FASB FINANCIAL ACCOUNTING STANDARDS BOARD

Board Meeting Handout

Financial Instruments—Credit Losses (Topic 326)—Acquired Financial Assets

October 12, 2022

Meeting Purpose

1. The Board will continue initial deliberations regarding the accounting for acquired financial assets that are within the scope of Accounting Standards Update No. 2016-13, *Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*. Currently, the scope of the project is to expand the purchased financial asset with credit deterioration (PCD) accounting model to financial assets acquired in a business combination and an asset acquisition, with certain exceptions.

2. The Board will determine the terminology used for describing the accounting for acquired financial assets and whether certain assets should be excluded from the expanded scope of the PCD model, and the seasoning criteria.

Questions for the Board
Issue 1: Does the Board want to amend the Master Glossary term *purchased financial assets with credit deterioration* to *purchased financial assets*?
Issue 2: What criteria does the Board want to establish for identifying acquired financial assets as seasoned (and, therefore, subject to the PCD model)?
Issue 3: Should credit cards, home equity lines of credit (HELOCs), and other arrangements with revolving privileges be included or excluded from the scope of the PCD model?
Issue 4: Should acquired trade accounts receivable (Trade AR) be included or excluded from the scope of the PCD model?
Issue 5: Should acquired assets that are not recognized at fair value be included or excluded from the scope of the PCD model?

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Background

3. At the February 2, 2022 Board meeting, the Board began initial deliberations on this project and made the following decisions related to the scope of the accounting models applied to PCDs:

   (a) Eliminate the distinction between PCD and non-PCD assets upon acquisition and apply the PCD model to all acquired assets in both a business combination and asset acquisition, with certain exceptions, including:

      (i) Available-for-sale debt securities

      (ii) Credit cards and other revolving lending arrangements in which the borrower has active borrowing privileges.

   (b) Only seasoned financial assets would apply the PCD model. Financial assets that are not seasoned (that is, are in-substance originations) would not apply the PCD model.

4. The Board also directed the staff to perform additional research to clarify certain questions raised, including:

   (a) Identify alternative terminology to use for referencing the accounting model for acquired assets

   (b) How the scope of legacy AICPA Statement of Position 03-3, *Accounting for Certain Loans or Debt Securities Acquired in a Transfer* (SOP 03-3) (that is, purchased credit impaired (PCI)) compares with the proposed expanded scope of the PCD model

   (c) How certain asset types would be accounted for under the proposed expanded scope of the PCD model. Specifically, certain revolving lines of credit, Trade AR, and assets not recognized at fair value in a business combination.

Issue 1: Does the Board Want to Amend the Master Glossary Term *Purchased Financial Assets with Credit Deterioration* to *Purchased Financial Assets*?

5. The Board will consider whether to change the term *purchased financial asset with credit deterioration* to *purchased financial asset* (in other words, drop the phrase "with credit deterioration").

Issue 2: What Criteria Does the Board Want to Establish for Identifying Acquired Financial Assets as Seasoned (And, Therefore, Subject to the PCD Model)?

6. The Board will consider the following alternatives:

(a) *Alternative A*: Financial assets acquired in a business combination are deemed to be seasoned.

(b) *Alternative B:* Financial assets acquired in an asset acquisition are presumed to be in-substance originations if acquired within 90 days of origination. An acquirer can overcome the 90-day presumption if the acquirer routinely acquires similar financial assets in connection with conducting normal course business operations.

(c) *Alternative C*: Financial assets acquired in both a business combination and an asset acquisition are presumed to be in-substance originations if acquired within 90 days of origination. An acquirer can overcome the 90-day presumption if the acquirer routinely acquires similar financial assets in connection with conducting normal course business operations.

Issue 3: Should Credit Cards, HELOCs, and Other Arrangements with Revolving Privileges Be Included or Excluded From the Scope of the PCD Model?

7. The Board previously decided that revolving arrangement with revolving privileges should be excluded from the scope of the PCD model. The Board will consider the following alternatives for the asset classes subject to this exclusion:

(a) *Alternative A*: Credit cards and HELOCs with revolving privileges at the acquisition date are not within the scope of the PCD model and should be accounted for as if originated when acquired. Other revolving credit arrangements are within the scope of the PCD model.

(b) *Alternative B*: All revolving credit arrangements should be accounted for as if originated when acquired.

(c) *Alternative C*: All revolving credit arrangements should be accounted for as PCDs upon acquisition.

Issue 4: Should Trade AR Be Included or Excluded from the Scope of the PCD Model?

