MINUTES

To:	Board Members
From:	Strange (ext. 442)
Subject:	Minutes of the January 18, 2006 Board Meeting
Date:	January 27, 2005
cc:	FASB: Bielstein, Smith, Petrone, Proestakes, Cafini, Hood, Strange, Cassel, Carney, Polley, Gabriele, Mahoney, Sutay, FASB Intranet; GASB: K. Johnson; IASB: Leisenring, Upton, McGeachin, Hickey

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:	Postretirement Benefit Obligations, Including Pensions: Disclosures, Transition, Effective Date, and Length of Comment Period
Basis for Discussion:	Board Memorandum No. 3 dated January 5, 2005
Length of Discussion:	9:20–11:00 a.m.
Attendance:	
Board members present:	Herz, Batavick, Crooch, Seidman, Trott, and Young
	Schipper (by phone for votes contained in paragraphs 7–34 of these minutes)
Board members absent:	Due to phone difficulties, Ms. Schipper was absent from the voting for issues contained in paragraphs 1–6 of these minutes.
Staff in charge of topic:	Proestakes
Other staff at Board table:	Bielstein, Cafini, Cassel, Hood, and Strange
Outside participants:	None

Summary of Decisions Reached:

The Board discussed issues relating to the limited-scope, first phase of its project to reconsider the accounting for postretirement benefits including pensions. The Board made the following decisions:

1. To revise disclosure requirements of FASB Statement No. 132 (revised 2003), *Employers' Disclosures about Pensions and Other Postretirement Benefits,* as follows:

   a. The existing requirement to disclose a reconciliation of the over- or under-funded status to amounts recognized in the statement of financial position will be eliminated (paragraph 5(c) of Statement 132(R)).

   b. The existing requirement to disclose information about a recognized additional minimum liability will be replaced with a requirement to disclose the nature and amount of changes in plan assets and benefit obligations recognized in net income and in other comprehensive income of each period (paragraph 5(i) of Statement 132(R)).

   c. Disclosure will be required in the postretirement benefits footnote of the accumulated amount of changes in plan assets and benefit obligations that have been recognized in other comprehensive income and will be recycled into net income in future periods.

   d. The examples in Statement 132(R) will be amended to clarify and illustrate the existing requirement to disclose the current and noncurrent portion of postretirement benefit plan assets and liabilities.

   e. The current requirement to disclose the measurement date (if other than the reporting date) will be eliminated when the measurement date change is effective (paragraphs 5(k) and 8(j) of Statement 132(R)).

   f. Disclosure will be required of the amount of estimated net actuarial gains and losses and prior service costs that will be amortized from accumulated comprehensive income into net income over the next fiscal year.

2. FASB Statements No. 87, *Employers' Accounting for Pensions,* and No. 106, *Employers' Accounting for Postretirement Benefits Other Than Pensions,* will be amended to incorporate existing guidance on the selection of the discount rate that currently resides in other literature (such as the basis for conclusions in Statement 106).

3. Except as noted in Item 4 below, an entity will be required to adopt the proposed changes in its first fiscal year ending after December 15, 2006. The entity will

initially apply the requirements through retrospective application to all prior periods presented, unless it concludes it is not practicable to estimate the amount of a deferred tax valuation allowance that would be required in those prior periods. The Board directed the staff to provide several examples of the initial application of the proposed Statement in the Exposure Draft.

4. An entity that currently measures plan assets and obligations as of a date earlier than the date of its financial statements will be required to change to a fiscal year end measurement date in fiscal years beginning after December 15, 2006. That entity will be required to adjust the opening balance of retained earnings for changes in plan assets and benefit obligations (that is, the funded status) and changes that will be recognized in other comprehensive income between the previous measurement date and the beginning of 2007. Curtailment and settlement gains and losses will be recognized as a component of net benefit cost in the quarter in which they occur.

5. The comment period for the Exposure Draft will be 60 days. The Board expects to issue that Exposure Draft in March.

<u>Objective of Meeting</u>:

The objective of the meeting was for the Board to discuss modifications to the existing disclosure requirements in Statement 132(R) about the proposed effective date and method of transition for public entities, and the comment period length of the proposed Statement that is expected to be issued March 2006. The objective of the meeting was met.

<u>Matters Discussed and Decisions Reached</u>:

Amendments to Existing Disclosure Requirements

1. The meeting began with a discussion of changes to the existing disclosure requirements for defined benefit postretirement plans that should be made as a direct consequence of the proposal to require recognition of the funded status of those plans in the sponsor’s statement of financial position.

2. The six Board members present unanimously decided to eliminate the existing requirement to reconcile the funded status of the plan to amounts recognized in the statement of financial position (paragraph 5(c) of Statement 132(R)). Board members

noted that disclosure will not be necessary once the funded status of the plan is recognized in the balance sheet.

