MINUTES

To:	Board Members		
From:	Vaheb (ext. 298)		
Subject:	FSP 132(R) Minutes of the February 13, 2008 Board Meeting	**Date:**	February 26, 2008
cc:	FASB: Bielstein, MacDonald, Golden, Hood, Mechanick, Proestakes, Vaheb, Cizek, Lott, Cosper, Wyatt, Klimek, Allen, Stevens, Gabriele, Vernuccio, Sutay, FASB Intranet; GASB: K. Johnson; IASB: Hickey, Leisenring, McGeachin, Upton		

The Board meeting minutes are provided for the information and convenience of constituents who want to follow the Board's deliberations. All of the conclusions reported are tentative and may be changed at future Board meetings. Decisions become final only after a formal written ballot to issue a final Statement, Interpretation, or FASB Staff Position.

Topics:	Postretirement Benefit Obligations Including Pensions, Potential FSP to amend 132(R): Disclosures about Plan Assets
Basis for Discussion:	Board Memorandum Dated January 22, 2008
Length of Discussion:	9:30–10:45 a.m.
Attendance:	
Board members present:	Herz, Batavick, Crooch, Linsmeier, Seidman, Smith, and Young
Board members absent:	None
Other Participants:	None
Staff in charge of topic:	Hood
Other staff at Board table:	Proestakes, Vaheb, Cizek, Golden, Cosper, and Wyatt

Summary of Decisions Reached:

The Board discussed how to improve disclosures of assets held in an employer's defined benefit pension or other postretirement plan reported under Statement 132. Additionally, the Board discussed a potential technical correction to Statement 132(R) relating to the disclosure of net periodic benefit cost for nonpublic entities.

The Board decided to amend Statement 132(R) to:

1. Include a principle for disaggregation of plan assets based on risks and expected long-term rate of return associated with each category and a list of required asset categories that, at a minimum, should be included.
2. Require further disclosure of categories or subcategories for concentrations of risk.
3. Include disclosure requirements consistent with FASB Statement No. 157, *Fair Value Measurements,* for fair value measurements of plan assets.
4. Include a technical correction to paragraph 8(h) that would require nonpublic entities to disclose net periodic benefit cost recognized for each period for which a statement of income is presented.

The Board also decided that the proposed disclosure requirements for plan assets would be effective for the years ending after December 15, 2008, and would be applied prospectively. The technical correction to Statement 132(R) would be effective upon issuance of a final FSP.

The Board directed the staff to proceed to a draft of a proposed FSP, with a 45-day comment period, for vote by written ballot.

Objective of Meeting:

The objective of the meeting was for the Board to decide on potential amendments to Statement 132(R) that would improve an employer's disclosures about postretirement benefit plan assets and to decide on a technical amendment to FASB Statement No. 158, *Employers' Accounting for Defined Benefit Pension and other Postretirement Plans*. The meeting objectives were met.

Matters Discussed and Decisions Reached:

Mr. Hood stated that at the August 2007 meeting, the Board decided that as part of phase 2 of the postretirement benefits project, the staff would analyze alternatives for improving disclosures about assets held in a postretirement benefit plan. A review of disclosures about plan assets was included in phase 2 of the project because of users' concerns that current disclosures do not provide enough information about the types of assets held in postretirement benefit plans.

The scope of the project was expanded when the Board decided at the November meeting that disclosures about fair value measurements required by Statement 157 do not apply to an employer's disclosures of benefit plan assets. At that time, the Board directed the staff to determine whether some of the disclosures in Statement 157 could be applied, and to include those as part of the disclosures being considered in phase 2.

Categories of Plan Assets and Concentrations of Risk

Mr. Hood stated that Statement 132(R) requires disclosure of equity securities, debt securities, real estate, and other assets, but it states that disclosure is not limited to those categories. The staff researched the disclosures of a large sample of companies in the S&P 500 and found that most companies primarily disclose the categories of equity, debt, real estate, and other or alternative investments, but they do not provide further disaggregation of asset categories. Users noted that those broad categories of assets are not specific enough to enable them to assess risk or forecast future increases or decreases in the value of plan assets. The staff also noted that many companies have plans that are very large in relation to the balance sheet. For those companies, significant increases or decreases in the value of their plan assets have a substantial effect on comprehensive income as well as future contributions to the plan, and, consequently, the future cash flows of the company. Some users noted that for companies with large plans, it is just as important to forecast and monitor the performance of plan assets as the other operations of the business.

