

FASB In Focus

Proposed Accounting Standards Updates

Compensation—Retirement Benefits—Defined Benefit Plans—General (Subtopic 715-20): Changes to the Disclosure Requirements for Defined Benefit Plans

Compensation—Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost

Introduction

On January 26, 2016, the Financial Accounting Standards Board (FASB) issued two proposed Accounting Standards Update (ASUs) intended to improve financial reporting of pensions and other postretirement benefits to employees.

The proposed ASU, *Compensation—Retirement Benefits—Defined Benefit Plans—General (Subtopic 715-20): Changes to the Disclosure Requirements for Defined Benefit Plans*, would modify the disclosure requirements for employers that sponsor defined benefit pension or other postretirement benefit plans.

The proposed ASU, *Compensation—Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost*, seeks to improve guidance related to the presentation of defined benefit costs in the income statement.

Stakeholders are encouraged to review and provide comment on the proposals by April 25, 2016.

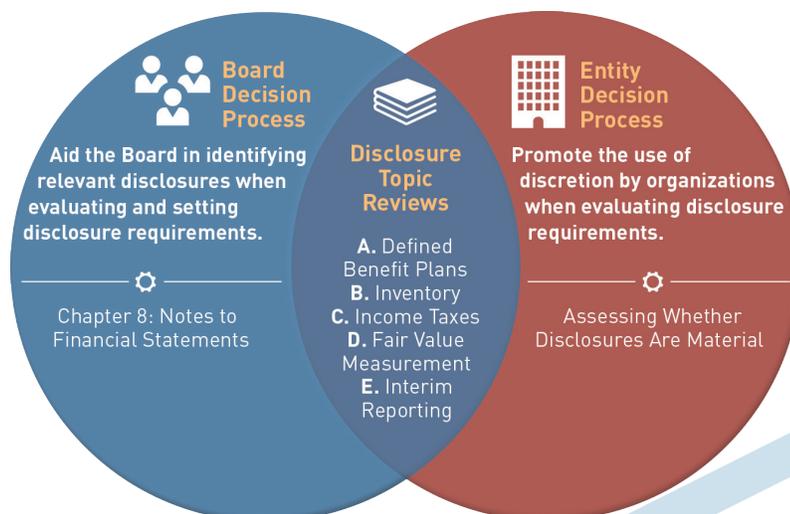
Why Is the FASB Issuing These Proposed ASUs?

The proposed ASU on [changes to the disclosure requirements for defined benefit plans](#) is part of the FASB's broader disclosure framework project aimed at improving the effectiveness of disclosures in the notes to financial statements by focusing on the information that is most relevant to financial statement users. (See Figure 1.)

As part of that project, the FASB decided to re-examine existing disclosure requirements in certain areas within the context of the proposed disclosure framework. Pensions was one of four areas (which also include income taxes, inventory, and fair value) to be re-examined.

The proposed ASU on [improving the presentation of net periodic pension cost and net periodic postretirement benefit cost](#) would

Figure 1 – Disclosure Framework Project



provide additional guidance on the presentation of the components of net periodic pension cost and net periodic postretirement benefit cost (net benefit cost) in the income statement and on the components eligible for capitalization in assets.

Under Generally Accepted Accounting Principles (GAAP), net benefit cost comprises several components that reflect different aspects of an employer's financial arrangements, as well as the cost of benefits provided to employees. Those components are aggregated for reporting in the financial statements.

Many stakeholders have observed that the current presentation of defined benefit cost on a net basis combines elements that are distinctly different in their predictive value. This makes it more costly for investors and other users to analyze and understand that information, resulting in financial statements that are more opaque and less useful than they could be.

What Are the Main Provisions in the Proposed ASUs?

Compensation—Retirement Benefits—Defined Benefit Plans—General (Subtopic 715-20): Changes to the Disclosure Requirements for Defined Benefit Plans

The following disclosure requirements would be added to Subtopic 715-20 on the basis of the proposed disclosure framework:

1. A description of the nature of the benefits provided, the employee groups covered, and the type of benefit plan formula
2. The weighted-average interest crediting rate for cash balance

3. Quantitative and qualitative disclosures from Topic 820, Fair Value Measurement, about assets measured at net asset value using a practical expedient
4. A narrative description of the reasons for significant gains and losses affecting the benefit obligation or plan assets
5. For private companies, not-for-profit organizations, and employee benefit plans, the effects of a one-percentage-point change in assumed health care cost trend rates.