3. The six Board members present also decided to eliminate existing disclosure requirements regarding the additional minimum liability because the changes to Statements 87 and 107 eliminate the notion of a minimum liability. The Board decided, however, to require disclosure of the nature and amount of changes in plan assets and benefit obligations recognized in both net income and other comprehensive income of each period.

4. The six Board members present decided to require disclosure in the postretirement benefits footnote of the accumulated amount of changes in plan assets and benefit obligations that have been recognized in other comprehensive income and will be recycled into net income in future periods.

5. Mr. Trott noted that the Board's decision would duplicate requirements in paragraphs 17 and 24–26 of FASB Statement No. 130, *Reporting Comprehensive Income*. However, he agreed that reporting the accumulated amounts recognized in other comprehensive income in the postretirement benefits footnote would make that footnote complete—users of financial statements would not have to look at multiple parts of the financial statements and footnotes to find all relevant information about the accounting for changes in plan assets and benefit obligations. Furthermore, Statement 130 provides entities with reporting options. Mandating disclosure in the benefits note will result in consistent disclosure by all entities for this one item (that is, on a pretax basis).

6. Previously, the Board decided to clarify the existing requirement to report the current and noncurrent portions of postretirement benefit plan assets and liabilities by codifying guidance in Question 41 of the Implementation Guide for Statement 87. The six Board members present decided to amend the examples in Statement 132(R) to clarify and illustrate those existing requirements.

7. Mr. Batavick indicated that he would like to encourage reporting entities to disclose the line item in the statement of financial position that includes the current and noncurrent assets and liabilities. He noted, however, that such disclosures are not

currently required nor would such a requirement be proposed in this limited-scope project.

8. The six Board members present voted to eliminate the current requirement to disclose the measurement date when that date is other than the reporting date. The decision to require all entities to use the reporting date as the measurement date eliminates the need for the disclosure. Board members agreed that disclosure change would be effective at the same time the measurement date change is effective.

Other Disclosures

9. While the Board agreed in principle to limit changes to existing disclosure requirements, Board members considered some additional disclosures that were not demonstrably related to the Board's decision on recognition. Board members discussed disclosures that would provide financial statement users with additional information until the Board comprehensively considers postretirement benefits in phase 2 of the project. Messrs. Trott and Batavick agreed with the staff's suggestion that the objective of these additional disclosures should be for entities to provide sufficient information for users to understand the approximate amount and pattern of the amortization of accumulated deferrals.

10. The Board considered three disclosure alternatives directed at enabling users of financial statements to better understand the effect delayed recognition provisions on net benefit cost reported in future periods. Those alternatives were:

    a. Disclose the amount of items subject to amortization (that is, actuarial gains or losses and prior service costs or credits) and the average period over which those gains or losses would be amortized;

    b. Disclose the estimated amount of net actuarial gains and losses and prior service costs that will be amortized from accumulated comprehensive income into net income over the next fiscal year; or, alternatively,

    c. Allow reporting entities to employ either of the above two disclosures and combine either with a proviso that the disclosure is necessary only if future amortization is expected to differ significantly from the current period.

11. The Board decided on Alternative B—disclosing the amount of estimated amortization as part of net benefit cost for the next fiscal year (GJB, KAS, LFS, EWT, DMY). Two Board members preferred the Board not require this disclosure, but did not object to Alternative B (GMC, RHH).

12. Board members who supported disclosing the estimated amount that will be amortized into net benefit cost for the next fiscal year (Alternative B) believe it is difficult for users to forecast this information. They believe this data is readily available to entities and would require little effort to comply. Ms. Seidman further noted that Alternative A might be of a limited usefulness when the amortization pattern is other than straight-line. Alternative B would be more straightforward and easily understood by users of financial statements. Board members also asked the staff to create illustrations to help preparers and users understand this disclosure requirement.

13. Mr. Trott noted that the proposed recognition of the over- or under- funded status of postretirement plans would improve information about the impact of smoothing. By putting all items smoothed into other comprehensive income with the components disclosed, users will see the cumulative amount of smoothing that will impact future earnings.

14. Board members who opposed the disclosure believed such additional disclosure is outside the scope of the initial phase of the project because it is not a direct consequence of the proposed changes in recognition. This disclosure is only one of many additional disclosures financial statements users would like the Board to consider. Suggested disclosures continue to be received from investment analysts, regulators, and others which raises the potential for scope expansion that could jeopardize completion of the first phase of the project in 2006. Analysis of each of those suggestions would take time and could delay implementing the primary objective of this phase of the project, which is recognition of the over- or under-funded status. Board members who opposed the disclosure also noted the disclosure would only provide information in the annual footnotes that financial statement users otherwise would obtain no more than one quarter later when the first quarter's financial statements are reported.

