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Financial Accounting Series

EXPOSURE DRAFT

Proposed Statement of Financial Accounting Standards

Employers' Disclosures about Pensions and Other Postretirement Benefits

an amendment of FASB Statements No. 87, 88, and 106 and a replacement of FASB Statement No. 132

This Exposure Draft of a proposed Statement of Financial Accounting Standards is issued by the Board for public comment. Written comments should be addressed to:

Director of Technical Application and Implementation Activities
File Reference No. 1025-200

Comment Deadline: October 27, 2003

Financial Accounting Standards Board
of the Financial Accounting Foundation

Responses from interested parties wishing to comment on the Exposure Draft must be *received* in writing by October 27, 2003. Interested parties should submit their comments by email to director@fasb.org, File Reference No. 1025-200. Those without email may send their comments to the "TA & I Director—File Reference No. 1025-200" at the address at the bottom of this page. Responses should *not* be sent by fax.

Any individual or organization may obtain one copy of this Exposure Draft without charge until October 27, 2003, by written request only. *Please ask for our Product Code No. E171.* For information on applicable prices for additional copies and copies requested after October 27, 2003, contact:

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Notice for Recipients of This Exposure Draft

This proposed Statement addresses disclosures about pension plans and other postretirement benefit plans. It would require disclosures about defined benefit pension plan and other postretirement benefit plan assets, obligations, cash flows, and net cost and retain a number of disclosures required by FASB Statement No. 132, *Employers' Disclosures about Pensions and Other Postretirement Benefits*. This proposed Statement would eliminate Statement 132 requirements to provide reconciliations of beginning and ending balances of the fair value of plan assets and benefit obligations. The most important information presented in the reconciliations would be included in disclosures related to assets, obligations, and cash flows. The Board invites comments on all matters in this proposed Statement, particularly on the specific issues discussed below. Respondents need not comment on all of the issues presented and are encouraged to comment on additional issues as well. It would be helpful if respondents comment on the issues as stated, include any alternatives the Board should consider, and explain the reasons for the positions taken.

Disclosures in Annual Financial Statements

Request for Comments on Issues 1–4

Are the proposed disclosures described in Issues 1–4 needed for users to understand the financial condition and results, market risks, and cash flows associated with pension plans and other postretirement benefit plans? Should any of the proposed disclosures be eliminated and why? What additional disclosures should the Board require that are not included in this proposed Statement or existing requirements? Can the information to be disclosed be provided without imposing excessive cost?

Plan Assets

Issue 1: This proposed Statement would require disclosure of information for each major category of plan assets. The broadest categories of assets for which this information would be required are equity securities, debt securities, real estate, and all other assets. Disclosure by narrower asset categories and additional information about specific assets within a category would be encouraged if that information is expected to be useful in understanding the investment risks or expected long-term rate of return on assets.

The following information would be required to be presented for each major asset category:

a. Percentage of the fair value of total plan assets as of the date of each statement of financial position presented
b. Target allocation percentage or range of percentages, presented on a weighted-average basis
c. Expected long-term rate of return, presented on a weighted-average basis.

In addition, this proposed Statement would require disclosure of the range and weighted average of the contractual maturities, or term, of all debt securities.

Additional disclosures about investment strategies and policies, including the degree to which contractual maturities of plan assets align with the amount and timing of benefit payments, would be encouraged.

Paragraphs A10–A14 of this proposed Statement provide the basis for the Board's conclusions on this issue.

Defined Benefit Pension Plan Accumulated Benefit Obligation

Issue 2: This proposed Statement would require disclosure of the defined benefit pension plan accumulated benefit obligation. The accumulated benefit obligation is the measure of the pension obligation used to determine the amount of the minimum liability, when the accumulated benefit obligation exceeds the fair value of plan assets.

Paragraph A24 of this proposed Statement provides the basis for the Board's conclusion on this issue.

Cash Flow Information

Issue 3: This proposed Statement would require disclosure of:

a. A schedule of estimated future benefit payments included in the determination of the benefit obligation, as of the date of the latest statement of financial position presented, for each of the five succeeding fiscal years, and the total amount thereafter, with separate deduction from the total for the amount representing interest necessary to reduce the estimated future payments to present value
b. The employer's contributions expected to be paid to the plan during the next fiscal year beginning after the date of the latest statement of financial position, showing separately:
    (1) Contributions required by funding regulations or laws
    (2) Additional discretionary contributions
    (3) The aggregate amount and description of any noncash contributions.

Paragraphs A22 and A23 of this proposed Statement provide the basis for the Board's conclusions on this issue.

Assumptions

Issue 4: This proposed Statement would require use of a tabular format for disclosure of the following key assumptions (separately identifying the assumptions used to measure benefit obligations as of the plan's measurement date and those used to measure net benefit cost or income for the period): the assumed discount rates, rates of compensation increase (for pay-related plans), and expected long-term rates of return on plan assets. Those disclosures would be reported on a weighted-average basis. This proposed Statement would not change the information presently required to be disclosed but would seek to improve the clarity of the information.

Paragraph A28 of this proposed Statement provides the basis for the Board's conclusions on this issue.

Nonpublic Entities

Issue 5: This proposed Statement would retain the more limited disclosures for nonpublic entities required by Statement 132. Of the new disclosures that would be required by this proposed Statement, all would be required of nonpublic entities except for interim-period disclosure of the components of net periodic benefit cost recognized.

Do you agree that all disclosures that would be required by this proposed Statement, except for interim-period disclosure of the components of net periodic benefit cost recognized, should be required for nonpublic entities? Do nonpublic entities have any special circumstances affecting their ability to provide the proposed disclosures?

Paragraph A30 of this proposed Statement provides the basis for the Board's conclusions on this issue.

Sensitivity Information about Changes in Certain Assumptions

Issue 6: The Board considered, but did not include in this proposed Statement, a requirement to disclose sensitivity information about the impact on net periodic benefit cost and the benefit obligation of a hypothetical change in certain assumptions, such as expected long-term rates of return on assets, discount rates, and rate of compensation increase, while holding the other assumptions constant. The Board was concerned that such disclosures of hypothetical changes would not provide useful information, because economic conditions and changes therein often affect multiple assumptions. Also, an analysis that varied only one assumption at a time, holding the others constant, could be misleading or misinterpreted. The effect of a one-percentage-point increase and the effect of a one-percentage-point decrease in the assumed health care cost trend rates on (a) the aggregate of the service and interest cost components of net periodic postretirement health care benefit cost and (b) the accumulated postretirement benefit obligation for health care benefits would still be required.

Should disclosure of sensitivity information about hypothetical changes in certain assumptions be required and why?

Paragraphs A31 and A32 of this proposed Statement provide the basis for the Board's conclusions on this issue.

Measurement Date(s)

Issue 7: This proposed Statement generally would not require disclosure of the measurement date(s) used to determine pension and other postretirement benefit measurements when different from the fiscal year-end date. Disclosure of the measurement date(s) would be required when an economic event occurs, or economic conditions change, after the measurement date(s) but before the fiscal year-end, and if those changes may have had a significant effect on plan assets, obligations, or net periodic cost, had the fiscal year-end date been used as the measurement date. The nature of the significant changes also would be described.

Should disclosure of the measurement date(s) be required and why?

Paragraph A29 of this proposed Statement provides the basis for the Board's conclusions on this issue.

Reconciliations of Beginning and Ending Balances of Plan Assets and Benefit Obligations

Issue 8: This proposed Statement would eliminate the requirement in Statement 132 to provide reconciliations of beginning and ending balances of the fair value of plan assets and benefit obligations. This proposed Statement would instead require disclosure of ending balances and would retain key elements of the reconciliations that are not disclosed elsewhere, such as actual return on assets, benefit payments, employer contributions, and participant contributions. As such, this proposed Statement would provide a more focused approach for key items previously included in the reconciliations.

Should the reconciliations, as required by Statement 132, be eliminated or retained and why?

Paragraph A33 of this proposed Statement provides the basis for the Board's conclusions on this issue.

Disclosures Considered but Not Proposed

Issue 9: The Board considered but rejected a number of other disclosures that were requested by users of financial statements. The following information would not be required by this proposed Statement:

a. A description of investment policies and strategies.
b. An explanation of the basis for selecting the expected long-term rate of return on assets assumption.
c. The pension benefit obligation and funded status determined on a regulatory basis (for example, Employee Retirement Income Security Act of 1974 [ERISA]).
d. The pension benefit obligation and funded status determined on a plan termination basis (for example, the Pension Benefit Guaranty Corporation [PBGC] termination basis).
e. The amount and classification of net periodic pension and other postretirement benefit cost or income recognized in the statement of income, showing separately the amounts of net benefit cost or income included in each line item in the statement of income and reported for each period for which a statement of income is presented. The aggregate amount of net benefit cost or income recognized would be reconciled to the total amount of net benefit cost or income, identifying the aggregate amount capitalized as part of inventory or other productive assets.
f. The number of pension plan participants by group (for example, active, terminated-vested, and retired).
g. The amount of benefit obligation by participant group (for example, active, terminated-vested, and retired).
h. The weighted-average duration of the benefit obligation.
i. Interim-period disclosure of plan assets and benefit obligations.
j. A description of participation in multiemployer plans.

Should any of the above information be required to be disclosed and why?

Paragraphs A14–A21, A25–A27, and A35 of this proposed Statement provide the basis for the Board's conclusions on these issues.

Disclosures in Interim Financial Reports

Issue 10: This proposed Statement would require disclosure of the following information in interim financial statements that include a statement of income:

a. The amount of net periodic pension and other postretirement benefit cost recognized, showing separately the service cost component, the interest cost component, the expected return on plan assets for the period, the amortization of the unrecognized transition obligation or transition asset, the amount of recognized gains and losses, the amount of prior service cost recognized, and the amount of gain or loss recognized due to a settlement or curtailment
b. The employer's contribution paid, or expected to be paid during the year, if significantly different from previous disclosures pursuant to paragraph 5(g) of this proposed Statement, showing separately (1) contributions required by funding regulations or laws, (2) additional discretionary contributions, and (3) the aggregate amount and description of any noncash contributions.

Are the proposed disclosures needed for users to understand the financial condition, results, and cash flows associated with pension and other postretirement benefits? Should additional disclosures be required? Should either of the proposed interim period disclosures be eliminated?

Paragraphs A35 and A36 of this proposed Statement provide the basis for the Board's conclusions on this issue.

Effective Date and Transition

Issue 11: The provisions of this proposed Statement would be effective for fiscal years ending after December 15, 2003. The interim-period disclosures in this proposed Statement would be effective for the first fiscal quarter of the year following initial application of the annual disclosure requirements. The disclosures for earlier annual periods presented for comparative purposes would be restated for (a) the percentages of each major category of plan assets held and (b) the accumulated benefit obligation. The disclosures for earlier interim periods presented for comparative purposes would be restated for the components of net benefit cost. However, if obtaining this information relating to earlier periods is not practicable, the notes to the financial statements would include all available information and identify the information not available. All other disclosures, other than those identified above for restatement, would only be required to be presented as of the date of the most recent statement of financial position.

Are the proposed effective date provisions and transition appropriate? If not, what alternative effective dates and transition would you suggest and why? If individual disclosures require additional time to compile, please describe the nature and extent of the effort required.

Paragraphs A38 and A39 of this proposed Statement provide the basis for the Board's conclusions on this issue.

Summary

This proposed Statement would revise employers' disclosures about pension plans and other postretirement benefit plans. It would not change the measurement or recognition of those plans required by FASB Statements No. 87, *Employers' Accounting for Pensions,* No. 88, *Employers' Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits,* and No. 106, *Employers' Accounting for Postretirement Benefits Other Than Pensions.* This proposed Statement would replace FASB Statement No. 132, *Employers' Disclosures about Pensions and Other Postretirement Benefits,* and require additional disclosures about assets, obligations, cash flows, and net periodic benefit cost of defined benefit pension plans and other postretirement benefit plans.

Reasons for Issuing This Proposed Statement

This proposed Statement was developed in response to concerns expressed by users of financial statements about their need for more information about pension plan assets, obligations, cash flows, and net benefit cost. Users cited the significance of pensions for many entities and the need for more information about economic resources and obligations related to pension plans. In light of certain similarities between defined benefit pension arrangements and arrangements for other postretirement benefits, this proposed Statement also would require similar disclosures about postretirement benefits other than pensions.

