragraph 28:

~~A plan amendment ~~can~~ that retroactively reduces, rather than increases, benefits shall be recognized by a decrease in the projected benefit obligation and a corresponding credit (prior service credit) to other comprehensive income that ~~Such a reduction~~ shall be used first to reduce any remaining existing ~~unrecognized~~ prior service cost included in accumulated other comprehensive income, and the ~~Any excess~~ remaining prior service credit, if any, shall be amortized as a component of net periodic pension cost on the same basis as the cost of a benefit increases.~~

g. Paragraph 29:

**Gains and losses** are changes in the amount of either the projected benefit obligation or plan assets resulting from experience different from that assumed and from changes in assumptions. This Statement does not distinguish between those sources of gains and losses. Gains and losses include amounts that have been realized, for example by sale of a security, as well as amounts that are unrealized. Because gains and losses may reflect refinements in estimates as well as real changes in economic values and



because some gains in one period may be offset by losses in another or vice versa, this Statement does not require recognition of gains and losses as components of net pension cost of the period in which they arise.<sup>5</sup> Gains and losses that are not recognized immediately as a component of net periodic pension cost shall be recognized as increases or decreases in other comprehensive income as they arise.

h. Paragraph 32 and its related footnote 6:

As a minimum, amortization of ~~an unrecognized~~ the net gain or loss included in accumulated other comprehensive income (excluding asset gains and losses not yet reflected in market-related value) shall be included as a component of net pension cost for a year if, as of the beginning of the year, that ~~unrecognized~~ net gain or loss exceeds 10 percent of the greater of the projected benefit obligation or the market-related value of plan assets. If amortization is required, the minimum amortization<sup>6</sup> shall be that excess divided by the average remaining service period of active employees expected to receive benefits under the plan. If all or almost all of a plan's participants are inactive, the average remaining life expectancy of the inactive participants shall be used instead of average remaining service.

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<sup>6</sup>The amortization must always reduce the beginning-of-the-year balance. Amortization of a ~~net unrecognized~~ gain results in a decrease in net periodic pension cost; amortization of a net unrecognized loss results in an increase in net periodic pension cost.

i. Paragraph 33:

Any systematic method of amortization of ~~unrecognized~~ gains or losses may be used in lieu of the minimum specified in the previous paragraph provided that (a) the minimum is used in any period in which the minimum amortization is greater (reduces the net balance included in accumulated other comprehensive income by more), (b) the method is applied consistently, (c) the method is applied similarly to both gains and losses, and (d) the method used is disclosed.

j. Paragraph 34:

The gain or loss component of net periodic pension cost shall consist of (a) the difference between the actual return on plan assets and the expected return on plan assets and (b) amortization of the ~~unrecognized~~ net gain or loss included in accumulated other comprehensive income from previous periods.

k. Paragraph 35:

A liability (~~unfunded accrued pension cost~~) is recognized if net periodic pension cost recognized pursuant to this Statement exceeds amounts the employer has contributed to the plan (unfunded accrued pension cost) and

the plan is underfunded. An asset (~~prepaid pension cost~~) is recognized if net periodic pension cost is less than amounts the employer has contributed to the plan (prepaid pension cost) and the plan is overfunded.

1. Paragraph 36:

If the ~~accumulated~~ projected benefit obligation exceeds the fair value of plan assets, the employer shall recognize in the year-end statement of financial position a liability (including unfunded accrued pension cost) that ~~is at least equals to~~ the **unfunded accumulated projected benefit obligation**. ~~Recognition of an additional minimum liability is required if an unfunded accumulated benefit obligation exists and (a) an asset has been recognized as prepaid pension cost, (b) the liability already recognized as unfunded accrued pension cost is less than the unfunded accumulated benefit obligation, or (c) no accrued or prepaid pension cost has been recognized.~~ If the fair value of plan assets exceeds the projected benefit obligation, the employer shall recognize in the year-end statement of financial position an asset that equals the overfunded projected benefit obligation. The criteria for current or noncurrent classification of portions or all of the asset or liability recognized are the same as for any other asset or liability presented in a classified statement of financial position. If it is assumed that the liability will not be funded in the next 12 months (or operating cycle, if longer), then it shall be classified as a noncurrent liability. If, however, it is expected that a part or all of the liability will be funded in the next 12 months (or operating cycle, if longer), the portion to be funded shall be classified as a current liability.

m. Paragraph 37, as amended:

~~If an additional minimum~~ The asset or liability that is recognized pursuant to paragraph 36 may result in a temporary difference, as defined in , an equal amount shall be recognized as an intangible asset, provided that the asset recognized shall not exceed the amount of unrecognized prior service cost.<sup>7</sup> ~~If an additional liability required to be recognized exceeds unrecognized prior service cost, the excess (which would represent a net loss not yet recognized as net periodic pension cost) shall be reported in other comprehensive income, net of any tax benefits that result from considering such losses as temporary differences for purposes of applying the provisions of FASB Statement No. 109, *Accounting for Income Taxes*. The deferred tax effects of any temporary differences shall be recognized in income tax expense or benefit for the year, and allocated to various financial statement components, including other comprehensive income, pursuant to paragraphs 35–39 of Statement 109.~~

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<sup>7</sup>For purposes of this paragraph, an unrecognized net obligation existing at the date of initial application of this Statement (paragraph 77) shall be treated as unrecognized prior service cost.

- n. Paragraph 38, as amended:

When a new determination of the funded status of a plan to be recognized as an asset or a liability in the employer's statement of financial position amount of additional liability is made, or when prior service costs or credits or actuarial gains or losses are amortized as components of net periodic pension cost, to prepare a statement of financial position, the related intangible asset and the balances for actuarial gains and losses, and prior service costs and credits accumulated in a separate component of equity shall be eliminated or adjusted as necessary and. Eliminations of or adjustments to that balance shall be reported in other comprehensive income.

- o. Paragraph 44A is added as follows:

Pursuant to paragraph 44, an employer shall look to rates of return on high-quality fixed-income investments in determining assumed discount rates. The objective of selecting assumed discount rates using that method is to measure the single amount that, if invested at the measurement date in a portfolio of high-quality debt instruments, would provide the necessary future cash flows to pay the pension benefits when due. Notionally, that single amount, the projected benefit obligation, would equal the current market value of a portfolio of high-quality zero coupon bonds whose maturity dates and amounts would be the same as the timing and amount of the expected future benefit payments. Because cash inflows would equal cash outflows in timing and amount, there would be no reinvestment risk in the yields to maturity of the portfolio. However, in other than a zero coupon portfolio, such as a portfolio of long-term debt instruments that pay semiannual interest payments or whose maturities do not extend far enough into the future to meet expected benefit payments, the assumed discount rates (the yield to maturity) need to incorporate expected reinvestment rates available in the future. Those rates shall be extrapolated from the existing yield curve at the measurement date. The determination of the assumed discount rate is separate from the determination of the expected rate of return on plan assets whenever the actual portfolio differs from the hypothetical portfolio above. Assumed discount rates shall be reevaluated at each measurement date. If the general level of interest rates rises or declines, the assumed discount rates shall change in a similar manner.

- p. Paragraph 49, as amended:

For purposes of ~~measuring the minimum liability required by~~ applying the provisions of paragraph 36 and for purposes of the disclosures required by paragraphs 5 and 8 of FASB Statement No. 132 (revised 2003), *Employers' Disclosures about Pensions and Other Postretirement Benefits*, plan investments, whether equity or debt securities, real estate, or other, shall be measured at their fair value as of the measurement date. The fair value of an investment is the amount that the plan could reasonably expect to receive for

it in a current sale between a willing buyer and a willing seller, that is, other than in a forced or liquidation sale. Fair value shall be measured by the market price if an active market exists for the investment. If no active market exists for an investment but such a market exists for similar investments, selling prices in that market may be helpful in estimating fair value. If a market price is not available, a forecast of expected cash flows<sup>11a</sup> may aid in estimating fair value, provided the expected cash flows are discounted at a current rate commensurate with the risk involved.<sup>12</sup>

q. Paragraph 52:

The measurements of plan assets and benefit obligations required by this Statement shall be as of the date of the employer's statement of financial position (measurement date), unless the employer consolidates a subsidiary's financial statements using a different fiscal period pursuant to ARB No. 51, Consolidated Financial Statements, in which case the employer shall measure that subsidiary's pension plan assets and benefit obligations as of the same date used to consolidate the subsidiary's statement of financial position statements or, if used consistently from year to year, as of a date not more than three months prior to that date. Requiring that the pension measurements be as of a particular date is not intended to require that all procedures be performed after that date. As with other financial statement items requiring estimates, much of the information can be prepared as of an earlier date and projected forward to account for subsequent events (for example, employee service). The ~~additional-asset or~~ minimum liability reported in interim financial statements shall be the ~~same additional-asset or~~ minimum liability (paragraph 36) recognized in the previous year-end statement of financial position, adjusted for subsequent accruals of net periodic pension cost and contributions to the plan, unless measures of both the obligation and plan assets are available as of a more current date or a significant event occurs, such as a plan amendment, that would ordinarily call for such measurements. In the latter situation, the employer's statement of financial position as of the remeasurement date shall be adjusted to reflect the overfunded or underfunded status of the defined benefit postretirement plan according to the provisions of this Statement.

r. Paragraph 55:

An employer that sponsors two or more separate defined benefit pension plans shall determine net periodic pension cost, liabilities, and assets by separately applying the provisions of this Statement to each plan. In particular, unless an employer clearly has a right to use the assets of one plan to pay benefits of another, a liability required to be recognized pursuant to paragraphs ~~35 or~~ and 36 for one plan shall not be reduced or eliminated because the employer has recognized an asset for another plan that has assets in excess of its accumulated projected benefit obligation, ~~or because the employer has prepaid pension cost related to another plan.~~

- s. Paragraph 74, as amended:

When an employer is acquired in a business combination and that employer sponsors a single-employer defined benefit pension plan, the assignment of the purchase price to individual assets acquired and liabilities assumed shall include a liability for the projected benefit obligation in excess of plan assets or an asset for plan assets in excess of the projected benefit obligation, thereby eliminating any previously existing ~~unrecognized~~ net gain or loss, or ~~unrecognized~~ prior service cost or credit recognized in accumulated other comprehensive income, ~~or unrecognized net obligation or net asset existing at the date of initial application of this Statement.~~ Subsequently, to the extent that those amounts are considered in determining the amounts of contributions, differences between the purchaser's net pension cost and amounts contributed will reduce the liability or asset recognized at the date of the combination. If it is expected that the plan will be terminated or curtailed, the effects of those actions shall be considered in measuring the projected benefit obligation.