1. **Staff Recommendation:** To improve disclosures of plan assets, the staff recommended amending Statement 132(R) to include a principle for disaggregation

of plan assets, and a list of specific categories that, if material, should be provided. Disclosure of categories would be based on the type of asset, considering the risk and long-term expected rate of return associated with each asset category. Examples of more specific categories could include debt issued by national, state, and local governments, corporate debt securities, mortgage-backed securities, hedge funds, and derivatives. In addition to requiring a principle for disaggregation, and providing more specific examples of plan assets, the staff recommended amending Statement 132(R) to require further disclosure of asset categories or subcategories based on concentrations of risk. Risks could include significant investments in a single company, industry, country or type of security. The purpose of this amendment is to describe what could trigger further disclosure of categories beyond those that are specifically listed in the amendment.

2. **Board Vote:** The Board agreed with the staff's recommendation pending the staff drafting the amended guidance. [All Board members agreed.]

3. **Board Comments:** Mr. Linsmeier questioned the measurement date language in the proposed amendment in light of Statement 158's provisions that eliminate use of a measurement date other than the fiscal year end. Specifically, Mr. Linsmeier preferred to clarify the language to state, "the fair value of total plan assets reported in each statement of financial position presented." The staff indicated that it would review and revise the reference to measurement date. Mr. Linsmeier stated that the amendment is written as if risks and the overall expected long-term rate of return would lead to different categories of assets being reported; however, risks and returns are typically related. Ms. Seidman observed that that might not always be the case. For example, for mortgage-backed securities, the current value is different from what the expected long-term value would be, and yet it is the latter that is used in pension accounting. Mr. Linsmeier agreed but stated that it is not the case if one is trying to understand the current volatility.

4. Mr. Young advocated for disclosure of the Sharpe Ratio, which is a commonly used way that investors look at a portfolio's risk and return profile. Furthermore, the nature and type of investment are equally important. The structure of how the investment is made can be as important as what the investment is in. By way of example, Mr.

Young asked whether it was the staff's intent that all investments in, for example, real estate would be disclosed, recognizing that real estate holdings could be in the form of direct investments, a REIT, or hedge fund. Mr. Young stated that he preferred such disclosure, but noted the problem is analyzing this issue from a financial institution perspective and that is not what investors want. Mr. Golden clarified that changing the language from "and" to "or," in the amendment that states, "disclosures of asset categories shall be based on the risks and expected long-term rate of return," would satisfy Mr. Young's comments.

5. Ms. Seidman noted that the existing requirement to provide a narrative description of the basis used to determine the overall expected long-term rate of return that is in paragraph 5(d)(3) of Statement 132(R) should be amended to correlate with this new disclosure of asset categories. Ms. Seidman stated that, as written, the narrative description of expected rate of return does not require dissagregation, and it would seem appropriate to require that if further categories are disclosed. Mr. Proestakes stated that the narrative provision is not intended to require employers to dissect the overall return by asset category but that it would be a good improvement to connect the asset categories and that narrative discussion. Mr. Golden agreed that the language used would need to link the categories to the return on assets. The goal of that narrative was not, and should not be, to impose a "building block" approach in developing the rate of return and is not quantitative by category, but rather it is an overall narrative describing the approach. Mr. Batavick agreed with Mr. Proestakes.

6. Mr. Linsmeier expressed concern for the phrase *concentration of risk* because the list of risks could be extensive. He asked the staff to clarify which risks they intended. Mr. Hood clarified that risk refers to the risks arising within plan assets and not risks of the company occurring outside the plan. Mr. Young believes this issue relates to correlation of risk, but noted the difficulty of implementing that terminology into the guidance. Mr. Hood stated that this is a guideline that requires judgment because dissagregation of categories can be done in many different forms. Ms. Seidman suggested using the AICPA Statement of Position 94-6 language regarding significant risk and uncertainties because it captures a broader range. Mr. Proestakes noted that the staff did not want to create something more prescriptive than current guidance.

7. Mr. Herz raised the issue of a breakdown of alternative investments and grouping them by strategies, not necessarily by the underlyings, but by the tactical trading event driven strategy. Mr. Smith clarified that Statement 157 requires a description of the valuation methodologies used for Level 3. He questioned whether a need existed for more prescriptive guidance since it is already required and described in that Statement. Mr. Smith suggested the staff work with Mr. Young to convey the Board's views and the basic principle of categorization. Mr. Herz agreed.

8. Mr. Batavick cautioned not to micromanage the disclosures, but rather focus on a strong principle and concept with some examples as guidance. Mr. Batavick noted that the illustration included as implementation guidance shouldn't dictate exactly what asset categories are provided; however, he recognizes that, in practice, it usually does. Mr. Proestakes stated that the staff would work on the principle, amendments, and examples to capture Board members' ideas.

9. Mr. Linsmeier questioned the clarity and understandability of the wording "weighted average" in paragraph 5(d)(2) of Statement 132(R). Ms. Seidman stated that there is continuing relevance that may need to be modified to specify to which period it applies. For example if an entity wants to manage their Level 3 disclosures, it could get in and out of Level 3 at the balance sheet date, but this concept would disclose what the average for the period would be and allow users to ask questions. Mr. Proestakes noted that the disclosure of target ranges is as of a point in time (that is, as of the financial reporting date) but is forward looking in nature.