Differences between This Proposed Statement and Statement 132

This proposed Statement would eliminate the requirement of Statement 132 to provide reconciliations of beginning and ending balances of the fair value of plan assets and benefit obligations. This proposed Statement would continue to require disclosure of certain elements of the reconciliations that are not disclosed elsewhere, including ending balances of the fair value of plan assets and benefit obligations, actual return on assets, benefit payments, employer contributions, and participant contributions. This proposed Statement would retain the other disclosure requirements of Statement 132 and would add additional disclosures.

Disclosures in Annual Financial Statements

Plan Assets

Information about the asset allocation and expected long-term rates of return would be disclosed for each major category of plan assets. The broadest categories of assets must include, at a minimum, equity securities, debt securities, real estate, and all other assets, if applicable. Disclosure by narrower asset categories and additional information about specific assets within a category would be encouraged if that information is expected to be useful in understanding the investment risks or expected long-term rate of return on assets.

The following information would be required to be presented for each major asset category:

a. Percentage of the fair value of total plan assets as of the date of each statement of financial position presented
b. Target allocation percentage or range of percentages, presented on a weighted-average basis
c. Expected long-term rate of return, presented on a weighted-average basis.

In addition, this proposed Statement would require disclosure of the range and weighted average of the contractual maturities, or term, of all debt securities.

Additional disclosures about investment strategies and policies, including the degree to which contractual maturities of plan assets align with the amount and timing of benefit payments, would be encouraged.

Defined Benefit Pension Plan Accumulated Benefit Obligation

This proposed Statement would require disclosure of the accumulated benefit obligation for each period for which a statement of financial position is presented.

Cash Flow Information

This proposed Statement would require disclosure of:

a. A schedule of estimated future benefit payments included in the determination of the benefit obligation, as of the date of the latest statement of financial position presented, for each of the five succeeding fiscal years, and the total amount thereafter, with separate deduction from the total for the amount representing interest necessary to reduce the estimated future payments to present value
b. The employer's contributions expected to be paid to the plan for the next fiscal year beginning after the date of the latest statement of financial position, showing separately (1) contributions required by funding regulations or laws, (2) additional discretionary contributions, and (3) the aggregate amount and description of any noncash contributions.

Assumptions

This proposed Statement would require use of a tabular format for disclosure of the following key assumptions (separately identifying the assumptions used to measure benefit obligations as of the plan's measurement date and those used to measure net benefit cost or income for the period): the assumed discount rates, rates of compensation increase (for pay-related plans), and expected long-term rates of return on plan assets. Those disclosures would be reported on a weighted-average basis for all defined benefit pension plans and all other postretirement benefit plans. This proposed Statement would not change the information presently required to be disclosed but would seek to improve the clarity of the information. An example of the presentation format appears in the illustration included in Appendix C of this proposed Statement.

Measurement Date(s)

This proposed Statement generally would not require disclosure of the measurement date(s) used to determine pension and other postretirement benefit measurements when different from the fiscal year-end date. Disclosure of the measurement date(s) would be required when an economic event occurs, or economic conditions change, after the measurement date(s) but before the fiscal year-end, and if those changes may have had a significant effect on plan assets, benefit obligations, and net periodic cost, had the fiscal year-end date been used as the measurement date. The nature of the significant changes also would be described.

Reduced Disclosure Requirements for Nonpublic Entities

This proposed Statement would retain the more limited disclosures for nonpublic entities required by Statement 132. Of the new disclosures that would be required by this proposed Statement, all would be required of nonpublic entities except for interim-period disclosure of the components of net periodic benefit cost recognized.

Interim-Period Disclosures

The following information would be disclosed in interim financial statements of publicly traded entities that include a statement of income:

a. The amount of net periodic benefit cost recognized, showing separately the service cost component, the interest cost component, the expected return on plan assets for the period, the amortization of the unrecognized transition obligation or transition asset, the amount of recognized gains and losses, the amount of prior service cost recognized, and the amount of gain or loss recognized due to a settlement or curtailment
b. The employer's contribution paid, or expected to be paid during the year, if significantly different from previous disclosures pursuant to paragraph 5(g) of this proposed Statement, showing separately (1) contributions required by funding regulations or laws, (2) additional discretionary contributions, and (3) the aggregate amount and description of any noncash contributions.

How the Changes in This Proposed Statement Would Improve Financial Reporting and How the Conclusions in This Proposed Statement Relate to the Conceptual Framework

FASB Concepts Statement No. 1, *Objectives of Financial Reporting by Business Enterprises*, states that financial reporting should provide information about economic resources of an enterprise, claims to those resources, and the effects of transactions, events, and circumstances that change its resources and claims to those resources. The changes in this proposed Statement, including the revised presentation illustrated in Appendix C, would result in more complete information about pension and other postretirement benefit plan assets, obligations, cash flows, and net cost and will, thereby, assist users of financial statements in assessing the market risk of plan assets, the amount and timing of related cash flows, and reported earnings.

FASB Concepts Statement No. 2, *Qualitative Characteristics of Accounting Information,* identifies relevance and reliability as the characteristics of financial information that make it useful. The changes in this proposed Statement would enhance disclosures of relevant accounting information by providing more information about the plan assets available to finance benefit payments, the obligations to pay benefits, and an entity's obligation to fund the plan.

Benefits and Costs

Entities that prepare financial statements in conformity with generally accepted accounting principles already compile and aggregate information about pension plans and other postretirement benefit plans, including information about plan assets, benefit obligations, and net cost. Information about equity securities, debt securities, real estate, and other assets is likely to be available from asset management activities. Reporting of additional information about pension plans and other postretirement benefit plans may require some additional effort and cost, including amounts that may be paid to entities' auditors and actuaries; however, the information that would be required by this proposed Statement already is essential in complying with Statements 87, 106, and 132 and, therefore, should be available to, and understood by, preparers of financial statements. Additional costs to compile, analyze, and audit the proposed additional disclosures are believed to be modest in relation to the benefits to be derived by financial statement users. Those benefits are in the form of additional decision-useful information.

Effective Date of This Proposed Statement

This proposed Statement would be effective for financial statements for fiscal years ending after December 15, 2003. The interim-period disclosures proposed in this Statement would be effective for interim-period financial reports for the first fiscal quarter of the year following initial application of the annual disclosure requirements.

The disclosures for earlier annual periods presented for comparative purposes would be restated for (a) the percentages of each major category of plan assets held and (b) the accumulated benefit obligation. The disclosures for earlier interim periods presented for comparative purposes would be restated for the components of net benefit cost. However, if obtaining this information relating to earlier periods is not practicable, the notes to the financial statements would include all available information and identify the information not available. All other disclosures, other than those identified above for restatement, would only be required to be presented as of the date of the most recent statement of financial position.

Proposed Statement of Financial Accounting Standards

Employers' Disclosures about Pensions and Other Postretirement Benefits

an amendment of FASB Statements No. 87, 88, and 106 and a replacement of FASB Statement No. 132

September 12, 2003

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September 12, 2003

INTRODUCTION

1. The Board added a project on pension disclosures to its technical agenda in March 2003 in response to concerns about insufficient information in employers' financial statements about their defined benefit pension plan assets, obligations, cash flows, and net pension costs.[1] The project's objective is to (a) improve the content and organization of annual disclosures about defined benefit pension plans, (b) determine what, if any, disclosures should be required for interim-period financial reports, and (c) determine whether the disclosures to be required for defined benefit pension plans also should be required for other postretirement benefit plans.

2. Although current disclosure requirements for pension plans and other postretirement benefit plans are extensive, many users of financial statements told the Board that the information provided for defined benefit pension plans is not adequate. Users of financial statements requested additional information that would assist them in (a) evaluating plan assets and the expected long-term rate of return used in determining net pension cost, (b) evaluating the employer's obligations under pension plans and the effects of such obligations on the employer's future cash flows, and (c) estimating the potential impact of net pension cost on future net income. The Board concluded that disclosures about pensions could be improved to provide information that would better serve users' needs.

3. This Statement incorporates most of the disclosure requirements of FASB Statement No. 132, *Employers' Disclosures about Pensions and Other Postretirement Benefits*. It eliminates Statement 132 requirements to provide reconciliations of beginning and ending balances of the fair value of plan assets and benefit obligations. This Statement amends APB Opinion No. 28, *Interim Financial Reporting,* to require interim-period disclosure of the components of net periodic benefit cost and if materially different from previously disclosed amounts, the amounts of contributions or projected contributions to fund pension plans and other postretirement benefit plans. Information required to be disclosed about pension plans should not be combined with information required to be disclosed about other postretirement benefit plans except as permitted by paragraphs 6 and 7 of this Statement. *The disclosures that are new or have been changed are identified with an asterisk (*).* Appendix A provides background information, the

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[1]The use of the terms *net pension cost, net benefit cost, net cost,* or other similar terms includes net pension and other postretirement benefit income.

basis for the Board's conclusions in this Statement, and alternative views of three Board members. Appendix B provides background information and the basis for the Board's conclusions as originally contained in Statement 132. Appendix C provides illustrations that present the required disclosures. Appendix D provides information about the impact of this Statement on authoritative accounting literature included in categories (a) and (b) in GAAP hierarchy discussed in AICPA Statement on Auditing Standards No. 69, *The Meaning of Present Fairly in Conformity With Generally Accepted Accounting Principles.*

STANDARDS OF FINANCIAL ACCOUNTING AND REPORTING

Scope

4. This Statement replaces the disclosure requirements in FASB Statements No. 87, *Employers' Accounting for Pensions,* No. 88, *Employers' Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits,* No. 106, *Employers' Accounting for Postretirement Benefits Other Than Pensions,* and No. 132, *Employers' Disclosures about Pensions and Other Postretirement Benefits.*[2] This Statement addresses disclosure only. It does not address measurement or recognition.

Disclosures about Pension Plans and Other Postretirement Benefit Plans

5. The following disclosures are applicable to both pension plans and other postretirement benefit plans. Certain terms used in this Statement, such as *projected benefit obligation, accumulated benefit obligation,* and *net pension cost,* are based on the definitions contained in Statement 87. 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, separately for pension plans and other postretirement benefit plans. Amounts related to the employer's results of operations shall be disclosed for each period for which a statement of income is presented. Amounts related to the employer's statement of financial position shall be disclosed as of the date of each statement of financial position presented. Additional disclosures about investment strategies and policies, including the degree to which contractual maturities of plan assets align with the amount and timing of benefit payments, are encouraged.*

a. The benefit obligation[3] and fair value of plan assets.
b. The actual return on plan assets, employer contributions, participant contributions, and benefits paid.

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[2]Disclosures required by paragraphs 5–11 of Statement 132, except for the reconciliations of beginning and ending balances of plan assets and benefit obligations, are carried forward and included with the new disclosure requirements in paragraphs 5–8 and 11–14 of this Statement.

[3]For defined benefit pension plans, the benefit obligation is the projected benefit obligation—the actuarial present value as of a date of all benefits attributed by the pension benefit formula to employee service rendered prior to that date. For defined benefit postretirement plans, the benefit obligation is the accumulated postretirement benefit obligation—the actuarial present value of benefits attributed to employee service rendered to a particular date.

c. The funded status of the plans, the amounts not recognized in the statement of financial position, and the amounts recognized in the statement of financial position, including:
   (1) The amount of any unamortized prior service cost
   (2) The amount of any unrecognized net gain or loss (including asset gains and losses not yet reflected in market-related value)
   (3) The amount of any remaining unamortized, unrecognized net obligation, or net asset existing at the initial date of application of Statement 87 or Statement 106
   (4) The net pension or other postretirement benefit prepaid assets or accrued liabilities
   (5) Any intangible asset and the amount of accumulated other comprehensive income recognized pursuant to paragraph 37 of Statement 87, as amended.

d. Information about plan assets:
   (1) For each major category of plan assets which shall include, at a minimum, equity securities,[4] debt securities,[5] real estate, and all other assets, the:
      (a) Percentage of the fair value of total plan assets held as of the date of each statement of financial position presented*
      (b) Target allocation percentage or range of percentages presented on a weighted-average basis as of the date of the latest statement of financial position presented*
      (c) Expected long-term rate of return on assets presented on a weighted-average basis for the latest period for which a statement of income is presented.*
   (2) Disclosure of additional asset categories and additional information about specific assets within a category is encouraged if that information is expected to be useful in understanding the risks and expected long-term rate of return for each asset category.*

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[4]The term *equity securities* includes any security representing an ownership interest in an enterprise (for example, common, preferred, or other capital stock) or the right to acquire (for example, warrants, rights, and call options) or dispose of (for example, put options) an ownership interest in an enterprise at fixed or determinable prices. However, the term does not include convertible debt or preferred stock that by its terms either must be redeemed by the issuing enterprise or is redeemable at the option of the investor (FASB Statement No. 115, *Accounting for Certain Investments in Debt and Equity Securities*, paragraph 137).