- t. Paragraphs 74A–74D and the heading preceding them are added as follows:

**Not-for-Profit Organizations and Other Entities That Do Not Report Other Comprehensive Income**

74A. A not-for-profit employer that presents an intermediate measure of operations (or performance indicator) in its statement of activities that is the functional equivalent of income from continuing operations of a for-profit employer, shall recognize, in separate line items outside of such measure, the actuarial gains and losses and the prior service costs and credits that would be recognized in other comprehensive income pursuant to paragraphs 25, 28, and 29 of this Statement. Such amounts shall be subsequently reclassified as components of net periodic benefit cost pursuant to the recognition and amortization provisions of this Statement (paragraphs 24–34), and reported by their functional classification in accordance with paragraph 26 of FASB Statement No. 117, *Financial Statements of Not-for-Profit Organizations*. For example, not-for-profit health care providers are required to present an earnings measure in their statement of financial performance that is the functional equivalent of income from continuing operations of for-profit providers, pursuant to the AICPA Audit and Accounting Guide, *Health Care Organizations*. Other not-for-profit organizations may voluntarily choose to present such a measure in their statement of activities.

74B. A not-for-profit employer that does not present an intermediate measure of operations in its statement of activities that is the functional equivalent of income from continuing operations shall recognize in separate line items apart from functional expenses the actuarial gains and losses and the prior service costs and credits that would be recognized in other comprehensive income. Such amounts shall be subsequently reclassified as components of

net periodic benefit cost pursuant to the recognition and amortization provisions of this Statement and reported by their functional classification in accordance with paragraph 26 of Statement 117.

74C. In applying the provisions of this Statement to not-for-profit employers, the references to accumulated other comprehensive income in paragraphs 20(d), 20(e), 25, 28, 32–34, 74, and 264 shall instead be to the actuarial gains and losses and the prior service costs and credits that have recognized as changes in net assets arising from a defined benefit plan but not yet reclassified as components of net periodic benefit cost.

74D. Other employers that do not report other comprehensive income in accordance with the provisions of FASB Statement No. 130, *Reporting Comprehensive Income*, shall apply the provisions of paragraphs 75–77 in an analogous manner that is appropriate for their method of reporting financial performance and financial position.

- u. Paragraph 264 (Glossary):

**Amortization**

Usually refers to the process of reducing a recognized liability systematically by recognizing revenues or reducing a recognized asset systematically by recognizing expenses or costs. In pension accounting, amortization is also used to refer to the systematic recognition in net pension cost over several periods of amounts previously recognized in other comprehensive income~~unrecognized amounts, that is, including unrecognized~~ prior service costs or credits and ~~unrecognized net gains or losses.~~

**Gain or loss**

A change in the value of either the projected benefit obligation or the plan assets resulting from experience different from that assumed or from a change in an actuarial assumption. Gains and losses that are not recognized in net periodic pension cost when they arise are recognized in other comprehensive income. Those gains or losses are subsequently recognized as a component of net periodic benefit cost based on the amortization provisions of this Statement.~~See also Unrecognized net gain or loss.~~

**Gain or loss component (of net periodic pension cost)**

The sum of (a) the difference between the actual return on plan assets and the expected return on plan assets and (b) the amortization of the ~~unrecognized~~ net gain or loss recognized in accumulated other comprehensive income~~from previous periods~~. The gain or loss component is the net effect of delayed recognition in accumulated other comprehensive income in determining net periodic pension cost of gains and losses (the net change in the ~~unrecognized~~ net gain or loss) except that it does not include changes in the projected benefit obligation occurring

during the period and deferred for later recognition in net periodic pension cost.

**Measurement date**

~~The date as of which plan assets and obligations are measured.~~

**Net periodic pension cost**

The amount recognized in an employer's financial statements as the cost of a pension plan for a period. Components of net periodic pension cost are service cost, interest cost, actual return on plan assets, gain or loss, and amortization of unrecognized prior service cost or credit, ~~and amortization of the unrecognized net obligation or asset existing at the date of initial application of this Statement.~~ This Statement uses the term *net periodic pension cost* instead of *net pension expense* because part of the cost recognized in a period may be capitalized along with other costs as part of an asset such as inventory.

**Nonpublic enterprise entity**

~~An enterprise entity that does not meet the definition of a public entity, other than one (a) whose debt or equity securities are traded in a public market, either on a stock exchange or in the over the counter market (including securities quoted only locally or regionally), or (b) whose financial statements are filed with a regulatory agency in preparation for the sale of any class of securities.~~

**Prior service cost**

The cost of retroactive benefits granted in a plan amendment.—~~See also **Unrecognized prior service cost**.~~

**Unrecognized net gain or loss**

~~The cumulative net gain or loss that has not been recognized as a part of net periodic pension cost. See **Gain or loss**.~~

**Unrecognized prior service cost**

~~That portion of prior service cost that has not been recognized as a part of net periodic pension cost.~~

C3. Statement 87 represented fundamental changes in how defined benefit postretirement pension plans were measured and recognized in the employer's financial statements. Various illustrations were included in Statement 87 as examples of how certain aspects of the accounting requirements were to be applied.

C4. Many of the illustrations would have required extensive changes to implement the provisions of this Statement. The Board concluded that necessary changes included eliminating the following:

- a. Reconciliations of the funded status to amounts recognized in the employer's statement of financial position

- b. References to the additional minimum pension liability
- c. References to unrecognized gains and losses and unrecognized prior service costs and credits to reflect that those items would be recognized in accumulated other comprehensive income
- d. Amortization of transition obligations or assets.

Furthermore, the illustrations that depicted the transition provisions of Statement 87 no longer are relevant.

C5. The Board believes those illustrations are not essential to understanding or applying the provisions of this Statement and, therefore, they are superseded in this Statement. Additionally, the Board believes the need for examples of how to apply Statement 87 has diminished over the many years since Statement 87 was first issued.

C6. Statement 88 is amended as follows: [Added text is underlined and deleted text is ~~struck out.~~]

- a. Paragraph 9:

For purposes of this Statement, the maximum gain or loss subject to recognition in earnings when a pension obligation is settled is the ~~unrecognized~~ net gain or loss remaining in accumulated other comprehensive income defined in paragraph 29 of Statement 87,<sup>2</sup> ~~plus any remaining unrecognized net asset existing at the date of initial application of Statement 87 (as discussed in paragraph 21 of this Statement).~~ That maximum amount includes any gain or loss first measured at the time of settlement. The maximum amount shall be recognized in earnings if the entire projected benefit obligation is settled. If only part of the projected benefit obligation is settled, the employer shall recognize in earnings a pro rata portion of the maximum amount equal to the percentage reduction in the projected benefit obligation.

- b. Paragraph 12:

The ~~unrecognized~~ prior service cost remaining in accumulated other comprehensive income associated with years of service no longer expected to be rendered as the result of a curtailment is a loss. For example, if a curtailment eliminates half of the estimated remaining future years of service of those who were employed at the date of a prior plan amendment and were expected to receive benefits under the plan, then the loss associated with the curtailment is half of the remaining ~~unrecognized~~ prior service cost in accumulated other comprehensive income related to that amendment that has not been amortized as a component of net periodic benefit cost related to that plan amendment. ~~For purposes of applying the provisions of this paragraph, unrecognized prior service cost includes the cost of retroactive plan amendments (refer to paragraphs 24–25 of Statement 87), and any remaining~~



~~unrecognized net obligation existing at the date of initial application of Statement 87 (as discussed in paragraph 21 of this Statement).~~

c. Paragraph 13:

The projected benefit obligation may be decreased (a gain) or increased (a loss) by a curtailment.<sup>4</sup>

- a. To the extent that such a gain exceeds any ~~unrecognized~~ net loss remaining in accumulated other comprehensive income (or the entire gain, if an ~~unrecognized~~ net gain exists), it is a *curtailment gain*
- b. To the extent that such a loss exceeds any ~~unrecognized~~ net gain remaining in accumulated other comprehensive income (or the entire loss, if an ~~unrecognized~~ net loss exists), it is a *curtailment loss*.

~~For purposes of applying the provisions of this paragraph, any remaining unrecognized net asset existing at the date of initial application of Statement 87 (as discussed in paragraph 21 of this Statement) shall be treated as an unrecognized net gain and shall be combined with the unrecognized net gain or loss arising subsequent to transition to Statement 87.~~

d. Paragraphs 17A, 17B, and the heading preceding them are added as follows:

**Not-for-Profit Organizations and Other Entities That Do Not Report Other Comprehensive Income**

17A. For not-for-profit employers and other employers that do not report other comprehensive income in accordance with the provisions of FASB Statement No. 130, *Reporting Comprehensive Income*, the references to recognition in earnings in paragraphs 9, 10, and 14 of this Statement shall instead be to recognition or reclassification as components of net periodic benefit cost.

17B. For such employers, the references to accumulated other comprehensive income in paragraphs 9, 12, and 13 of this Statement shall instead be to the actuarial gains and losses and the prior service costs and credits that have been recognized as changes in net assets arising from a defined benefit plan but not yet reclassified as components of net periodic benefit cost.

C7. Statement 88 represented fundamental changes in how defined benefit postretirement plans were measured and recognized in the employer's financial statements when settled or curtailed, or when employers offered benefits to employees in connection with their termination of employment. Various illustrations were included in Statement 88 as examples of how certain aspects of the accounting requirements were to be applied.

C8. Many of the illustrations would have required extensive changes to implement the provisions of this Statement. The Board concluded that necessary changes included eliminating the following:

- a. Reconciliations of the funded status to amounts recognized in the employer's statement of financial position
- b. References to additional minimum pension liability
- c. References to unrecognized gains and losses and prior service costs and credits to reflect that those items would be recognized in accumulated other comprehensive income
- d. Amortization of Statement 87 or 106 transition obligations or assets.

Furthermore, the illustrations that depicted the transition provisions of Statement 88 no longer are relevant.

C9. The Board believes those illustrations are not essential to understanding or applying the provisions of this Statement and, therefore, they are superseded in this Statement. Additionally, the Board believes the need for examples of how to apply Statement 88 has diminished over the many years since Statement 88 was first issued.

