

MINUTES



To: Board Members
From: Mussatt (ext. 273)
Subject: FSP 132(R) Minutes of the July 16, 2008 Board Meeting
Date: August 1, 2008
cc: FASB: Bielstein, Golden, Hood, Mechanick, Proestakes, Vaheb, Mussatt, Lott, Wyatt, Polley, Klimek, Allen, 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, Proposed FSP FAS 132(R)-a: Disclosures about Postretirement Benefit Plan Assets

Basis for Discussion: Board Memorandum Dated July 2, 2008

Length of Discussion: 10:40 –11:50 a.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: Proestakes, Golden, Mussatt

Summary of Decisions Reached:

The Board began redeliberations for proposed FSP FAS 132(R)-a, *Employers' Disclosures about Postretirement Benefits Plan Assets*. The Board discussed a number of issues raised in comment letters to the proposed FSP relating to the disclosures about categories of plan assets and concentrations of risk.

The Board unanimously reached the following conclusions:

1. Materiality guidance for disclosing significant plan asset categories will not be provided.
2. Postretirement benefit plan assets will continue to be scoped out of paragraph 15A of FASB Statement No. 107, *Disclosures about Fair Value of Financial Instruments*, which requires disclosures about concentrations of credit risk of financial instruments.

Objective of Meeting:

The objective of the meeting was for the Board to begin its redeliberations related to the proposed FSP, based on issues raised by respondents during the comment period. In particular, the Board discussed issues relating to disclosures about categories of plan assets and concentrations of risk.

The objective was met.

Matters Discussed and Decisions Reached:

Cost-Benefit and Impracticability

1. Mr. Hood opened the meeting by expanding on the information collected from the 45 comment letters received during the proposed FSP comment period ending May 2, 2008. Many responses focused on cost-benefit issues, particularly relating to international plans, commingled funds, private equity funds, and hedge funds. The cost of accumulating the data necessary for the disclosures was a notable concern for

international plans, which tend to have data gathering systems that are less automated than those in the U.S.

2. Mr. Hood also noted that respondents expressed doubts regarding their ability to obtain data in a timely manner, if at all, from international funds and nonpublic funds. International plan assets are often held by commingled funds, which increases the difficulty of obtaining timely information. Some respondents cited concerns that private equity funds and hedge funds may deem the requested information as proprietary, and would be unwilling to disclose such information.
3. **Staff Recommendation:** Mr. Hood stated that in light of the current turmoil in the markets, the staff believes the benefits of the disclosures in the proposed FSP outweigh the costs of implementation. However, due to the above concerns, the staff plans to recommend a later effective date at the next board meeting.
4. **Board Vote:** None
5. **Board Comments:** Mr. Smith expressed his concerns regarding the high cost of compliance and the ability of issuers to gather the necessary disclosure information on a timely basis. In particular, Mr. Smith stated that a requirement which instructs the plans to identify and disclose the underlying assets of their investments may impose too large of a cost on issuers.
6. Mr. Linsmeier stated that he shares Mr. Smith's concerns regarding the cost of compliance and time constraints. Mr. Linsmeier noted that issuers may have difficulty obtaining data regarding underlying assets in a timely manner from public foreign funds and other public funds with report dates subsequent to the issuer's filing date. Mr. Linsmeier suggested that some timing issues may be circumvented if plans are required to list the names of the domestic and foreign public mutual funds in which the plans are invested. This would allow financial statements users to access the reports of the public funds for details about their holdings.
7. Mr. Linsmeier also noted that issuers may not be able to obtain data regarding the assets underlying the plans' investments in private equity funds and hedge funds. For situations in which obtaining the data on underlying assets is not feasible, Mr. Linsmeier suggested that the proposed FSP may need to allow issuers to simply list the funds in question as separate categories and disclose that they were unable to look through to the underlying assets of the funds.

8. Mr. Herz was concerned about Mr. Linsmeier's proposal to require plans to list the names of the public mutual funds in which the plans are invested. Mr. Herz noted that while such a list may be instructive, companies with large plans might need multiple pages of footnotes just to list the names of the mutual funds.

Categories of Plan Assets

9. The proposed FSP would require disclosure of categories of plan assets based on the type of asset. The proposed FSP lists examples of types of assets, including three types of funds: hedge funds, private equity funds, and venture capital funds. Many respondents were confused about how to disclose other types of funds or investment vehicles, such as mutual funds, investment trusts, and partnerships.
10. **Staff Recommendations:** The staff proposed two alternatives for the disclosure of asset categories. One alternative is to require that companies "look through" the investment vehicles to the underlying holdings to determine what types of assets to disclose as categories. If the Board selects the "look through" principle, then the categories for private equity, hedge, and venture capital funds that are listed in the proposed FSP would be eliminated. The other alternative is for an employer to disclose its interest in a fund as a category. In that case, the FSP would indicate that any type of fund of commingled or pooled assets should be disclosed as a category. The staff provided the Board with examples illustrating both methods.
11. **Board Vote:** The Board tentatively settled on two possible methods of asset categorization: categorization of plan assets by underlying asset type (for example, real estate), irrespective of whether the plan has a direct or indirect investment in the asset type; and categorization of plan assets by overall investment type (for example, mutual funds), each of which is further divided into subcategories based on the underlying asset type.
12. **Board Comments:** Mr. Herz spoke in favor of categorizing plan assets based on underlying asset type, regardless of whether the plan is directly or indirectly invested in the assets. Mr. Herz reasoned that fiduciaries tend to manage investments by asset type across various subcategories (for example, direct investments and investments made through funds of commingled asset types). Further, fixed income securities might be divided into subcategories such as high grade, high yield, short term, and