[5]The term *debt securities* includes any security representing a creditor relationship with an enterprise. It also includes (a) preferred stock that by its terms either must be redeemed by the issuing enterprise or is redeemable at the option of the investor and (b) a collateralized mortgage obligation (CMO) (or other instrument) that is issued in equity form but is required to be accounted for as a nonequity instrument regardless of how that instrument is classified (that is, whether equity or debt) in the issuer's statement of financial position. However, it excludes option contracts, financial futures contracts, forward contracts, and lease contracts. Thus, the term *debt security* includes, among other items, U.S. Treasury securities, U.S. government agency securities, municipal securities, corporate bonds, convertible debt, commercial paper, all securitized debt instruments, such as CMOs and real estate mortgage investment conduits (REMICs), and interest-only and principal-only strips. Trade accounts receivable arising from sales on credit by industrial or commercial enterprises and loans receivable arising from consumer, commercial, and real estate lending activities of financial institutions are examples of receivables that do not meet the definition of *security;* thus, those receivables are not debt securities (unless they have been securitized, in which case they would meet the definition) (Statement 115, paragraph 137).

(3) Disclosure for all debt securities shall include the range and weighted-average of the contractual maturities, or term.*

e. For defined benefit pension plans, the accumulated benefit obligation.[6]*

f. A schedule of estimated future benefit payments included in the determination of the benefit obligation, as of the date of the latest statement of financial position presented, for each of the five succeeding fiscal years, and the total amount thereafter, with separate deduction from the total for the amount representing interest necessary to reduce the estimated future payments to present value.*

g. The employer's contributions expected to be paid to the plan during the next fiscal year beginning after the date of the latest statement of financial position, separately identifying (1) contributions required by funding regulations or laws, (2) additional discretionary contributions, and (3) the aggregate amount and description of any noncash contributions.*

h. The amount of net periodic benefit cost recognized, showing separately the service cost component, the interest cost component, the expected return on plan assets for the period, the amortization of the unrecognized transition obligation or transition asset, the amount of recognized gains and losses, the amount of prior service cost recognized, and the amount of gains or losses recognized due to a settlement or curtailment.

i. The amount included within other comprehensive income for the period arising from a change in the additional minimum pension liability recognized pursuant to paragraph 37 of Statement 87, as amended.

j. On a weighted-average basis, the following assumptions used in the accounting for the plans: assumed discount rates, rates of compensation increase (for pay-related plans), and expected long-term rates of return on plan assets specifying, in a tabular format, the assumptions used to determine the benefit obligation and the assumptions used to determine net benefit cost.*

k. The measurement date(s) used to determine pension and other postretirement benefit measurements when different from the fiscal year-end date and an economic event occurs, or economic conditions change, after the measurement date(s) but before the fiscal year-end, and if those changes may have had a significant effect on plan assets, benefit obligations, or net periodic cost, had the fiscal year-end date been used as the measurement date. The nature of the significant changes also should be described.*

l. The assumed health care cost trend rate(s) for the next year used to measure the expected cost of benefits covered by the plan (gross eligible charges), and a general description of the direction and pattern of change in the assumed trend rates thereafter, together with the ultimate trend rate(s) and when that rate is expected to be achieved.

m. The effect of a one-percentage-point increase and the effect of a one-percentage-point decrease in the assumed health care cost trend rates on (1) the aggregate of the service and interest cost components of net periodic postretirement health care

[6]The accumulated benefit obligation is the actuarial present value of pension benefits (whether vested or unvested) attributed to employee service rendered before a specified date and based on employee service and compensation (if applicable) prior to that date (Statement 87, paragraph 264).

benefit costs and (2) the accumulated postretirement benefit obligation for health care benefits. (For purposes of this disclosure, all other assumptions shall be held constant, and the effects shall be measured based on the substantive plan that is the basis for the accounting.)

n. If applicable, the amounts and types of securities of the employer and related parties included in plan assets, the approximate amount of future annual benefits of plan participants covered by insurance contracts issued by the employer or related parties, and any significant transactions between the employer or related parties and the plan during the period.

o. If applicable, any alternative method used to amortize prior service amounts or unrecognized net gains and losses pursuant to paragraphs 26 and 33 of Statement 87 or paragraphs 53 and 60 of Statement 106.

p. If applicable, any substantive commitment, such as past practice or a history of regular benefit increases, used as the basis for accounting for the benefit obligation.

q. If applicable, the cost of providing special or contractual termination benefits recognized during the period and a description of the nature of the event.

r. An explanation of any significant change in the benefit obligation or plan assets not otherwise apparent in the other disclosures required by this Statement, and the nature and effect of significant nonroutine events, such as amendments, combinations, divestitures, curtailments, and settlements.

Employers with Two or More Plans

6. The disclosures required by this Statement shall be aggregated for all of an employer’s defined benefit pension plans and for all of an employer’s other defined benefit postretirement plans unless disaggregating in groups is considered to provide useful information or is otherwise required by paragraphs 6 and 7 of this Statement. Disclosures about pension plans with assets in excess of the accumulated benefit obligation generally may be aggregated with disclosures about pension plans with accumulated benefit obligations in excess of assets. The same aggregation is permitted for other postretirement plans. If aggregate disclosures are presented, an employer shall disclose the aggregate benefit obligation and aggregate fair value of plan assets for plans with benefit obligations in excess of plan assets as of the date of each statement of financial position presented. 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 also shall be disclosed as of the date of each statement of financial position presented. Disclosure of amounts recognized in the statement of financial position shall present prepaid benefit costs and accrued benefit liabilities separately.

7. A U.S. reporting entity may combine disclosures about pension plans or other postretirement benefit plans outside the U.S. with those for U.S. plans unless the benefit obligations of the plans outside the U.S. are significant relative to the total benefit obligation and those plans use significantly different assumptions. A foreign reporting entity that prepares financial statements in conformity with U.S. generally accepted accounting principles (GAAP) shall apply the preceding guidance to its domestic and foreign plans.

Reduced Disclosure Requirements for Nonpublic Entities

8. A nonpublic entity[7] is not required to disclose the information required by paragraphs 5(c), 5(m), and 5(o)–5(r) of this Statement. A nonpublic entity that sponsors one or more defined benefit pension plans or one or more other defined benefit postretirement plans shall provide the following information, separately for pension plans and other postretirement benefit plans. Amounts related to the employer's results of operations shall be disclosed for each period for which a statement of income is presented. Amounts related to the employer's statement of financial position shall be disclosed as of the date of each statement of financial position presented. Additional disclosures about investment strategies and policies, including the degree to which contractual maturities of plan assets align with the amount and timing of benefit payments, are encouraged.*

a. The benefit obligation, fair value of plan assets, and funded status of the plan.
b. Employer contributions, participant contributions, and benefits paid.
c. Information about plan assets:
   (1) For each major category of plan assets which shall include, at a minimum, equity securities, debt securities, real estate, and all other assets, the:
      (a) Percentage of the fair value of total plan assets held as of the date of each statement of financial position presented.*
      (b) Target allocation percentage or range of percentages presented on a weighted-average basis as of the date of the latest statement of financial position presented.*
      (c) Expected long-term rate of return on assets presented on a weighted-average basis for the latest period for which a statement of income is presented.*
   (2) Disclosure of additional asset categories and additional information about specific assets within a category is encouraged if that information is expected to be useful in understanding the risks and expected long-term rate of return for each asset category.*
   (3) Disclosure for all debt securities shall include the range and weighted-average of the contractual maturities, or term.*
d. For defined benefit pension plans, the accumulated benefit obligation.*
e. A schedule of estimated future benefit payments included in the determination of the benefit obligation, as of the date of the latest statement of financial position presented, for each of the five succeeding fiscal years, and the total amount thereafter, with separate deduction from the total for the amount representing interest necessary to reduce the estimated future payments to present value.*

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[7]The term *nonpublic entity* includes any entity other than one (a) whose debt or equity securities trade in a public market either on a stock exchange (domestic or foreign) or in the over-the-counter market, including securities quoted only locally or regionally, (b) that makes a filing with a regulatory agency in preparation for the sale of any class of debt or equity securities in a public market, or (c) that is controlled by an entity covered by (a) or (b) (FASB Statement No. 126, *Exemption from Certain Required Disclosures about Financial Instruments for Certain Nonpublic Entities,* paragraph 3).

f. The employer's contributions expected to be paid to the plan during the next fiscal year beginning after the date of the latest statement of financial position, separately identifying (1) contributions required by funding regulations or laws, (2) additional discretionary contributions, and (3) the aggregate amount and description of any noncash contributions.*

g. The amount of net periodic benefit cost recognized in the statements of financial position, including net pension and other postretirement benefit prepaid assets or accrued liabilities and any intangible asset and the amount of accumulated other comprehensive income recognized pursuant to paragraph 37 of Statement 87, as amended.

h. The amount of net periodic benefit cost recognized and the amount included within other comprehensive income arising from a change in the minimum pension liability recognized pursuant to paragraph 37 of Statement 87, as amended.

i. On a weighted-average basis, the following assumptions used in the accounting for the plans: assumed discount rates, rates of compensation increase (for pay-related plans), and expected long-term rates of return on plan assets specifying, in a tabular format, the assumptions used to determine the benefit obligation and the assumptions used to determine net benefit cost.*

j. The measurement date(s) used to determine pension and other postretirement benefit measurements when different from the fiscal year-end date and an economic event occurs, or economic conditions change, after the measurement date(s) but before the fiscal year-end, and if those changes may have had a significant effect on plan assets, benefit obligations, or net periodic cost, had the fiscal year-end date been used as the measurement date. The nature of the significant changes also should be described.*

k. The assumed health care cost trend rate(s) for the next year used to measure the expected cost of benefits covered by the plan (gross eligible charges), and a general description of the direction and pattern of change in the assumed trend rates thereafter, together with the ultimate trend rate(s) and when that rate is expected to be achieved.

l. If applicable, the amounts and types of securities of the employer and related parties included in plan assets, the approximate amount of future annual benefits of plan participants covered by insurance contracts issued by the employer or related parties, and any significant transactions between the employer or related parties and the plan during the period.

m. The nature and effect of significant nonroutine events, such as amendments, combinations, divestitures, curtailments, and settlements.

Disclosures in Interim Financial Reports

9. A publicly traded entity[8] shall disclose the following information in its interim financial statements that include a statement of income:

a. The amount of net periodic benefit cost recognized, showing separately the service cost component, the interest cost component, the expected return on plan assets for

[8]The term *publicly traded entity* includes any entity that does not meet the definition of a *nonpublic entity*.

the period, the amortization of the unrecognized transition obligation or transition asset, the amount of recognized gains and losses, the amount of prior service cost recognized, and the amount of gain or loss recognized due to a settlement or curtailment*

b. The employer's contribution paid, or expected to be paid during the year, if significantly different from previous disclosures pursuant to paragraph 5(g) of this Statement, showing separately (1) contributions required by funding regulations or laws, (2) additional discretionary contributions, and (3) the aggregate amount and description of any noncash contributions.*

10. A nonpublic entity shall disclose in interim periods, for which a complete set of financial statements is presented, the amount of contributions or projected contributions to be paid by the employer during the year, if significantly different from previous disclosures pursuant to paragraph 8(f) of this Statement, showing separately (1) contributions required by funding regulations or laws, (2) additional discretionary contributions, and (3) the aggregate amount and description of any noncash contributions.*

Defined Contribution Plans

11. An employer shall disclose the amount of cost recognized for defined contribution pension plans or other postretirement benefit plans for all periods presented separately from the amount of cost recognized for defined benefit plans. The disclosures shall include a description of the nature and effect of any significant changes during the period affecting comparability, such as a change in the rate of employer contributions, a business combination, or a divestiture.

Multiemployer Plans

12. An employer shall disclose the amount of contributions to multiemployer plans for each annual period for which an income statement is presented. An employer may disclose total contributions to multiemployer plans without disaggregating the amounts attributable to pension plans and other postretirement benefit plans. The disclosures shall include a description of the nature and effect of any changes affecting comparability, such as a change in the rate of employer contributions, a business combination, or a divestiture.

