MINUTES

Financial Accounting Standards Board

To: Board Members

From: Pension Team (Kazazean, ext. 327)

Subject: Minutes of May 27, 2003 Board Meeting **Date:** June 9, 2003

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

Topic: Pension Disclosures

Basis for Discussion: Memorandum dated May 14, 2003

Length of Discussion: 1:30 p.m. to 3:20 p.m.

Attendance:

Board members present:	Crooch, Foster, Herz, Schieneman, Schipper, Trott, and Wulff
Board members absent:	None
Staff in charge of topic:	Proestakes
Other staff at Board table:	Leisenring, L. Smith, Kazazean
Outside participants:	None

Summary for ACTION ALERT:

The Board continued its discussion of potential additional pension disclosures, taking into account users' input and cost-benefit considerations. The Board tentatively agreed upon several additional disclosures, including 1) information about the target and actual mix of plan assets (grouped into broad categories such as equities, real estate, fixed income, etc), 2) the expected return for each category and 3) a brief description of investment maturities. In addition, the Board agreed to add disclosure of the income statement classification of net pension cost. The Board further agreed to add disclosures regarding pension obligations and expected contributions to pension plans. The Board will discuss in a future meeting whether these disclosures should be applied uniformly to all companies or whether the requirements should differ for non-public companies, and if any requirements should be added that relate to interim period reporting.

Matters Discussed and Decisions Reached:

Mr. Proestakes opened the discussion and stated that the purpose of the meeting was to consider additional disclosures for pensions. These potential disclosures are classified into four categories, which provide additional information about pension assets, net pension cost, sensitivity, and the pension obligation. In addition, the Board discussed whether any current disclosures could be eliminated from FASB Statement No. 132, *Employers' Disclosures about Pensions and Other Postretirement Benefits.* Mr. Proestakes said that the disclosure additions and/or eliminations would apply to all public companies and that the possibility of applying different requirements to non-public companies would be addressed in a later meeting. He further noted that other post-retirement benefits also would be addressed in a later meeting.

Pension Assets

The Board first focused on potential additional disclosures related to pension plan assets. Mr. Proestakes noted that more information in this area could help users understand market risk and match asset maturities to expected cash outflows.

All Board members favored some form of increased disclosure for plan assets. Mr. Trott stated his preference for an approach that would describe broad asset categories, along with the actual and target amounts invested in each category and the company's expected rate of return on assets (ROA) for each category [KAS, GSS, GMC, and JMF agreed]. The Board favored disclosure of expected

ROA by asset class for various reasons, noting that it allows users to assess the reasonableness of the company's expected ROA and that it succinctly presents important information.

Mr. Wulff noted that these additional disclosures would help users understand companies' investment strategies and assess the reasonableness of the rate of return assumption. He and Mr. Herz stated their preference for disclosures that would group asset classes by maturity, but agreed that they also would accept the disclosures proposed by Mr. Trott. Ms. Schipper disagreed with an approach that would classify assets by maturity, noting that the investments are actively traded and are not "static" arrangements. The level of detail provided by grouping the assets by maturity would create a false impression of precision, she noted.

Mr. Wulff stated his preference for a relaxed disclosure requirement for pension plans that are less significant in size. In addition, he noted that he favored an approach that would distinguish between public and private equity investments in the description of broad asset categories [RHH agreed].

The Board was asked whether they wish to require additional disclosures describing companies' investment strategies. Mr. Trott noted that a company's target asset allocation would be sufficient in providing information about strategy. He opposed requiring a discussion by management to describe the investment strategy [GMC, KAS, and JMF agreed]. Mr. Foster noted that companies might satisfy this requirement by providing generic information, which would add little to users' understanding of the strategy. Mr. Wulff stated his preference for some management discussion of investment strategy, noting that companies' pension plans have different objectives and philosophies, each of which has different risk and return implications [GSS and RHH agreed]. The Board voted against requiring this information, but no one objected to encouraging such disclosure.

Net Pension Cost

Mr. Proestakes asked the Board to consider whether the location of net pension cost by line item in the income statement should be disclosed. The Board supported this disclosure, noting that there have been numerous requests for this information and that it would be helpful to users in their margin analyses and forecasts. In particular, users' margin analyses would be clearer if companies were required to separate financing costs from service costs, which is not within the scope of this project. The Board voted, and none of the Board members objected to requiring disclosure of this information.

