



EXPOSURE DRAFT

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*Proposed Accounting Standards Update*

Issued: April 30, 2013  
Comments Due: May 31, 2013

Fair Value Measurement (Topic 820)

Deferral of the Effective Date of Certain Disclosures for  
Nonpublic Employee Benefit Plans in Update No. 2011-04

This Exposure Draft of a proposed Accounting Standards Update of Topic 820 is issued by the Board for public comment. Comments can be provided using the electronic feedback form available on the FASB website. Written comments should be addressed to:

Technical Director  
File Reference No. 2013-260

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Financial Accounting Standards Board  
of the Financial Accounting Foundation

The *FASB Accounting Standards Codification*<sup>®</sup> is the source of authoritative generally accepted accounting principles (GAAP) recognized by the FASB to be applied by nongovernmental entities. An Accounting Standards Update is not authoritative; rather, it is a document that communicates how the Accounting Standards Codification is being amended. It also provides other information to help a user of GAAP understand how and why GAAP is changing and when the changes will be effective.

### **Notice to Recipients of This Exposure Draft of a Proposed Accounting Standards Update**

The Board invites comments on all matters in this Exposure Draft and is requesting comments by May 31, 2013. Interested parties may submit comments in one of three ways:

- Using the electronic feedback form available on the FASB website at [Exposure Documents Open for Comment](#)
- Emailing a written letter to [director@fasb.org](mailto:director@fasb.org), File Reference No. 2013-260
- Sending written comments to “Technical Director, File Reference No. 2013-260, FASB, 401 Merritt 7, PO Box 5116, Norwalk, CT 06856-5116.”

Do not send responses by fax.

All comments received are part of the FASB’s public file. The FASB will make all comments publicly available by posting them to the online public reference room portion of its website.

An electronic copy of this Exposure Draft is available on the FASB’s website.

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**Financial Accounting Standards Board**  
of the Financial Accounting Foundation  
401 Merritt 7, PO Box 5116, Norwalk, Connecticut 06856-5116

# Proposed Accounting Standards Update

## Fair Value Measurement (Topic 820)

### Deferral of the Effective Date of Certain Disclosures for Nonpublic Employee Benefit Plans in Update No. 2011-04

April 30, 2013

Comment Deadline: May 31, 2013

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# Summary and Questions for Respondents

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## Why Is the FASB Issuing This Proposed Accounting Standards Update (Update)?

Stakeholders have raised concerns that certain disclosure requirements in paragraph 820-10-50-2 of the *FASB Accounting Standards Codification*<sup>®</sup>, which was effective for nonpublic entities for annual periods beginning after December 15, 2011, would potentially provide proprietary information about nonpublic entities through the dissemination of their employee benefit plans' financial statements on the regulator's website.

The amendments in this proposed Update would address those concerns by permitting an indefinite deferral of certain quantitative disclosure requirements in paragraph 820-10-50-2(bbb) for investments held by a nonpublic employee benefit plan in its plan sponsor's own nonpublic entity equity securities.

## Who Would Be Affected by the Amendments in This Proposed Update?

The amendments in this proposed Update would apply to certain quantitative disclosure requirements for a nonpublic employee benefit plan that holds investments in its plan sponsor's own nonpublic entity equity securities and are within the scope of the disclosure requirements contained in FASB Accounting Standards Update No. 2011-04, *Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs*.

## What Are the Main Provisions?

The amendments in this proposed Update would defer indefinitely the effective date of certain required disclosures in Update 2011-04 (Topic 820) of quantitative information about the significant unobservable inputs used in Level 3 fair value measurement for investments held by a nonpublic employee benefit plan in its plan sponsor's own nonpublic entity equity securities. The indefinite deferral is intended to allow time for discussions between the employee benefit plan regulator(s) and stakeholders about the specific quantitative disclosures and their potential effect on the plan sponsor as a result of the public dissemination of proprietary nonpublic employee benefit plan information through posting on the regulator's website. The amendments in this proposed Update would not defer the effective date for those certain quantitative disclosures for other nonpublic

entity equity securities held in the nonpublic employee benefit plan or any qualitative disclosures.