## Appendix D

### AMENDMENTS TO STATEMENT 106

D1. This appendix contains the amendments to FASB Statement No. 106, *Employers' Accounting for Postretirement Benefits Other Than Pensions*, which occur as a result of this Statement. The following principal topics are addressed:

- a. Amendments related to the recognition of the funded status of a defined benefit postretirement plan, that is, recognition of actuarial gains and losses, prior service costs and credits, and transition assets and obligations associated with the initial adoption of Statement 106 that were previously unrecognized as of the date this Statement is initially applied. Recognition of those items results in the recognition in the employer's statement of financial position of the funded statuses of defined benefit postretirement plans required by this Statement.
- b. Amendments to codify into the standards section the guidance from the basis for conclusions of Statement 106 that describes the objective of selecting the assumed discount rates from a portfolio of high-quality debt instruments.
- c. Amendments related to measuring plan assets and benefit obligations as of the date of the employer's statement of financial position, which eliminates the alternative of selecting a measurement date not more than three months prior to the date of the employer's statement of financial position.
- d. Other amendments to conform the terms in the glossary of Statement 106 to this Statement.
- e. Amendments needed to provide additional guidance for applying the amendments noted in (a) above to not-for-profit organizations and other entities that do not report other comprehensive income in accordance with the provisions of FASB Statement No. 130, *Reporting Comprehensive Income*.

D2. Statement 106 is amended as follows: [Added text is underlined and deleted text is ~~struck out~~.]

- a. Paragraph 22:

Net periodic postretirement benefit cost comprises several components that reflect different aspects of the employer's financial arrangements. The **service cost** component of net periodic postretirement benefit cost is the actuarial present value of benefits attributed to services rendered by employees during the period (the portion of the expected postretirement benefit obligation attributed to service in the period). The service cost component is the same for an unfunded plan, a plan with minimal funding, and a well-funded plan. The other components of net periodic postretirement benefit cost are **interest cost**<sup>8</sup> (interest on the accumulated postretirement benefit obligation, which is a discounted amount), **actual return on plan assets, amortization of unrecognized any remaining prior service cost or credit included in accumulated other comprehensive income, ~~amortization of~~**

~~the transition obligation or transition asset~~, and the **gain or loss component**, which includes, to the extent recognized, amortization of the net gain or loss included in accumulated other comprehensive income.

b. Paragraph 31:

Assumed discount rates shall reflect the time value of money as of the ~~measurement date~~measurement date in determining the present value of future cash outflows currently expected to be required to satisfy the postretirement benefit obligation. In making that assumption, employers shall look to rates of return on high-quality fixed-income investments currently available whose cash flows match the timing and amount of expected benefit payments. If settlement of the obligation with third-party insurers is possible (for example, the purchase of nonparticipating life insurance contracts to provide death benefits), the interest rates inherent in the amount at which the postretirement benefit obligation could be settled are relevant in determining the assumed discount rates. Assumed discount rates are used in measurements of the expected and accumulated postretirement benefit obligations and the service cost and interest cost components of net periodic postretirement benefit cost.

c. Paragraph 31A is added as follows:

31A. Pursuant to paragraph 31, an employer shall look to rates of return on high-quality fixed-income investments in determining assumed discount rates. The objective of selecting assumed discount rates using that method is to measure the single amount that, if invested at the measurement date in a portfolio of high-quality debt instruments, would provide the necessary future cash flows to pay the postretirement benefits when due. Notionally, that single amount—the accumulated postretirement benefit obligation—would equal the current market value of a portfolio of high-quality zero coupon bonds whose maturity dates and amounts would be the same as the timing and amount of the expected future benefit payments. Because cash inflows would equal cash outflows in timing and amount, there would be no reinvestment risk in the yields to maturity of the portfolio. However, in other than a zero coupon portfolio, such as a portfolio of long-term debt instruments that pay semiannual interest payments or whose maturities do not extend far enough into the future to meet expected benefit payments, the assumed discount rates (the yield to maturity) need to incorporate expected reinvestment rates available in the future. Those rates shall be extrapolated from the existing yield curve at the measurement date. The determination of the assumed discount rate is separate from the determination of the expected rate of return on plan assets whenever the actual portfolio differs from the hypothetical portfolio described above. Assumed discount rates shall be reevaluated at each measurement date. If the general level of interest rates rises or declines, the assumed discount rates shall change in a similar manner.

- d. Paragraphs 44A and 44B are added as follows:

44A. An employer that sponsors one or more defined benefit postretirement plans other than pensions shall recognize in its statement of financial position the funded statuses of those plans. The status for each plan shall be measured as the difference between the fair value of plan assets and the accumulated postretirement benefit obligation as it is defined in this Statement.

44B. The statuses of all overfunded plans shall be aggregated and recognized as an asset in the employer's statement of financial position. The statuses of all underfunded plans shall be aggregated and recognized as a liability in the employer's statement of financial position. The current and noncurrent portions of that asset or liability shall be separated in a classified statement of financial position, as required by existing standards. The criteria for current or noncurrent classification of portions or all of the asset or liability recognized are the same as for any other asset or liability presented in a classified statement of financial position. If it is assumed that the liability will not be funded in the next 12 months (or operating cycle, if longer), then it shall be classified as a noncurrent liability. If, however, it is expected that a part or all of the liability will be funded in the next 12 months (or operating cycle, if longer), the portion to be funded shall be classified as a current liability.

- e. Paragraph 46 and its related footnote 18:

The following components shall be included in the net postretirement benefit cost recognized for a period by an employer sponsoring a defined benefit postretirement plan:

- a. Service cost (paragraph 47)
- b. Interest cost (paragraph 48)
- c. Actual return on plan assets, if any (paragraph 49)
- d. Amortization of ~~unrecognized~~any remaining prior service cost or credit previously recognized in accumulated other comprehensive income to the extent required by, ~~if any~~ (paragraphs 50–55)
- e. Amortization of the net **Gain** or loss (including the effects of changes in assumptions) included in accumulated other comprehensive income by to the extent recognized (paragraphs 56–62).
- f. ~~Amortization of the unrecognized obligation or asset existing at the date of initial application of this Statement, hereinafter referred to as the **unrecognized transition obligation**<sup>18</sup> or **unrecognized transition asset** (paragraphs 110 and 112).~~

<sup>18</sup>~~Amortization of the unrecognized transition obligation or asset will be adjusted prospectively to recognize the effects of (a) a negative plan amendment pursuant to paragraph 55, (b) a constraint on immediate recognition of a net gain or loss pursuant to paragraph 60, (c) settlement accounting pursuant to paragraphs 92 and 93, (d) plan curtailment accounting pursuant to paragraphs 97–99, and (e) a constraint on delayed recognition of the unrecognized transition obligation pursuant to paragraph 112.~~

f. Paragraph 52:

~~The cost of benefit improvements (including improved benefits that are granted to **fully eligible plan participants**) is the increase in the accumulated postretirement benefit obligation as a result of the plan amendment, measured at the date of the amendment. A plan amendment that retroactively increases benefits (including benefits that are granted to **fully eligible plan participants**) shall be recognized by an increase in the accumulated postretirement benefit obligation and a corresponding charge to other comprehensive income at the date of the amendment. Except as specified in the next sentence and in paragraphs 53 and 54, that prior service cost shall be amortized as a component of net periodic postretirement benefit cost by assigning an equal amount to each remaining year of service to the full eligibility date of each plan participant active at the date of the amendment who was not yet fully eligible for benefits at that date. If all or almost all of a plan's participants are fully eligible for benefits, the prior service cost shall be amortized based on the remaining life expectancy of those plan participants rather than on the remaining years of service to the full eligibility dates of the active plan participants. Accumulated other comprehensive income is adjusted as a result of amortizing prior service cost.~~

g. Paragraph 53:

To reduce the complexity and detail of the computations required, consistent use of an alternative ~~amortization~~ approach that more rapidly ~~reduces~~ amortizes the unrecognized prior service cost recognized in accumulated other comprehensive income is permitted. For example, a straight-line amortization of the cost over the average remaining years of service to full eligibility for benefits of the active plan participants is acceptable.

h. Paragraph 55:

A plan amendment ~~that retroactively~~ reduces, rather than increases, benefits shall be recognized by a decrease in the accumulated postretirement benefit obligation, and a corresponding credit (prior service credit) to other comprehensive income that ~~A reduction in that obligation shall be used first to reduce any remaining existing unrecognized prior service cost included in accumulated other comprehensive income, then to reduce any~~ Any remaining unrecognized transition obligation. The excess prior service credit, if any, shall be amortized as a component of net periodic postretirement benefit cost on the same basis as specified in paragraph 52 for prior service cost. Immediate recognition of the excess is not permitted.

i. Paragraph 56:

Gains and losses are changes in the amount of either the accumulated postretirement benefit obligation or plan assets resulting from experience different from that assumed or from changes in assumptions. This Statement generally does not distinguish between those sources of gains and losses. Gains and losses include amounts that have been realized, for example, by the sale of a security, as well as amounts that are unrealized. Because gains and losses may reflect refinements in estimates as well as real changes in economic values and because some gains in one period may be offset by losses in another or vice versa, this Statement does not require recognition of gains and losses as components of net postretirement benefit cost in the period in which they arise, except as described in paragraph 61. Gains and losses that are not recognized immediately as a component of net periodic postretirement benefit cost shall be recognized as credits or charges in other comprehensive income as they arise. (Gain and loss recognition in accounting for settlements and curtailments is addressed in paragraphs 90–99.)

j. Paragraph 59 and its related footnote 19:

As a minimum, amortization of ~~an unrecognized net~~ the net gain or loss included in accumulated other comprehensive income (excluding plan asset gains and losses not yet reflected in market-related value) shall be included as a component of net periodic postretirement benefit cost for a year if, as of the beginning of the year, that ~~unrecognized~~ net gain or loss exceeds 10 percent of the greater of the accumulated postretirement benefit obligation or the market-related value of plan assets. If amortization is required, the minimum amortization<sup>19</sup> shall be that excess divided by the average remaining service period of active plan participants. If all or almost all of a plan's participants are inactive, the average remaining life expectancy of the inactive participants shall be used instead of the average remaining service period.

