MINUTES

Financial Accounting Standards Board

To: Board Members

From: Pension Team (Kazazean, ext. 327)

Subject: Minutes of November 11, 2003 Board Meeting **Date:** December 3, 2003

cc: Bielstein, Smith, Petrone, Polley, Swift, Leisenring, Sutay, Thompson, Gabriele, Bean, Allen, Intranet, Project Team

Topic: Pension Disclosures—Redeliberation of Proposed Statement Based on Responses to the FASB Exposure Draft, *Employers' Disclosures about Pensions and Other Postretirement Benefits*

Basis for Discussion: Memorandums dated November 4 and November 6, 2003

Length of Discussion: 10:00 a.m. to 12:10 a.m.

Attendance:

Board members present: Herz, Batavick, Crooch, Schieneman, Schipper, Seidman, and Trott

Board members absent: None

Staff in charge of topic: Proestakes

Other staff at Board table: Smith, Kazazean, and Salo

Outside participants: IASB (phone)

Summary for ACTION ALERT:

At the November 11, 2003 meeting, the Board made the following decisions regarding additional pension and other postretirement benefit disclosures:

1. The following disclosures would be required as proposed in the FASB Exposure Draft, *Employers' Disclosures about Pensions and Other Postretirement Benefits,* dated September 12, 2003:
   a. The accumulated benefit obligation (ABO).
   b. The use of a tabular format for disclosure of the following key assumptions:
      (1) The assumed discount rates
      (2) Rates of compensation increase (for pay-related plans)
      (3) Expected long-term rates of return on plan assets.
   c. Information about each major category (equity, debt, real estate, other) of plan assets:
      (1) Percentage of the fair value of total plan assets as of the measurement date used for each statement of financial position presented.
      (2) Target allocation percentage or range of percentages, presented on a weighted-average basis. For sponsors that do not have investment targets by major category, a statement to that effect.
      (3) A narrative description of investment strategies.
   d. Interim disclosure of the following:
      (1) The components of net periodic benefit cost
      (2) An update of the employer's expected contributions to be paid during the year, if that expectation changed significantly from the previous annual or interim period disclosure amount.
2. The following disclosures would be required; their provisions have changed from those proposed in the Exposure Draft:
   a. A narrative description of the basis for determining the overall expected long-term rate of return. (The requirement to disclose the expected rate of return by individual asset category has been eliminated.)
   b. In all cases, measurement dates used for plans that make up the majority of a sponsor's plan assets and benefit obligations. (The requirement that disclosure of measurement dates be conditioned upon the occurrence of significant economic events has been

eliminated and makes that disclosure required in all circumstances, for all sponsors.)

c. Reconciliations of beginning and ending balances of the fair value of plan assets and benefit obligations. (This reinstates the reconciliations as required by FASB Statement No. 132, *Employers' Disclosures about Pensions and Other Postretirement Benefits*.)

d. The employer's best estimate, once known, of its contributions to be paid to fund the plan for the next fiscal year beginning after the date of the latest statement of financial position. Amounts would be presented in the aggregate, considering all estimated contributions, such as contributions required by funding regulations or laws and additional discretionary contributions. (This eliminates the requirement to disclose required, discretionary, and noncash contributions separately and adds the language "best estimate, once known".)

e. The projected/expected benefit payments, including employees' future service, for each of the next five years and thereafter, with a reconciliation back to the projected benefit obligation that would reflect interest, future service accruals, and participant contributions.* (This replaces disclosure of benefit payments used in determining the projected benefit obligation that do not consider future service.)

3. The Board reaffirmed that all requirements would be applied to nonpublic entities, except for exemptions carried forward from Statement 132 and for the interim period disclosure of the components of net periodic benefit cost.

4. The following information would not be required:

   a. Sensitivity information

   b. Other provisions identified in Issue 9 of the Exposure Draft

   c. Debt maturity information

   d. Expected long-term rate of return for individual asset categories of plan assets.

5. The effective date of this proposed Statement, for other than nonpublic entities, would be for fiscal years ending after December 15, 2003, for all disclosures except the following, which would be effective for fiscal years ending after June 15, 2004:

   a. Any new disclosures, not previously required by Statement 132, about foreign plans

   b. The projected value of all benefit payments.

   The Board is further evaluating whether to require information about plan assets in financial statements for years ending after December 15, 2003, but has not finalized that decision yet.

The effective date of this proposed Statement for nonpublic entities would be for fiscal years ending after June 15, 2004.