13. In some situations, withdrawal from a multiemployer plan may result in an employer's having an obligation to the plan for a portion of its unfunded benefit obligations. If withdrawal under circumstances that would give rise to an obligation is either probable or reasonably possible, the provisions of FASB Statement No. 5, *Accounting for Contingencies,* shall apply (Statement 87, paragraph 70).

14. In some situations, withdrawal from a multiemployer plan may result in an employer's having an obligation to the plan for a portion of the plan's unfunded accumulated postretirement benefit obligation. If it is either probable or reasonably possible that (a) an employer would withdraw from the plan under circumstances that

would give rise to an obligation or (b) an employer's contribution to the fund would be increased during the remainder of the contract period to make up a shortfall in the funds necessary to maintain the negotiated level of benefit coverage (a "maintenance of benefits" clause), the employer shall apply the provisions of FASB Statement No. 5, *Accounting for Contingencies,* (Statement 106, paragraph 83).

Amendments to Existing Pronouncements

15. Statement 132 is replaced by this Statement.

16. The following is added to the list of disclosures in paragraph 30 of Opinion 28:

    k. The following information about defined benefit pension plans and other postretirement benefit plans, disclosed for all periods presented pursuant to the provisions of FASB Statement No. 15X, *Employers' Disclosures about Pensions and Other Postretirement Benefits:*

    (1) The amount of net periodic benefit cost recognized, showing separately the service cost component, the interest cost component, the expected return on plan assets for the period, the amortization of the unrecognized transition obligation or transition asset, the amount of recognized gains and losses, the amount of prior service cost recognized, and the amount of gain or loss recognized due to a settlement or curtailment*

    (2) The employer's contribution paid, or expected to be paid during the year, if significantly different from previous disclosures pursuant to paragraph 5(g) of Statement 15X, showing separately (1) contributions required by funding regulations or laws, (2) additional discretionary contributions, and (3) the aggregate amount and description of any noncash contributions.*

Amendments Made by Statement 132 Carried Forward in This Statement with Minor Changes

17. Statement 87 is amended as follows:

a. Paragraph 54 is replaced by the following:

    Refer to paragraphs 5 and 8 of FASB Statement No. 15X, *Employers' Disclosures about Pensions and Other Postretirement Benefits.*

b. Paragraph 56 is replaced by the following:

    Refer to paragraphs 6 and 7 of Statement 15X.

c. Paragraph 65 is replaced by the following:

    Refer to paragraph 11 of Statement 15X.

d. Paragraph 69 is replaced by the following:

    Refer to paragraph 12 of Statement 15X.

18. Paragraph 17 of Statement 88 is replaced by the following:

> Refer to paragraphs 5(a), 5(b), 5(h), 5(q), and 8(m) of FASB Statement No. 15X, *Employers' Disclosures about Pensions and Other Postretirement Benefits*.

19. Statement 106 is amended as follows:

a. Paragraph 74 is replaced by the following:

> Refer to paragraphs 5 and 8 of FASB Statement No. 15X, *Employers' Disclosures about Pensions and Other Postretirement Benefits.*

b. Paragraphs 77 and 78 are replaced by the following:

> Refer to paragraphs 6 and 7 of Statement 15X.

c. Paragraph 82 is replaced by the following:

> Refer to paragraph 12 of Statement 15X.

d. Paragraph 106 is replaced by the following:

> Refer to paragraph 11 of Statement 15X.

Effective Date

20. This Statement shall be effective for fiscal years ending after December 15, 2003. The interim-period disclosures in this Statement shall be effective for interim-period financial reports for the first fiscal quarter of the year following initial application of the annual disclosure requirements. The disclosures for earlier annual periods presented for comparative purposes shall be restated for (a) the percentages of each major category of plan assets held and (b) the accumulated benefit obligation. The disclosures for earlier interim periods presented for comparative purposes shall be restated for the components of net benefit cost. However, if obtaining this information relating to earlier periods is not practicable, the notes to the financial statements shall include all available information and identify the information not available. All other disclosures, other than those identified above for restatement, shall only be presented as of the date of the most recent statement of financial position.

The provisions of this Statement need not be applied to immaterial items.

Appendix A

BACKGROUND INFORMATION, BASIS FOR CONCLUSIONS, AND ALTERNATIVE VIEWS

CONTENTS

Appendix A

BACKGROUND INFORMATION, BASIS FOR CONCLUSIONS, AND ALTERNATIVE VIEWS

Introduction

A1. This appendix summarizes considerations that Board members deemed significant in reaching the conclusions in this Statement. It includes reasons for accepting certain views and rejecting others. Individual Board members gave greater weight to some factors than to others.

Objectives of Disclosure

A2. In considering existing and proposed disclosures about pension plans and other postretirement benefit plans, the Board noted that disclosures should provide (a) qualitative information about the items in the financial statements, such as measurement and recognition policies and principles, (b) quantitative information about items in the financial statements, such as disaggregated data, (c) information that enables users of financial statements to assess the effect that pension plans and other postretirement benefit plans have on entities' results of operations, and (d) information to facilitate assessments of future earnings and cash flows, including the consequences of benefit obligations on long-term liquidity and strategic decisions.

General Considerations

A3. Discussions with users of financial statements indicated that the disclosures required by FASB Statement No. 132, *Employers' Disclosures about Pensions and Other Postretirement Benefits,* although extensive, do not provide sufficient information to users of financial statements in their analysis and understanding of entities' pension and other postretirement benefit plans.

A4. The Board identified four types of information sought by users of financial statements that would facilitate analyses of the plans' financial condition, net periodic cost, and cash flows: information about (a) plan assets, (b) benefit obligations, (c) cash flows for both benefit payments to retirees and contributions by the plan sponsor to investment trusts, and (d) net benefit costs. This Statement is intended to improve disclosures about those four aspects of defined benefit pension plans and other postretirement benefit plans.

A5. This Statement continues the standardization of the disclosure requirements of FASB Statements No. 87, *Employers' Accounting for Pensions,* and No. 106, *Employers' Accounting for Postretirement Benefits Other Than Pensions,* to the extent practicable, so that the required information will be easier to prepare and understand. This Statement also continues to require the parallel format for presenting information about pension plans and other postretirement benefit plans.

Benefits and Costs

A6. The mission of the FASB is to establish and improve standards of financial accounting and reporting for the guidance and education of the public, including preparers, auditors, and users of financial information. In fulfilling that mission, the Board endeavors to determine that a proposed standard will fill a significant need and that the costs imposed to meet that standard, as compared with other alternatives, are justified in relation to the overall benefits of the resulting information. Although the costs to implement a new standard may not be borne evenly, investors and creditors—both present and future—and other users of financial information benefit from improvements in financial reporting, thereby facilitating the functioning of markets for capital and credit and the efficient allocation of resources in the economy.

A7. The Board's assessment of the benefits and costs of providing these additional disclosures was based on discussions with certain users of financial statements, preparers of financial statements, and actuaries. Benefits to users of financial statements include information that will facilitate assessments of market risk and cash flows. Costs to preparers of financial statements include time and resources to incorporate the new information needed into existing processes and to validate the data, audit fees for independent verification of the disclosures, and actuarial fees for providing certain of the information. Many, if not most, of the new disclosures represent either disaggregation of information already disclosed, such as the fair value of plan assets and expected rate of return on assets, or information already gathered and used in the determination of disclosed amounts, such as projected benefit payments used to determine the projected benefit obligation.

A8. Most or all of the additional information required by this Statement should be available in accounting or actuarial records used to account for, or monitor the funding of, an employer's pension plans and other postretirement benefit plans. Entities that prepare financial statements in conformity with generally accepted accounting principles already compile and aggregate information about pension plans and other postretirement benefit plans, including information about plan assets, benefit obligations, and net cost. While compiling information about the fair value of plan assets, entities also could include information needed about categories of equity securities, debt securities, real estate, and other assets, thereby incorporating the additional information needed into the existing process. The reporting of additional information about pension plans and other postretirement benefit plans may require some additional effort and cost, including amounts that may be paid to entities' auditors and actuaries; however, the information required by this Statement already is essential in complying with Statements 87, 106, and 132 and, therefore, should be available to, and understood by, preparers of financial statements. Additional costs to compile, analyze, and audit the proposed additional disclosures are believed to be modest in relation to the benefits to be derived by financial statement users. Those benefits are in the form of additional decision-useful information.

International Accounting Standards

A9. The International Accounting Standards Board's (IASB's) IAS 19, *Employee Benefits*, establishes recognition, measurement, and disclosure requirements for financial statements prepared in conformity with international accounting standards. The requirements of IAS 19 are similar to the requirements of Statement 132, as both require disclosures that describe activity during the period and information about certain key assumptions used to determine benefit obligations and net periodic benefit cost. The IASB is discussing an amendment of IAS 19. One disclosure being considered for the amended IAS 19 that is similar to the requirements of this Statement is information about the major categories of plan assets. Other disclosures are dissimilar based on assessments by the FASB and IASB regarding users' needs and differences in the recognition and measurement principles applied to pension and other postretirement benefits.

Disclosure Requirements

Plan Assets

A10. The Board concluded in Statements 87 and 132 that disclosure of the fair value of plan assets is essential to understanding the economics of the employer's benefit plans and useful in assessing management's stewardship responsibilities for efficient use of those assets.

A11. In Statement 132, as described in paragraphs B33 and B34 of this Statement, the Board did not require disclosure of the composition of plan assets. The Board noted that the information required to enable users of financial statements to identify and assess concentrations of risk would be extensive and add significant complexity to the disclosure. This Statement requires disclosure of the major types of plan assets including, at a minimum, equity securities, debt securities, real estate, and all other assets. For each major category of assets, annual disclosures should include the percentage of the fair value of total plan assets held as of the date of each statement of financial position presented, the target allocation percentage or range of percentages presented on a weighted-average basis as of the date of the latest statement of financial position presented, and the expected long-term rate of return, presented on a weighted-average basis for the latest period for which a statement of income is presented. In addition, disclosures should include the range and weighted average of the contractual maturities for all debt securities. The Board believes that such information will be useful to financial statement users in understanding and assessing investment strategies as well as market risk and will enable users to better understand and evaluate management's selection of its expected long-term rate of return on assets assumption. The information about the maturities of debt securities, along with information about expected future benefit payments, would enable users of financial statements to assess the degree to which investment cash flows are aligned with benefit payments.

A12. In its discussion of which asset categories should be separately disclosed, the Board considered requiring narrower categories but decided that the cost of doing so would outweigh the benefits. Those categories included public and nonpublic equity securities, domestic and international equity and debt securities, and government and corporate debt securities. In addition, the Board considered requiring identification of equity securities by expected returns and volatility. The Board concluded that those additional categories would not provide enough benefit to justify the costs of compliance. For example, the Board concluded that disclosure of the amounts invested in international equity and debt securities would not adequately capture the market, credit, and exchange risks that exist in some countries. The Board intends for the major asset categories to be the minimum level of detail to be provided by plan sponsors. If plan sponsors determine that additional categories and additional information about specific assets within a category would enhance users' of financial statements understanding of investment risk or the expected long-term rates of return, they are encouraged to provide additional detail.

A13. The target allocation percentage or range of percentages would indicate to financial statement users the likely mix of plan assets over time. The target allocation would supplement the disclosures about the actual amounts held as of each fiscal year-end and would provide an indication of the investment policies and strategies employed by the plans. The Board understands that asset allocation targets are subject to revision. The target allocation percentages disclosed should be based on management's expectations and should be updated in subsequent annual disclosures as those expectations change.

A14. The Board considered requiring narrative descriptions about how the expected long-term rate of return on assets was determined, including historical actual returns on assets and the degree to which the entity's expected return assumptions are based on those historical returns. In addition, the Board considered disclosures describing the adjustments entities make for changes in expected trends, such as adjustments to their investment strategy and asset mix. The Board also considered requiring narrative descriptions of investment strategies and policies, including, for example, the objectives of the fund, the role of foreign markets, and derivatives. The Board decided not to require any of the above narrative descriptions because those disclosures were likely to be too general and not specifically informative about an individual entity's situation. The Board concluded that the target allocation of assets and expected long-term rates of return for each major asset category would provide sufficient information about investment strategies and the overall rate of return on assets assumption.