8. The Board will consider the following alternatives:

(a) *Alternative A*: Acquired Trade AR is within the scope of the PCD model.

(b) *Alternative B*: Acquired Trade AR is not within the scope of the PCD model.

Issue 5: Should Acquired Assets That Are Not Recognized at Fair Value Be Included or Excluded from the Scope of the PCD Model?

9. The Board will consider the following alternatives:

   (a) *Alternative A:* Assets not recognized at fair value upon acquisition are within the scope of the PCD model.

   (b) *Alternative B:* Assets not recognized at fair value upon acquisition are not within the scope of the PCD model. For assets not recognized at fair value acquired in a business combination, the allowance for credit losses upon acquisition should be recognized through purchase accounting.

   (c) *Alternative C*: Assets not recognized at fair value upon acquisition are not within the scope of the PCD model. For assets not recognized at fair value acquired in a business combination, the allowance for credit losses upon acquisition should be recognized as a credit loss expense.

FASB FINANCIAL ACCOUNTING STANDARDS BOARD

Board Meeting Handout
Accounting for and Disclosure of Crypto Assets
October 12, 2022

Meeting Purpose

1. The purpose of this meeting is for the Board to decide how entities that hold crypto assets within the scope of this project should measure those assets.

2. The first issue relates to the primary measurement basis for crypto assets. If the Board selects fair value as the primary measurement basis, the staff will ask the Board to consider several follow-on issues that relate to fair value measurement.

3. This meeting will not include discussion of the existing guidance for recognition or derecognition and it will not address potential improvements to the presentation and disclosure requirements and transition. The Board will deliberate those topics at future Board meetings.

Questions for the Board
Measurement Basis: 1. What should the primary measurement basis for crypto assets be: (a) historical cost with simplified impairment, (b) net realizable value (NRV), or (c) fair value? **If the Board Selects (C) in Question 1:** 2. Should the primary measurement basis be a requirement or an option? 3. As further described in paragraph 14 of this handout, should the guidance include any of the following in reference to the measurement of crypto assets with inactive markets: (a) a prohibition of the use of fair value when markets are inactive, (b) a policy election for assets that are inactive to be carried at cost less impairment, or (c) a requirement that the measurement of crypto assets be carried at zero if markets are inactive? 4. Should costs to acquire crypto assets be capitalized or expensed as incurred? 5. Should additional implementation guidance be provided relative to the application of fair value measurement of crypto assets as part of this project? 6. Should there be a difference for private companies for the measurement of crypto assets based on the Private Company Decision Making Framework?

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Background

4. During the August 31, 2022 Board meeting, the Board decided that crypto assets that are held by an entity must meet the following criteria to be within the scope of this project:

   (a) Meet the definition of *intangible asset* as defined in the Master Glossary of the Codification

   (b) Do not provide the asset holder with enforceable rights to, or claims on, underlying goods, services, or other assets

   (c) Are created or reside on a distributed ledger or "blockchain"

   (d) Are secured through cryptography

   (e) Are fungible.

   Assets within the scope of this project are referred to as "crypto assets."

5. Under current accounting guidance, most entities account for holdings of crypto assets in accordance with Subtopic 350-30, Intangibles—Goodwill and Other—General Intangibles Other Than Goodwill. Subtopic 350-30 requires that crypto assets be initially measured at cost and then subsequently evaluated for impairment at least annually, or more frequently if events or changes in circumstances indicate that it is more likely than not that the asset is impaired. In practice, this impairment testing requirement has been interpreted to mean that crypto assets should be impaired to the lowest observable fair value within a reporting period. Impairment losses are presented in comprehensive income and cannot be reversed for subsequent increases in value.

6. Certain entities that follow specialized industry guidance (for example, entities within the scope of Topic 946, Financial Services—Investment Companies) and certain regulatory guidance are required to measure crypto assets at fair value.

Feedback—Measurement

7. Respondents to the 2021 Invitation to Comment (ITC), *Agenda Consultation,* and other stakeholders that participated in staff outreach, provided detailed feedback on the preferred measurement approach for crypto assets within the scope of this project. An overwhelming majority of stakeholders favored fair value measurement, with many of those stakeholders citing that the current measurement model does not provide financial statement users with decision-useful information because subsequent increases in a crypto asset's value are not reflected in the financial statements. That is, they explained that reflecting only the decreases

in the value of crypto assets does not faithfully represent the underlying economics of those assets.

8. Some of those stakeholders further clarified that they favored a fair value option and a few suggested that entities should measure crypto assets without quoted prices in active markets at cost, adjusted for both observable price changes in identical transactions and impairment losses.