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<sup>19</sup>The amortization must always reduce the beginning-of-year balance included in accumulated other comprehensive income. Amortization of ~~the an unrecognized~~ net gain included in accumulated other comprehensive income results in a decrease in net periodic postretirement benefit cost; amortization of ~~the an unrecognized~~ net loss included in accumulated other comprehensive income results in an increase in net periodic postretirement benefit cost.

k. Paragraph 60:

Any systematic method of amortization of ~~unrecognized~~ net gains and losses may be used in place of the minimum amortization specified in paragraph 59 provided that (a) the minimum amortization is recognized in any period in which it is greater (reduces the ~~unrecognized amount~~ net gain or loss balance included in accumulated other comprehensive income by more) than the amount that would be recognized under the method used, (b) the method is applied consistently, (c) the method is applied similarly to both gains and losses, and (d) the method used is disclosed. ~~If an enterprise may use a method of consistently recognizing gains and losses immediately, any gain that does not offset a loss previously recognized in income pursuant to this paragraph shall first offset any unrecognized transition obligation; any loss that does not offset a gain previously recognized in income pursuant to this paragraph shall first offset any unrecognized transition asset.~~

l. Paragraph 62:

The gain or loss component of net periodic postretirement benefit cost shall consist of (a) the difference between the actual return on plan assets and the expected return on plan assets, (b) ~~any gain or loss immediately recognized or the amortization of the unrecognized net gain or loss from previous periods~~ included in accumulated other comprehensive income, and (c) any amount immediately recognized as a gain or loss pursuant to paragraph 61.

m. Paragraph 72:

The measurements of *plan assets and benefit obligations* required by this Statement shall be as of the date of the employer's statement of financial position (measurement date), unless the employer consolidates a subsidiary's financial statements using a different fiscal period pursuant to ARB No. 51, Consolidated Financial Statements, in which case the employer shall measure that subsidiary's postretirement benefit plan assets and benefit obligations as of the same date used to consolidate the subsidiary's statement of financial position. ~~statements or, if used consistently from year to year, as of a date not more than three months prior to that date.~~ Even though the postretirement benefit measurements are required as of a particular date, all procedures are not required to be performed after that date. As with other financial statement items requiring estimates, much of the information can be prepared as of an earlier date and projected forward to account for subsequent events (for example, employee service).

n. Paragraph 73:

Measurements of *net periodic postretirement benefit cost* for both interim and annual financial statements generally shall be based on the assumptions at the beginning of the year (assumptions used for the previous year-end



measurements of plan assets and obligations) unless more recent measurements of both plan assets and the accumulated postretirement benefit obligation are available. For example, if a significant event occurs, such as a plan amendment, settlement, or curtailment, that ordinarily would call for remeasurement, the assumptions used for those later measurements shall be used to remeasure net periodic postretirement benefit cost from the date of the event to the year-end measurement date. In those situations, the employer's statement of financial position as of the remeasurement date shall be adjusted to reflect the overfunded or underfunded status of the defined benefit postretirement plan according to the provisions of this Statement.

o. Paragraph 88:

As a result of applying the provisions of paragraphs 86 and 87, any previously existing ~~unrecognized~~ net gain or loss, ~~or unrecognized~~ prior service cost or credit included in accumulated other comprehensive income, ~~or unrecognized transition obligation or transition asset~~ is eliminated for the acquired employer's plan. Subsequently, to the extent that the net obligation assumed or net assets acquired are considered in determining the amounts of contributions to the plan, differences between the purchaser's net periodic postretirement benefit cost and amounts it contributes will reduce the liability or asset recognized at the date of the combination.

p. Paragraph 92:

For purposes of this Statement, the maximum gain or loss subject to recognition in income when a postretirement benefit obligation is settled is the ~~unrecognized~~ net gain or loss included in accumulated other comprehensive income defined in paragraphs 56-60 ~~plus any remaining unrecognized transition asset~~. That maximum gain or loss includes any gain or loss resulting from remeasurements of plan assets and the accumulated postretirement benefit obligation at the time of settlement.

q. Paragraph 93 and its related footnotes 25 and 26:

If the entire accumulated postretirement benefit obligation is settled, ~~and the maximum gain or loss per paragraph 92~~ amount subject to recognition is a gain, the settlement gain shall first reduce any remaining ~~unrecognized transition obligation;~~<sup>25</sup> any excess gain shall be recognized in income.<sup>26</sup> ~~If the entire accumulated postretirement benefit obligation is settled and the maximum amount subject to recognition is a loss, the maximum settlement loss shall be recognized in income.~~ If only part of the accumulated postretirement benefit obligation is settled, the employer shall recognize in income ~~the excess of the~~ a pro rata portion (equal to the percentage reduction in the accumulated postretirement benefit obligation) of the maximum settlement gain or loss, ~~over any remaining unrecognized transition obligation or a pro rata portion of the maximum settlement loss.~~

<sup>25</sup>As discussed in paragraph 112, in measuring the gain or loss subject to recognition in income when a postretirement benefit obligation is settled, it shall first be determined whether recognition of an additional amount of any unrecognized transition obligation is required.

<sup>26</sup>Because the plan is the unit of accounting, the determination of the effects of a settlement considers only the unrecognized net gain or loss included in accumulated other comprehensive income and unrecognized transition obligation or asset related to the plan for which all or a portion of the accumulated postretirement benefit obligation is being settled.

r. Paragraph 97:

The unrecognized prior service cost or credit included in accumulated other comprehensive income associated with the portion of the future years of service that had been expected to be rendered, but as a result of a curtailment are no longer expected to be rendered, is a loss. For purposes of measuring the effect of a curtailment, unrecognized prior service cost includes only the cost of plan amendments and any remaining unrecognized transition obligation. For example, a curtailment may result from the termination of a significant number of employees who were plan participants at the date of a prior plan amendment.<sup>28</sup> The loss associated with that curtailment is measured as (a) the portion of the remaining unrecognized prior service cost included in accumulated other comprehensive income related to that (and any prior) plan amendment attributable to the previously expected remaining future years of service of the employees who were terminated and (b) the portion of the remaining unrecognized transition obligation attributable to the previously expected remaining future years of service of the terminated employees who were plan participants at the date of transition.

s. Paragraph 98:

The accumulated postretirement benefit obligation may be decreased (a gain) or increased (a loss) by a curtailment.<sup>29</sup> That (gain) loss shall reduce any unrecognized net loss (gain) included in accumulated other comprehensive income.

- a. To the extent that such a gain exceeds any unrecognized net loss included in accumulated other comprehensive income (or the entire gain, if an unrecognized net gain exists), it is a curtailment gain.
- b. To the extent that such a loss exceeds any unrecognized net gain included in accumulated other comprehensive income (or the entire loss, if an unrecognized net loss exists), it is a curtailment loss.

~~For purposes of applying the provisions of this paragraph, any remaining unrecognized transition asset shall be treated as an unrecognized net gain and shall be combined with the unrecognized net gain or loss arising subsequent to transition to this Statement.~~

- t. Paragraphs 103A–103E and the heading preceding them are added as follows:

**Not-for-Profit Organizations and Other Entities That Do Not Report Other Comprehensive Income**

103A. A not-for-profit employer that presents an intermediate measure of operations (or performance indicator) in its statement of activities that is the functional equivalent of income from continuing operations of a for-profit entity, shall recognize in separate line items outside of such measure the actuarial gains and losses and the prior service costs and credits that would be recognized in other comprehensive income pursuant to paragraphs 52, 55, and 56 of this Statement. Such amounts shall be subsequently reclassified as components of net periodic benefit cost pursuant to the recognition and amortization provisions of this Statement (paragraphs 50–62), and reported by their functional classification in accordance with paragraph 26 of FASB Statement No. 117, *Financial Statements of Not-for-Profit Organizations*. For example, not-for-profit health care providers are required to present an earnings measure in their statement of financial performance that is the functional equivalent of income from continuing operations of for-profit providers, pursuant to the AICPA Audit and Accounting Guide, *Health Care Organizations*. Other not-for-profit organizations may voluntarily choose to present such a measure in their statement of activities.

103B. A not-for-profit employer that does not present an intermediate measure of operations in its statement of activities that is the functional equivalent of income from continuing operations shall recognize in separate line items apart from functional expenses the actuarial gains and losses and the prior service costs and credits that would be recognized in other comprehensive income. Such amounts shall be subsequently reclassified as components of net periodic benefit cost pursuant to the recognition and amortization provisions of this Statement and reported by their functional classification in accordance with paragraph 26 of Statement 117.

103C. A not-for-profit employer that does not present an intermediate measure of operations in its statement of activities that is the functional equivalent of income from continuing operations shall recognize in separate line items apart from functional expenses the actuarial gains and losses and the prior service costs and credits that would be recognized in other comprehensive income. Such amounts shall be subsequently reclassified as components of net periodic benefit cost pursuant to the recognition and amortization provisions of this Statement and reported by their functional classification in accordance with paragraph 26 of Statement 117.

103D. In applying the provisions of this Statement to not-for-profit employers, the references to accumulated other comprehensive income in

paragraphs 22, 46(d), 46(e), 52, 53, 55, 59, 60, 62, 92, 93 (and its related footnote 26), 97, 98, and 518 shall instead be to the actuarial gains and losses and the prior service costs and credits that have been recognized as changes in net assets arising from a defined benefit plan but not yet reclassified as components of net periodic benefit cost.

103E. Other employers that do not report other comprehensive income in accordance with the provisions of FASB Statement No. 130, *Reporting Other Comprehensive Income*, shall apply the provisions of paragraphs 108–110 in an analogous manner that is appropriate for their method of reporting financial performance and financial position.

- u. Paragraph 518 (Glossary):

**Amortization**

Usually refers to the process of reducing a recognized liability systematically by recognizing revenues or of reducing a recognized asset systematically by recognizing expenses or costs. In accounting for postretirement benefits, amortization is also used to refer to the systematic recognition in net periodic postretirement benefit cost over several periods of amounts previously recognized in other comprehensive income~~unrecognized amounts, including unrecognized~~that is, prior service costs or credits,~~unrecognized net and gains or losses, and any unrecognized transition obligation or asset.~~

**Gain or loss**

A change in the value of either the accumulated postretirement benefit obligation or the plan assets resulting from experience different from that assumed or from a change in an actuarial assumption, or the consequence of a decision to temporarily deviate from the substantive plan. Net gains and losses that are not recognized in net periodic postretirement benefit cost when they arise are recognized in other comprehensive income. Those net gains or losses are subsequently recognized as a component of net periodic postretirement benefit cost based on the amortization provisions of this Statement.~~Also refer to **Unrecognized net gain or loss.**~~

**Gain or loss component (of net periodic postretirement benefit cost)**

The sum of (a) the difference between the actual return on plan assets and the expected return on plan assets, (b) any gain or loss immediately recognized or the amortization of the ~~unrecognized~~ net gain or loss recognized in accumulated other comprehensive income~~from previous periods~~, and (c) any amount immediately recognized as a gain or loss pursuant to a decision to temporarily deviate from the substantive plan. The gain or loss component is generally the net effect of delayed recognition in accumulated other comprehensive income in determining net

periodic postretirement benefit cost of gains and losses (the net change in the ~~unrecognized~~ net gain or loss) except that it does not include changes in the accumulated postretirement benefit obligation occurring during the period and deferred for later recognition in net periodic postretirement benefit cost.