long term. Equities subcategories may include domestic, international, value, growth, small cap, and large cap. Hedge funds may be separated into tactical, event driven, and distressed. Private equity funds subcategories may include domestic, international, small cap, and large cap. Mr. Herz stated that the focus of asset categorization should center on determining the correct level of granularity within an asset allocation description. He agrees that the level of detail that he would like to see in the plan disclosures may be difficult for issuers to prepare on a timely basis. Mr. Herz acknowledged that it may be easier to categorize plan assets by mutual funds. However, Mr. Herz believes that including mutual funds as categories would not accurately reflect the way that pension plans are managed. Mr. Herz believes that the objective of the asset category table is to communicate how the plan has implemented its strategy and what drives the plan's risk and return. In Mr. Herz's opinion, the best way to achieve this is to display the categories in a way that mirrors how management makes its investing decisions.

13. Mr. Smith advocated for disclosure of funds as asset categories (for example, mutual funds, hedge funds, and private equity funds). The disclosure of the funds as asset categories should be supplemented with qualitative statements to describe the strategy of the funds and their underlying assets. Mr. Smith clarified that the qualitative statements do not require plan managers to "look through" the funds to determine the underlying assets because the managers should already know what type of funds they have invested in (for example, a mutual fund that invests in equities). Mr. Smith recommends that plan managers use their judgment when deciding whether quantitative information should be included in the qualitative statements. The level of detail in the qualitative statements for a particular fund should be based upon the significance of the investment in a fund.
14. Mr. Linsmeier noted that categorizing plan assets based on underlying asset type would neglect to disclose whether the investment in the assets is direct or indirect. Mr. Linsmeier postulated that this information may be relevant to decision makers. For example, if the plan directly invests in an asset, the plan manager can actively manage the investment and pull out of the investment immediately if necessary. If the plan indirectly invests in an asset through an investment in a fund, the plan manager must pull out of the entire investment in the fund (that is, pull out of the fund even if

only a portion of the fund is invested in the asset in question) in order to protect the plan from exposure to the asset.

15. Mr. Smith added that disclosing whether an investment in an underlying asset is direct or indirect is a more faithful representation than just disclosing the investment in the underlying asset. For example, consider an investment in a mutual fund where fifty percent of the mutual fund is invested in stocks and fifty percent in bonds. Mr. Smith believes that disclosing the investment as equity in the mutual fund will better reflect the fact that the plan has ownership in a piece of the mutual fund rather than ownership of a piece of the shares and a piece of the bonds.
16. Mr. Smith suggested that the proposed FSP provide a few different examples to let the preparers know that a single example is not meant to be prescriptive. One example may display an overall category of equity securities with subcategories showing that the plan is heavily invested in the pharmaceutical industry. Another example may display an overall category of equity securities with subcategories showing the break down of growth funds, value funds, small company, high tech companies, etc.
17. These examples should demonstrate the Board's tentative consensus view that issuers need to: (a) provide more information about the types of assets, (b) align categories with how the employer manages those assets, and (c) present the information in a useful way that may involve a table, a qualitative statement, or a combination of both.

Concentrations of Risk

18. Mr. Hood summarized respondents' comments, including the desire of some respondents to know what assets are underlying a pension plan's investments. In particular, investors wanted to know how exposed pension plans are to mortgage-backed securities.
19. Some respondents stated that it would be difficult to provide disclosures of concentrations of risk within certain funds. The respondents noted that due to proprietary issues, many hedge funds will not give them the information needed for the disclosure. Respondents also stated that it would be difficult to gather the needed information for other types of funds, such as a mutual fund, on a timely basis.