Sensitivity

Mr. Proestakes asked the Board to consider whether sensitivity information about key assumptions should be disclosed. He noted that it is difficult for users to gauge the effects of changes in these assumptions, but these effects can be very material. He noted that the IASB might soon require sensitivity information for a 1 percent change in assumptions.

Most of the Board members favored continued discussion of sensitivity disclosures [JKW, EWT, RHH, GMC, and GSS agreed]. Mr. Wulff favored disclosure of sensitivity information for all three of the assumptions under consideration: ROA, discount rate, and rate of increase in future compensation. He noted that users want to understand the possible fluctuations of pension expense, and this allows them to have the company's perspective. Companies already do this analysis internally, he said. Mr. Schieneman agreed that sensitivity information is useful, noting that it allows users to evaluate companies against one another.

Mr. Trott stated that he is generally opposed to sensitivity information but wants to be consistent with the guidance in FASB Statement No. 106, *Employers' Accounting for Postretirement Benefits Other Than Pensions*, which requires sensitivity information about healthcare costs. He stated his belief that disclosure of ROA and discount rate sensitivity for pensions is as important as sensitivity information about healthcare costs; thus, he supports this disclosure. However, he suggested that the Board not require sensitivity related to compensation increases [GSS, RHH, and GMC agreed].

Mr. Foster opposed the disclosure of sensitivity information, stating that he finds the information to have little use for several reasons. First, the information cannot be extrapolated, because it is not linear. Second, the changes in assumptions are not independent of each other in reality, although they might be presented as such in the disclosure. Third, he stated that the 1 percent change seems like an arbitrary amount, and it would be unlikely to reflect reality. Ms. Schipper agreed with Mr. Foster's opposition to this disclosure.

Two Board members supported sensitivity information but suggested alternate methods of disclosing it. Mr. Herz suggested that sensitivity could be used to describe the effects of the assumptions on other factors. For example, he thinks sensitivity could be used to identify changes that would trigger the violation of a debt covenant or recognition of the minimum liability.

Mr. Wulff acknowledged that a single assumption rarely changes in isolation. He suggested that companies be encouraged to discuss the inter-relationships of the assumptions. For example, a company could explain that a 1 percent decrease in the discount rate typically causes the expected salaries to decrease.

The Board decided to continue its consideration of the form and content of sensitivity disclosures at the next meeting.

Pension Obligation

Mr. Proestakes asked the Board to consider whether additional information about pension obligations should be disclosed. The potential disclosures are future benefit payments, number of covered lives, duration information, stratified pension benefit obligation (PBO), other funding measures (i.e., ERISA), employers' expected contributions, and the accumulated benefit obligation (ABO).

First, the Board discussed potential disclosures that would give users more insight into the makeup of companies' PBO's. Mr. Trott supported disclosure of the PBO broken down by participant group (i.e., active, terminated-vested, and retired employees), showing the amount of the obligation that relates to each group. In addition, he supported disclosure of the weighted-average duration (in years) of each group. He stated that this information would enable users to understand what the liability is as well as its timing [All Board members agreed].

Mr. Wulff agreed with Mr. Trott's suggested disclosure but stated that he also would require disclosure of the projected benefit payments [GSS and RHH agreed].

Second, the Board agreed unanimously to not require disclosure of information related to other funding measures, such as ERISA.

Third, the Board agreed unanimously to require disclosure of the amount that management expects to contribute to the plan. This amount would be broken down into those amounts that are necessary to satisfy funding requirements and any amounts above that. The Board acknowledged that this contribution amount might not be determinable with certainty; instead, they would ask that management provide its "best estimate" about the amount they would contribute.

Fourth, the Board agreed unanimously to require disclosure of the ABO. Mr. Foster noted that this measure seems more representative of companies' liabilities than the PBO, which is currently disclosed.

Finally, the Board agreed unanimously to not eliminate the guidance as set forth in Statement 132 that requires a reconciliation of beginning to ending plan assets and obligations, citing that it allows users to see how the numbers fit together. In addition, Mr. Herz noted that, as long as the current pension recognition criteria exist, this disclosure is useful in describing the information in the financial statements.

Follow-up Items: None.

General Announcements: None.