**Measurement date**

~~The date of the financial statements or, if used consistently from year to year, a date not more than three months prior to that date, as of which plan assets and obligations are measured.~~

**Net periodic postretirement benefit cost**

The amount recognized in an employer's financial statements as the cost of a postretirement benefit plan for a period. Components of net periodic postretirement benefit cost include service cost, interest cost, actual return on plan assets, gain or loss, and amortization of ~~unrecognized~~ prior service cost or credit, ~~and amortization of the unrecognized transition obligation or asset.~~

**Nonpublic enterprise entity**

An enterprise entity that does not meet the definition of a public entity, other than one (a) whose debt or equity securities are traded in a public market, either on a stock exchange or in the over-the-counter market (including securities quoted only locally or regionally), or (b) whose financial statements are filed with a regulatory agency in preparation for the sale of any class of securities.

**Prior service cost**

The cost of benefit improvements attributable to plan participants' prior service pursuant to a plan amendment or a plan initiation that provides benefits in exchange for plan participants' prior service. ~~Also refer to **Unrecognized prior service cost**.~~

**Unrecognized net gain or loss**

~~The cumulative net gain or loss that has not been recognized as a part of net periodic postretirement benefit cost or as a part of the accounting for the effects of a settlement or a curtailment. Also refer to **Gain or loss**.~~

**Unrecognized prior service cost**

~~The portion of prior service cost that has not been recognized as a part of net periodic postretirement benefit cost, as a reduction of the effects of a negative plan amendment, or as a part of the accounting for the effects of a curtailment.~~

**Unrecognized transition asset**

~~The portion of the transition asset that has not been recognized either immediately as the effect of a change in accounting or on a delayed basis as a part of net periodic postretirement benefit cost, as an offset to certain losses, or as a part of accounting for the effects of a settlement or a curtailment.~~

**Unrecognized transition obligation**

~~The portion of the transition obligation that has not been recognized either immediately as the effect of a change in accounting or on a delayed basis as a part of net periodic postretirement benefit cost, as an offset to certain gains, or as a part of accounting for the effects of a settlement or a curtailment.~~

D3. Statement 106 represented fundamental changes in how defined benefit postretirement plans other than pensions were measured and recognized in the employer's financial statements. Appendix C of Statement 106 included various illustrations that described how certain aspects of the accounting requirements were to be applied.

D4. Many of the illustrations would have required extensive changes to implement the provisions of this Statement. The Board concluded that necessary changes included eliminating the following:

- a. Reconciliations of the funded status to amounts recognized in the employer's statement of financial position
- b. References to unrecognized gains and losses and unrecognized prior service costs and credits to reflect that those items should be recognized in accumulated other comprehensive income
- c. Amortization of transition obligations or assets.

Furthermore, the illustrations that depicted the transition provisions of Statement 106 no longer are relevant.

D5. The Board believes those illustrations are not essential to understanding or applying the provisions of this Statement and, therefore, they are superseded in this Statement. Additionally, the Board believes the need for examples of how to apply Statement 106 has diminished over the many years since Statement 106 was first issued.

## Appendix E

### AMENDMENTS TO STATEMENT 132(R)

E1. FASB Statement No. 132 (revised 2003), *Employers' Disclosures about Pensions and Other Postretirement Benefits*, is amended, as follows: [Added text is underlined and deleted text is ~~struck out~~.]

a. Paragraph 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 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 consensuses 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.

b. Paragraph 5(c):

The funded status of the plans, ~~the amounts not recognized in the statement of financial position~~, and the amounts recognized in the employer's statement of financial position, including showing separately the current or noncurrent assets or liabilities recognized.

- ~~(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.~~

c. Paragraph 5(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 component, the amount of prior service cost or credit component, recognized and the amount of gains or losses recognized due to a settlements or curtailments.~~

d. Paragraph 5(i):

~~The amount included within other comprehensive income for the period arising from a change in the additional minimum pension liability. Separately, the (1) net actuarial gain or loss, (2) net prior service cost or credit recognized in other comprehensive income for the period pursuant to paragraphs 3725 and 29 of Statement 87 and paragraphs 52 and 56 of Statement 106, as amended, and (3) adjustments recognized in other comprehensive income for the period as those amounts remaining in accumulated other comprehensive income are subsequently recognized as components of net periodic benefit cost.~~

e. Paragraph 5(ii) is added as follows:

Separately, the net actuarial gain or loss and the net prior service cost or credit that remains in accumulated other comprehensive income.

f. Paragraph 5(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.\*~~

g. Paragraph 5(s) is added as follows:

Separately, the estimated portion of the net gain or loss and the net prior service cost or credit, remaining in accumulated other comprehensive income that is expected to be recognized as a component of net periodic benefit cost over the fiscal year that follows the employer's most recent statement of financial position presented.



h. Paragraph 8(g):

~~The amounts recognized in the employer's statements of financial position, showing separately the current or noncurrent 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.~~

i. Paragraph 8(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. Separately, the (1) net actuarial gain or loss, (2) net prior service cost or credit recognized in other comprehensive income for the period pursuant to paragraphs 37, 25 and 29 of Statement 87 and paragraphs 52 and 56 of Statement 106, as amended, and (3) adjustments to other comprehensive income for the period as those amounts remaining in accumulated other comprehensive income are subsequently recognized as components of net periodic benefit cost.~~

j. Paragraph 8(hh) is added as follows:

Separately, the net actuarial gain or loss and the net prior service cost or credit that remains in accumulated other comprehensive income.

k. Paragraph 8(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.\*~~

l. Paragraph 9:

A ~~publicly traded~~**public** 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.\*

- m. Paragraphs 10A–10C and the heading preceding them are added as follows:

**Not-for-Profit Organizations and Other Entities That Do Not Report Other Comprehensive Income**

10A. For not-for-profit employers and other employers that do not report other comprehensive income in accordance with FASB Statement No. 130, *Reporting Comprehensive Income*, the references to net actuarial gains and losses and net prior service costs and credits recognized in other comprehensive income in parts (1) and (2) of paragraphs 5(i) and 8(h) of this Statement shall instead be to such amounts recognized as changes in net assets arising from a defined benefit plan but not yet included in net periodic benefit cost.

10B. For such employers, the references to adjustments to other comprehensive income in paragraphs 5(i)(3) and 8(h)(3) of this Statement shall instead be to reclassifications to net periodic benefit cost of amounts previously recognized as changes in net assets arising from a defined benefit plan but not included in net periodic benefit cost at that time.

10C. For such employers, the references to the actuarial gains and losses and the prior service costs and credits contained within accumulated other comprehensive income in paragraphs 5(i), 5(ii), 5(s), 8(h), and 8(hh) of this Statement shall instead be to such amounts that have been recognized as changes in net assets arising from a defined benefit plan but not yet reclassified as components of net periodic benefit cost.

- n. Paragraph 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.

- o. The heading preceding paragraph C2:

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

- p. Paragraph 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>
<b>Change in benefit obligation</b>				
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>
<b>Change in plan assets</b>				
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 contributions	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	<u>\$(230)</u>	<u>\$(178)</u>	<u>\$(1,010)</u>	<u>\$(536)</u>
Unrecognized net actuarial loss (gain)	94	48	(44)	(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, including not-for-profit organizations, 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 amounts recognized in the employer's statement of financial position.**

Amounts recognized in the statement of financial position consist of:

	<u>Pension Benefits</u>		<u>Other Benefits</u>	
	<u>20X3</u>	<u>20X2</u>	<u>20X3</u>	<u>20X2</u>
<u>Current assets</u> <del>Prepaid benefit cost</del>	\$ 2270	\$ 1270	\$ 0	\$ 0
<u>Noncurrent assets</u>	227	127	0	0
<u>Current liabilities</u> <del>Accrued benefit cost</del>	(236)	(180)	(1,113)	(606)
	(125)	(125)	(150)	(150)
<u>Noncurrent liabilities</u>	(332)	(180)	(860)	(386)
<u>Intangible assets</u>	50	53	0	0
<u>Accumulated other comprehensive income</u>	33	0	0	0
<u>Net amounts recognized</u>	<u>\$ (230)</u>	<u>\$ (178)</u>	<u>\$(1,010)</u>	<u>\$(536)</u>
	<u>\$ 74</u>	<u>0</u>	<u>\$(1,113)</u>	<u>\$(606)</u>

Amounts recognized in accumulated other comprehensive income consist of:

	<u>Pension Benefits</u>		<u>Other Benefits</u>	
	<u>20X3</u>	<u>20X2</u>	<u>20X3</u>	<u>20X2</u>
<u>Net actuarial loss (gain)</u>	\$ 94	\$ 18	\$(11)	\$(48)
<u>Prior service cost (credit)</u>	210	160	(92)	(22)
	<u>\$304</u>	<u>\$178</u>	<u>\$(103)</u>	<u>\$(70)</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**

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

**Components of Net Periodic Benefit Cost  
and Other Amounts Recognized in  
Other Comprehensive Income**

<b><u>Net Periodic Benefit Cost</u></b>	<b><u>Pension Benefits</u></b>		<b><u>Other Benefits</u></b>	
	<b><u>20X3</u></b>	<b><u>20X2</u></b>	<b><u>20X3</u></b>	<b><u>20X2</u></b>
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	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Net periodic benefit cost	<b><u>\$101</u></b>	<b><u>\$100</u></b>	<b><u>\$ 69</u></b>	<b><u>\$74</u></b>

**Other Changes in Plan Assets and Benefit  
Obligations Recognized in Other  
Comprehensive Income**

Net actuarial loss (gain)	<u>\$76</u>	<u>\$112</u>	<u>\$37</u>	<u>\$(48)</u>
Prior service cost (credit)	<u>70</u>	<u>0</u>	<u>(75)</u>	<u>(27)</u>
Amortization of prior service cost	<u>(20)</u>	<u>(16)</u>	<u>5</u>	<u>5</u>
<u>Total recognized in other comprehensive income</u>	<b><u>126</u></b>	<b><u>96</u></b>	<b><u>(33)</u></b>	<b><u>(70)</u></b>
 <u>Total recognized in net benefit cost and other comprehensive income</u>	<b><u>\$227</u></b>	<b><u>\$196</u></b>	<b><u>\$36</u></b>	<b><u>\$4</u></b>

The estimated net actuarial loss and prior service cost for the defined benefit pension plans that will be amortized from accumulated other comprehensive income into net periodic benefit cost over the next fiscal year are \$4 and \$20, respectively. The estimated prior service cost for the other defined benefit postretirement plans that will be amortized from accumulated other comprehensive income into net periodic benefit cost over the next fiscal year is \$5.

