

## MINUTES



**To:** Board Members  
**From:** Cowan (ext. 233), Strange (ext. 442)  
**Subject:** Minutes of the March 15, 2006 Board Meeting  
**Date:** March 22, 2006  
**cc:** FASB: Bielstein, Smith, MacDonald, Proestakes, Cafini, Hood, Strange, Cowan, Cassel, Carney, Polley, Gabriele, Mahoney, Sutay, FASB Intranet; GASB: K. Johnson; IASB: Leisenring, Upton, McGeachin, Hickey

*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: Applicability to Not-For-Profit Organizations; Effective Dates for Nonpublic Entities, including Not-For-Profit Organizations; Guidance about the Selection of the Discount Rate Assumption; and Cost-Benefit Considerations

Basis for Discussion: Board Memorandum No. 4 dated March 2, 2006  
Board Memorandum No. 5 dated March 2, 2006  
Board Memorandum No. 6 dated March 3, 2006  
Board Memorandum No. 7 dated March 2, 2006  
Board Memorandum No. 8 dated March 9, 2006

Length of Discussion: 9:00–10:15 a.m.

Attendance:

Board members present: Herz, Batavick, Crooch, Seidman, Trott, Schipper, and Young  
Board members absent: None  
Staff in charge of topic: Proestakes

Other staff at Board table: Bielstein, Cafini, Hood, Mechanick, Strange, and Cowan

Outside participants: None

Summary of Decisions Reached:

The Board discussed several issues related to the limited-scope, first phase of this project, including the applicability of the proposed Statement to not-for-profit organizations and the effective date of that proposed Statement for nonpublic entities and not-for-profit organizations. The Board decided that:

1. The proposed Statement would be applicable to all not-for-profit organizations sponsoring defined benefit postretirement plans (not-for-profit employers). In applying the provisions of the proposed Statement:
  - a. Not-for-profit employers that present an intermediate measure of operations (or performance indicator) in their statement of activities that is equivalent to income from continuing operations should recognize in separate line items outside that measure the actuarial gains and losses and prior service costs and credits that would be recognized in other comprehensive income pursuant to the proposed Statement.
  - b. Not-for-profit employers that do not present an intermediate measure of operations in their statement of activities that is equivalent to income from continuing operations should recognize in separate line items apart from functional expenses the actuarial gains and losses and prior service costs and credits that would be recognized in other comprehensive income pursuant to the proposed Statement.
  - c. Not-for-profit employers should recognize as an adjustment to the opening balance of unrestricted net assets any transition asset or obligation remaining from the initial application of FASB Statements No. 87, *Employers' Accounting for Pensions*, or No. 106, *Employers' Accounting for Postretirement Benefits Other Than Pensions*.
  - d. Not-for-profit employers should disclose the following in the notes to financial statements:
    - (1) For each statement of activities presented, the net actuarial gain or loss and prior service cost or credit recognized outside of net periodic benefit cost in two parts—first, the actuarial gain or loss and prior service cost and credit arising during the period and, second, the amounts reclassified to net pension cost during the period
    - (2) For each statement of financial position presented, the cumulative amount of net actuarial gain or loss and prior service cost or credit that have not yet been reclassified as components of net periodic benefit cost

- (3) The portion of the net actuarial gain or loss and prior service cost or credit not yet recognized as a component of net periodic benefit cost that would be reclassified as components of net periodic benefit over the next fiscal year.
2. The proposed Statement would be effective for nonpublic entities, including not-for-profit organizations, on the following dates:
  - a. The requirement to recognize the funded status in the statement of financial position would apply in the first annual period ending after December 15, 2006 (the same effective date that applies to public entities)
  - b. The requirement to measure plan assets and benefit obligations as of the date of the employer's statement of financial position would be effective in the first annual period beginning after December 15, 2007 (one year later than the effective date that applies to public entities).
3. Statement 87 would be amended to clarify that an entity's determination of its assumed discount rate is independent of the expected rate of return on plan assets.
4. The perceived benefits of the proposed Statement outweigh the perceived costs of its application.

Objective of Meeting:

The objective of the meeting was for the Board to discuss the applicability of the proposed Statement to not-for-profit organizations, effective dates for nonpublic entities, including not-for-profit organizations, guidance about the selection of the assumed discount rate, and cost-benefit considerations. The objective of the meeting was met.