## When Would the Amendments Be Effective?

The proposed deferral would be effective upon issuance of the final Update. That final Update is expected to be issued in June 2013.

## How Do the Proposed Provisions Compare with International Financial Reporting Standards (IFRS)?

Currently, there are no differences between U.S. GAAP and IFRS as they relate to the content of the required fair value measurement disclosures. IFRS 13, *Fair Value Measurement*, should be applied for annual periods beginning on or after January 1, 2013, with earlier application permitted. The amendments in Update 2011-04 are effective for public entities during interim and annual periods beginning after December 15, 2011, and effective for nonpublic entities for annual periods beginning after December 15, 2011. The proposed U.S. GAAP amendments would indefinitely defer certain quantitative disclosures for nonpublic employee benefit plans.

## Questions for Respondents

The Board invites individuals and organizations to comment on all matters in this proposed Update, particularly on the issues and questions below. Comments are requested from those who agree with the proposed guidance as well as from those who do not agree. Comments are most helpful if they identify and clearly explain the issue or question to which they relate. Those who disagree with the proposed guidance are asked to describe their suggested alternatives, supported by specific reasoning.

**Question 1:** Do you agree with the indefinite deferral, as well as the Board's decision to defer for investments held by nonpublic employee benefit plans, only the quantitative information about the significant unobservable inputs used in Level 3 fair value measurement of its plan sponsor's own nonpublic entity equity securities, and not the qualitative information, required by paragraph 820-10-50-2(bbb)? Why or why not?

**Question 2:** Do you agree with the limited scope of plan sponsor's own nonpublic entity equity securities covered by the proposed Update? If not, what other investments should be included or excluded from the guidance in the proposed Update and why?

**Question 3:** Do you agree with the scope of the employee benefit plans in this proposed Update? If not, which other employee benefit plans should be included or excluded from the guidance in the proposed Update and why?

**Question 4:** Do you agree with the definition of *nonpublic employee benefit plan*? Is it understandable and operable?





# Amendments to the *FASB Accounting Standards Codification*<sup>®</sup>

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## Introduction

1. The Accounting Standards Codification is amended as described in paragraphs 2–4. In some cases, to put the change in context, not only are the amended paragraphs shown but also the preceding and following paragraphs. Terms from the Master Glossary are in **bold** type. Added text is underlined, and deleted text is ~~struck out~~.

## Amendments to Master Glossary

2. Add the following new Master Glossary term *Nonpublic Employee Benefit Plan*, with a link to transition paragraph 820-10-65-8, as follows:

### **Nonpublic Employee Benefit Plan**

An employee benefit plan other than those that are subject to the Securities and Exchange Commission’s Form 11-K filing requirements.

## Amendments to Subtopic 820-10

3. Amend paragraph 820-10-50-2(bbb), with no link to a transition paragraph, as follows:

### **Fair Value Measurement—Overall**

#### **Disclosure**

**820-10-50-2** To meet the objectives in paragraph 820-10-50-1, a reporting entity shall disclose, at a minimum, the following information for each class of assets and liabilities (see paragraph 820-10-50-2B for information on determining appropriate classes of assets and liabilities) measured at fair value (including measurements based on fair value within the scope of this Topic) in the statement of financial position after initial recognition:

bbb. The information shall include:

1. For recurring and nonrecurring fair value measurements categorized within Level 2 and Level 3 of the fair value hierarchy, a description of the valuation technique(s) and the inputs used in the fair value measurement. If there has been a change in valuation technique (for example, changing from a **market approach** to an **income approach** or the use of an additional valuation technique), the reporting entity shall disclose that change and the reason(s) for making it.
  2. For fair value measurements categorized within Level 3 of the fair value hierarchy, a reporting entity shall provide quantitative information about the significant unobservable inputs used in the fair value measurement. A reporting entity is not required to create quantitative information to comply with this disclosure requirement if quantitative unobservable inputs are not developed by the reporting entity when measuring fair value (for example, when a reporting entity uses prices from prior transactions or third-party pricing information without adjustment). However, when providing this disclosure, a reporting entity cannot ignore quantitative unobservable inputs that are significant to the fair value measurement and are reasonably available to the reporting entity.
4. Amend paragraph 820-10-65-8 as follows:

**> Transition Related to Accounting Standards Update No. 2011-04, *Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs***

**820-10-65-8** The following represents the transition and effective date information related to Accounting Standards Update No. 2011-04, *Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs*:

- a. The pending content that links to this paragraph shall be applied prospectively and is effective as follows:
  1. For public entities, for interim and annual periods beginning after December 15, 2011
  2. For nonpublic entities other than **nonpublic employee benefit plans**, for annual periods beginning after December 15, 2011.
  3. For nonpublic employee benefit plans, for annual periods beginning after December 15, 2011, except for the following:
    - i. Paragraph 820-10-50-2(bbb)(2) shall be deferred indefinitely for investments held by a nonpublic employee benefit plan in its plan sponsor's own nonpublic equity securities.
- b. Early application is not permitted for public entities. Early application is permitted for nonpublic entities, but only for interim periods beginning after December 15, 2011.

- c. Revisions resulting from a change in valuation technique or its application shall be accounted for as a change in accounting estimate (see the guidance beginning in paragraph 250-10-45-17).
- d. In the period of adoption, a reporting entity shall disclose a change, if any, in valuation technique and related inputs resulting from the application of the pending content that links to this paragraph and quantify the total effect, if practicable.

*The amendments in this proposed Update were approved for publication by the unanimous vote of the seven members of the Financial Accounting Standards Board:*

Leslie F. Seidman, *Chairman*  
Daryl E. Buck  
Russell G. Golden  
Thomas J. Linsmeier  
R. Harold Schroeder  
Marc A. Siegel  
Lawrence W. Smith

# Background Information and Basis for Conclusions

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## Introduction

BC1. The following summarizes the Board's considerations in reaching the conclusions in this proposed Update. It includes reasons for accepting certain approaches and rejecting others. Individual Board members gave greater weight to some factors than to others.

BC2. The proposed amendments in this Update would defer indefinitely the effective date of certain quantitative disclosures in Update 2011-04 only for investments held by a nonpublic employee benefit plan in its plan sponsor's own nonpublic entity equity securities. The amendments in this proposed Update would not defer the effective date of certain quantitative disclosures for other nonpublic entity equity securities held in the nonpublic employee benefit plan.

BC3. The proposed amendments in this Update would not defer the effective date of the other disclosure requirements in Update 2011-04.

## Background Information

BC4. Update 2011-04 was issued in May 2011. The amendments in that Update require new disclosures and enhance existing disclosures for all reporting entities that are required or permitted to measure or disclose the fair value of an asset, a liability, or an instrument classified in a reporting entity's shareholders' equity in the financial statements. For public entities, the amendments are effective during interim and annual periods beginning after December 15, 2011. For nonpublic entities, the amendments are effective for annual periods beginning after December 15, 2011.

BC5. Recently, stakeholders have raised concerns that the introduction of those disclosure requirements could result in the release of proprietary information of nonpublic entities through the dissemination of its employee benefit plan financial statements on the regulator's website. The new disclosure requirements include, but are not limited to, the disclosure of quantitative information about the significant unobservable inputs used in the Level 3 fair value measurements. Although the disclosures are required for each class of assets or liabilities, there are certain nonpublic employee benefit plans that hold their plan sponsor's own nonpublic entity equity securities. If those equity securities are the only asset within the nonpublic equity securities class, they cannot be aggregated for disclosure purposes.

BC6. Because the regulator makes available to the public via its website the Form 5500 and an employee benefit plan's audited financial statements filed by the plan sponsor, the required quantitative information on inputs to the Level 3 fair value measurement could provide insight into the financial performance of the nonpublic entity plan sponsor and its financial condition. The availability of the financial statements on the regulator's website, therefore, could provide proprietary information about the nonpublic entities that otherwise would not be available publicly.

BC7. While the Board noted that disclosure of quantitative information about the significant unobservable inputs used in the fair value measurement is relevant information to the primary users of the financial statements (the regulators(s) and the plan participants), the Board decided that the quantitative information, if made available to the general public, may contain certain proprietary information that could result in unintended consequences. Thus, the Board wanted to take additional time before concluding that the benefits of the quantitative information being publicly disclosed justify the costs.