9. Other stakeholders expressed that an active market should be a prerequisite to measure crypto assets at fair value. Those stakeholders questioned whether the benefits of requiring fair value measurement of crypto assets without quoted prices in active markets justify the expected costs and challenges associated with estimating the fair value of those assets at each reporting period.

10. Furthermore, several stakeholders indicated that the current impairment model is costly because entities are required to identify the lowest price and estimate the fair value for their crypto asset holdings throughout the entire reporting period. This process requires that entities consider prices across multiple exchanges and seek information that is often not readily available.

Issue 1: Primary Measurement Basis

11. This issue addresses the preferred primary measurement basis of crypto assets. While the staff observed that there is significant support for fair value as the preferred measurement basis, the staff evaluated other relevant and viable solutions for the Board's consideration after considering FASB Concepts Statement No. 5, *Recognition and Measurement in Financial Statements of Business Enterprises,* FASB Concepts Statement No. 8, *Conceptual Framework for Financial Reporting,* and feedback received related to the current accounting model for crypto assets. The three primary measurement basis alternatives for the Board's consideration are as follows:

    (a) *Alternative A—Historical Cost with Simplified Impairment:* This alternative would retain the measurement guidance for intangible assets but would modify the impairment testing requirements. That is, an entity would be required to test crypto assets for impairment as of the end of the reporting period using the measure from the end of that period. Entities would not be required to measure (or recognize impairments for) crypto assets within the reporting period.

(b) *Alternative B—NRV:* This alternative would require measuring crypto assets at NRV, or at the estimated selling price in the normal course of business less reasonably predictable costs of completion, disposal, and transportation, including direct costs to sell.

(c) *Alternative C—Fair Value:* This alternative would require measuring crypto assets at fair value, using the guidance in Topic 820, Fair Value Measurement. Subsequent increases and decreases in fair value would be recognized in comprehensive income each reporting period.[1]

Issue 2: Subsequent Measurement Requirement or Option

12. This issue addresses whether the subsequent fair value measurement of crypto assets should be an option or a requirement.

13. A fair value option would be an open election (that is, no other criteria would be provided for an entity to opt in) that would allow entities to elect to measure crypto assets at fair value on an irrevocable, asset-by-asset basis. This guidance would be similar to the current fair value option for items within the scope of Topic 825, Financial Instruments.

Issue 3: Measurement of Crypto Assets without an Active Market

14. This issue considers three alternatives to the broad application of fair value measurement to address concerns related to the costs and complexities associated with measuring the fair value of crypto assets without quoted prices in active markets:

(a) *Alternative A—Prohibit Using Fair Value Measurement for Crypto Assets without Active Markets:* This alternative would require that those crypto assets continue to be assessed for impairment under the current cost-less-impairment model and change the measurement basis to fair value if the markets for those crypto assets become active.

(b) *Alternative B—Policy Election for Crypto Assets without Active Markets:* This alternative would provide entities with a policy election to apply the current cost-less-impairment model only while the markets are not active and reassess the applicability of the policy election each reporting period. Similar to the measurement guidance in Section 321-10-35, Investments—Equity Securities—Overall—Subsequent

[1] Income statement presentation, including consideration of presentation within net income versus other comprehensive income, will be addressed at a future Board meeting.

Measurement, for an equity security without a readily determinable fair value, entities would be required to:

(i) Reassess whether any crypto assets continue to qualify for the measurement alternative at each reporting period.

(ii) Measure a crypto asset at fair value (up or down) as of the date that an observable, orderly transaction occurred.

(iii) Perform a qualitative assessment at each reporting period to evaluate whether any facts or circumstances indicate that a crypto asset is impaired. If, after performing the qualitative assessment, a crypto asset is impaired, entities would be required to estimate the fair value of the crypto asset to determine the amount of the impairment loss and update the asset's carrying value accordingly.

(iv) Recognize holding gains and/or losses when the measurement guidance can no longer be applied (that is, when an inactive market becomes active or when an entity elects to discontinue its use).

(c) *Alternative C—Requiring a Fair Value of Zero While a Market Is Not Active:* This would require fair value measurement for crypto assets without active markets but specify that the fair value of those assets is zero until the markets for those assets become active.

Issue 4: Costs to Acquire Crypto Assets

15. This issue addresses whether costs incurred by an entity to acquire crypto assets, such as commissions and other transaction fees, should be capitalized or expensed as incurred.