Disclosures about Fair Value Measurements

Mr. Hood stated that Statement 157 requires several disclosures about fair value measurements in the financial statements. In Statement 157, the Board concluded that information about the inputs used for fair value measurements would allow users to assess the relative reliability of those measurements. Since the measurement of postretirement benefit plan assets is based on fair value, certain disclosures in Statement 157 would be useful to users in assessing the inputs used to determine their fair value. For employers that have large plans with significant investments in alternative assets, the disclosures would be particularly useful in assessing the relative reliability of the fair value amounts.

10. **Staff Recommendation:** To include disclosures about the valuation techniques used to measure fair value and the level within the fair value hierarchy in which the fair value measurements fall; Level 1, Level 2, or Level 3 as defined in Statement 157. Specifically, the staff recommends adding the following requirements to Statement 132(R):

    An employer shall disclose information that enables users of its financial statements to assess the inputs used to develop fair value measurements of plan assets at the reporting date. To meet that objective, the employer shall disclose the following information for each annual period:

    a. The level within the fair value hierarchy as defined in FASB Statement No. 157, *Fair Value Measurements*, in which the fair value measurements in their entirety fall, segregating fair value measurements using quoted prices in active markets for identical assets or liabilities (Level 1), significant other observable inputs (Level 2), and significant unobservable inputs (Level 3)

    b. Changes in fair value of assets measured using significant unobservable inputs (Level 3) during the period resulting from:

        (1) Changes in valuation inputs or assumptions used in the valuation model

        (2) Purchases, sales and settlements (net)

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

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

11. **Board Vote:** The Board agreed with the staff recommendation.

12. **Board Comments:** Mr. Young and Ms. Seidman questioned the meaning of the caption in paragraph 10(b)(1) above, preferring the caption for the reconciliation of beginning and ending values of Level 3 plan assets to reflect return on assets, separately identifying the amount related to assets still held at the reporting date and the amount related to assets sold during the period, rather than "changes in valuation inputs…" The Board decided not to include separate disclosures of changes in valuation inputs or assumptions used in the reconciliation.

Net Periodic Benefit Cost Disclosure—Non Public Entities

Ms. Cizek stated that Statement 158 eliminated the requirement to measure or recognize a minimum pension liability. One of the amendments to eliminate the reference to "minimum pension liability recognized" involved the nonpublic entity disclosure requirements in Statement 132(R). However, the amendment of paragraph 8(h) of Statement 132(R) inadvertently deleted the requirement that a nonpublic employer disclose the amount of net periodic benefit cost.

13. **Staff Recommendation:** To amend Statement 132(R) to require disclosure of the net periodic benefit cost recognized for nonpublic entities, unless impracticable.

14. **Board Vote:** The Board unanimously agreed with the staff's recommendation.

15. **Board Comments:** Ms. Seidman questioned the staff's intent regarding the impracticability exception and the practical meaning of the word impracticable. Ms. Seidman stated that she didn't see a need for this wording to be in the amendment. Mr. Herz agreed and the Board directed the staff to remove the impracticability wording.

Effective Date and Transition Method

16. **Staff Recommendation:** Ms. Cizek stated that for categories of plan assets and concentrations of risk, the staff recommends an effective date for years ending after December 15, 2008 and a retrospective transition method. For disclosures about fair value measurements, the staff recommends an effective date for years ending after December 15, 2008 and a prospective transition method. For the net periodic benefit cost disclosure for nonpublic entities, the staff recommends the disclosure be effective upon issuance of a final FSP.

17. **Board Vote:** The Board agreed for categories of plan assets, concentrations of risk, and disclosures about fair value measurements to require an effective date for years ending after December 15, 2008; however, the Board disagreed with a retrospective transition method. The Board, instead, unanimously decided on a prospective transition method for the asset categorization, concentrations, and fair value disclosures. The Board unanimously agreed with the staff's recommendation for the effective date of net periodic benefit cost disclosure for nonpublic entities.

18. **Board Comments:** Mr. Batavick was concerned about a retrospective transition method because of data collection issues and added complexity. Ms. Seidman stated that it could be an awkward disclosure by requiring a partial retrospective and partial prospective transition method. Mr. Smith agreed with Ms. Seidman. Mr. Herz was in favor of a prospective transition method for consistency and a starting point for moving forward. Mr. Young was in favor of a retrospective transition method with a practicality exception.

Comment Period

19. **Staff Recommendation:** The staff recommends a 45-day comment period.

20. **Board Vote:** The Board unanimously agreed.

21. **Board Comments:** None