**Note: Nonpublic entities, and not-for-profit organizations, are not required to separately disclose components of net periodic benefit cost.**

**Additional Information**

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

*[Note: The remaining sections of Illustration 1 are omitted because they are unaffected by this Statement.]*

- q. Paragraph C4 and the heading preceding it:

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

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

- r. Paragraph E1 (Glossary):

**Nonpublic entity**

~~Any entity that does not meet the definition of a public 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).~~

**Public Entity**

A public entity is an entity that (a) has issued debt or equity securities that are traded in a public market (a domestic or foreign stock exchange or an over-the-counter market, including local or regional markets), (b) is required to file financial statements with the Securities and Exchange Commission (or that provides financial statements to issue any class of securities in a public market), or (c) is controlled by an entity covered by (a) or (b).

## Appendix F

### AMENDMENTS TO OTHER EXISTING PRONOUNCEMENTS

F1. This appendix includes substantive amendments to existing pronouncements other than those contained in Appendixes C–E of this Statement that have been altered as a direct result of the guidance contained in this Statement. [Added text is underlined and deleted text is ~~struck out~~.]

F2. APB Opinion No. 28, *Interim Financial Reporting*, is amended, as follows:

a. Paragraph 30(k), as amended:

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.

F3. FASB Statement No. 130, *Reporting Comprehensive Income*, is amended, as follows:

a. Paragraph 17:

Items included in other comprehensive income shall be classified based on their nature. For example, under existing accounting standards, other comprehensive income shall be classified separately into (a) foreign currency items, (b) net actuarial gains or losses associated with pension or other postretirement benefits, (c) net prior service costs or credits associated with pension or other postretirement benefits, ~~minimum pension liability adjustments,~~ and (d) unrealized gains and losses on certain investments in



debt and equity securities. Additional classifications or additional items within current classifications may result from future accounting standards.

b. Paragraph 19:

An enterprise shall determine reclassification adjustments for each classification of other comprehensive income, ~~except minimum pension liability adjustments~~. The requirement for a reclassification adjustment for Statement 52 foreign currency translation adjustments is limited to translation gains and losses realized upon sale or upon complete or substantially complete liquidation of an investment in a foreign entity.

c. Paragraph 20:

An enterprise may display reclassification adjustments on the face of the financial statement in which comprehensive income is reported, or it may disclose reclassification adjustments in the notes to the financial statements. Therefore, for all classifications of other comprehensive income ~~other than minimum pension liability adjustments~~, an enterprise may use either (a) a gross display on the face of the financial statement or (b) a net display on the face of the financial statement and disclose the gross change in the notes to the financial statements.<sup>6</sup> Gross and net displays are illustrated in Appendix B. An example of the calculation of reclassification adjustments for Statement 115 available-for-sale securities is included in Appendix C.

d. Paragraph 21:

~~An enterprise shall not determine a reclassification adjustment for minimum pension liability adjustments. Therefore, an enterprise shall use a net display for that classification.~~

e. Paragraph 130:

Brackets are used to highlight certain basic totals that must be displayed in financial statements to comply with the provisions of this Statement. This Statement requires not only displaying those certain basic totals but also reporting components of those aggregates. For example, it requires reporting information about unrealized gains and losses on available-for-sale securities, foreign currency items, prior service costs or credits associated with pension or other postretirement benefits, and actuarial gains or losses and minimum pension liability adjustments.

f. Paragraph 131, as amended:

The illustrations use the term *comprehensive income* to label the total of all components of comprehensive income, including net income. The illustrations use the term *other comprehensive income* to label revenues, expenses, gains, and losses that are included in comprehensive income but

excluded from net income. This Statement does not require that an enterprise use those terms in its financial statements. Other equivalent terms, such as *total nonowner changes in equity*, can be used as labels for what this Statement refers to as comprehensive income.

## Format A: One-Statement Approach

### Enterprise Statement of Income and Comprehensive Income Year Ended December 31, 19X9

Revenues		\$140,000
Expenses		(25,000)
Other gains and losses		8,000
Gain on sale of securities		2,000
Income from operations before tax		<u>125,000</u>
Income tax expense		(31,250)
Income before extraordinary item and cumulative effect of accounting change*		<u>93,750</u>
Extraordinary item, net of tax		(28,000)
Income before cumulative effect of accounting change*		<u>65,750</u>
Cumulative effect of accounting change,* net of tax		(2,500)
[Net income		<u>63,250]</u>
Other comprehensive income, net of tax:		
Foreign currency translation adjustments <sup>a</sup>		8,000
Unrealized gains on securities: <sup>b</sup>		
Unrealized holding gains arising during period	\$ 13,000	
Less: reclassification adjustment for gains included in net income	<u>(1,500)</u>	11,500
Defined benefit postretirement plans: <sup>c</sup>		
Prior service cost arising during period		
Minimum pension liability adjustment <sup>e</sup>	<u>(1,600)</u>	(2,500)
Net actuarial loss arising during period	<u>(1,000)</u>	
Less: amortization of prior service cost included in net income	<u>100</u>	(2,500)
Other comprehensive income		<u>17,000</u>
[Comprehensive income		<u>\$ 80,250]</u>

Alternatively, components of other comprehensive income could be displayed before tax with one amount shown for the aggregate income tax expense or benefit:

Other comprehensive income, before tax:		
Foreign currency translation adjustments <sup>a</sup>		\$ 10,666
Unrealized gains on securities: <sup>b</sup>		
Unrealized holding gains arising during period	\$ 17,333	
Less: reclassification adjustment for gains included in net income	<u>(2,000)</u>	15,333
Defined benefit postretirement plans: <sup>c</sup>		
Prior service cost arising during period		
Minimum pension liability adjustment <sup>e</sup>	<u>(2,133)</u>	(3,333)
Net actuarial loss arising during period	<u>(1,333)</u>	
Less: amortization of prior service cost included in net income	<u>133</u>	(3,333)
Other comprehensive income, before tax		<u>22,666</u>
[Income tax expense related to items of other comprehensive income		<u>(5,666)]</u>
Other comprehensive income, net of tax		<u>\$ 17,000</u>

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\*After the effective date of FASB Statement No. 154, *Accounting Changes and Error Corrections*, voluntary changes in accounting principle will no longer be reported via a cumulative-effect adjustment through the income statement of the period of change.

<sup>a</sup>It is assumed that there was no sale or liquidation of an investment in a foreign entity. Therefore, there is no reclassification adjustment for this period.

<sup>b</sup>This illustrates the gross display. Alternatively, a net display can be used, with disclosure of the gross amounts (current-period gain and reclassification adjustment) in the notes to the financial statements.

~~<sup>c</sup>This illustrates the required net display for this classification.~~

<sup>c</sup>This illustrates the gross display. Alternatively, a net display can be used, with disclosure of the gross amounts (prior service cost and net actuarial loss for defined benefit postretirement plans less amortization of prior service cost and/or net actuarial losses) in the notes to the financial statements.

## Format B: Two-Statement Approach

### Enterprise Statement of Income Year Ended December 31, 19X9

Revenues	\$140,000
Expenses	(25,000)
Other gains and losses	8,000
Gain on sale of securities	2,000
Income from operations before tax	<u>125,000</u>
Income tax expense	(31,250)
Income before extraordinary item and cumulative effect of accounting change*	<u>93,750</u>
Extraordinary item, net of tax	(28,000)
Income before cumulative effect of accounting change*	<u>65,750</u>
Cumulative effect of accounting change,* net of tax	(2,500)
[Net income]	<u><u>\$ 63,250</u></u>

### Enterprise Statement of Comprehensive Income Year Ended December 31, 19X9

[Net income]		<u>\$ 63,250</u>
Other comprehensive income, net of tax:		
Foreign currency translation adjustments <sup>a</sup>		8,000
Unrealized gains on securities: <sup>b</sup>		
Unrealized holding gains arising during period	\$ 13,000	
Less: reclassification adjustment for gains included in net income	<u>(1,500)</u>	11,500
<u>Defined benefit postretirement plans:</u> <sup>c</sup>		
<u>Prior service cost arising during period</u>		
<u>Minimum pension liability adjustment<sup>e</sup></u>	<u>(1,600)</u>	<u>(2,500)</u>
<u>Net actuarial loss arising during period</u>	<u>(1,000)</u>	
Less: amortization of prior service cost included in net income	<u>100</u>	<u>(2,500)</u>
Other comprehensive income		<u>17,000</u>
[Comprehensive income]		<u><u>\$ 80,250</u></u>

Alternatively, components of other comprehensive income could be displayed before tax with one amount shown for the aggregate income tax expense or benefit as illustrated in Format A.

\*After the effective date of Statement 154, voluntary changes in accounting principle will no longer be reported via a cumulative-effect adjustment through the income statement of the period of change.

<sup>a</sup>It is assumed that there was no sale or liquidation of an investment in a foreign entity. Therefore, there is no reclassification adjustment for this period.

<sup>b</sup>This illustrates the gross display. Alternatively, a net display can be used, with disclosure of the gross amounts (current-period gain and reclassification adjustment) in the notes to the financial statements.

~~<sup>c</sup>This illustrates the required net display for this classification.~~

<sup>c</sup> This illustrates the gross display. Alternatively, a net display can be used, with disclosure of the gross amounts (prior service cost and net actuarial loss for defined benefit postretirement plans less amortization of prior service cost and/or net actuarial losses) in the notes to the financial statements.

**Format C: Statement-of-Changes-in-Equity Approach (Alternative 1)**

**Enterprise  
Statement of Changes in Equity  
Year Ended December 31, 19X9**

	<u>Total</u>	<u>Comprehensive Income<sup>a</sup></u>	<u>Retained Earnings</u>	<u>Accumulated Other Comprehensive Income</u>	<u>Common Stock</u>	<u>Paid-in Capital</u>
Beginning balance	\$ <del>563,500</del> 561,500		\$ 88,500	<del>25,000</del> 23,000	\$150,000	\$300,000
Comprehensive income						
Net income	63,250	[ \$ 63,250 ]	63,250			
Other comprehensive income, net of tax						
Unrealized gains on securities, net of reclassification adjustment (see disclosure)	11,500	11,500				
Foreign currency translation adjustments	8,000	8,000				
<u>Net prior service cost (see disclosure)</u>	<u>(1,500)</u>	<u>(1,500)</u>				
<u>Net actuarial loss</u>	<u>(1,000)</u>	<u>(1,000)</u>				
<u>Minimum pension liability adjustment</u>	<u>(2,500)</u>	<u>(2,500)</u>				
Other comprehensive income		17,000		17,000		
Comprehensive income		[ \$ 80,250 ]				
Common stock issued	150,000				50,000	100,000
Dividends declared on common stock	(10,000)		(10,000)			
Ending balance	<u>\$783,750</u> <u>781,750</u>		<u>\$141,750</u>	<u>\$42,000</u> 40,000	<u>\$200,000</u>	<u>\$400,000</u>

**Disclosure of reclassification amount:<sup>b</sup>**

Unrealized holding gains arising during period	\$ 13,000
Less: reclassification adjustment for gains included in net income	<u>(1,500)</u>
Net unrealized gains on securities	<u>\$ 11,500</u>
<u>Prior service cost arising during period</u>	<u>\$ (1,600)</u>
Less: amortization of prior service cost included in net income	<u>100</u>
<u>Net prior service cost arising during period</u>	<u>(1,500)</u>
<u>Net actuarial loss arising during period</u>	<u>(1,000)</u>
<u>Defined benefit postretirement plans, net</u>	<u>\$ (2,500)</u>

<sup>a</sup>Alternatively, an enterprise can omit the separate column labeled “Comprehensive Income” by displaying an aggregate amount for comprehensive income (\$80,250) in the “Total” column.