16. In a recurring fair value model, those costs will be recognized in comprehensive income in the period of acquisition regardless of whether they are capitalized or expensed as incurred. However, specifying whether those costs are part of the initial measurement of a crypto asset affects presentation. That is, if costs are expensed as incurred, then holding gains and losses in the period of acquisition will be the result of market price changes only. If costs are capitalized, then holding gains and losses in the period of acquisition also will reflect the derecognition of those capitalized costs.

17. In subsequent reporting periods, the accounting effect would be the same regardless of whether costs to acquire crypto assets are capitalized or expensed.

Issue 5: Measurement Implementation Guidance

18. The application of fair value measurement guidance in Topic 820 to crypto assets has led to questions in current practice. This issue addresses some of the challenges that have been observed in practice. The Board will be asked whether it prefers to provide measurement implementation guidance as part of this project.

19. Examples of some of the issues that have been identified because of the nature of crypto assets and the markets in which they trade include, but are not limited to, the following:

    (a) Determining the principal (or most advantageous) market

    (b) Determining leveling within the fair value hierarchy

    (c) Determining fair value when the principal (or most advantageous) market is not active.

    The staff observes that Topic 820 provides subsequent measurement and implementation guidance and illustrations for assets and liabilities within the scope of that guidance. In addition, the AICPA Practice Aid, *Accounting for and Auditing Digital Assets,*[2] provides nonauthoritative guidance on the application of existing GAAP, including measurement, to crypto assets.

Issue 6: Private Company Considerations

20. This issue addresses whether there should be a difference for private companies for the measurement of crypto assets based on the Private Company Decision Making Framework.

21. The staff acknowledges that two primary reasons to have measurement differences in financial reporting between public and private companies are driven by cost and complexity and differences in needs of financial statement users. Private company stakeholders and advisory groups have generally supported the project's objective and the need to improve the decision usefulness of information related to crypto assets. Those stakeholders also have contributed to the feedback regarding the cost and complexity of the current accounting model for crypto assets.

[2] https://www.aicpa.org/resources/download/accounting-for-and-auditing-of-digital-assets-practice-aid-pdf

FINANCIAL ACCOUNTING STANDARDS BOARD

Board Meeting Handout
Agenda Prioritization and Agenda Consultation Feedback
October 12, 2022

Meeting Purpose

1. The purpose of this meeting is to assist the Board in determining whether to add a project to its technical agenda to address three employee benefit plan accounting issues identified in an agenda request by the AICPA's Financial Reporting Executive Committee (FinREC), Agenda Request 2021-08.

2. During this meeting, the Board also will discuss feedback received on the 2021 Invitation to Comment (ITC), *Agenda Consultation*, related to Topic 715, Compensation—Retirement Benefits.

3. The questions for the Board are as follows:

Questions for the Board
Agenda Prioritization 1. Does the Board want to add a project to its technical agenda on employee benefit plans? 2. If the answer to Question 1 is yes, which of the specific issues does the Board want to include in this project? 3. If the answer to Question 1 is yes, does the Board want the project to be a Board project or an EITF Issue? 4. If the answer to Question 1 is yes, does the Board: a. Have feedback on the project objective or scope? b. Request additional information for the staff to research? 5. If the Board does not add a project to its technical agenda for any or all the individual issues, is there particular research that the Board would like the staff to perform at this time?

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2021 ITC Feedback
6. Is there any research that Board members want the staff to perform on any of the issues related to Topic 715 that were identified by the ITC respondents?

Overall Background—Agenda Prioritization

4. The Board received an agenda request from FinREC on July 23, 2021, requesting clarification for three issues in employee benefit accounting. FinREC indicated that diversity has existed historically in the three issues identified. FinREC is asking for clarification now because it believes the diversity has increased based on recent economic conditions and it asserts the Public Company Accounting Oversight Board (PCAOB) has raised questions about one of those issues during its inspection process.

5. The issues FinREC is seeking clarification on include:

   (a) *Issue 1:* Accounting for funding credit balances in a defined benefit plan's financial statements

   (b) *Issue 2:* Estimating the amount of employer contributions receivable in a defined benefit pension plan

   (c) *Issue 3:* Accounting for employee contribution receivables for a single employer defined contribution plan.

Issue 1: Accounting for Funding Credit Balances in a Defined Benefit Plan's Financial Statements

6. FinREC indicates that issues in practice arise when the plan sponsor uses funding credits to satisfy a minimum required contribution (MRC) [1]. Specifically, FinREC is concerned about the application of the funding credits against the MRC that is generally included in an employer's contribution receivable. FinREC indicates that some plans are treating the subsequent use of funding credits as a correction of an error while others are treating it as a change in estimate.