Obligations

A15. The Board discussed two different obligations relative to pension plans. The first is the obligation of the plan sponsor to contribute cash or other assets to fund the pension plan. For U.S. plans, those assets are set aside in accordance with funding standards established by the Employee Retirement Income Security Act of 1974 (ERISA) and are used to pay pension benefits to retirees. The second obligation is to pay pension benefits to retirees out of the assets in the pension plan. In addition to its own deliberations, the Board received input from users of financial statements about how to improve disclosures about both kinds of obligations. Paragraphs A16–A24 describe the Board's conclusions about disclosure related to benefit obligations.

Disclosures about Obligations Not Required by the Board

A16. Some users of financial statements suggested requiring disclosure of the pension obligation on an ERISA funding basis and on a Pension Benefit Guaranty Corporation (PBGC) termination funding basis. Those definitions of the pension obligation, they argued, are the most relevant because they determine entities' funding obligations.

A17. The Board decided not to require disclosures of the obligation measured on an ERISA or other regulatory funding basis because introducing other measures of the obligation to the financial statement disclosures would increase complexity and because the ERISA or other regulatory measures, by themselves, would not convey useful information about funding. To be useful, those disclosures would have to be supplemented with information about minimum and maximum funding amounts, excess funding credits available to reduce current-period minimum funding requirements, and management's intent regarding voluntary contributions.

A18. The Board decided that the PBGC termination obligation (or similar statutory termination obligation outside the United States) should not be disclosed because it is relevant only if a plan will be terminated or partially terminated. Therefore, it is not consistent with the concept of a going concern. Also, obligations determined on a termination basis are not routinely computed by plan actuaries and its disclosure would, therefore, impose additional implementation costs.

A19. In response to input from users of financial statements, the Board also considered requiring disclosures that would enable users to better understand the amounts and timing of benefit payments and to assess the time horizon over which benefit payments would be made. This information could be compared to plan asset maturities to understand the entity's strategy for investing plan assets. The Board considered requiring the disclosure of the number of plan participants by group (for example, active, terminated-vested, and retired). The Board also considered requiring disclosure of the weighted-average duration of the pension obligation and projected benefit obligation, both stratified by active, terminated-vested, and retired plan participants, to assist financial statement users in assessing how well asset maturities align with the duration of the benefit obligation.

A20. The Board concluded that many of the proposed disclosures would provide minimal information about the amounts and timing of benefit payments. The Board was concerned that information about the weighted-average duration of benefit obligations would not enable users of financial statements to reliably assess the degree to which plan asset and benefit obligation cash flows are aligned. Two different sets of cash flows could have similar durations but significantly different amounts and timing.

A21. The Board considered requiring additional information to be disclosed about multiemployer pension plans. Among the disclosures considered were (a) a description of the plan, including the number of employees and employee groups covered, (b) the basis on which costs are charged and the cost rate, (c) the amount of contributions expected to be made for the next fiscal year, (d) the funded status of the plan, together with the percentage of the entity's workforce to the total participants in the plan, and (e) the names of each multiemployer plan. The Board decided not to require any of those disclosures, concluding that costs of providing such information would exceed benefits to users of financial statements

Disclosures about Obligations Required by the Board

A22. The Board decided to require disclosure of the projected future benefit payments included in the determination of the benefit obligation, as of the date of the latest statement of financial position presented, for each of the five succeeding fiscal years, and the total amount thereafter, with separate deduction from the total for the amount representing interest necessary to reduce the estimated future payments to present value. These payments are expected to include benefit payments made from plan assets and direct payments from the plan sponsor to plan participants (for example, for unfunded plans). The disclosure of estimated future benefit payments should enable financial statement users to assess the amounts, timing, and pattern of cash flows and how well asset maturities align with benefit payments. The inclusion of direct payments to plan participants may partially impair the ability to assess how well asset maturities are aligned with benefit payment cash flows; however, the Board is permitting this aggregation based on benefit and cost considerations and to be consistent with other requirements that permit combining of individual plans.

A23. The Board decided to require disclosure of the employer's contribution expected to be paid to fund the pension plan during the next fiscal year beginning after the date of the latest statement of financial position. That disclosure would separately identify the required minimum and any additional discretionary funding amounts and the aggregate amount and description of any noncash contributions. Users of financial statements wanted information about contributions to the pension plan as a basis for analyzing future cash flows between the plan sponsor and the plan. Because of the complexities of funding regulations and the significance of voluntary contributions, disclosure by the employer is the most reliable source of that information for users of financial statements.

A24. In Statement 132, as described in paragraphs B36 and B37 of this Statement, the Board did not require disclosure of the accumulated benefit obligation for pension plans with assets in excess of the accumulated benefit obligation. The Board reasoned that the accumulated benefit obligation is not used to forecast pension costs or obligations and, therefore, had limited relevance to users of financial statements. The Board did require disclosure of the accumulated benefit obligation for plans with assets less than the accumulated benefit obligation because the accumulated benefit obligation is used to determine the minimum liability. This Statement requires disclosure of the accumulated benefit obligation for defined benefit pension plans. A *minimum liability* must be recognized if the accumulated benefit obligation exceeds the fair value of plan assets. Recognition of a minimum liability may result in the recognition of an intangible asset, a charge to other comprehensive income, or a combination of both, in accordance with paragraphs 36 and 37 of Statement 87. Annual disclosure of the accumulated benefit obligation will enable financial statement users to monitor the funded status of the plans, determined in the aggregate, using the accumulated benefit obligation as the measure of the benefit obligation.

Net Benefit Cost or Income

A25. The events and consequences affecting pension plans and other postretirement benefit plans are combined and recognized as net benefit cost. This approach aggregates items that might be reported separately for other parts of an employer's operations, including service cost (representing compensation), interest cost resulting from deferred payment, and the results of investing in plan assets. Users of financial statements have indicated that they want information that will facilitate cost and margin analysis, either over time for a particular entity or comparatively between a reporting entity and other entities. Users of financial statements wish to analyze financial results absent the financial elements of pension plans and other postretirement benefit plans and to compare costs and margins among entities with and without those plans or alternative benefit plans or with different actuarial assumptions.

A26. Periodic variation in net benefit cost will affect operating cost trends. Users of financial statements have said that disclosing the effect of net benefit cost on the statement of income will facilitate trend analysis by highlighting the degree to which those costs influence cost trends. Users of financial statements also have said that disclosure would enable them to identify the effect of financing elements of net benefit cost on operating results, such as expected long-term investment returns. Displaying the net benefit cost by income statement line item would enable users to better identify the effect that pension plans and other postretirement benefit plans have had on results, including both from a trend and a competitive standpoint.

A27. The Board decided not to require disclosure of net benefit cost by income statement line item. Existing requirements adequately disclose the operating and financing elements, and the aggregate amounts of net periodic benefit costs are generally relatively insignificant in relation to individual income statement line items.

Assumptions

A28. The Board observed that disclosures about certain key assumptions would be more useful if those disclosures followed consistent conventions. For example, some entities' disclosures under Statement 132 indicate that the disclosed key assumptions are as of the latest measurement date; however, the expected long-term rate of return on assets assumption actually represents the rate as of an earlier date used to determine current-period assumed investment earnings. The Board decided to require a tabular format for the disclosure of certain assumptions and to improve clarity regarding the period and measure to which those assumptions relate, by separately disclosing the assumptions used to determine benefit obligations and the assumptions used to determine net benefit cost.

Measurement Date(s)

A29. The Board discussed the provisions of Statements 87 and 106 that permit measuring plan assets and obligations as of the date of the financial statements or, if used consistently from year to year, as of a date not more than three months prior to that date. The Board discussed events that could occur after the measurement date but prior to fiscal year-end that would affect plan assets, benefit obligations, and net periodic cost, such as changes in equity markets and interest rates. The Board considered requiring disclosure of the measurement date(s) used to measure pension plans and other postretirement benefit plans but concluded that the measurement date(s) should be disclosed only when an economic event occurs, or economic conditions change, after the measurement date(s) but before the fiscal year-end, and if those changes may have had a significant effect on reported amounts for plan assets and obligations had the fiscal year-end date been used as the measurement date. The Board considered that some plan sponsors may use different measurement dates for different plans. The Board decided that disclosure of the measurement date(s) should be required only for those plans for which there may be a significant effect on plan assets and obligations due to subsequent changes in economic events or conditions. The nature of the significant changes also should be described.

Reduced Disclosure Requirements for Nonpublic Entities

A30. This Statement retains the reduced disclosure requirements for nonpublic entities contained in Statement 132. The Board considered but rejected the establishment of a materiality threshold that would determine when nonpublic entities would be required to provide pension and other postretirement benefits disclosures. In reaching its decision, the Board acknowledged that Statement 132 contained no such threshold. Nonpublic entities shall be required to provide all of the additional disclosures, except the interim-period disclosure of the separate components of net periodic benefit cost recognized. Users of financial statements have observed that they do not require the same information about benefit costs and net income when analyzing the financial statements of nonpublic entities but that they did rely on information about the benefit obligation, assets, and cash flows.

Sensitivity Information

A31. The Board considered the requests of users of financial statements for sensitivity information about the effects of hypothetical changes to certain assumptions used in accounting for pension plans and other postretirement benefit plans. The Board was concerned that providing sensitivity information for individual assumptions, while holding all other assumptions constant, might be misleading. The financial effects of hypothetical changes in assumptions determined in this way would not be a reasonable representation of future results. Economic factors and conditions often affect multiple assumptions simultaneously, and the effects of changes in key assumptions are not linear.

A32. The Board discussed sensitivity information that would consider the net effect of simultaneous changes to more than one assumption. That information might be a better representation of the combined effects of several economic factors and conditions but would result in disclosures that do not assume uniform changes in assumptions from entity to entity (thereby impairing comparability) and that are not informative about the relative importance of individual assumptions. Disclosures of net effects also would not significantly add to the yearly information already available in the disclosure of historical amounts of assets, obligations, net benefit cost, and the assumptions used to determine them. The Board decided not to require disclosure of sensitivity information about hypothetical changes in discount rates, expected long-term rates of return on assets, or rates of compensation increase. The Board retained the requirement to provide the effect of a one-percentage-point increase and the effect of a one-percentage-point decrease in the assumed health care cost trend rates for the reasons identified in Statement 132, including that ". . . the effects of a one-percentage-point change in a plan's assumed health care cost trend rate would be difficult to assess because the way in which health care cost assumptions interact with caps, cost-sharing provisions, and other factors in the plan precludes reasonable estimates of the effects of those changes. The effects of changes in other assumptions, such as the weighted-average discount rate, can be more easily approximated" (Statement 132, paragraph 45).

Statement 132 Disclosures

A33. The Board recognizes that pension and other postretirement benefit disclosures are substantial and that the benefits derived by users of financial statements should exceed the costs of compliance. In light of the disclosures added during this project, the Board considered eliminating certain disclosures required by Statement 132. Specifically, the Board considered eliminating the reconciliations of beginning and ending balances of the fair value of plan assets and benefit obligations and instead focusing on ending balances and key categories of activity not disclosed elsewhere, such as actual investment returns, benefit payments, employer contributions, and participant contributions. In Statement 132, as described in paragraph B16 of this Statement, the Board required disclosure of the reconciliations of the benefit obligation and fair value of plan assets. The Board reasoned that the reconciliations would provide a format for more complete disclosure that would be more understandable to users of financial statements. In this Statement, the Board concluded that while the reconciliation approach may be more complete and financial statement preparers are accustomed to providing it, a more focused approach would be more useful to users of financial statements. Most of the elements of the reconciliations will continue to be required, but that information will be presented together with other related information.

A34. The Board also considered eliminating the requirement to disclose the amounts and types of securities of the employer and related parties included in plan assets. Holdings of related-party securities, while limited by ERISA, may not be limited in all jurisdictions and represent important information about plan assets. Therefore, the Board decided to retain that requirement of Statement 132.

Disclosures in Interim Financial Reports

A35. Some users of financial statements asked for the same disclosures in interim financial reports as in annual financial statements, reasoning that pension plans are significant to enterprises and are subject to the volatility of equity markets and interest rates. However, the Board concluded that requiring all of those disclosures in interim-period financial statements would be overly burdensome and costly. The Board recognized that pension plans are long-term in nature and that many of the elements of net periodic cost are determined on an annual basis. The Board also was concerned about requiring interim-period disclosure of only certain aspects of pension plans. For example, interim-period disclosure of the fair value of plan assets, without an updated projected benefit obligation, would not be useful and could be potentially misleading in assessing changes in the funded status.