15. The Board also considered but rejected a proposal by Mr. Young that would have required disclosure when entities use market-related value and the expected amortization period for actuarial gains and losses that arise from the use of market-related value. Mr. Trott believes that disclosure adds little additional information because Statement 87 already requires disclosure of the expected return on plan assets and that disclosure enables a user to estimate the market-related value. Messrs. Proestakes and Cassel emphasized that while in the aggregate users can roughly determine the market-related value, they question the utility of aggregate market-related value information. Mr. Cassel expressed doubt about whether users could be provided with enough information to make good projections.

16. The Board also considered but rejected Mr. Young's proposal that would have required companies to disclose information about actuarial gains and losses on a disaggregated basis. Mr. Young asserted that users are confused by the merging of liability adjustments that are attributions of benefit cost over the remaining service lives of employees and asset adjustments that are delays in recognition. He believes separating the adjustments to actuarial losses by liability adjustments and asset adjustments would provide more transparency for users and would require no additional work on the part of preparers. Mr. Cassel felt the information necessary to accomplish that disclosure may require information systems changes as he believes most entities currently net information by source.

17. The Board considered but rejected Mr. Herz's proposal that would have required disclosure of information about the sensitivity of the postretirement benefit liability to changes in interest rates. Mr. Herz believes the Board's proposal will increase the size of recognized liabilities and the amount of reported balance sheet volatility (caused by remeasurement of the liability using current rates). Mr. Cassel stated that sensitivity analysis that focused only on the liability may be misleading because some changes in liabilities and assets are due to the same economic phenomena (for example, a change in interest rate would affect both the asset and liability if an entity has a dedicated bond portfolio). Board members rejected the proposal by Mr. Herz for the same reasons articulated in Statement 132(R).

18. The Board discussed but decided not to require at this time an additional disclosure of the method used by an entity when calculating its corridor for purposes of amortization. Mr. Young expressed concern that users could not distinguish between noncompliance with paragraph 5(o) of Statement 132(R) and use of a standard amortization method. The Board directed the staff to consult with the SEC to learn whether known compliance issues justify a change in this area.

19. The Board discussed but decided not to require at this time a disclosure of any significant future funding requirements that might be triggered by ERISA requirements. Mr. Herz questioned whether existing disclosure requirements (both FASB and SEC) provide users with information about those potential contributions by entities that may be close to tripping those ERISA funding requirements (and thereby have to make major cash contributions to their plans in future years). The Board directed the staff to consult with the SEC regarding current disclosure requirements to assess whether changes in this area should be considered.

Discount Rate Assumption Guidance

20. By a vote of four to three (GMC, LFS, DMY), the Board decided that Statements 87 and 106 would be amended to incorporate existing guidance on the selection of the discount rate that currently resides in other literature (such as the basis for conclusions in Statement 106). Board members instructed the staff to consider whether other guidance should be codified during drafting in order to ensure all relevant authoritative guidance is included in the Exposure Draft (for example, guidance providing additional information about the objective and method of selecting assumptions).

21. Board members who supported including paragraph 186 of Statement 106 in the standards sections of Statements 87 and 106 did not expect this move to change current authoritative GAAP; however, they acknowledged whenever the Board codifies guidance, changes may result in current practice. The Board supports incorporating the discount rate guidance because they believe the standard should provide all necessary guidance regarding the objective and method of selecting the discount rate assumption and that codifying the guidance would improve consistency

between Statements 87 and 106. The wording in paragraph 186 was specifically cited in a September 22, 1993 letter from the SEC to Timothy Lucas, Chairman of the Emerging Issues Task Force. In that letter the SEC stated its belief "…that the guidance that is provided in paragraph 186 of Statement of Financial Accounting Standards No. 106, *Employers' Accounting for Postretirement Benefits Other Than Pensions*, for selecting discount rates to measure the postretirement benefit obligation also is appropriate guidance for measuring the pension benefit obligation." Paragraph 186 of Statement 106 is already incorporated into the current text and EITF Topic No. D-36, "Selection of Discount Rates Used for Measuring Defined Benefit Pension Obligations and Obligations of Postretirement Benefit Plans Other Than Pensions." Therefore, the Board's decision to incorporate the paragraph would codify existing guidance.

22. Ms. Seidman and Mr. Leisenring expressed concern that the Board would be moving one additional piece of guidance without complete consideration of guidance on other aspects of Statements 87 and 106 that might also warrant codification. Messrs. Crooch and Young believe, given the Board's agreed-upon objectives, it would be inappropriate to include this change. Mr. Leisenring also objected to the staff's characterization that this paragraph aids understanding of the objective and method of selecting the discount rate assumption. He believes the paragraph exacerbates some constituents' misunderstanding of discount rate objectives if they examine paragraph 186 in isolation of other relevant discount rate guidance.