*This disclosure is subject to reconsideration.

Matters Discussed and Decisions Reached:

The Board met today to consider issues identified by respondents during the comment period and to make final decisions regarding the 11 issues identified in the FASB Exposure Draft, *Employers' Disclosures about Pensions and Other Postretirement Benefits,* which was issued on September 12, 2003.

Mr. Proestakes noted that about 90 comment letters have been received from various individuals and companies, including preparers, auditors, actuaries, users, academics, and others. He and Ms. Kazazean briefly summarized respondents' comments about these issues and asked the Board to:

a. Reaffirm the decisions, as a group, that were generally supported by respondents
b. Discuss the other issues individually and make final decisions.

The Board reaffirmed its previous decisions regarding the accumulated benefit obligation, the tabular format proposed for disclosure of key assumptions, and the decisions considered but not proposed, as described in Issue 9 of the Exposure Draft (except for Issue 9(e), which they discussed separately). Following these decisions, Board members considered a number of disclosures individually.

Sensitivity Information

One Board member suggested that sensitivity information describing the effects of changes in the discount rate on the accumulated benefit obligation be disclosed. He noted that this information would be useful in 1) forecasting, 2) providing more comparability among companies, and 3) understanding sponsors' obligations. Another Board member objected, noting that this analysis does not consider the interdependency of changes in assumptions. Another Board member agreed that sensitivity does not consider the interdependency of changes in assumptions and noted that she does not consider international convergence to be a compelling argument for this disclosure, as the primary focus of convergence should be on recognition and measurement. The Board agreed to reaffirm its decision regarding sensitivity information, and it will not be required by the Statement.

Classification of Net Pension Expense by Income Statement Line Item

Some Board members believed that the requirement to disclose the classification of net pension expense by income statement line item should be included in the standard. They noted that heterogeneous items, such as the financing and compensation elements of pension expense, should be disaggregated. They also noted that such an approach would be consistent with the goals of the Board's project on reporting financial performance. Finally, they indicated that the cost to preparers of gathering this information should be minimal.

One Board member disagreed noting that the most important distinction to draw between these heterogeneous items would be the distinction between operating and financing components of this expense, which would be addressed by the project on reporting financial performance. Other Board members also disagreed but expressed a different view, stating that pension expense is not a significant item to most financial statements and that the benefits of providing this information would not justify the costs to most preparers. A majority of Board members agreed to exclude this item from the proposed Statement.

Disclosure of Information about Plan Assets

Mr. Proestakes described respondents' comments on this issue, noting that respondents mostly supported disclosure of the actual allocation of plan assets, that fewer supported disclosure of target allocations and the expected rate of return by asset category, and that the majority of respondents opposed disclosure of information about debt maturities.

Actual Asset Allocation

Board members unanimously agreed that the actual allocation of plan assets should be disclosed.

Target Asset Allocation

Board members expressed a number of varying views regarding the disclosure of target asset allocation information. Two Board members noted that target asset allocation information is not necessary and suggested that providing two years of historical actual asset allocation information would be sufficient. One of these Board members noted that the aggregated nature of the target allocation data decreases its predictive value and that the target amounts are dynamic and can change easily.

Another Board member suggested that the target asset allocation should only be disclosed if the actual allocation does not fall within a company's target range. Some other Board members stated that target allocation is useful in understanding management's investment strategies.

No Board members objected to the presentation of target allocation percentage or range of percentages, presented on a weighted-average basis. For sponsors that do not have investment targets by major category, a Statement would be required to that effect. In addition, Board members agreed to require the disclosure of a narrative description of investment strategies.

Expected Return on Assets

Board members generally agreed to replace the requirement to disclose expected return information by individual asset classes with disclosure of the overall expected return (as required by Statement 132) and an explanation of how that assumption was determined. They noted that expected returns by individual categories could mislead users, who might try to re-calculate the overall expected return based on these individual categories.

Debt Maturity Information

Board members unanimously agreed that the requirement to disclose information about debt maturities should be eliminated.

Information about the Classification of Assets

Board members agreed that further guidance should not be provided to describe the classification of investments held in a fund or invested in real estate. They noted that current U.S. GAAP sufficiently addresses these issues.

Estimated Future Benefit Payments

Mr. Proestakes noted that numerous respondents had expressed concern about the requirement to disclose benefit payment information included in the determination of the projected benefit obligation. Reasons they cited for this concern included 1) the cost and difficulty of obtaining this information, 2) the decreased utility of the information due to the aggregation of funded and unfunded plan information, and 3) the view that expected future benefits payable to employees would be a better measure of the obligation for benefit payments than the projected benefit obligation.

