AN ALERT FROM THE BDO NATIONAL ASSURANCE PRACTICE

BDO FLASH REPORT
FASB

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SUBJECT

FASB ISSUES ASU TO SIMPLIFY FINANCIAL REPORTING BY EMPLOYEE BENEFIT PLANS

SUMMARY

The FASB recently issued ASU 2015-12 as part of its simplification initiative. The amendments (i) require fully benefit-responsive investment contracts to be measured, presented and disclosed only at contract value, not fair value; (ii) simplify the investment disclosure requirements; and (iii) provide a measurement date practical expedient for employee benefit plans. The new standard takes effect in 2016 for calendar year-end entities and is available here.

DETAILS

Main Provisions:

The FASB recently issued ASU 2015-12[1] as part of its simplification initiative to reduce cost and complexity for practitioners, while preserving or enhancing the usefulness of information for financial statement users. The ASU is divided in three parts and applies to plan accounting of certain benefit plans.

Part I. Fully Benefit-Responsive Investment Contracts

The guidance in Part I of the ASU applies to reporting entities within the scope of Topics 962 (Defined Contribution Pension Plans) and 965 (Health and Welfare Benefit Plans) that classify investments as fully benefit-responsive investment contracts (e.g. guaranteed investment contracts or GICS).

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[1] *Plan Accounting: Defined Benefit Pension Plans (Topic 960), Defined Contribution Pension Plans (Topic 962), Health and Welfare Benefit Plans (Topic 965): (Part I) Fully Benefit-Responsive Investment Contracts, (Part II) Plan Investment Disclosures, (Part III) Measurement Date Practical Expedient.*

Prior to the ASU, U.S. GAAP required an entity to measure fully benefit-responsive investment contracts (i) at contract value for purposes of determining the net assets of an employee benefit plan; and (ii) at fair value (measured under Topic 820) for purposes of presentation and disclosure, and to provide an adjustment to reconcile fair value to contract value on the face of the plan financial statements when those measures differed.

The ASU designates contract value as the only required measure for fully benefit-responsive investment contracts. Contract value is considered relevant because that is the amount at which plan participants would transact. The ASU requires entities to disclose the contract value of each type of fully benefit-responsive investment contracts (e.g. traditional, synthetic) and eliminates the following reporting requirements for fully benefit-responsive investment contracts:

- Measurement and presentation at fair value
- Related disclosures required by Topics 820 and 825
- Certain disclosures under ASC 962 and ASC 965 requiring fair value calculation (e.g. average yield disclosures)

The ASU also clarifies that indirect investments in fully benefit-responsive investment contracts (e.g. stable value common or collective trusts) should not be reflected as fully benefit-responsive investment contracts and therefore those indirect investments should be reported at fair value. Generally, those funds calculate net asset value per share (NAV) or its equivalent in a manner consistent with the measurement principles of Topic 946. Therefore they may qualify for the NAV practical expedient. See ASU 2015-07[2] and BDO's Flash Report for additional information related to the NAV practical expedient.

Part II. Plan Investment Disclosures

The guidance in Part II of the ASU applies to reporting entities that follow the requirements of Topics 960 (Defined Benefit Pension Plans), 962 (Defined Contribution Pension Plans) and 965 (Health and Welfare Benefit Plans).

Prior to the ASU, U.S. GAAP required an entity to disclose: (i) individual investments that represent 5% or more of net assets available for benefits; (ii) the net appreciation or depreciation for investments by general type; and (iii) investment information disaggregated based on nature, characteristics and risks under Topic 820. Item (iii) was disclosed in addition to investment information disaggregated based on general type under Topics 960, 962 and 965.

To simplify the investment disclosures for employee benefit plans, the ASU:

- Eliminates (i), (ii), and (iii) above. Note, however, that net appreciation or depreciation in fair value of investments for the period is now required to be presented only in the aggregate. In addition, investments (both participant-directed and nonparticipant-directed) are now required to disaggregate only by general type (e.g. registered investment companies, government securities, common collective trusts, pooled separate accounts, short-term securities, corporate bonds, common stocks, mortgages and real estate) either on the face of the financial statements or in the notes.
- Removes the requirement to disaggregate the investments within a self-directed brokerage account. Self-directed brokerage accounts should be reported as a single type of investment.
- Removes the requirement to include investment strategy disclosures for funds that file Form 5500 as direct filing entities when the employee benefit plan measures those investments using NAV as a practical expedient.

Part III. Measurement Date Practical Expedient

The guidance in Part III of the ASU applies to reporting entities that follow the requirements of Topics 960 (Defined Benefit Pension Plans), 962 (Defined Contribution Pension Plans) and 965 (Health and Welfare Benefit Plans) and have a fiscal year-end that does not coincide with a month-end.

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[2] *Fair Value Measurement (Topic 820): Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent) (a consensus of the Emerging Issues Task Force).*

The ASU permits plans to measure investments and investment-related accounts (for example, a liability for a pending trade with a broker) as of a month-end date that is closest to the plan's fiscal year-end (the "alternative measurement date"), when the fiscal period does not coincide with a month-end.

Plans that apply the practical expedient should disclose the accounting policy election, the alternative measurement date and the amount of any contribution, distribution, and/or significant event that occurs between the alternative measurement date and the plan's fiscal year-end.

ASU 2015-04[3] provides a similar measurement date practical expedient for employers with fiscal periods that do not coincide with a month-end. For additional information, see BDO's Flash Report.

Effective Date and Transition:

The amendments are effective for fiscal years beginning after December 15, 2015. Early adoption is permitted for all three parts individually or in the aggregate.

Parts I and II of the ASU should be applied retrospectively, while Part III should be applied prospectively. Only the nature and reason for the change in accounting principle is required to be disclosed in the annual period of adoption.

[3] *Compensation—Retirement Benefits (Topic 715): Practical Expedient for the Measurement Date of an Employer's Defined Benefit Obligation.*