Matters Discussed and Decisions Reached:

1. Mr. Proestakes opened the meeting by outlining the staff's agenda and by stating that the decisions reached at the meeting would be incorporated into the Exposure Draft to be published for public comment at the end of the month.

**Applicability to Not-For-Profit Organizations**

2. The Board unanimously supported the staff's recommendation to apply the proposed Statement to not-for-profit organizations because the economics of the underlying transactions affected by the proposed Statement are not fundamentally different in not-for-profit organizations. The Board recognized that they needed to make modifications for not-for-profit organizations because those organizations do not necessarily report earnings or other comprehensive income in their statement of

activities, nor do they have equivalents to retained earnings or accumulated other comprehensive income on their statement of financial position.

3. The Board previously decided to require recognition of items in other comprehensive income. The Board unanimously agreed with the staff's recommendation to have not-for-profit organizations that present an intermediate measure of operations equivalent to income from continuing operations recognize in separate line items not included in the intermediate measure of operations the actuarial gains and losses and prior service costs and credits that would be recognized in other comprehensive income pursuant to the proposed Statement. Not-for-profit organizations that do not present an intermediate measure of operations equivalent to income from continuing operations would recognize in separate line items apart from functional expenses the actuarial gains and losses and prior service cost and credits that would be recognized in other comprehensive income by all other entities pursuant to the proposed Statement.
4. The Board unanimously supported the staff's recommendation to recognize as an adjustment to beginning unrestricted net assets any transition asset or obligation remaining from the initial application of Statements 87 or 106, to require separate disclosures about net actuarial gains and losses and prior service costs and credits as described above in the summary of decisions reached section of this document, and not to change the way in which net periodic benefit cost is measured.
5. Mr. Trott noted that the funded status of a not-for-profit organization's postretirement benefit obligation may have a significant effect on the organization's liquidity, which is important information for users since those organizations issue public and private debt. Ms. Schipper noted that the staff's recommendations are consistent with the Board's historical differences approach to accounting for not-for-profit organizations, that is, that the Board identifies differences between profit-seeking and not-for-profit organizations that warrant different accounting treatment. There are not any differences that need to be addressed in recognizing the funded status on the balance sheet, but there are differences relating to items that a profit-seeking entity would report on its income statement. Ms. Schipper continued by stating that the objective

is to parallel the presentation of profit-seeking entities that report income from continuing operations and other comprehensive income. Ms. Schipper explained that the parallel notion for a not-for-profit organization would be a voluntary contrived intermediate measure of operations or performance indicator. The Board has never prescribed what that measure should be, nor has it required that not-for-profit organizations present it. She noted, however, that many not-for-profit organizations present an intermediate performance measure and, therefore, have a parallel measure to a profit-seeking entity's income from continuing operations. The residual amount of the effects of the proposed Statement, not included in the intermediate performance measure, should be parallel to the items in other comprehensive income of profit-seeking entities. The separate line item presentation recommended by the staff would make the information related to the proposed Statement transparent to users of the financial statements. Additionally, the required disclosures would provide the same information as the required disclosures of profit-seeking entities.

#### **Effective Dates for Nonpublic Entities, including Not-For-Profit Organizations**

6. By a vote of four to three (RHH, LFS, GJB) the Board decided to require the effective date for nonpublic entities, including not-for-profit organizations, with regard to the recognition of the funded status of their postretirement benefit obligations to be the first annual period ending after December 15, 2006 (the same effective date that applies to public entities).
7. Board members who supported the same effective date as public entities for recognizing the funded status of postretirement benefit obligations stated the importance of showing the funded status on the balance sheet sooner rather than later. Those Board members also believe that requiring recognition of the funded status for nonpublic entities, including not-for-profit organizations, in the proposed Statement would provide an opportunity for the Board to gain more information from affected constituents on the difficulties involved in application of this provision of the proposed Statement and the extent to which it would affect contracts and other arrangements. Mr. Trott suggested that the staff include in the Notice for Recipients questions about the effort involved in renegotiating contracts and arrangements

involving net book value and the extent to which those arrangements exist. Mr. Trott stated that the issues related to debt covenants are not different between public and nonpublic entities and, therefore, a delayed effective date would not need to be required. Mr. Young emphasized that the Board should also be aware of implementation and transition issues for small public entities. He proposed using a size criterion to ensure that small public entities would also be given the same consideration as nonpublic entities, including not-for-profit organizations. The Board did not approve this proposal.