7. FinREC has requested that the Board consider adding guidance in Topic 960, Plan Accounting—Defined Benefit Plans, that would clarify the accounting for the funding credit balances and the use of those credits.

[1] Employers that sponsor a defined benefit plan can choose to make more than the MRC, up to the maximum tax-deductible amount that is defined in IRC 404. This program allows employers to pre-fund future MRCs in good cash flow years. The funding credit balances accumulate interest until they are used. Funding credit balances are not segregated from the plan assets but are tracked and reported each year on the Form 5500. (American Academy of Actuaries fact sheet, What's a Credit Balance?)

Overview of Current Guidance—Authoritative and Nonauthoritative

8. There are no GAAP requirements to present or disclose contributions in excess of the MRC in the plan's financial statements. There also is no GAAP guidance on the accounting for or the disclosure of funding credits.

9. The accumulation and use of funding credit balances are reported in detail in Form 5500, Annual Return/Report of Employee Benefit Plan, in accordance with detailed instructions in Form 5500.

10. Topic 250, Presentation—Accounting Changes and Error Corrections, defines *changes in accounting estimates* and *errors in previously issued financial statements,* as follows.

> **Changes in Accounting Estimates**
>
> A change that has the effect of adjusting the carrying amount of an existing asset or liability or altering the subsequent accounting for existing or future assets or liabilities. A change in accounting estimate is a necessary consequence of the assessment, in conjunction with the periodic presentation of financial statements, of the present status and expected future benefits and obligations associated with assets and liabilities. Changes in accounting estimates result from new information. Examples of items for which estimates are necessary are uncollectible receivables, inventory obsolescence, service lives and salvage values of depreciable assets, and warranty obligations.
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> **Errors in Previously Issued Financial Statements**
>
> An error in recognition, measurement, presentation, or disclosure in financial statements resulting from mathematical mistakes, mistakes in the application of generally accepted accounting principles (GAAP), or oversight or misuse of facts that existed at the time the financial statements were prepared. A change from an accounting principle that is not generally accepted to one that is generally accepted is a correction of an error

11. Paragraph 960-30-45-1 states the following about changes in net assets available for benefits:

> Information regarding changes in net assets available for benefits shall be presented in enough detail to identify the significant changes during the year. This guidance is not intended to limit the amount of detail or manner of presenting information regarding changes in the net asset information. Subclassifications and additional classifications may be useful. For example, separately reporting refunds of terminated employees' contributions may be useful. Alternatively, such refunds may be netted against contributions received from participants or included in benefits paid. Accordingly, plan administrators should use their best judgment in light of the relevant circumstances.

Issue 2: Employer Contributions Receivable in a Defined Benefit Pension Plan

Overview of Current Guidance—Authoritative and Nonauthoritative

12. Paragraph 6.63 of the AICPA Audit and Accounting Guide, *Employee Benefit Plans* (EBP Guide) recommends that the MRC determined by the actuary be recorded as a contribution receivable in the plan's financial statements if not paid by year-end. For contributions made after the year-end, the EBP Guide states:

> Sometimes a contribution made after year-end that was not the result of a formal commitment at year-end is later recharacterized for funding and tax purposes by the plan sponsor as a contribution attributable to the plan year being reported on. This recharacterization may constitute a nonrecognized (type 2) subsequent event (an event occurring after the reporting date that is indicative of conditions [for example, a formal commitment] that did not exist at the reporting date) and, consequently, would not be recorded as a contribution receivable.

13. FinREC asserts that many auditors are unaware of the nonauthoritative guidance in paragraph 6.63 or misinterpret it, and plan sponsors do not use the EBP Guide when preparing the plan's financial statements. FinREC states that this creates diversity in practice.

14. FinREC also asserts that when determining the amount for contributions receivable, many plan sponsors look to paragraph 960-310-25-2 for guidance. That paragraph states:

> Amounts due include those pursuant to formal commitments as well as legal or contractual requirements. With respect to an employer's contributions, evidence of a formal commitment may include any of the following:
>
> a. A resolution by the employer's governing body approving a specified contribution
>
> b. A consistent pattern of making payments after the plan's year-end pursuant to an established funding policy that attributes such subsequent payments to the preceding plan year
>
> c. A deduction of a contribution for federal tax purposes for periods ending on or before the reporting date
>
> d. The employer's recognition as of the reporting date of a contribution payable to the plan. The existence of accrued pension costs does not, by itself, provide sufficient support for recognition of a contribution receivable. For various reasons, amounts recorded as accrued pension costs by an employer may differ from amounts formally committed to the plan. For example, the method used for measurement of periodic pension costs for the employer's financial statements may differ from the method used for determining the amount and incidence of employer contributions.