20. **Staff Recommendations:** The staff identified three alternatives. One alternative is to retain the existing requirement to disclose concentrations of risk within and across categories of plan assets. A second alternative is to allow an impracticability exception. A third alternative is to remove the requirement for disclosures about concentrations of risk from the proposed FSP.
21. **Board Vote:** None
22. **Board Comments:** Ms. Seidman stated that the concentrations of risk approach implies that a plan will always find a concentration of risk. Ms. Seidman believes that well-diversified plans may not identify a concentration of risk. In lieu of the concentration approach, Ms. Seidman recommended a requirement for plans to identify exposures to risk within categories and across categories that are not readily apparent from the list of asset categories or from asset allocation strategies. She noted that this may encourage issuers to be more descriptive in their lists in order to have fewer statements about concentrations of risk. In addition, the issuer may want to disclose any information that it found significant enough to report to the plan's trustees. Ms. Seidman stated that plans are often intentionally diversified, and in these cases there is no need to disclose the myriad of assets underlying its indirect investments.
23. Ms. Seidman provided two examples to clarify her position. The first example illustrated a plan that lists domestic equities as an asset category. The issuer might disclose in the footnotes that the plan has a significant position in oil stocks within its investments in domestic equities. The second example demonstrated how an issuer may disclose a concentration of risk across asset categories. An issuer might disclose the plan's exposure to real estate by discussing in a footnote the plan's investment in mortgage-backed securities, direct investments in real estate, and investment in a fund that has exposure to real estate.
24. Mr. Herz acknowledged that some areas of high risk may be difficult to identify until after the value of those assets have already declined. For example, six months ago the fiduciary of a plan may not have considered it necessary to disclose a concentration in U.S. equities. Mr. Herz suggested that rather than focusing on concentrations of risk, it may be better to require plans to simply disclose investments in areas that they are aware are risky. Mr. Herz agreed with Ms. Seidman that an employer should disclose

in its footnotes the same information that is reported to the plans' trustees. For example, the employer might disclose how it has allocated its investments as well as any concerns the plan's management has reported to its trustees.

25. Ms. Seidman noted that Mr. Herz was requesting disclosure of the target allocations for any interesting asset type or any significant asset type, rather than disclosure of the major types of assets as currently required under FAS 132(R).
26. Mr. Linsmeier stated that the issues of asset categorization and concentrations of risk are entwined. Mr. Linsmeier noted that it is difficult to identify risky areas until after those areas begin to show signs of trouble. For this reason, investors want to know more than just the concentrations of risk identified by plan managers. Mr. Linsmeier expressed concern that the current disclosures may not provide the level of detail needed to allow investors to make decisions. He stated that plans should disclose, at a minimum, both the broad target allocation categories and how they are implemented at a more detailed level by the pension plan manager.
27. Mr. Linsmeier stated that investments in equity should be treated as more than just equity. He noted that there are different ways to invest in equities, such as small cap, growth, income, and international. Mr. Linsmeier stated that it is important to disclose concentrations in the different types of equities. He suggested that the Board needs to provide guidance as to what types of concentrations employers should be looking for.
28. Mr. Smith stated his support for requiring a better narrative description, but noted that he might disagree with Mr. Herz's desired level of granularity. Mr. Smith believes that the narrative description should focus on the disclosed categories of assets and take into consideration concentrations of risk and what is happening to the current market conditions. For example, a statement that says equities securities are spread across value versus growth and no individual security exceeds five percent should be a sufficient disclosure. If users need more information, they can access the pension plan's form 5500 filing.
29. Ms. Seidman cautioned against implementing a narrative requirement that is too rigid. She suggested using a management approach for the narrative description in order for the requirement to be flexible enough so that it can be applied by plans with different investment strategies. A management approach would focus on what management finds interesting in the plan's portfolio in the current period. For example, given the

current market condition, Ms. Seidman would expect disclosures about investments in subprime.

30. Ms. Seidman recalled a sentence included in paragraph 5d(4) of Statement 132(R) which requires “disclosure of additional asset categories and additional information about specific assets within a category is encouraged if that information is expected to be useful in understanding the risks associated with each asset category and the overall expected long-term rate of return on assets.” Ms. Seidman suggested that this sentence should be required rather than encouraged and that it should be tied to the strategy and asset allocation rather than to the expected return.

Materiality Guidance

31. Many respondents requested that the proposed FSP include percentage thresholds and financial statement line items, such as net income or total plan assets, for identifying significant categories. A couple of respondents also requested including a de minimis or insignificant category in the illustration.
32. **Staff Recommendation:** The staff does not think the Board should include materiality guidance in the proposed FSP for the same reasons that the Board decided against providing such guidance in SFAS 132(R (paragraph B40). However, the staff is supportive of including a category for all asset types that are immaterial in the aggregate.
33. **Board Vote:** The Board voted unanimously to exclude materiality guidance from the proposed FSP.
34. **Board Comments:** None

Applicability of FASB Statement No. 107

35. The proposed FSP would require employers to disclose the nature and amount of a concentration of risk arising within or across categories of plan assets. Examples of concentrations of risk include, but are not limited to, significant investments in a single entity, industry, country, commodity, or investment fund. Some respondents concluded that this requirement is too vague, while others suggested using the requirements in Statement 107 to disclose concentrations of risk.

36. **Staff Recommendations:** The staff proposed two alternatives in response to respondents concerns. One alternative is to include some form of concentrations of risk disclosures in the proposed FSP. The other alternative is to require the disclosures in Statement 107 and eliminate the requirement to disclose concentrations of risk in the proposed FSP.
37. **Board Vote:** The Board voted unanimously for postretirement benefit plan assets to continue to be scoped out of paragraph 15A of Statement 107.
38. **Board Comments:** Mr. Linsmeier noted that the paragraph in Statement 107 deals with credit risk while the proposed FSP is focused on market risk.
39. Ms. Seidman added that the proposed FSP also deals with nonfinancial investments.