

## MINUTES



**To:** Board Members

**From:** Vaheb (ext. 298)

**Subject:** Minutes: Proposed FSP FAS 132(R)-a,  
*Employers' Disclosures about  
Postretirement Benefit Plan Assets*

**Date:** October 3, 2008

**cc:** FASB: Bielstein, Golden, Hood, Mechanick, Proestakes, Vaheb, Mussatt, Posta, Stoklosa, Chookaszian, Lott, Klimek, Allen, Gabriele, Vernuccio, Sutay, FASB Intranet; GASB: K. Johnson; IASB: Hickey, Leisenring, McGeachin

*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: Disclosures about categories of plan assets and concentrations of risk in plan assets in proposed FSP FAS 132(R)-a, *Employers' Disclosures about Postretirement Benefit Plan Assets*

Basis for Discussion: Board memorandum dated September 10, 2008

Length of Discussion: 1:00 – 2:00 p.m.

Attendance:

Board members present: Herz, Batavick, Linsmeier, Seidman, and Smith

Board members absent: None

Other Participants: Leisenring

Staff in charge of topic: Hood

Other staff at Board table: Golden, Proestakes, Vaheb, and Mussatt

Summary of Decisions Reached:

The Board redeliberated proposed FSP FAS 132(R)-a, *Employers' Disclosures about Postretirement Benefit Plan Assets*. The Board decided to amend FASB Statement No. 132 (revised 2003), *Employers' Disclosures about Pensions and Other Postretirement Benefits*, to include:

1. The entity's objective in disclosing information about plan assets, which is to provide users of financial statements with an understanding of:
  - a. The major categories of assets held in an employer's plan(s)
  - b. How management makes investment allocation decisions, including the factors that are pertinent to an investor's understanding of investment policies or strategies
  - c. Significant concentrations of risk within plan assets.
2. A list of examples of detailed categories of plan assets that would include a category for investment funds (for example, mutual funds, hedge funds, and commingled funds).
3. A requirement that an entity disclose the significant investment strategies for investment funds as major categories of plan assets.

The Board agreed that the effective date for the final FSP would be no earlier than for fiscal years ending after December 15, 2009.

Objective of Meeting:

The objective of the meeting was for the Board to finalize the disclosures about categories of plan assets and concentrations of risk in plan assets. The objective was met.

Matters Discussed and Decisions Reached:

**Background**

1. Mr. Hood opened the meeting by presenting the overall objectives of the proposed FSP, which are to improve disclosures about plan assets to provide users with more information about the types of assets held in postretirement benefit plan(s), concentrations of risk existing within plan assets, and fair value measurements of plan assets.
2. At the July 16, 2008, meeting, the Board began redeliberations of the proposed FSP and discussed the disclosures about categories of plan assets and concentrations of risk. The Board made the following decisions:
  - a. Materiality guidance should not be provided for identifying and disclosing significant categories of plan assets.
  - b. Postretirement benefit plan assets will continue to be excluded from the scope of paragraph 15A of FASB Statement No. 107, *Disclosures about Fair Value of Financial Instruments*, which requires disclosures about concentrations of credit risk for financial instruments.
  - c. An employer should not be required to look through investments in funds (for example, mutual funds, hedge funds, and pooled or commingled funds) and disclose the underlying investments in those funds as categories of plan assets.
3. At the August 27, 2008, education session, the Board asked the staff to draft illustrations of the proposed disclosures that would facilitate further decision making on the amendments to Statement 132(R) relating to disclosing categories of plan assets and concentrations of risk. Additionally, several Board members suggested revising the amendments to Statement 132(R) to include the overall objectives of the disclosures similar to those included in recent disclosure Statements, including FASB Statement No. 161, *Disclosures about Derivative Instruments and Hedging Activities*.

**Overall Objectives of the Disclosures in the FSP**

4. **Staff Recommendations:** The staff recommended that the proposed FSP's amendments to Statement 132(R) should be revised to include the objectives for disclosing information about plan assets. These objectives would be based on the disclosures that the Board decides to include in the final FSP. For example, the following amendment to Statement 132(R) could be included in the final FSP:

The overall objectives of the disclosures about plan assets are to provide users of financial statements with an understanding of the following:

- a. Major categories of assets held in an employer's plan(s)
  - b. Investment allocation decisions made by management, including the factors that are pertinent to an understanding of the employer's investment policies or strategies
  - c. Significant concentrations of risk within plan assets
  - d. Inputs and valuation techniques used to measure the fair value of plan assets.
5. **Board Vote:** The Board unanimously agreed to include the overall objectives listed above in the amendments to Statement 132(R).
6. **Board Comments:** Several Board members discussed various editorial changes to objectives a–c. The Board concluded that a final decision on objective d would not be reached until the disclosures about fair value measurements are discussed at a later Board meeting.

#### **Principle for Disclosing Categories of Plan Assets**

7. The proposed FSP amended paragraph 5d(1) of Statement 132(R) to include a principle for disclosing the fair value of categories of plan assets based on the types of assets held in an employer's plan(s). Several Board members suggested revising the principle to address the Board's concern that certain categories, such as equity securities, are too broad and should be disaggregated further based on management's investment policies and strategies (for example, the category of common stocks could be further disaggregated between large-cap-, mid-cap-, and small-cap-common stocks).
8. **Staff Recommendations:** The staff recommended that the final FSP include a principle for disclosing the fair value of categories of plan assets based on the types of assets held in an employer's plan(s) with further disaggregation based on management's investment policies and strategies. Paragraph 5d(1) in Statement 132(R) would be amended to include the following language:

Major categories should be based on the types of assets held in an employer's plan(s). Further disaggregation of categories shall be provided based on management's investment allocation policies and strategies.