15. FinREC states that plan sponsors rely heavily on paragraph 960-310-25-2(c) to determine whether there is evidence of a formal commitment and, in doing so, the plan keeps the plan accounts open for up to 9.5 months after the plan year-end to complete the Form 5500. Frequently, whether the plan sponsor will make a contribution, and the amount of that contribution, will not be determined until the plan sponsor has completed its tax calculations and the actuary has completed the calculations determining what may be contributed in excess of the MRC. Because the plan has until the last day of its tax filing for that year to make that determination, some plans do not close the year-end financials until after the plan sponsor has filed its tax return (up to 9.5 months after the plan year-end for C-Corps and up to 8.5 months after plan year-end for S-Corps) and has allocated its funding between MRC and excess funding to the plan year. The plan sponsor then records the MRC and the excess contribution as an employer contribution receivable in the plan's year-end financial statements.

16. FinREC stated that the plan accounts should be closed at year-end with the information known at that time. FinREC continued that there was no evidence of a formal commitment at year-end and the subsequent overpayment and allocation should be treated as a Type 2 subsequent event.

Issue 3: Employee and Employer Contributions Receivable in a Defined Contribution Plan

17. FinREC indicated that there is confusion in practice about whether employee deferrals and related matching employer contributions for a payroll period that includes amounts earned related to services provided during the plan's current year but withheld in the following year should be accrued at the plan's current year-end. FinREC indicated that in practice most plans do not accrue contributions receivable for the amounts from pay periods that are earned at the end of the year for which withholdings are made in the following year. FinREC provided an example in which the last pay period of the calendar year starts on December 24, 20X2, and ends on December 31, 20X2, but that payroll is not paid until January 20X3 and the employee deferrals from that pay period do not get withheld until 20X3. In that example, no amounts are accrued by the plan as of December 31, 20X2, for those employee deferrals or the associated employer match.

18. FinREC stated that recently some PCAOB inspectors challenged this practice and asserted that GAAP requires the accrual of these employee deferrals and related employer matching contributions as of year-end because the employee has earned those amounts at year-end. Said differently, FinREC noted that some auditors were recently challenged by PCAOB inspectors for accepting the client's assertion that no accrual was necessary for certain

employee deferrals and related employer matching contributions at year-end because the employee deferrals are not due to the plan until withheld and the employer matching contributions do not meet the criteria of a formal commitment.

19. FinREC suggested that the FASB consider an accounting treatment that would align with ERISA's definition of when participant contributions are considered plan assets. That is, plans would not need to accrue for the employee deferrals and associated matching employer contributions relating to the period in which the compensation was earned. Instead, contributions receivable would be recognized as of the earliest date on which those contributions can be reasonably segregated from the employer's general assets, which would be no earlier than when the employee contribution amounts are withheld from the employee. FinREC noted that recording an accrual would result in a change in practice for many plans, with limited benefit.

20. FinREC provided the following three alternative views on the accrual of withholdings for employee contributions that are related to compensation earned in one fiscal period but paid to the plan in another period:

    (a) *Alternative View A:* No Accrual Is Required: Employee contributions that have not been withheld as of year-end should not be recognized as plan assets (accrued) because the transaction or other event giving rise to the plan's right to or control of the benefit has not occurred. Segregating the amounts from the employer's general assets would be the earliest date that the plan could obtain control of the benefit and that segregation does not happen until the amounts are withheld from the individual participants' paychecks in the next fiscal year. Similarly, the plan would not recognize the employer matching contributions until the employee contribution receivable is recognized because those contributions are based on amounts deferred by participants.

    (b) *Alternative View B:* Accrual Is Required: Employee deferral and related employer matching contributions would be accrued in the period in which the related compensation was earned. That is, because the employee is entitled to the compensation (whether cash or deferred) and the plan sponsor has an obligation for the compensation that includes those contributions; the amounts would be due to the plan and the plan would record a receivable.

    (c) *Alternative View C:* Accrual Depends on Whether Withholding Elections Can Be Rescinded: A contribution may not be owed to the plan solely because the related compensation was earned during the period, primarily because an employee may be able to change or rescind elections to withhold contributions at any time. Although paragraph 962-310-25-2 does not define what represents a formal commitment by the employee, withholding commitments by the employee may represent a formal

commitment if the withholding election cannot be changed or rescinded before amounts being withheld at year-end. Furthermore, when employer matching contributions are made only when an employee deferral is made, the criteria for determining whether a formal commitment has been made by the employer should include whether the employee has made a formal commitment.

