

REVISED MINUTES



To: Board Members
From: Sledge (ext. 273), Zimmerman (ext. 298)
Subject: Revised Minutes of the July 26, 2006 Board Meeting **Date:** August 11, 2006
cc: FASB: Bielstein, Smith, MacDonald, Cassel, Hood, Mechanick, Proestakes, Cafini, Roberge, Sledge, Zimmerman, Sarno, Stevens, Polley, Jolla, Carney, Allen, 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: Effective Date for Recognition Provisions; Measurement Date Provisions; Illustrations

Basis for Discussion: Board Memorandum No. 18, dated July 14, 2006
Board Memorandum No. 19, dated July 14, 2006
Board Memorandum No. 20, dated July 14, 2006

Length of Discussion: 9:00–10:15 a.m.

Attendance:

Board members present: Herz, Batavick, Crooch, Linsmeier, Seidman, Trott, and Young

Board members absent: None

Other Participants: Leisenring (IASB)

Staff in charge of topic: Proestakes

Other staff at Board table: Bielstein, Cassel, Hood, Mechanick, Sledge, and Zimmerman

Summary of Decisions Reached:

The Board continued redeliberations of its March 2006 Exposure Draft, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans*.

The Board made the following decisions related to the effective date for the recognition provisions:

1. The effective date for a public entity would be its fiscal year ending after December 15, 2006. For this purpose, the Board decided to use the definition of public entity in FASB Statement No. 123 (revised 2004), *Share-based Payment* (that is, an entity with equity securities traded in a public market), rather than the public entity definition in proposed FSP FAS 126-a, "Revision to the Definition of a Public Entity to Include an Obligor for Conduit Debt Securities."
2. The effective date for a nonpublic entity would be the fiscal year ending after June 15, 2007, one year later than proposed in the Exposure Draft.

The Board made the following decisions related to the proposed amendments to the measurement date provisions of FASB Statements No. 87, *Employers' Accounting for Pensions*, and No. 106, *Employers' Accounting for Postretirement Benefits Other Than Pensions*:

1. The Board affirmed the proposal to require measurement of plan assets and benefit obligations as of the date of the employer's statement of financial position. The Board decided that the effective date of that change for all entities—both public and nonpublic entities—would be fiscal years ending after December 15, 2008.
2. The Board decided to simplify transition and reduce implementation costs by allowing an alternative transition method to that proposed in the Exposure Draft. Under the alternative, net periodic benefit cost for the period would be determined using the prior measurement date. The periodic benefit cost would be proportionally allocated to the current fiscal year with the remaining portion recognized as an adjustment to retained earnings. For example, a calendar year-end company that historically used a September 30 measurement date would determine net periodic benefit cost for the period from October 1, 2007, through December 31, 2008, using the September 30, 2007, measurement of plan assets and obligations.

Also, the Board decided that the illustrations included in Statements 87 and 106 of continuing relevance will be updated following issuance of a final Statement. The updated illustrations will be published in the form of an FSP.

Objectives of Meeting:

The objectives of the meeting were for the Board to redeliberate the effective date for the recognition provisions, the definition of a public entity, the measurement date provisions, and whether to amend the illustrations in Statement 87, FASB Statement No. 88, *Employers' Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits*, and Statement 106. The objectives of the meeting were met.

Matters Discussed and Decisions Reached:

1. Mr. Proestakes opened the meeting by outlining the staff's objectives.

Effective Date for Recognition Provisions

2. The Board unanimously agreed with the staff's recommendation to retain the proposed effective date for public entities of fiscal years ending after December 15, 2006. For the effective date provisions of the final Statement, public entities are those that have equity securities trading in a public market, as defined by Statement 123(R). The effective date for nonpublic entities that do not have equity securities trading a public market, as defined by Statement 123R, will be fiscal years ending after June 15, 2007. Mr. Trott stated that the primary reason for granting a delay in the effective date for entities that did not have publicly traded equity securities is that many such entities have existing contracts beyond debt covenants that reference book equity value, and the delay gives such entities additional time to modify those contracts. He noted that the funded status was a liquidity issue that was important to creditors, and it was otherwise important to report the funded status on the balance sheet as soon as possible.
3. Ms. Seidman explained that the Board's previous decision to require prospective transition made year-end implementation for public entities reasonable. Mr. Batavick stated that the June 15, 2007 effective date for nonpublic entities was important because it ensured that not-for-profit organizations would implement the final Statement for their 2007 reporting year, yet still have plenty of time for implementation. He also noted that the comment letters and roundtable sessions had brought to the Board's attention the possible implementation problems for entities

without publicly traded equity securities, and the Board responded with the delayed effective date.