8. Board members that voted in favor of delaying the effective date for recognition of the funded status of postretirement benefit obligations believe that nonpublic entities, including not-for-profit organizations, generally have fewer resources to deal with new accounting guidance. Ms. Seidman noted three reasons for delaying the effective date for recognition: (a) the Board had an opportunity to be responsive to constituents and their internal resource constraints, (b) having the recognition and measurement provision effective at the same time for nonpublic entities, including not-for-profit organizations, could simplify the application of the proposed Statement, and (c) there is usually a larger lag in learning about new pronouncements with nonpublic entities, including not-for-profit organizations, because they generally do not have as frequent contact with auditors and other advisors. Mr. Batavick added that he would rather assume that nonpublic entities, including not-for-profit-organizations, would need more time to implement the proposed Statement to avoid lengthy discussion in redeliberations, which might delay the issuance of the final Statement.
9. By a vote of four to three (KAS, LFS, DMY) the Board decided to delay for nonpublic entities, including not-for-profit organizations, the effective date for provisions of the proposed Statement that would require measurement of plan assets and benefit obligations as of the date of the employer's statement of financial position to annual periods beginning after December 15, 2007. No size criterion would be applied in connection with the delayed effective date. Board members that voted in favor of delaying the effective date for measurement to annual periods beginning after December 15, 2007, believe that additional effort and learning would be required to

implement the change in measurement date. Those Board members also believe that delaying the effective date for measurement would ease the competition for actuarial services and allow nonpublic entities, including not-for-profit organizations, to lower the cost of implementation and leverage the experience gained by public entities. Mr. Trott agreed that there was a resource issue related to actuarial services and measurement that would require additional resources. While he acknowledged the benefits to nonpublic entities from a delayed effective date, he also noted that delaying the effective date for nonpublic entities, including not-for-profit organizations, would lessen the competition for actuarial services and would eliminate a public entity's ability to assert that it cannot get the resources necessary or that the constrained resources are causing significant cost increases.

10. Board members that voted against the delay for measurement provisions until annual periods beginning after December 15, 2007 did not believe that there would be much benefit to nonpublic entities, including not-for-profit organizations, by delaying the measurement provisions for any length of time. Ms. Schipper noted that the same measurement would still be done and likely at a similar cost. She acknowledged that some of the cost may be mitigated by delaying the effective date, but the incremental benefit was not large enough to warrant a delay.

#### **Guidance about the Selection of the Discount Rate Assumption**

11. At the January 18, 2006 meeting, the Board decided that paragraph 186 from the basis for conclusions of Statement 106 should be elevated to the standards sections of Statements 87 and 106. Paragraph 186 provides a general principal for determining the assumed discount rates, which are used in the measurements of the projected, accumulated, and vested benefit obligations, and the service and interest cost components of net periodic pension cost. The staff performed additional research to determine whether any additional guidance in the bases for conclusions of Statements 87 and 106 should be elevated. The staff did not find any other guidance that it recommended elevating; however, at the January 18 meeting some Board members suggested elevating an additional sentence that states that the determination of the discount rate is independent of the rate of return on plan assets. The Board decided

by a vote of five to two (DMY, LFS) to elevate the guidance that states that an entity's determination of its assumed discount rate is independent of the expected rate of return on plan assets.

### **Cost-Benefit Considerations**

12. The Board unanimously agreed that the benefits of the proposed Statement are greater than the costs of implementing it. Mr. Trott asserted that the costs of renegotiating contracts that are based on net book values are not costs of implementing the proposed Statement, but, rather, are consequences of the importance of net book value and liquidity that are affected by providing users of the financial statements with better information. Ms. Seidman added that the Board considered the costs involved with implementing the proposed Statement and minimized costs when it was possible, for example, by delaying the measurement requirement for nonpublic entities, including not-for-profit organizations. She explained that those considerations are not the Board's responsibility; however, the Board should mitigate costs whenever possible. She indicated that the Board had done this and that the benefits exceed the costs. Mr. Young noted that users of the financial statements are adamant about addressing recognition of the funded status as a short-term project. He stated that any delay in recognizing the funded status of postretirement obligations because of complications with synchronizing the measurement requirements of the proposed Statement would be detrimental to users. In his opinion, that should be considered a cost. Mr. Young stated that if the measurement provisions of the proposed Statement would delay recognition of the funded status, he would prefer to remove the measurement changes from this phase of the project.

### Follow-up Items:

None.

### General Announcements:

None.