Overview of Current Guidance—Authoritative and Nonauthoritative

Existing Guidance in GAAP

21. Paragraph 962-205-45-1 states that the financial statements of a defined contribution plan prepared in accordance with GAAP should be prepared on the accrual basis of accounting and include both of the following:

    (a) A statement of net assets available for benefits of the plan as of the end of the plan year

    (b) A statement of changes in net assets available for benefits of the plan for the year then ended.

22. The Master Glossary of the Codification defines *contributions receivable* as “the amounts due, as of the date of the financial statements, to the plan from employers, participants, and other sources of funding (for example, state subsidies or federal grants). They include amounts due pursuant to firm commitments, as well as legal or contractual restrictions.”

23. Paragraph 962-310-25-1 states that contributions receivable include those pursuant to formal commitments as well as legal or contractual requirements. With respect to an employer’s contributions, evidence of a formal commitment may include any of the following:

    (a) A resolution by the employer’s governing body approving a specified contribution

    (b) A consistent pattern of making payments after the plan’s year-end pursuant to an established contribution policy that attributes subsequent payments to the preceding plan year

    (c) A deduction of a contribution for federal tax purposes for periods ending on or before the financial statement due date

    (d) The employer’s recognition as of the financial statement date of a contribution payable to the plan. The existence of an accrued contribution payable in the employer’s financial statements does not, by itself, provide sufficient support for recognition of a contribution receivable by the plan.

24. Paragraph 962-310-25-1 above and paragraph 960-310-25-2 (as referenced in Issue 2) provide similar guidance on accounting for contributions receivable from an employer's perspective.

EBP Guide

25. Chapter 5A, "Defined Contribution Retirement Plans," of the EBP Guide offers nonauthoritative guidance on contributions and contributions receivable. Paragraphs of the EBP Guide associated with accounting for contributions receivable are included below.

> Paragraph 5.52 The most common sources of contributions made to a defined contribution plan include employer, employee, and rollover contributions. These contributions may be discretionary or mandatory and may be cash or noncash (such as employer securities), as well as pretax or after tax.
>
> Paragraph 5.54 In determining when a formal commitment exists as of the plan's year-end, an important factor to consider is whether the contribution is related to the participant's service or wages for that plan year. Other factors to consider include (a) whether the contribution is based on criteria (for example, company performance, participant compensation, or years of service) that existed for the plan year, (b) whether a formal resolution or plan terms require a contribution to be made for that plan year, (c) plan management's intent to make a discretionary contribution, and (d) the timing of the decision to make the contribution being reasonably soon after year-end. Typically, an employer contribution receivable for a defined contribution plan is recorded when the eligibility to receive the contribution is based on service or other criteria that existed as of the plan's year-end. This differs from a defined benefit pension plan, in which contributions (in excess of the minimum funding) are to fund future benefit payments under the plan.
>
> Paragraph 5.5 Other contributions may be determined after year-end but are based on facts that existed at year-end. For example, the employer may be required to contribute a qualified nonelective contribution because of a failure of a 401(k) plan to pass the average deferral percentage test, a targeted contribution for the benefit of certain otherwise ineligible participants to satisfy the coverage rules, or other contributions due to operational defects that require a corrective contribution. Similar to discretionary contributions, a contribution receivable may be recorded. Some operational defects may also require reinstatement of lost earnings. FinREC recommends that such corrective amounts be presented as other employer contributions in the statement of changes in net assets available for benefits. Any associated receivable would be presented as an other employer contribution receivable.

Code of Federal Regulations (CFR)

26. Paragraph 29 CFR 2510.3-102[2] defines when participant contributions are considered plan assets for ERISA, as follows:

> (a)(1) *General Rule*. For purposes of subtitle A and parts 1 and 4 of subtitle B of title I of ERISA and section 4975 of the Internal Revenue Code only (but without any implication for and may not be relied upon to bar criminal prosecutions under 18 U.S.C. 664), the assets of the plan include amounts (other than union dues) that a participant or beneficiary pays to an employer, or amounts that a participant has withheld from his wages by an employer, for contributions or repayment or a participant loan to the plan, as of the earliest date on which such contributions or repayments can reasonably be segregated from the employer's general assets.