Transition and Effective Date: Recognition of Funded Status

23. By a vote of five to two (GJB and LFS), the Board decided to require retrospective application effective for years ending after December 15, 2006, for proposed changes in recognition of the over- or under-funded status of defined benefit postretirement plans and to include several examples in the Exposure Draft. By the same vote, the Board also decided to permit a restricted rather than a general exception to retrospective application based on impracticability. That is, an impracticability exception would be permitted only for a reporting entity that is not able to assess the realizability of deferred tax assets recognized retrospectively for prior years.

24. The Board believes that retrospective application consistent with how a change in accounting principle is applied pursuant to FASB Statement No. 154, *Accounting Changes and Error Corrections*, would improve financial reporting comparability by recognizing postretirement benefit assets and liabilities in the balance sheets of all years presented and by allocating changes in postretirement benefit assets and obligations recognized in other comprehensive income to each prior year presented.

25. Regarding the impracticability exception, Mr. Herz believes that there would be no reason for the exception unless entities could not perform a proper valuation of deferred tax assets without the inappropriate use of hindsight. Mr. Batavick and Ms. Seidman expressed discomfort with the specific impracticability exception for deferred tax assets and questioned the precedent of allowing impracticability for only certain items.

26. Ms. Schipper asked the staff to include the following three examples:

    a. An example with an impracticability exception for deferred tax assets

    b. An example without an impracticability exception for deferred tax assets

    c. An example in which an entity still has an unamortized transition asset or obligation.

Transition and Effective Date: Elimination of Earlier Measurement Date Alternative

27. The Board considered two alternatives for transition and effective date related to the proposed elimination of the earlier measurement date alternative. By a vote of five to two (GJB and LFS), the Board decided on Alternative 1.

28. Under Alternative 1, the measurement date would be effective for years beginning after December 15, 2006 (except for curtailment and settlement gains and losses). Upon adoption, an entity would adjust the opening balance of retained earnings for service cost, interest accretion, investment earnings, and amortization of gains and losses recognized in net benefit cost between the previous measurement date and the beginning of 2007. Curtailment and settlement gains and losses between the measurement date used for year-end 2006 reporting and the ending 2006 balance

sheet date would not be recognized as adjustments to retained earnings. Instead, those curtailment and settlement gains and losses would be recognized as a component of net benefit cost in the quarter in which they occur, that is, in the fourth fiscal quarter of 2006.

29. Alternative 2, supported by Mr. Batavick and Ms. Seidman, would change the measurement date effective for years ending after December 15, 2007. Under this alternative, the December 31, 2007 balance sheet would reflect measurements as of that same date. Net benefit cost recognized during 2007 would be based on the measurement date used in the prior year (for example, September 30, 2006). Any curtailment and settlement gains and losses in the fourth quarter of 2006 would be recognized in the first quarter of 2007. The effect on plan assets and benefit obligations between September 30, 2007 (that is, 12 months after the previous measurement date) and December 31, 2007, except for curtailment and settlement gains and losses, would be recognized as an adjustment of ending retained earnings. Curtailment and settlement gains and losses between September 30, 2007, and December 31, 2007, would be recognized as components of net benefit cost in that quarter.

30. Board members who supported Alternative 1 believe that while both alternatives produce a desired result of a change in measurement of plan assets and benefit for all entities in fiscal years ending 2007, Alternative 1 is preferable because it requires net benefit cost for 2007 to be based on measurements as of the date of the beginning of the year. Mr. Batavick and Ms. Seidman preferred Alternative 2 because they believe it is unreasonable to ask entities to complete two transitions in such a short period of time and that the incremental benefit between Alternatives 1 and 2 would be marginal.

31. Mr. Trott believes the Board will learn of any capacity issues during the comment letter process and asked the staff to specifically include a question in the Notice to Recipients of the Exposure Draft soliciting input regarding any foreseeable transition difficulties with the timing as proposed. Mr. Crooch and Ms. Schipper emphasized that constituents should inform the Board in comment letters of any implications of

which the Board may not be aware regarding the measurement date transition or effective date.

Length of Comment Period

32. The Board unanimously agreed to allow a 60-day comment period for the Exposure Draft given the lack of technical issues and the Board's stated goal of making phase 1 improvements effective for years ending after December 15, 2006.

Follow-up Items:

The Board instructed the staff to consult with SEC staff regarding its views on compliance with paragraph 5(o) of Statement 132(R), which requires disclosure of any alternative method used by an entity to amortize prior service amounts or unrecognized net gains and losses. The Board also directed the staff to consult with the SEC to consider the need for changes in disclosure requirements concerning an entity's significant future funding requirements that might be triggered by ERISA.

General Announcements:

None.