A36. The Board decided to require interim-period disclosure of the components of net pension and other postretirement benefit costs. Although net benefit cost would not be expected to vary significantly from quarter to quarter because quarterly amounts would be based on the annual actuarial valuation, the amount of net benefit cost based on the most recent annual actuarial valuation would otherwise not be disclosed until year-end. Interim-period disclosure would better inform users about the effects of the most recent actuarial valuation on net benefit cost. In addition, that disclosure would be useful to users of financial statements in analyzing interim-period results.

Materiality

A37. The Board considered whether this Statement should include a materiality threshold for requiring disclosures about pension plans and other postretirement benefit plans. Such an approach would require disclosures only for plans that are material. Among the possible thresholds considered were (a) the percentage of plan assets to total assets of the reporting entity, (b) the percentage of benefit obligations to total liabilities of the reporting entity, (c) the percentage of net periodic benefit cost to total income before taxes of the reporting entity, and (d) the percentage of plan assets to plan obligations. The Board decided that no general standard of materiality could be developed that would take into account all the considerations entering into a judgment about materiality. The Board concluded that a quantitative threshold based on net periodic benefit cost and reported income was not practicable because of the volatility of both net periodic benefit cost and reported income. A quantitative materiality threshold based on plan assets or obligations could result in inconsistent year-to-year designations. Therefore, this Statement does not include a materiality threshold. However, that does not imply that the provisions of this Statement must be applied to immaterial amounts. Some entities may determine that some or all pension plan and other postretirement benefit plan disclosures are not material after evaluation of all the relevant facts and circumstances.

Effective Date

A38. The Board believes that application of this Statement should not impose a significant hardship on most preparers of financial statements because the systems and processes necessary to provide most, if not all, of the required disclosures are already in place. Preparers of financial statements that comply with Statements 87, 106, and 132 have processes in place to compile information about plan assets. In addition, the actuarial valuation used to determine the benefit obligation is based on expected benefit payment cash flows. For those reasons, the Board anticipates that most entities should have little difficulty providing the disclosures required by this Statement, including comparable prior-year information.

A39. This Statement is effective for fiscal years ending after December 15, 2003. The interim-period disclosures in this Statement are effective for interim-period financial reports for the first fiscal quarter of the year following initial application of the annual disclosure requirements. The disclosures for earlier annual periods presented for comparative purposes should be restated for (a) the percentages of each major category of plan assets held and (b) the accumulated benefit obligation. The disclosures for earlier interim periods presented for comparative purposes should be restated for the components of net benefit cost. However, if obtaining this information relating to earlier periods is not practicable, the notes to the financial statements should include all available information and identify the information not available. All other disclosures, other than those identified above for restatement, should only be presented as of the date of the most recent statement of financial position.

Alternative Views

A40. Three Board members disagree with the Board's decisions (a) to eliminate the reconciliations of beginning and ending balances of the fair value of plan assets and the benefit obligation and (b) not to require the disclosure of net benefit cost by income statement line item.

A41. In the case of the decision to eliminate the reconciliations of beginning and ending balances of the fair value of plan assets and the benefit obligation, they note that the basis for conclusions of Statement 132 indicates that the then-Board considered eliminating those reconciliation requirements as part of its deliberations of Statement 132. The then-Board's decision to retain the requirements was based on input from financial analysts. In discussing the disclosures that should be required by this Statement, the Board obtained significant user input, none of which conflicted with the conclusion about the usefulness of the reconciliation requirements reached by the then-Board in developing Statement 132. The three Board members question why the Board would remove reconciliations whose usefulness was established as part of the development of Statement 132, in the absence of evidence indicating that usefulness of those disclosures has diminished.

A42. In the case of the decision not to require the disclosure of net benefit cost by income statement line item, these three Board members agree that net benefit cost aggregates heterogeneous items such as service cost (representing compensation) and results of investing in plan assets (representing financing). The preparation of financial statements requires the inclusion of net benefit cost in one or more income statement line items, and such inclusion affects reported costs and margins. Absent knowledge of the income statement line items that contain net benefit cost, users are hampered in cost and margin analysis between entities with and without funded plans and entities with differing investment strategies. The three Board members would require the disclosure of net benefit cost by income statement line item. First, the inclusion of net benefit cost—itself an aggregation of heterogeneous items—in income statement line items creates heterogeneity in those line items. Separate disclosure of the net benefit cost by income statement line item will improve the ability of users of financial reports to analyze separately the disparate components of the individual line items. Second, the cost of this disclosure should be minimal, since it involves the reporting of an allocation.

Appendix B

STATEMENT 132: BACKGROUND INFORMATION AND BASIS FOR CONCLUSIONS

CONTENTS

Appendix B

STATEMENT 132: BACKGROUND INFORMATION AND BASIS FOR CONCLUSIONS (Note: *Paragraph numbering has been changed from original Statement.*)

Introduction

B1. This appendix summarizes considerations that were deemed significant by Board members in reaching the conclusions in this Statement. It includes reasons for accepting certain approaches and rejecting others. Individual Board members gave greater weight to some factors than to others. The Board concluded that it could reach an informed decision on the basis of existing information without a public hearing.

B2. The AICPA Special Committee on Financial Reporting (Special Committee) issued a report, *Improving Business Reporting—A Customer Focus,* in December 1994. In that report, the Special Committee recommended that "standard setters should search for and eliminate less relevant disclosures." The Special Committee also noted that many users indicated that "they would be willing to give up less important disclosures to make room for more important information."

B3. Disclosure effectiveness has been a concern of the Board for some time. FASB documents that have addressed this issue include the 1980 Invitation to Comment, *Financial Statements and Other Means of Financial Reporting,* and the 1981 Exposure Draft, *Reporting Income, Cash Flows, and Financial Position of Business Enterprises.* Board members and FASB staff have written numerous articles on the topic. In addition, disclosure effectiveness was discussed at an April 1995 Financial Accounting Standards Advisory Council (FASAC) meeting and at several liaison meetings during 1995.

B4. The Board issued a Prospectus, *Disclosure Effectiveness,* in July 1995. The Prospectus asked readers to consider possible changes to disclosure requirements consistent with one or both of two objectives: to reduce the cost of preparing and disseminating disclosures while providing users with information they need and to eliminate disclosures that are not useful for decision making. The Prospectus also encouraged further research and discussion on improving the effectiveness of financial reporting.

B5. The Board received 71 letters in response to the Prospectus. Respondents generally supported a project to improve disclosure effectiveness, and many respondents suggested that pensions, other postretirement benefits, income taxes, and leases were topics that required specific attention. Several respondents suggested that the Board develop a framework for disclosure.

B6. At the January 1996 FASAC meeting, several Council members suggested that the Board take an inductive approach to disclosure effectiveness, beginning by evaluating the requirements for disclosure about pensions and other postretirement benefits. A working group of FASAC members was formed to follow up on that suggestion. That group prepared a proposal that was discussed at the July 1996 FASAC meeting and in August 1996 at a public Board meeting with representatives of the Financial Executives Institute, the Association for Investment Management and Research, and other interested parties.

A Conceptual Framework for Disclosure

B7. Some participants in the August 1996 meeting did not favor proceeding with a project before defining the general objectives of disclosure. The Board considered developing a framework for disclosure based on FASB Concepts Statement No. 1, *Objectives of Financial Reporting by Business Enterprises,* and a review of published studies but concluded that not enough information was available to formulate a framework at that time. In October 1996, the Board decided to proceed with an inductive approach to disclosure by initiating a project to examine pensions and other postretirement benefits to determine whether disclosures in that specific area could be improved, and, if so, whether any of the approaches undertaken could be applied to other accounting topics.

B8. In June 1997, the Board issued an Exposure Draft, *Employers' Disclosures about Pensions and Other Postretirement Benefits.* The Board received 90 comment letters in response to that Exposure Draft. Most respondents supported the Board's goal of improving disclosure effectiveness and generally stated that the revised disclosures proposed in the Exposure Draft were an improvement over those required by Statements 87 and 106. A few respondents noted that they were able to easily apply the requirements of the Exposure Draft to their prior year's pension and other postretirement benefits note disclosures and that the requirements resulted in more understandable disclosure.

General Considerations

B9. Discussions with certain users of financial statements indicated that the disclosures required by Statements 87 and 106, although extensive, did not provide sufficient information to understand the changes in the benefit obligation or to analyze the quality of earnings. This Statement is intended to enhance the utility of the information disclosed.

B10. As a result of those discussions, the Board identified two distinct sets of information used by analysts. Some requested information that enabled them to analyze the benefit obligation, fair value of plan assets, and changes in both during the period, including unrecognized gains and losses. The Board stated in Statement 87 that it believed that "it would be conceptually appropriate and preferable to recognize a net pension liability or asset measured as the difference between the projected benefit obligation and plan assets, either with no delay in recognition of gains and losses, or perhaps with gains and losses reported currently in comprehensive income but not in earnings" (paragraph 107). However, because Statement 87 did not require that accounting, the Board decided that this Statement should require disclosure of additional information about the changes in the benefit obligation and the fair value of plan assets during the period, including unrecognized gains and losses.

B11. The second set of information was most often requested by those analysts who follow publicly traded companies. Those users stated that they needed information about the quality of current earnings, including recognized and unrecognized amounts, that is useful in forecasting earnings for future periods in an effective and efficient manner.

B12. This Statement standardizes the disclosure requirements of Statements 87 and 106 to the extent practicable so that the required information should be easier to prepare and easier to understand. This Statement also suggests a parallel format for presenting information about pensions and other postretirement benefits in a more understandable manner.

Benefits and Costs

B13. Most or all of the additional information required by this Statement should be already available in actuarial or accounting calculations used to account for an employer's pension and other postretirement benefit plans. The Board believes that standardizing the format of the disclosures and eliminating some of the current requirements may reduce preparation time. The benefits to users are in the form of additional relevant amounts and reduced time and effort required to read and understand the pension and other postretirement benefit notes to the financial statements.

Specific Disclosure Requirements

Benefit Obligation and Fair Value of Plan Assets

B14. The Board concluded in Statements 87 and 106 that disclosure of the benefit obligation and fair value of plan assets is essential to an understanding of the economics of the employer's benefit plans and that disclosure of the fair value of plan assets is useful in assessing management's stewardship responsibilities for efficient use of those assets.

B15. Because the obligation and plan assets are offset in determining the amounts recognized in the statement of financial position and offsetting of assets and liabilities generally is not appropriate unless a right of offset exists,[9] disclosure of the amounts offset provides essential information about future economic benefits and sacrifices.

Explanation of the Changes in the Benefit Obligation and the Fair Value of Plan Assets

B16. This Statement amends Statements 87 and 106 to include disclosure of the changes in the benefit obligation and plan assets during the period, including the effects of economic events during the period (including amendments, combinations, divestitures, curtailments, and settlements). Statement 87 required disclosure of the nature and effect of significant matters affecting comparability of information for all periods presented. Statement 106 required the same disclosure but specifically referred to business combinations or divestitures. In practice, those requirements have not resulted in the anticipated level of disclosure. The Board believes that an explanation of the changes in

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[9]Refer to APB Opinion No. 10, *Omnibus Opinion—1966,* paragraph 7.

the benefit obligation and fair value of plan assets in the form of a reconciliation of the beginning and ending balances will provide a format for more complete disclosure that also should be more understandable to users of financial statements.

B17. Disclosure of the benefit obligation, fair value of plan assets, and changes in them during the period is consistent with the Board's conceptual framework, which states that "financial reporting should provide information about the economic resources of an enterprise, the claims to those resources (obligations of the enterprise to transfer resources to other entities and owners' equity), and the effects of transactions, events, and circumstances that change resources and claims to those resources" (Concepts Statement 1, paragraph 40; footnote reference omitted).

Reconciliation of the Funded Status with the Amounts Recognized in the Financial Statements

B18. Both Statement 87 and Statement 106 require a reconciliation of the funded status of the plan with the amounts recognized in the financial statements. The Board considered eliminating those requirements but decided to retain them in this Statement after financial analysts commented that information about unamortized balances of prior service cost and transition amounts is useful in assessing current earnings and forecasting future amortization. The Board also concluded, as it did in Statement 87, that the amount recognized in the financial statements as a net benefit liability or asset does not reflect fully the underlying financial status of the plan and that a reconciliation of the amounts is essential to an understanding of the relationship between the accounting methodology and the funded status of the plan. For those reasons the Board decided to retain disclosure of the unrecognized amounts, including unamortized prior service cost, unamortized transition amounts, and unrecognized gains and losses.