Conceptual Framework

27. Chapter 4, *Elements of Financial Statements*, of Concepts Statement No. 8, *Conceptual Framework for Financial Reporting*, defines an asset as follows:

> E16. An asset is a present right of an entity to an economic benefit.
>
> E17. An asset has the following two essential characteristics:
>
> a. It is a present right.
>
> b. The right is to an economic benefit
>
> The combination of those two characteristics allows an entity to obtain the economic benefit and control others' access to the benefit. A present right of an entity to an economic benefit entitles the entity to the economic benefit and the ability to restrict others' access to the benefit to which the entity is entitled.
>
> E19. Essential to the definition of an asset is a right to an "economic benefit"–the capacity to provide services or benefits to the entities that use them. Generally, in a business entity, that economic benefit eventually results in potential net cash inflows to the entity. In a not-for-profit entity, that economic benefit is used to provide desired or needed goods or services to beneficiaries or other constituents, which may or may not directly result in net cash inflows to the entity. Some not-for-profit entities rely significantly on contributions or donations of cash to supplement selling prices or to replace cash or other assets used in providing goods and services. The relationship between the economic benefit of an entity's assets and net cash inflows to that entity can be indirect in both business entities and not-for-profit entities.
>
> E28. To meet the definition of an asset, the right must be a present right; that is, the right exists at the financial statements date, not a right expected to occur in the future. The existence of a present right at the financial statement date means that the right and therefore the asset have arisen from past transactions or other past events or circumstances. Often, assets are obtained by purchasing or producing them, but other transactions, events, or circumstances may generate assets.

[2] For more information, please see the following sources of information: https://www.govinfo.gov/content/pkg/CFR-2016-title29-vol9/pdf/CFR-2016-title29-vol9-sec2510-3-102.pdf and https://www.law.cornell.edu/cfr/text/29/2510.3-102.

> Examples include the receipt of land or buildings from a government or contributions received by a not-for-profit entity. The means of acquiring rights does not affect whether the item meets the essential characteristics of an asset. However, an examination of the history of how potential rights may have been created might help to determine whether a present right exists at the financial statement date.
>
> E31. Another essential characteristic of an asset is that the right of an entity must be to an economic benefit. An asset of an entity might be represented by rights to a particular property (such as the right to possess, use, and enjoy a parcel of land) or by rights to some or all the economic benefits derived from the property.

28. FASB Concepts Statement No. 5, *Recognition and Measurement in Financial Statements of Business Enterprises*, sets forth the following recognition criteria, all of which are subject to a cost-benefit constraint and materiality threshold:

    (a) *Definitions:* The item meets the definition of an element of financial statements.

    (b) *Measurability:* It has a relevant attribute measurable with sufficient reliability.

    (c) *Relevance:* The information about it is capable of making a difference in user decisions.

    (d) *Reliability:* The information is representationally faithful, verifiable, and neutral.

29. To be recognized in the financial statements, a resource must meet the definition of an asset and an obligation must meet the definition of a liability.

ITC Comment Letter Feedback—Topic 715

30. The Board received feedback about Topic 715 in two comment letters in response to the June 2021 ITC. The first comment letter respondent generally suggested that “currently pension disclosures should be optimized.”

31. The second comment letter identifies four issues for the Board to consider further improvement in defined benefit plan accounting, which are:

    (a) *Issue 1:* Use the accumulated benefit obligation to measure the pension obligations for all defined benefit pension plans.

    (b) *Issue 2:* Projected benefit obligation is not being used consistently to measure the pension obligation in cash balance/hybrid plans.

    (c) *Issue 3:* Use of differing amortization methodologies for amortizing gains and losses incentivizes plan sponsors to terminate or freeze defined benefit plans.

    (d) *Issue 4:* Diversity on measurement of pension obligation in variable cash balance/hybrid plans.

32. With respect to Issues 1 and 2, the comment letter respondent stated that the projected benefit obligation is "inconsistent with current practices that call for measurement of the most accurate actual liability at any point in time, without projections of future changes in various factors." The respondent suggested that the accumulated benefit obligation is a more relevant measure that should be used by all plans.

33. In Issue 3, the comment letter respondent suggested that the amortization requirements for gains and losses included in accumulated other comprehensive income discourages companies from sponsoring pension plans for employees and rewards companies that freeze plans by providing reductions in liabilities and expenses that are disproportionate to the actual amount saved.

34. In Issue 4, the comment letter respondent asserted that to the extent that new defined benefit plans are established or old plans are modified with new formulas, many plans are adopting designs that base benefits on the actual return on plan assets, possibly subject to certain guarantees or limitations. Specifically, the respondent was concerned about cash balance plans that are investment based in which the benefits are tied to market returns. The existing guidance did not anticipate those designs and is ambiguous in its application to those types of plans. As a result, projected benefit obligation measurements for those plans tend to vary by plan and by auditor.