MINUTES

Financial Accounting Standards Board

To:	Board Members		
From:	Pension Funding Disclosures Team: Jolla (x231) & Rhine (x296)		
Subject:	Minutes of the October 4, 2006 Board Meeting: Pension Funding Disclosures Agenda Request	**Date:**	October 6, 2006
cc:	L. Smith, Bielstein, MacDonald, Golden, Cassel, Rhine, Proestakes, Leisenring, Polley, Gabriele, Vernuccio, Mechanick, Carney, Sutay, Allen, FASB Intranet		

The Board meeting minutes are provided for the information and convenience of constituents who want to follow the Board's deliberations. All of the conclusions reported are tentative and may be changed at future Board meetings. Decisions become final only after a formal written ballot to issue a final Statement or Interpretation.

Topic: Pension Funding Disclosures Agenda Request

Basis for Discussion: Board Memorandum No. 1

Length of Discussion: 9:45 to 10:15

Attendance:

Board members present: Batavick, Crooch, Herz, Linsmeier, Seidman, Trott, and Young

Board members absent: None

Staff in charge of topic: Jolla

Other staff at Board table: Smith and Rhine

Outside participants: None

Summary of Decisions Reached:

The Board considered an agenda request to provide additional disclosure guidance around the funding requirements of defined benefit plans. The Board decided not to issue additional disclosure requirements.

Objective of Meeting:

The objective of the meeting was for the Board to consider whether to add a project to its agenda that requires entities to disclose additional information about the funding requirements of their pension plans. The objective was met.

Matters Discussed and Decisions Reached:

1. Ms. Jolla stated that the purpose of the meeting was for the Board to consider whether to add a project to its agenda that would require entities to disclose additional information about the funding requirements of their pension plans. This agenda request was presented in response to the recent passage of the Pension Protection Act of 2006 (PPA). The PPA will be effective for plan years beginning in 2008. Under the PPA, companies may face increased funding requirements and will likely have less flexibility in funding their pension plans.

2. Ms. Jolla explained that the PPA aims to improve the funded status of corporate defined benefit plans as well as eliminate the financial crisis facing the Pension Benefit Guarantee Corporation. The PPA more closely aligns the required annual contributions with the funded status of the pension plan by reducing many of the smoothing mechanisms currently in place.

3. Ms. Jolla outlined some of the key provisions of the PPA that would impact funding requirements. Pension plans will be required to meet a funding target equal to 100 percent of the accrued liability based on an ABO-like measure. Any

funding shortfall will be amortized over seven years based on a methodology reflecting shortfall increases and decreases. Liabilities will be determined using a segment yield curve consisting of 3 interest rates that apply to benefits paid during 3 distinct time periods: 5 years, 5–20 years, and 20 or more years. Mortality tables will be provided by the treasury; however, a plan sponsor may request a substitute table. Asset values will be smoothed over 24 months compared the current smoothing over 5 years. Accelerated funding requirements are provided for plans determined to be *at-risk*. Credit balances will be preserved under the new rules, however, they will be subject to different rules. Finally, in addition to the annual report for the plan, plan sponsors will be required to provide an annual plan funding notice to plan participants and beneficiaries.

4. Ms. Jolla noted that FASB Statement No. 132 (revised 2003), *Employers' Disclosures about Pensions and Other Postretirement Benefits*, requires entities to disclose the total estimated contribution for the next fiscal year. Paragraph 5 states that an employer that sponsors one or more defined benefit pension plans or one or more other defined benefit postretirement plans shall provide the following information. Paragraph 5 (g) states:

> The employer's best estimate, as soon as it can reasonably be determined, of contributions expected to be paid to the plan during the next fiscal year beginning after the date of the latest statement of financial position presented. Estimated contributions may be presented in the aggregate combining (1) contributions required by funding regulations or laws, (2) discretionary contributions, and (3) noncash contributions.

Ms. Jolla also stated that the SEC requires registrants to disclose any future liquidity issues that will generally impact their cash flow. The SEC's disclosures require management to address the material impact of future cash payments on future cash flows. Ms. Jolla asked the Board if it wished to issue additional disclosure guidance about the funding requirements (that is, contributions) of defined benefit plans.

5. The Board decided that it would not issue additional guidance for disclosures about the funding requirements of defined benefit plans. The Board believes that current guidance would achieve adequate disclosure of the impact funding requirements would have on the general liquidity of a company (six Board members agreed; one did not [DMY]).

6. Ms. Seidman stated that, while she agrees that companies should provide information about future funding requirements, she believes that this forward looking information was already required by the SEC and that there was no reason to create a redundant disclosure requirement. Should companies fail to comply with those existing disclosure requirements, it would be within the SEC's jurisdiction to determine how to enforce the requirement. Mr. Linsmeier agreed with Ms. Seidman and stated that under SEC requirements, an entity is already required to disclose the timing and amounts of future funding obligations. He believes that this requirement should include disclosure of overfunding credit balances.

7. Mr. Batavick noted that it is difficult to demand that companies disclose future funding requirements because of the many complexities inherent in the calculation. For one, it would be challenging for companies to determine required contributions for each of their foreign plans. Additionally, the number disclosed would most likely not be representationally faithful of the obligation and would not be verifiable. Mr. Batavick believes that the disclosure should instead be addressed in the MD&A and suggested that the SEC make clear that the impact of the act should be included in future disclosures.

8. Mr. Herz stated that reliance on current SEC guidance would only address registrants. Mr. Batavick noted that prior discussions have shown that private companies generally do not have defined benefit plans. Furthermore, lenders can generally request additional information if necessary.

9. Mr. Young stated that in response to phase 1 of the pensions project, users of financial statements requested additional information that would help them better understand pension funding requirements. He believes that the Board should expand the current disclosure of funding requirements to provide users with that information. He stated that if this project were undertaken, the information users have requested could be provided at a relatively low cost to the preparer. Furthermore, Mr. Young noted that current pension disclosures are often inaccurate and inconsistent and he believes that this is an opportunity for the Board to improve them.

<u>Follow-up Items</u>:

None.

<u>General Announcements</u>:

None.