BC8. The indefinite deferral is intended to allow time for discussions among the employee benefit plan regulator(s) and stakeholders on the proprietary nature of certain nonpublic employee benefit plan disclosures.

## Scope

BC9. The Board decided to limit the scope of the indefinite deferral to investments held by nonpublic employee benefit plans in their plan sponsor's own nonpublic entity equity securities, regardless of what other nonpublic entity equity securities are held in the nonpublic employee benefit plan. The Board favored this scope because it would limit the disclosure of proprietary information for the nonpublic employee benefit plan's own plan sponsor's nonpublic entity equity securities. Disclosure requirements of other nonpublic entity equity securities held by the nonpublic employee benefit plan would not be considered proprietary to the plan and its own plan sponsor and are not included in the scope of the indefinite deferral.

BC10. The Board considered whether the indefinite deferral should be limited to a situation in which a nonpublic employee benefit plan holds an investment in its plan sponsor's own nonpublic entity equity securities, but only if that investment is the only nonpublic entity equity investment of the nonpublic employee benefit plan. Some Board members indicated that the aggregation of other nonpublic entity equity securities with its plan sponsor's own nonpublic entity equity security would reasonably prevent specific identification of the proprietary information. Other Board members were concerned that the nonpublic employee benefit plan could hold an inadequate amount of other nonpublic entity equity securities in the same class within the fair value hierarchy in which to aggregate with its plan sponsor's own nonpublic entity equity securities. The inability to aggregate could result in the distribution of proprietary information of nonpublic entities through

the release of nonpublic employee benefit plan financial statements on the regulator's website.

BC11. The Board decided to limit the indefinite deferral to quantitative information about the significant unobservable inputs used in Level 3 fair value measurement. The quantitative information represents proprietary information about key assumptions used by a nonpublic plan sponsor to value its stock.

BC12. The Board decided to exclude the qualitative disclosures in paragraph 820-10-50-2(bbb)(i) and (f) from the indefinite deferral because the qualitative disclosures would be relevant to the primary users of the financial statements but would not reveal a plan sponsor's proprietary information.

## Effective Date and Transition

BC13. The Board decided that the amendments in this proposed Update would be effective upon issuance of the final Update. The Board believes that the effective date will minimize the distribution of nonpublic entity proprietary information to the public. If a nonpublic employee benefit plan has not yet adopted the amendments in Update 2011-04, then the amendments in this proposed Update would result in no changes to the existing disclosures of quantitative information on the investment in its plan sponsor's own nonpublic entity equity securities.

## Benefits and Costs

BC14. The objective of financial reporting is to provide information that is useful to present and potential investors, creditors, donors, and other capital market participants in making rational investment, credit, and similar resource allocation decisions. However, the benefits of providing information for that purpose should justify the related costs. Present and potential investors, creditors, donors, and other users of financial information benefit from improvements in financial reporting, while the costs to implement new guidance are borne primarily by present investors. The Board's assessment of the costs and benefits of issuing new guidance is unavoidably more qualitative than quantitative because there is no method to objectively measure the costs to implement new guidance or to quantify the value of improved information in financial statements.

BC15. The amendments in this proposed Update would not create new accounting guidance. Thus, the Board does not anticipate that entities would incur significant costs as a result of the amendments in this proposed Update. The Board believes that the deferral provided by this proposed Update may lower costs of complying with the disclosure requirements in Update 2011-04 by

avoiding the costs of potentially broadly disseminating proprietary information about the key inputs used by a nonpublic entity to value its own stock, by virtue of the nonpublic employee benefit plan financial statements being posted to the internet.

## Amendments to the XBRL Taxonomy

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The provisions of this Exposure Draft, if finalized as proposed, would not require changes to the U.S. GAAP Financial Reporting Taxonomy (UGT). Any stakeholders who believe that changes to the UGT are required should provide their comments and suggested changes at [www.fasb.org](http://www.fasb.org).