<sup>b</sup>It is assumed that there was no sale or liquidation of an investment in a foreign entity. Therefore, there is no reclassification adjustment for this period.

## Format D: Statement-of-Changes-in-Equity Approach (Alternative 2)

### Enterprise Statement of Changes in Equity Year Ended December 31, 19X9

Retained earnings		
Balance at January 1	\$ 88,500	
Net income	63,250	[\$ 63,250]
Dividends declared on common stock	<u>(10,000)</u>	
Balance at December 31	<u>141,750</u>	
Accumulated other comprehensive income <sup>a</sup>		
Balance at January 1	<u>25,000</u>	
	<u>23,000</u>	
Unrealized gains on securities, net of reclassification adjustment (see disclosure)		11,500
Foreign currency translation adjustments		8,000
<u>Net prior service cost (see disclosure)</u>		<u>(1,500)</u>
<u>Net actuarial loss</u>		<u>(1,000)</u>
<del>Minimum pension liability adjustment</del>		<del>(2,500)</del>
Other comprehensive income	<u>17,000</u>	<u>17,000</u>
Comprehensive income		<u>[\$ 80,250]</u>
Balance at December 31	<u>42,000</u>	
	<u>40,000</u>	
Common stock		
Balance at January 1	150,000	
Shares issued	<u>50,000</u>	
Balance at December 31	<u>200,000</u>	
Paid-in capital		
Balance at January 1	300,000	
Common stock issued	<u>100,000</u>	
Balance at December 31	<u>400,000</u>	
Total equity	<u>\$783,750</u>	
	<u>781,750</u>	
 <b>Disclosure of reclassification amount:<sup>b</sup></b>		
Unrealized holding gains arising during period	\$ 13,000	
Less: reclassification adjustment for gains included in net income	<u>(1,500)</u>	
Net unrealized gains on securities	<u>\$ 11,500</u>	
 <u>Prior service cost during period</u>	 \$ (1,600)	
<u>Less: amortization of prior service cost included in net income</u>	 <u>100</u>	
<u>Net prior service cost arising during period</u>	<u>(1,500)</u>	
<u>Net actuarial loss arising during period</u>	<u>(1,000)</u>	
<u>Defined benefit postretirement plans, net</u>	<u>\$ (2,500)</u>	

<sup>a</sup>All items of other comprehensive income are displayed net of tax.

<sup>b</sup>It is assumed that there was no sale or liquidation of an investment in a foreign entity. Therefore, there is no reclassification adjustment for this period.

**All Formats: Required Disclosure of Related Tax Effects Allocated to Each Component of Other Comprehensive Income**

**Enterprise  
Notes to Financial Statements  
Year Ended December 31, 19X9**

	<b>Before-Tax Amount</b>	<b>Tax (Expense) or Benefit</b>	<b>Net-of- Tax Amount</b>
Foreign currency translation adjustments	\$ 10,666	\$ (2,666)	\$ 8,000
Unrealized gains on securities:			
Unrealized holding gains arising during period	17,333	(4,333)	13,000
Less: reclassification adjustment for gains realized in net income	<u>(2,000)</u>	<u>500</u>	<u>(1,500)</u>
Net unrealized gains	<u>15,333</u>	<u>(3,833)</u>	<u>11,500</u>
Defined benefit postretirement plans:			
<del>Minimum pension liability adjustment</del>	<del>(3,333)</del>	<del>833</del>	<del>(2,500)</del>
<del>Prior service cost arising during period</del>	<del>(2,133)</del>	<del>533</del>	<del>(1,600)</del>
<del>Less: amortization of prior service cost included in net income</del>	<del><u>133</u></del>	<del><u>(33)</u></del>	<del><u>100</u></del>
<del>Net prior service cost arising during period</del>	<del><u>(2,000)</u></del>	<del><u>500</u></del>	<del><u>(1,500)</u></del>
<del>Net actuarial loss arising during period</del>	<del><u>(1,333)</u></del>	<del><u>333</u></del>	<del><u>(1,000)</u></del>
<del>Defined benefit postretirement plans, net</del>	<del><u>(3,333)</u></del>	<del><u>833</u></del>	<del><u>(2,500)</u></del>
Other comprehensive income	<u>\$ 22,666</u>	<u>\$ (5,666)</u>	<u>\$ 17,000</u>

Alternatively, the tax amounts for each component can be displayed parenthetically on the face of the financial statement in which comprehensive income is reported.

**All Formats: Disclosure of Accumulated Other Comprehensive Income Balances**

**Enterprise  
Notes to Financial Statements  
Year Ended December 31, 19X9**

	<b>Foreign Currency Items</b>	<b>Unrealized Gains on Securities</b>	<b>Defined Benefit Postretirement Plans, Net</b>	<b>Minimum Pension Liability Adjustment</b>	<b>Accumulated Other Comprehensive Income</b>
					\$ 25,000
Beginning balance	\$ (500)	\$ 25,500	\$ (2,000)	\$ —	23,000
Current-period change	<u>8,000</u>	<u>11,500</u>	<u>(2,500)</u>	<u>(2,500)</u>	<u>17,000</u>
					\$42,000
Ending balance	<u>\$ 7,500</u>	<u>\$ 37,000</u>	<u>\$ (4,500)</u>	<u>\$ (2,500)</u>	<u>40,000</u>

Alternatively, the balances of each classification within accumulated other comprehensive income can be displayed in a statement of changes in equity or in a statement of financial position.



## All Formats: Accompanying Statement of Financial Position

### Enterprise Statement of Financial Position December 31, 19X9

Assets:	
Cash	\$ 150,000
Accounts receivable	175,000
Available-for-sale securities	112,000
Plant and equipment	985,000
Total assets	<u>\$1,422,000</u>
Liabilities:	
Accounts payable	\$ 112,500
Accrued liabilities	<del>79,250</del>
	78,583
Pension liability	<del>128,000</del>
	130,667
Notes payable	318,500
Total liabilities	<u>\$ 638,250</u>
Equity:	
Common stock	\$ 200,000
Paid-in capital	400,000
Retained earnings	141,750
[Accumulated other comprehensive income	<del>42,000</del>
	40,000]
Total equity	<u>783,750</u>
	781,750
Total liabilities and equity	<u>\$1,422,000</u>

## Appendix G

### IMPACT ON RELATED LITERATURE

G1. This appendix addresses the impact of this Statement on 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*.

G2. The following tables list Emerging Issues Task Force (EITF) Issues and Topics, FASB Staff Positions (FSPs) and Staff Q&As, guidance issued by the AICPA or its staff, and guidance issued by the SEC or its staff relating to postretirement benefit obligations, including pensions, and indicate (a) the status of that literature after issuance of this Statement and (b) the impact of this Statement on that literature (if any). (**Note:** The *EITF Abstracts* will be updated accordingly upon issuance of the final Statement.)

G3. Decisions about whether to amend AICPA guidance are made by the FASB in conjunction with the AICPA prior to issuing the final Statement. [**Note:** *The AICPA will make the changes until there is an FASB codification.*]

G4. Decisions about whether to amend SEC or SEC staff guidance are made by the SEC and its staff.

G5. The following guidance is either outside the scope of this Statement or unaffected by this Statement:

Literature	Title
EITF Issue 84-35	Business Combinations: Sale of Duplicate Facilities and Accrual of Liabilities
EITF Issue 86-27	Measurement of Excess Contributions to a Defined Contribution Plan or Employee Stock Ownership Plan
EITF Issue 88-1	Determination of Vested Benefit Obligation for a Defined Benefit Pension Plan
EITF Issue 88-5	Recognition of Insurance Death Benefits
EITF Issue 88-23	Lump-Sum Payments under Union Contracts
EITF Issue 90-3	Accounting for Employers' Obligations for Future Contributions to a Multiemployer Pension Plan
EITF Issue 91-7	Accounting for Pension Benefits Paid by Employers after Insurance Companies Fail to Provide Annuity Benefits
EITF Issue 92-13	Accounting for Estimated Payments in Connection with the Coal Industry Retiree Health Benefit Act of 1992

<b>Literature</b>	<b>Title</b>
EITF Issue 93-3	Plan Assets under FASB Statement No. 106
EITF Issue 93-4	Accounting for Regulatory Assets
EITF Issue 96-5	Recognition of Liabilities for Contractual Termination Benefits or Changing Benefit Plan Assumptions in Anticipation of a Business Combination
EITF Issue 97-14	Accounting for Deferred Compensation Arrangements Where Amounts Earned Are Held in a Rabbi Trust and Invested
EITF Issue 03-4	Determining the Classification and Benefit Attribution Method for a “Cash Balance” Pension Plan
EITF Issue 05-5	Accounting for Early Retirement or Postemployment Programs with Specific Features (Such As Terms Specified in Altersteilzeit Early Retirement Arrangements)
EITF Topic D-27	Accounting for the Transfer of Excess Pension Assets to a Retiree Health Care Benefits Account
FASB Staff Position (FSP) FAS146-1	Determining Whether a One-Time Termination Benefit Offered in Connection with an Exit or Disposal Activity Is, in Substance, an Enhancement to an Ongoing Benefit Arrangement

G6. The following guidance is affected by the issuance of this Statement:

<b>Status Legend</b>	
<b>Nullified</b>	Guidance is deemed unnecessary upon adoption of this Statement.
<b>Modified</b>	Guidance is partially nullified and replaced upon adoption of this Statement.