B19. If an additional minimum liability is recognized, the reconciliation includes disclosure of any amount recognized as an intangible asset or included in accumulated other comprehensive income. The format recommended in Statement 87 disclosed those amounts as an additional minimum liability. The format that is illustrated in this Statement includes all amounts recognized.

Components of Net Periodic Benefit Cost

B20. The Exposure Draft proposed eliminating the requirement in Statements 87 and 106 to disclose the components of net periodic benefit cost. Several respondents suggested that that disclosure be retained to provide greater visibility of the amounts included in the employer's results of operations. In addition, certain users, primarily equity analysts, stated that information included in that disclosure was useful in forecasting an employer's net income. In response to those concerns, the Board decided to retain the requirement in Statements 87 and 106 to disclose the components of net periodic benefit cost and to add disclosures about the expected return on plan assets, the amortization of the transition obligation or asset, and the recognition of gains and losses.

Employers with Two or More Plans

B21. Both Statement 87 and Statement 106 required additional disclosure of certain benefit plan information if an employer has plans with benefit obligations in excess of plan assets and plans with assets in excess of benefit obligations. Statement 87 required separate schedules reconciling the funded status of the plan with amounts reported in the employer's statement of financial position for plans with assets in excess of accumulated pension benefit obligations and plans with accumulated pension benefit obligations in excess of plan assets. Statement 106 required separate disclosure of the aggregate plan assets and the aggregate benefit obligation of underfunded plans. The Board decided to change the requirements for pension plans to parallel those for other postretirement benefit plans because those requirements are less complex and provide satisfactory information about the financial position of an employer's plans. The Board decided to retain disclosure of the accumulated pension benefit obligation for pension plans with accumulated benefit obligations in excess of plan assets because that disclosure is useful to regulators and other users of financial information. The Board included a requirement to disclose separately amounts recognized as prepaid benefit costs and accrued benefit costs so that users could determine the amounts included in the statement of financial position.

B22. Some respondents to the Exposure Draft, including preparers, disagreed with the Board's decision to permit aggregation of disclosures about plans with different characteristics. They stated that users of financial statements could draw incorrect conclusions about an employer's funding policies or that employers would be able to offset underfunded plans with well-funded plans. The Board decided that permitting the aggregation of disclosures about multiple plans will simplify disclosure and will conform disclosures about pensions to those about other postretirement plans while continuing to provide users with sufficient information about the employer's plans. The Board also noted that, while aggregation of disclosures about plans is permitted by this Statement, an employer may disclose additional disaggregated information if the employer believes doing so provides more meaningful information.

Foreign Plans

B23. Statement 87 specified that disclosures about plans outside the United States should not be combined with those about U.S. plans unless those plans use similar assumptions. Statement 106 required separate presentation for foreign plans if the benefit obligations are significant relative to the total benefit obligation for all plans. The Board decided to harmonize those disclosures with this Statement. Accordingly, the Board decided that disclosures about U.S. plans may be combined with those about foreign plans unless the benefit obligations of the foreign plans are significant relative to the employer's total benefit obligation and those plans use significantly different assumptions.

B24. Some respondents to the Exposure Draft noted that some foreign plans typically are not funded because there are no tax advantages to funding plans in those jurisdictions. Those respondents suggested that the benefit obligation related to foreign plans be disclosed separately because combining disclosures about foreign and U.S. plans might be misleading. The Board believes that the requirements of paragraph 6 of this Statement will adequately inform users about the presence of underfunded plans. The Board also decided that whether aggregation of disclosures about underfunded plans was appropriate should not depend on whether the plans are located within the United States or abroad.

Assumed Health Care Cost Trend Rates

B25. Statement 106 requires disclosure of the assumed health care cost trend rate for the next year used to measure the expected cost of benefits covered by the plan (gross eligible charges) and a general description of the direction and pattern of change in assumed trend rates thereafter, together with the ultimate trend rate and when that rate was expected to be achieved. All other requirements for disclosure of plan assumptions in Statements 87 and 106 call for disclosure of weighted-average rates. The Exposure Draft that led to Statement 106 proposed disclosure of a weighted average of the assumed health care cost trend rates, but in its deliberations the Board decided that a weighted-average rate can mask differences in an employer's assumptions about year-by-year health care cost trend rates. In the Exposure Draft that led to this Statement, the Board reconsidered the disclosure requirement for assumed health care cost trend rates and decided that disclosure of a weighted-average rate would provide for better comparability among entities and with other assumptions that are disclosed on a weighted-average basis.

B26. Some respondents to the Exposure Draft stated that the cost of calculating that disclosure could be significant and argued that the increased cost was not justified in the circumstances. Others reiterated the comments made prior to the issuance of Statement 106 about the potential for the use of a weighted-average rate to mask differences in year-by-year health care cost assumptions. Although some Board members continue to believe that disclosure of the weighted-average rate is more effective, the Board ultimately decided that the disclosures about health care cost trend rate assumptions in Statement 106 provide satisfactory information and that disclosure of a weighted-average measure should not be required, primarily because of respondents’ assertions about the incremental cost to provide that information.

The Effects of a One-Percentage-Point Change in the Assumed Health Care Cost Trend Rates

B27. Statement 106 requires disclosure of the effects of a one-percentage-point increase in the assumed health care cost trend rates for each future year on (a) the aggregate of the service and interest cost components of net periodic postretirement health care benefit cost and (b) the accumulated postretirement benefit obligation for health care benefits. The Board decided to retain the sensitivity analysis disclosure in Statement 106 and, in addition, to require disclosure of the effects of a one-percentage-point decrease in the assumed health care cost trend rates on (a) the aggregate of the service and interest cost components of net periodic postretirement health care benefit cost and (b) the accumulated postretirement benefit obligation for health care benefits. Most respondents to the Exposure Draft commented on that additional disclosure requirement. The majority stated that the effects of a one-percentage-point decrease should not be required, and many respondents opposed any sensitivity information.

B28. Some Board members questioned the usefulness of a disclosure that focuses on the effects of a change in a single assumption underlying the calculation of the benefit obligation. They noted that calculating the accumulated postretirement benefit obligation requires numerous assumptions and estimates. Changes in certain of those assumptions and estimates may have a much more significant effect on the employer's obligation than changes in the assumed heath care cost trend rates. Moreover, those Board members noted that many assumptions and estimates underlie an entity's financial statements and that one should not focus on the change in a single factor to the exclusion of others that may be equally or more important. Those Board members advocated eliminating the sensitivity analysis as described in the Exposure Draft in favor of examining outside of this project the broader issue of disclosures about risks and uncertainties.

B29. Those Board members also noted that the disclosure of a one-percentage-point increase required by Statement 106 was included in that Statement because, at the time, ". . . users [were] considerably less familiar with postretirement health care measurements than with pension measurements and with the subjectivity of the health care cost trend rate and the significant effect that assumption may have on measurement of the postretirement health care obligation" (paragraph 355). Those Board members believe that users are now sufficiently familiar with the effects of changes in health care trend rates on the postretirement health care obligation and, therefore, this disclosure is no longer useful. Accordingly, they expressed strong reservations about retaining it in this Statement.

B30. However, a majority of the Board concluded that disclosure of the effects of a one-percentage-point increase and a one-percentage-point decrease in the assumed health care cost trend rate provides useful information to users of financial statements. As previously stated in Statement 106, requiring ". . . sensitivity information will assist users in assessing the comparability of information reported by different employers as well as the extent to which future changes in assumptions or actual experience different from that assumed may affect the measurement of the obligation and cost. In addition, the sensitivity information may assist users in understanding the relative significance of an employer's cost-sharing policy as encompassed by the employer's substantive plan" (paragraph 354). The Board concluded that those considerations remain relevant today. It noted that sensitivity disclosures are consistent with the recommendations of the AICPA Special Committee for improved disclosure about the uncertainty inherent in the measurement of certain assets and liabilities. Some Board members also noted that the effects of a one-percentage-point change in a plan's assumed health care cost trend rate would be difficult to assess because the way in which health care cost assumptions interact with caps, cost-sharing provisions, and other factors in the plan precludes reasonable estimates of the effects of those changes. The effects of changes in other assumptions, such as the weighted-average discount rate, can be more easily approximated.

B31. The Board decided to retain the requirement to disclose the effects of both an increase and a decrease in the assumed health care cost trend rates because the effects of an increase and a decrease are not necessarily symmetrical for a plan due to the way in which health care cost assumptions interact with caps or other cost-sharing provisions and for other reasons. In addition, because the growth in the rate of health care costs has decreased for many plans since the issuance of Statement 106, disclosure of the effects of a decrease in the assumed health care cost trend rates may provide more relevant information than the effects of an increase.

Related Party Transactions

B32. Both Statement 87 and Statement 106 required disclosure of the amounts and types of securities of the employer and related parties included in plan assets and the approximate amount of future annual benefits of plan participants covered by insurance contracts issued by the employer or related parties. The Board decided to retain those disclosure requirements in this Statement. The Board also decided to require added disclosures about any significant transactions between the plan and the employer during the period, including noncash transactions, because of the relevance of information about related party transactions, as described in the basis for conclusions to FASB Statement No. 57, *Related Party Disclosures.*

Other Disclosures Considered

Concentrations of Market Risk

B33. The Board considered whether an employer should disclose concentrations of market risk in plan assets. FASB Statement No. 124, *Accounting for Certain Investments Held by Not-for-Profit Organizations,* requires disclosure of the nature of and carrying amount for each individual investment or group of investments that represents a significant concentration of market risk. The Board concluded that disclosures needed about plan assets differ from those about investments held by not-for-profit organizations because trustees of benefit plans are usually constrained to follow policies for the sole benefit of the plan beneficiaries, whereas fund managers of not-for-profit organizations may be constrained only by donor restrictions. Also, provisions of the Employee Retirement Income Security Act generally require that plan trustees diversify plan investments. Consequently, the usefulness of that disclosure requirement for U.S. plans could be limited.

B34. Several respondents to the Exposure Draft asked that the Board also consider requiring disclosure of the composition of plan assets as a means of enabling users to assess concentrations of risk in the plan's portfolio. The Board noted that disclosure of the type of information about plan assets that would be required to enable the user to identify and assess concentrations of risk would be extensive, in certain circumstances requiring disclosure about individual securities. The Board decided that requiring extensive disclosures about the composition of plan assets in the employer's financial statements would add significant complexity to the disclosure and was generally inconsistent with its objective of promoting more effective disclosure.

Components of the Benefit Obligation

B35. Statements 87 and 106 required disclosure of several components of the benefit obligation. Statement 87 required disclosure of the accumulated pension benefit obligation and the vested pension benefit obligation. Statement 106 required disclosure of the portions of the plan obligation attributable to retirees, other fully eligible plan participants, and other active plan participants.

B36. Disclosure of the accumulated pension benefit obligation and vested pension benefit obligation was considered relevant when Statement 87 was issued because there was less agreement at that time as to the best measure of the pension benefit obligation. Some respondents to the Exposure Draft that led to Statement 87 would have limited the recognized liability to the vested pension benefit obligation. In the deliberations preceding the issuance of Statement 87, the Board considered a minimum liability based on the vested pension benefit obligation but concluded that the time at which benefits vest should not be the primary point for recognition of either cost or liabilities. The disclosure requirements of Statement 106 for the portion attributable to retirees, other fully eligible plan participants, and other active plan participants are proxies for disclosure of the vested and nonvested benefit obligation for other postretirement benefit obligations.

B37. The Board decided to eliminate the requirement to disclose (a) accumulated pension benefit obligations for plans with assets that exceed that amount, (b) vested pension benefit obligations, and (c) the portions of other postretirement benefit plan obligations attributable to retirees, other fully eligible plan participants, and other active plan participants. None of those amounts are used to forecast pension or other postretirement benefit costs or obligations, and, therefore, those amounts have limited relevance to users of financial statements. The Board decided to retain disclosure of the accumulated pension benefit obligation for plans with accumulated pension benefit obligations in excess of plan assets because that component is used to determine the minimum liability and may be relevant to users of financial statements.