Several Board members noted that, in addition to the views expressed in the form of comment letters, numerous other users had verbally expressed an interest in having information about benefit payments.

One Board member suggested that the disclosure be replaced with a requirement to disclose information about the duration of the obligation. A majority of Board members did not support that disclosure.

Board members generally expressed a willingness to change the model based on the projected benefit obligation and to replace it with a more realistic estimate of expected future benefit payments, which would include estimates of employees' future service. They admitted that this disclosure would not provide significantly different information for the first five years of payments, but they recognized that this information might be easier to obtain based on feedback from actuaries. In addition, several Board members expressed a willingness to delay the effective date for this disclosure based on respondents' concerns. The Board decided to require a disclosure, based on expected future benefit payments, subject to two conditions: 1) the information must be obtainable without tremendous effort and 2) the effective date for this requirement would be delayed.

Measurement Date

Board members unanimously agreed that, in all cases, measurement dates used for plans that make up the majority of a sponsor’s plan assets and benefit obligations should be disclosed. They acknowledged that the previous requirement, which would condition the disclosure of measurement dates upon the occurrence of significant economic events, requires too much management judgment and would take away the benefit of using an earlier measurement date.

Reconciliations of Plan Assets and Obligations

Board members unanimously agreed to reverse their previous decision and to retain the disclosure of reconciliations of beginning and ending balances of the fair value of plan assets and benefit obligations.

Estimated Contributions to Fund Benefit Plans

Mr. Proestakes noted that numerous respondents had expressed concern about the disclosure of estimated contributions to fund benefit plans. Among their concerns, they noted that 1) there is significant uncertainty in the distinction between future cash and non-cash contributions 2) the definition of “required” versus “discretionary” contributions is unclear 3) the information is forward-looking 4) the amounts are often determined retroactively or are uncertain until later in the year, and 5) the contributions are also subject to changing legislation.

Board members agreed that this information was deemed highly important to users, and they acknowledged that the total cash flow was more important than the discretionary contributions. The Board decided to require disclosure of the employer’s best estimate, once known, of its contributions to be paid to fund the plan for the next fiscal year beginning after the date of the latest statement of financial position. They decided that amounts could be presented in the aggregate, considering all estimated contributions, such as contributions required by funding regulations or laws and additional discretionary contributions. This would eliminate the requirement to disclose required, discretionary, and noncash contributions separately.

Interim Period Disclosures

Board members reaffirmed their decision to require interim period disclosure of the components of net periodic benefit cost recognized and an update of the employer's expected contributions to be paid during the year, if that expectation changed significantly from the previous annual or interim period disclosure amount. One Board member expressed concern that a description of any significant changes is already required by APB Opinion No. 28, *Interim Financial Reporting*. She noted that another requirement to update contribution information may be redundant, given the existing guidance.

Another Board member commented on respondents' concerns that this interim information would be based on estimates. He stated that interim financial statements are substantially based on estimates and that this argument is not sufficient for not requiring the proposed disclosures.

Applicability to Nonpublic Entities

The Board reaffirmed their previous decision that all requirements would be applied to nonpublic entities, except for exemptions carried forward from Statement 132 and for the interim period disclosure of the components of net periodic benefit cost.

Effective Date

Board members recognized the importance of maintaining a timely effective date, as proposed in the Exposure Draft. They noted that users are very interested in having this information, and they agreed that additional disclosures that are not deemed overly burdensome to preparers should be required. Board members unanimously agreed that, for entities other than nonpublic companies, the proposed Statement would be effective for fiscal years ending after December 15, 2003, for all disclosures except the following, which would be effective for fiscal years ending after June 15, 2004:

a. Any new disclosures, not previously required by Statement 132, about foreign plans
b. The projected value of all benefit payments.

The Board also agreed to evaluate further whether to require information about plan assets in financial statements for years ending after December 15, 2003, but the Board has not yet finalized that decision.

In addition, the Board unanimously agreed that the effective date of this proposed Statement for nonpublic entities would be for fiscal years ending after June 15, 2004.

Follow-up Items: The Board directed the staff to speak to actuaries in order to understand any difficulties associated with obtaining expected future benefit payment information. In addition, the Board directed the staff to gather further information from preparers to assess the potential difficulty of providing asset information effective for this year-end.

General Announcements: None.