<b>Literature</b>	<b>Title</b>	<b>Status</b>	<b>Description</b>
<b>EITF Issues and Topics</b>			
Issue 92-12	Accounting for OPEB Costs by Rate-Regulated Enterprises	Modified	<p>Issue 92-12 clarifies what additional criteria or evidence, if any, is needed for a rate-regulated enterprise to satisfy the requirements of Statement 71 to recognize a regulatory asset for Statement 106 costs for which rate recovery has been deferred by the regulatory agency.</p> <p>This Statement eliminates the remaining unrecognized transition asset or obligation related to the initial adoption of Statement 106 by requiring its recognition as an adjustment to beginning retained earnings. Therefore, any reference to amortization of the transition obligation is eliminated.</p>
Issue 03-2	Accounting for the Transfer to the Japanese Government of the Substitutional Portion of Employee Pension Fund Liabilities	Modified	<p>Issue 03-2 clarifies how an employer should account for the separation of the government required portion (similar to social security) of the benefit obligation of a Japanese Employee Pension Fund from the employer's discretionary portion. It also clarifies how to account for the transfer of the government required portion and related assets to the Japanese government as authorized under the June 2001 amendment to the Japanese Welfare Pension Insurance Law. It states that subsequent to this separation, accounting should "continue to be in</p>

<b>Literature</b>	<b>Title</b>	<b>Status</b>	<b>Description</b>
			<p>accordance with Statements 87 and 88.”</p> <p>This Statement eliminates the remaining unrecognized transition asset or obligation related to the initial adoption of Statement 87 by requiring its recognition as an adjustment to beginning retained earnings and requires the recognition of prior service costs and actuarial gain/loss in other comprehensive income.</p>
Topic D-36	Selection of Discount Rates Used for Measuring Defined Benefit Pension Obligations and Obligations of Postretirement Benefit Plans Other Than Pensions	Modified	<p>Topic D-36 presents the SEC staff position on the selection of discount rates for Statements 87 and 106 including the guidance in paragraph 186 of Statement 106.</p> <p>This Statement incorporates paragraph 186 of Statement 106 into the standards section of both Statement 87 and Statement 106. Therefore, the duplicate guidance is eliminated.</p>
Topic D-106	Clarification of Q&A No. 37 of FASB Special Report, <i>A Guide to the Implementation of Statement 87 on Employers’ Accounting for Pensions</i>	Nullified	<p>Topic D-106 clarifies the guidance in Q&amp;A No. 37 on how to determine an additional minimum liability when the report date is December 31 and the measurement date is September 30.</p> <p>This Statement eliminates the provisions related to an additional minimum liability. Therefore, Topic D-106 is nullified.</p>
<b>FASB FSPs, Staff Q&amp;As, and Statement 133 Implementation Issues</b>			
FSP APB 18-1	Accounting by an Investor for Its Proportionate Share of Accumulated Other Comprehensive Income of an Investee Accounted for under	Modified	FSP APB 18-1 provides guidance on how an investor should account for its proportionate share of an investee’s equity adjustments for other comprehensive income upon a loss of significant influence. FSP APB 18-1 includes minimum

Literature	Title	Status	Description
	the Equity Method in Accordance with APB Opinion No. 18 upon a Loss of Significant Influence		<p>pension liability adjustments as an example of one of the investee's equity adjustments related to other comprehensive income.</p> <p>This Statement eliminates minimum pension liability adjustments and requires the recognition of prior service costs and actuarial gains/losses in other comprehensive income. The background and issue section in FSP APB 18-1 is amended by eliminating the reference to minimum pension liability adjustments and adding the recognition of prior service costs and actuarial gains/losses as some of the investee's equity adjustments related to other comprehensive income.</p>
FSP FAS 106-2	Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003	Modified	<p>FSP FAS 106-2 provides guidance on the accounting for the effects of the Medicare Prescription Drug, Improvement and Modernization Act of 2003 (the Act) for employers that sponsor postretirement health care plans that provide prescription drug benefits, including disclosure.</p> <p>This Statement eliminates the alternative to measure plan assets and obligations as of a date up to three months earlier than the fiscal year-end. Therefore, transition examples illustrating an alternate measurement date are eliminated.</p>
Q&A 87 Questions 4, 6, 7, 12, 14–16, 19–21, 29, 31–33, 80, 81, 86, and 88A	A Guide to Implementation of Statement 87 on Employers' Accounting for Pensions: Questions and Answers	Modified	<p>These questions and answers are affected by this Statement as follows:</p> <ul style="list-style-type: none"> <li>• Elimination of provisions related to the measurement date alternative</li> <li>• Elimination of provisions related to recognition of an additional</li> </ul>

Literature	Title	Status	Description
			<p>minimum liability</p> <ul style="list-style-type: none"> <li>• Recognition of the funded status of plans on the employer's statement of financial position by: <ul style="list-style-type: none"> <li>▪ Requiring the unrecognized transition asset or obligation related to the initial adoption of Statements 87 and/or 106 to be recognized as an adjustment to beginning retained earnings</li> <li>▪ Requiring unrecognized prior service costs or credits and actuarial gains or losses to be recognized in other comprehensive income, and changes in those amounts in subsequent periods.</li> </ul> </li> </ul>
Q&A 87 Questions 30, 34–37, and 39–42	A Guide to the Implementation of Statement 87 on Employers' Accounting for Pensions: Questions and Answers	Nullified	These questions and answers are nullified because this Statement eliminates the provisions related to recognition of an additional minimum liability.
Q&A 87 Questions 65, 66, 69, and 70	A Guide to the Implementation of Statement 87 on Employers' Accounting for Pensions: Questions and Answers	Nullified	These questions and answers are nullified because this Statement eliminates the provisions related to the measurement date alternative.
Q&A 87 Question 74	A Guide to the Implementation of Statement 87 on Employers' Accounting for Pensions: Questions and Answers	Nullified	This question and answer is nullified because this Statement eliminates the need for a reconciliation of the funded status of the pension plan with amounts reported in the employer's statement of financial position.
Q&A 88 Questions 4, 9, 16, 34, 39, 40, 43, 44, 47, and 48	A Guide to the Implementation of Statement 88 on Employers' Accounting for Settlements and Curtailments of	Modified	<p>These questions and answers are affected by this Statement as follows:</p> <ul style="list-style-type: none"> <li>• Elimination of provisions related to the measurement date alternative</li> </ul>

Literature	Title	Status	Description
	Defined Benefit Pension Plans and for Termination Benefits: Questions and Answers		<ul style="list-style-type: none"> <li>• Elimination of provisions related to recognition of an additional minimum liability</li> <li>• Recognition of the funded status of plans on the employer's statement of financial position by: <ul style="list-style-type: none"> <li>▪ Requiring the unrecognized transition asset or obligation related to the initial adoption of Statements 87 and/or 106 to be recognized as an adjustment to beginning retained earnings</li> <li>▪ Requiring unrecognized prior service costs or credits and actuarial gains or losses to be recognized in other comprehensive income, and changes in those amounts in subsequent periods.</li> </ul> </li> </ul>
Q&A 88 Question 28	A Guide to the Implementation of Statement 88 on Employers' Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits: Questions and Answers	Nullified	This question and answer is nullified because this Statement eliminates the provisions related to the measurement date alternative.
Q&A 88 Questions 35, 36, and 50–53	A Guide to the Implementation of Statement 88 on Employers' Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits: Questions and Answers	Nullified	These questions and answers are nullified because this Statement requires the unrecognized transition assets or obligation related to the initial adoption of Statements 87 and/or 106 to be recognized as an adjustment to beginning retained earnings in the period of adoption.
Q&A 106 Questions 5, 24, 26–32,	A Guide to Implementation of Statement 106 on	Modified	These questions and answers are affected by this Statement as follows:



<b>Literature</b>	<b>Title</b>	<b>Status</b>	<b>Description</b>
34, 44, and 51	Employers' Accounting for Postretirement Benefits Other Than Pensions: Questions and Answers		<ul style="list-style-type: none"> <li>• Elimination of provisions related to the measurement date alternative</li> <li>• Elimination of provisions related to recognition of an additional minimum liability</li> <li>• Recognition of the funded status of plans on the employer's statement of financial position by: <ul style="list-style-type: none"> <li>▪ Requiring the unrecognized transition asset or obligation related to the initial adoption of Statements 87 and/or 106 to be recognized as an adjustment to beginning retained earnings</li> <li>▪ Requiring unrecognized prior service costs or credits and actuarial gains or losses to be recognized in other comprehensive income, and changes in those amounts in subsequent periods.</li> </ul> </li> </ul>
Q&A 106 Question 56	A Guide to Implementation of Statement 106 on Employers' Accounting for Postretirement Benefits Other Than Pensions: Questions and Answers	Nullified	This question and answer is nullified because this Statement requires the unrecognized transition assets or obligation related to the initial adoption of Statements 87 and/or 106 to be recognized as an adjustment to beginning retained earnings in the period of adoption.
<b>AICPA Literature</b>			
AICPA Audit and Accounting Guides	Health Care Organizations, 2005	Modified	The health care organizations Guide assists preparers of financial statements in preparing financial statements in conformity with generally accepted accounting principles and assists auditors in auditing and reporting on such financial statements in accordance with generally accepted auditing standards. The Guide requires health care organizations to report an

Literature	Title	Status	Description
			<p>earnings measure (performance indicator) that is the functional equivalent of income from continuing operations of a for-profit enterprise. Paragraph 10.21(e) requires health care organizations to report separately from the performance indicator “items that are required to be reported in or reclassified from other comprehensive income.” Minimum pension liabilities are included as an example of these items.</p> <p>This Statement eliminates minimum pension liabilities and requires the recognition of actuarial gains/losses and prior service costs or credits in other comprehensive income. Paragraph 10.21(e) of the health care organizations Guide is amended to eliminate the references to minimum pension liabilities and to add references to prior service costs or credits and actuarial gains/losses associated with pension or other postretirement benefits.</p>
SOP 02-2	Accounting for Derivative Instruments and Hedging Activities by Not-for-Profit Health Care Organizations, and Clarification of the Performance Indicator	Modified	<p>Among other matters, SOP 02-2 amended the AICPA Audit and Accounting Guide, <i>Health Care Organizations</i>, to clarify that the performance indicator reported by not-for-profit health care organizations excludes items required by FASB Statement No. 130, <i>Reporting Comprehensive Income</i>, to be reported as items of other comprehensive income, and to clarify that any changes to guidance on other comprehensive income would trigger conforming changes to the definition of “performance indicator” in the Guide.</p>

<b>Literature</b>	<b>Title</b>	<b>Status</b>	<b>Description</b>
			<p>This Statement eliminates minimum pension liabilities and requires the recognition of actuarial gains/losses and prior service costs in other comprehensive income. Paragraph 9 of SOP 02-2 is amended to eliminate the references to minimum pension liability adjustments and to add references to prior service costs and actuarial gains/losses in other comprehensive income.</p> <p>Additionally, footnote 5 is amended to state that the Statement 87 guidance referred to in that note has since been amended by issuance of this Statement.</p>