Definition of a Public Entity

4. The Board unanimously accepted the staff's recommendation not to conform the definition of a public entity included in the final Statement to the definition included in proposed FSP 126-a. The Board did not want to conform the definition of a public entity in the final Statement to one contained in a proposed FSP that might not have completed its due process by the time the final Statement is issued. Mr. Batavick added that conforming the definition at this time might cause some entities to have to comply with the additional disclosure requirements for public entities in their upcoming fourth quarter, which would be overly burdensome. Mr. Crooch and Ms. Seidman agreed.

Measurement Date Provisions

5. By a vote of five to two (GJB, LFS), the Board affirmed the requirement in the Exposure Draft to measure plan assets and benefit obligations as of the date of the employer's statement of financial position. In addition, the Board decided to allow an alternative approach for the transition to a fiscal year-end measurement date. In the year of transition, net periodic benefit cost for the period would be determined using the prior measurement date. The periodic benefit cost would be proportionally allocated to the current fiscal year with the remaining portion recognized as an adjustment to retained earnings. The effective date for the measurement date provisions for public and nonpublic entities will be for years ending after December 15, 2008.
6. Mr. Trott noted that a significant number of entities already use the balance sheet date as the measurement date, despite the difficulties expressed in comment letters and at the roundtable sessions related to measurement of plan assets and liabilities. He stated that measuring at fiscal year-end was primarily a matter of advanced planning, and there were benefits to aligning the measurement date to the balance sheet date. He further commented that he did not know what the Board would gain by shifting measurement date issues into Phase 2 of the comprehensive project. In addition, he

stated that the idea of roll-forwards and making reasonable estimates already present in Statements 87 and 106 would not change.

7. Mr. Linsmeier stated that he was concerned about significant changes in the fair market value of plan assets between the measurement date and the balance sheet date, which could have a significant effect on the representational faithfulness of the underfunded or overfunded status reported on the financial statements. He noted that this concern caused him to view this as a recognition issue, not a measurement issue, and that addressing recognition was the purpose of Phase 1. He added that it was not appropriate to require entities to adjust the measurement date in the current year, but setting an effective date in 2008 would allow plenty of time to plan measurement date changes.
8. Mr. Herz agreed with Mr. Linsmeier's analysis that this was not just a measurement issue and that it belonged with recognition in Phase 1. He expressed doubt as to the extent of some of the complications of measuring plan assets and obligations expressed in some of the comment letters. Mr. Young stated that there was no defense for permitting measurement dates up to three-months prior to the balance sheet date. However, he added that it was most important to recognize the net funded status on the balance sheet as soon as possible.
9. Mr. Batavick disagreed with the requirement of the Exposure Draft, stating that this issue belonged within the scope of Phase 2. Determining how to measure the obligation and the date of that measurement were closely linked and would be best deliberated at the same time. He noted that while he agreed that it was conceptually preferable to align the measurement date and the date of the statement of financial position, he did not think the facts and circumstances surrounding the measurement process had changed significantly in the last 20 years. He added that the present system was balanced, with entities conducting measurements throughout the current three-month window. While some improvements could surely be made to the present linear process of working with multiple service providers, he stated that it would be too costly to require a year-end measurement date at this time.

10. Ms. Seidman also disagreed with changing the measurement date requirements at this time. She stated that while aligning the measurement date with the balance sheet date was conceptually appropriate, she was sure that the prior Board had believed this too, but had permitted the three-month window as a needed practical accommodation. She noted that there was still a need for some kind of practical accommodation because of the issues raised in the comment letters and at the roundtable sessions, and she did not think changing to a new practical accommodation was a priority. She added that the measurement date window had not been a source of significant criticism over the 20 years it had been in place. She agreed with Mr. Batavick that consideration of aligning the measurement date with the balance sheet date should be done in Phase 2 along with other measurement issues.

Illustrations

11. The Board unanimously agreed with the staff's recommendation to amend the relevant illustrations in Statements 87, 88, and 106 after the final Statement is issued. Mr. Cassel noted that to be consistent with the Board's commitment to due process, the amendments to the illustrations would have to be included in an FSP. Ms. Seidman stated that it was important to amend the relevant illustrations instead of superseding them and that she was fine with doing this through a separate exposure document.

Follow-up Items:

None.

General Announcements:

None.