The amendments in the proposed ASU would specify that disclosures about defined benefit pension and other postretirement benefit plans should be disaggregated between domestic and foreign plans.

The following disclosure requirements would be removed from Subtopic 715-20 because they are not consistent with the guidance in the proposed disclosure framework:

1. The amount of the pension accumulated benefit obligation
2. The aggregate pension accumulated benefit obligation and aggregate fair value of plan assets for pension plans with accumulated benefit obligations in excess of plan assets
3. The amount and timing of plan assets expected to be returned to the organization
4. The disclosures related to the June 2001 amendments to the Japanese Welfare Pension Insurance Law
5. Related party disclosures about the amount of future

- annual benefits covered by insurance and annuity contracts, and significant transactions between the employer or related parties and the plan
6. The amounts in accumulated other comprehensive income expected to be recognized as components of net periodic benefit cost over the next fiscal year
7. For private companies, not-for-profit organizations, and employee benefit plans, the reconciliation of the opening balances to the closing balances of plan assets measured on a recurring basis in Level 3 of the fair value hierarchy. However, private companies, not-for-profit organizations, and employee benefit plans would be required to disclose the amounts of transfers into and out of Level 3 of the fair value hierarchy and purchases of Level 3 plan assets.

Compensation—Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost

The proposed ASU would require an employer to report the service cost component in the same line item or items as other compensation costs arising from services rendered by the pertinent employees during the period. The other components of net benefit cost (as defined in Codification Topic 715) would be

presented in the income statement separately from the service cost component and outside a subtotal of income from operations, if one is presented. If a separate line item or items are used to present the other components of net benefit cost, that line item or items must be appropriately described.

The amendments in this proposed ASU also would allow only the service cost component to be eligible for capitalization when applicable (for example, as a cost of internally manufactured inventory or a self-constructed asset).

How Would Those Provisions Improve Current GAAP?

Compensation—Retirement Benefits—Defined Benefit Plans—General (Subtopic 715-20): Changes to the Disclosure Requirements for Defined Benefit Plans

The amendments in this proposed ASU would make disclosures related to defined benefit plans more useful for financial statement users by adding disclosure requirements related to other relevant information, such as certain descriptions of plan benefits and the reasons for significant gains and losses affecting the benefit obligations or plan assets. The amendments also would eliminate disclosure requirements that stakeholders told the FASB they did not consider important.

Compensation—Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost

Under the amendments in the proposed ASU, an employer would break out the service cost component from the other components of net benefit cost. The proposed amendments also would provide explicit guidance on how to present the service cost component and other components of net benefit cost in the income statement and would allow only the service cost component of net benefit cost to be eligible for capitalization. The proposed amendments would improve the consistency, transparency, and usefulness of financial information to users. Users have told the FASB that service cost is analyzed differently and has different predictive value from the other components of net benefit cost.

When Would the Proposed Guidance Be Effective?

Compensation—Retirement Benefits—Defined Benefit Plans—General (Subtopic 715-20): Changes to the Disclosure Requirements for Defined Benefit Plans

The changes would be applied retrospectively to all periods presented with one exception—the qualitative disclosures about plan assets measured at net asset value would be required beginning with

the most recent period presented in the initial period of adoption.

The effective date and whether or not early adoption would be permitted will be determined after the Board considers stakeholder feedback on the proposed amendments.

Compensation—Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost

The changes set forth in the proposed ASU would be applied retrospectively for the presentation of the service cost component and other components of net benefit cost in the income statement and prospectively for the capitalization, on and after the effective date, of the service cost component in assets. Disclosures of the nature of and reason for the change in accounting principle would be required in the first interim and annual reporting periods of adoption.

The effective date and whether or not early adoption would be permitted will be determined after the Board considers stakeholder feedback on the proposed amendments.

For more information about the project, please visit the FASB's website at www.fasb.org.