9. **Board Vote:** The Board agreed that the final FSP would amend paragraph 5d(1) in Statement 132(R) to state that major categories should be based on the types of assets held in an employer's plan(s). Additionally, the Board decided that employers should consider the objectives to be included in the final FSP (see paragraph 4 above) for further guidance on disaggregating categories of plan assets.
10. **Board Comments:** After agreeing that disclosure of categories of plan assets should be based on the types of assets held in an entity's plan(s), the Board discussed whether to provide guidance on how to further disaggregate categories of plan assets based on management's investment policies and strategies. Mr. Linsmeier was concerned about not specifying what level of management would be inferred by "management's investment policies and strategies" (for example, is it management at the plan level or at the corporate level?). Mr. Linsmeier preferred specifying that a lower level of management is responsible for investment decisions at the plan level. Ms. Seidman was not concerned about leaving Mr. Linsmeier's issue unaddressed because the final FSP would already require disclosure of detailed categories based on the types of assets held in the plan. Therefore, providing guidance on which level of management is inferred by "management's investment policies and strategies" in further disaggregating categories of plan assets is not necessary. Mr. Herz agreed and stated that the illustrations in Statement 132(R) will serve as an example of the principle for disaggregating categories of plan assets. Mr. Batavick agreed and stated that the guidance for disaggregating categories of plan assets should be principles based and the examples should communicate the intentions of those principles. Therefore, the Board agreed that additional specific guidance on how to further disaggregate categories of plan assets would not be necessary because the final FSP would include the objectives of providing information about plan assets, which would provide adequate guidance on how to further disaggregate categories of plan assets.

### **List of Examples of Asset Categories**

11. The proposed FSP included a list of examples of detailed categories of plan assets because many employers typically disclose only the broad categories that are currently listed in Statement 132(R). Some respondents were confused about whether equity interests in mutual funds, pooled funds, and other types of funds not listed in the proposed FSP as examples of categories should be disclosed as separate categories of plan assets or included in an equity securities category. Additionally, respondents were confused about whether employers would be required to “look through” investments in funds and disclose the underlying investments as categories of plan assets.
12. **Staff Recommendations:** The staff recommended that the final FSP include a list of detailed categories of plan assets that would serve as an example of disclosing categories of plan assets consistent with the objectives of the final FSP (see paragraph 4). Additionally, the staff recommended that one of those categories include investment funds segregated by type of fund (for example, hedge funds would be a separate category from mutual funds) to clarify that employers would not be required to “look through” investments in funds and disclose the underlying investments as categories of plan assets.
13. **Board Vote:** The Board unanimously agreed with the staff recommendation.
14. **Board Comments:** None.

### **Disclosure of Significant Investment Strategies for Investments in Funds**

15. During redeliberations, the Board decided that an entity should not be required to look through an investment in a fund (for example, a mutual fund) and disclose the underlying assets in that fund as separate categories of plan assets. However, the Board instructed the staff to consider alternatives for providing more information to users of financial statements about investments in funds.
16. **Staff Recommendations:** The staff recommended that the final FSP require disclosure of significant investment strategies for investment funds disclosed as categories of plan assets.
17. **Board Vote:** The Board unanimously agreed with the staff recommendation.
18. **Board Comments:** None.

## **Disclosures of Concentrations of Risk**

19. The proposed FSP included a requirement to disclose the nature and amount of each significant concentration of risk in plan assets. Examples of concentrations of risk included in that FSP were significant investments in a single entity, industry, country, commodity, or investment fund. At the July 16 meeting, some Board members were concerned about the costs and feasibility of providing this disclosure. They indicated a preference that the final FSP could require disclosures of known concentrations of risk that have been discussed with management, a committee of the Board, or other individual(s) responsible for making investment allocation decisions.
20. **Staff Recommendations:** The staff recommended that the final FSP not include a disclosure about known concentration of risk in plan assets.
21. **Board Vote:** The Board unanimously agreed not to require disclosure of the nature and amount of each significant concentration of risk within plan assets or known concentrations of risk that have been discussed with management, a committee of the Board, or other individual(s) responsible for making investment allocation decisions. However, the Board agreed that providing information to users of financial statements about concentrations of risk in plan assets should be retained as an overall objective in the final FSP, and that this objective should be considered in providing the specific disclosures required by paragraphs 5d(1)–5d(3) in Statement 132(R), as amended by the FSP.
22. **Board Comments:** The Board agreed that disclosing the nature and amount of each significant concentration of risk would be too difficult and costly to provide. Additionally, the Board agreed that a requirement to disclose known concentrations of risk in plan investments would be confusing to preparers and auditors. In response to a suggestion to remove concentrations of risk in its entirety from the final FSP, Mr. Smith disagreed, stating that disclosing information about concentrations of risk should remain an objective in the final FSP. He cited the example that if an entity invests a significant amount of plan assets in a hedge fund, the entity should make some type of disclosure about concentrations of risk in that investment. The Board agreed that one of the objectives of the final FSP would be to provide users of financial statements with an understanding of significant concentrations of risk in plan assets, and that this objective should be considered in providing the detailed

disclosures required by the final FSP. Additionally, Mr. Herz and Ms. Seidman stated that the final FSP's amendments to the illustrations in Statement 132(R) would provide more examples of meeting the objective of disclosing information about concentrations of risk.

**Effective Date**

23. The proposed FSP included an effective date for fiscal years ending after December 15, 2008.
24. **Staff Recommendations:** The staff recommended that the effective date be no earlier than fiscal years ending after December 15, 2009.
25. **Board Vote:** The Board unanimously agreed to an effective date no earlier than for fiscal years ending after December 15, 2009.
26. **Board Comments:** None.

Follow-up Items:

None.

General Announcements:

None.