General Descriptive Information

B38. Both Statement 87 and Statement 106 required disclosure of general descriptive information about the employer's benefit plans, including employee groups covered, type of benefit formula, funding policy, types of assets held, and significant nonbenefit liabilities, if any. This Statement does not require that disclosure because the Board believes it provides only limited useful information to users of financial statements due to the general nature of the information provided, particularly after aggregating information about multiple plans with different characteristics. In lieu of that disclosure, this Statement requires disclosure of significant events occurring during the period that are otherwise not apparent in the disclosures, as that information is more relevant to users of financial statements. Several respondents to the Exposure Draft stated that the description of the plan required by Statements 87 and 106 can provide useful information about the plan. The Board therefore encourages an employer to provide a description of its plans if such a description would provide meaningful information, such as when the employer sponsors only a single plan.

Materiality

B39. The Board considered whether this Statement should include a materiality threshold for requiring certain disclosures about pension and other postretirement benefit plans. Materiality and relevance are both defined in terms of what influences or makes a difference to a decision maker. The Board's position is that "no general standards of materiality could be formulated to take into account all the considerations that enter into an experienced human judgment," but that quantitative materiality criteria may be given by the Board in specific standards, as appropriate (FASB Concepts Statement No. 2, *Qualitative Characteristics of Accounting Information,* paragraph 131).

B40. The Board considered implementing materiality thresholds for pension and other postretirement benefit disclosures, including thresholds based on the gross obligations for plan benefits and the employer's assets, equity, revenues, or net income. Each measure had disadvantages. Because a materiality threshold should take into account the information most likely to influence or make a difference to a decision maker, net income appeared to be the most relevant element for publicly traded companies. Some analysts use information about current benefit costs and the funded status of the plan to assess the quality of current earnings and the employer's financial condition. They also use that information to prepare their forecasts of future earnings, measuring the impact on net income as precisely as possible. The Board concluded that a precise threshold in terms of net income was not practicable because of the natural volatility of net income and the resulting difficulty in making materiality judgments with a relatively simple materiality rule. Therefore, this Statement does not include a materiality threshold. However, that does not imply that the provisions of this Statement must be applied to immaterial items. Some entities may determine that some or all pension or other postretirement benefit disclosures are not material after evaluation of all the relevant facts and circumstances.

Nonpublic Entities

B41. The *Report of the Committee on Generally Accepted Accounting Principles for Smaller and/or Closely Held Businesses,* issued by the AICPA in August 1976, observed that some disclosures merely provide additional or analytical data and may not be appropriate for all entities. The Committee also observed, however, that analytical data may be appropriate in certain circumstances for certain types of entities.

B42. Before issuing the Exposure Draft, the Board had asked certain users of financial statements of nonpublic entities to comment on the usefulness of current and proposed disclosure requirements. Those users observed that they did not require the same level of precision in assessing benefit costs and net income when analyzing the financial statements of nonpublic entities but that they did rely on information about the benefit obligations, assets, and cash flows. Based on the input of those users, the Board concluded that a reduced disclosure set would be appropriate for nonpublic entities. The Board determined that a nonpublic entity should, at a minimum, provide the same information about the benefit obligations, plan assets, recognized assets or liabilities, cash flows, benefit costs, actuarial assumptions, and related party transactions as required for a public entity.

B43. The Exposure Draft would have required that a nonpublic entity disclose all of the information in paragraph 5 if total unrecognized pension and other postretirement benefit amounts exceeded 5 percent of equity (or unrestricted net assets). Many respondents objected to that provision out of concern that it might be viewed as the establishment of a materiality standard that could be applied in other circumstances. The Board decided not to require that disclosure but, rather, to provide for reduced disclosures for all nonpublic entities. The Board concluded that introducing a specific threshold was therefore unnecessary.

B44. However, because nonpublic entities are not required to provide a reconciliation of the benefit obligation or the fair value of plan assets under the provisions of this Statement, the Board decided to require disclosure of information about the effects of significant nonroutine events during the period, such as amendments, combinations, divestitures, curtailments, and settlements, whenever those events occur. The Board believes that that disclosure is necessary for users of financial statements to understand the effects of those changes that otherwise might not be apparent. Even though this Statement permits reduced disclosures for nonpublic entities, the Board concluded that the incremental information required by paragraph 5 improves understanding and, therefore, encourages those entities to disclose that information.

Effective Date and Transition

B45. This Statement is effective for fiscal years beginning after December 15, 1997. Earlier application is encouraged. The Board decided that the disclosures required by this Statement should be provided for earlier periods presented for comparative purposes, unless that information is not readily available. The Board believes that application of this Statement should not impose a hardship on most preparers of financial statements because the systems necessary to provide most, if not all, of the required disclosures are already in place. For that reason, disclosure of comparable prior-year information should not be difficult for most entities.

Appendix C

ILLUSTRATIONS

C1. This appendix illustrates the following pension and other postretirement benefit disclosures:

a. Illustration 1—Disclosures about Pension and Other Postretirement Benefit Plans in the Annual Financial Statements of a Publicly Traded Entity
b. Illustration 2—Interim-Period Disclosures of a Publicly Traded Entity
c. Illustration 3—Interim-Period Disclosures of a Nonpublic Entity in a Complete Set of Financial Statements.

The financial statements of a nonpublic entity would be similarly presented but would not be required to include the information contained in paragraphs 5(c), 5(m), and 5(o)–5(r) of this Statement. The items presented in these examples have been included for illustrative purposes. Certain assumptions have been made to simplify the computations and focus on the disclosures. Illustration 1 replaces Illustrations 1, 2, and 3 in FASB Statement No. 132, *Employers' Disclosures about Pensions and Other Postretirement Benefits*.

Illustration 1—Disclosures about Pension and Other Postretirement Benefit Plans in the Annual Financial Statements of a Publicly Traded Entity

C2. The following illustrates the fiscal 20X3 financial statement disclosures for an employer (Company A) with multiple defined benefit pension plans and other postretirement benefit plans. During 20X3, Company A acquired FV Industries and amended its plans. For one of the defined benefit pension plans, the accumulated benefit obligation exceeds the fair value of plan assets, and Company A recognized an additional minimum liability in accordance with the provisions of paragraph 36 of FASB Statement No. 87, *Employers' Accounting for Pensions*.

Note to Financial Statements

Pension and Other Postretirement Benefit Plans

Company A has both funded and unfunded noncontributory defined benefit pension plans that together cover substantially all of its employees. The plans provide defined benefits based on years of service and final average salary.

Company A also has other postretirement benefit plans covering substantially all of its employees. The health care plans are contributory with participants' contributions adjusted annually; the life insurance plans are noncontributory. The accounting for the health care plans anticipates future cost-sharing changes to the written plans that are consistent with the company's expressed intent to increase retiree contributions each year by 50 percent of health care cost increases in excess of 6 percent. The postretirement health care plans include a limit on the company's share of costs for recent and future retirees.

The company acquired FV Industries on December 27, 20X3, including its pension benefit obligation of $900, pension plan assets of $1,000, other postretirement benefit obligations of $600, and related plan assets of $25. Amendments made at the end of 20X3 to Company A's plans increased the pension benefit obligations by $70 and reduced the other postretirement benefit obligations by $75.

Obligations and Funded Status

At December 31

	Pension Benefits		Other Benefits	
	20X3	20X2	20X3	20X2
Fair value of plan assets	$2,047	$1,068	$ 303	$ 206
Benefit obligations	2,277	1,246	1,313	742
Funded status (plan assets less than benefit obligations)	$ (230)	$ (178)	$(1,010)	$(536)
Amounts not recognized:				
Unrecognized net (gain) loss	94	18	(11)	(48)
Unrecognized prior service cost (benefit)	210	160	(92)	(22)
Net amount recognized	$ 74	$ 0	$(1,113)	$(606)

Note: Nonpublic entities are not required to provide the information in the above table about the amounts not recognized in the statement of financial position as is required by paragraph 5(c) of this Statement.

	Pension Benefits		Other Benefits	
	20X3	20X2	20X3	20X2
Prepaid benefit cost	$ 227	$ 127	$ 0	$ 0
Accrued benefit cost	(236)	(180)	(1,113)	(606)
Intangible assets	50	53	0	0
Accumulated other comprehensive income	33	0	0	0
Net amount recognized	$ 74	$ 0	$(1,113)	$(606)

The accumulated benefit obligation for all defined benefit pension plans was $1,300 and $850 at December 31, 20X3, and 20X2, respectively.

The projected benefit obligation, accumulated benefit obligation, and fair value of plan assets for the pension plans with an accumulated benefit obligation in excess of plan assets were $263, $237, and $84, respectively, as of December 31, 20X3, and $247, $222, and $95, respectively, as of December 31, 20X2.

Components of Net Periodic Benefit Cost

	Pension Benefits		Other Benefits	
	20X3	20X2	20X3	20X2
Service cost	$ 76	$ 72	$ 36	$32
Interest cost	90	88	55	55
Expected return on plan assets	(85)	(76)	(17)	(8)
Amortization of prior service cost	20	16	(5)	(5)
Amortization of net (gain) loss	0	0	0	0
Net periodic benefit cost	$101	$100	$ 69	$74

Additional Information

	Pension Benefits 20X3	Pension Benefits 20X2	Other Benefits 20X3	Other Benefits 20X2
Increase in minimum liability included in other comprehensive income	$ 33	$ 0		
Actual return (loss) on plan assets	29	188	$ 5	$24

Assumptions

Weighted-average assumptions used to determine benefit obligations at December 31

	Pension Benefits		Other Benefits	
	20X3	20X2	20X3	20X2
Discount rate	6.75%	7.25%	7.00%	7.50%
Rate of compensation increase	4.25	4.50		

Weighted-average assumptions used to determine net cost for years ended December 31

	Pension Benefits		Other Benefits	
	20X3	20X2	20X3	20X2
Discount rate	7.25%	7.50%	7.50%	7.75%
Expected return on plan assets	8.00	8.50	8.10	8.75
Rate of compensation increase	4.50	4.75		

Assumed Health Care Cost Trend Rates at December 31

	20X3	20X2
Health care cost trend rate assumed for next year	12%	12.5%
Rate that the cost trend rate gradually declines to	6%	5%
Year that the rate reaches the rate it is assumed to remain at	20X9	20X9

Assumed health care cost trend rates have a significant effect on the amounts reported for the health care plans. A one-percentage-point change in assumed health care cost trend rates would have the following effects:

	One-Percentage-Point Increase	One-Percentage-Point Decrease
Effect on total of service and interest cost	$ 22	$ (20)
Effect on postretirement benefit obligation	173	(156)

Note: Nonpublic entities are not required to provide the above information about the impact of a one-percentage-point increase and decrease in the assumed health care cost trend rates as is required by paragraph 5(m) of this Statement.

Plan Assets

Company A's pension plan asset allocation at December 31, 20X2, and 20X3, target allocation for 2004, and expected long-term rate of return by asset category are as follows:

Asset Category	Target Allocation 20X4	Percentage of Plan Assets at December 31 20X3	20X2	Weighted-Average Expected Long-Term Rate of Return—20X3
Equity securities	40–60%	50%	48%	8.50%
Debt securities	25–40	30	31	5.00
Real estate	5–15	10	12	10.00
Other	5–15	10	9	12.50
Total		100%	100%	8.00%

Equity securities include Company A common stock in the amounts of $80 million (4 percent of total plan assets) and $64 million (6 percent of total plan assets) at December 31, 20X3, and 20X2, respectively.

The maturities of debt securities at December 31, 20X3, range from 1 to 4 years with a weighted-average maturity of 2.5 years. The maturities of debt securities at December 31, 20X2, range from 1 to 5 years with a weighted-average maturity of 3 years.

Company A's other benefit plan asset allocation at December 31, 20X2, and 20X3, target allocation for 20X4, and expected long-term rate of return by asset category are as follows:

Asset Category	Target Allocation 20X4	Percentage of Plan Assets at December 31, 20X3	20X2	Weighted-Average Expected Long-Term Rate of Return—20X3
Equity securities	40–60%	60%	52%	8.50%
Debt securities	25–40	30	27	5.00
Real estate	5–15	5	13	10.00
Other	5–15	5	8	12.50
Total		100%	100%	8.10%

Equity securities include Company A common stock in the amounts of $12 million (4 percent of total plan assets) and $8 million (4 percent of total plan assets) at December 31, 20X3, and 20X2, respectively.

The maturities of debt securities at December 31, 20X3, range from 1 to 4 years with a weighted-average maturity of 2.5 years. The maturities of debt securities at December 31, 20X2, range from 1 to 5 years with a weighted-average maturity of 3 years.

Cash Flows

Employer Contributions	Pension Benefits	Other Benefits
20X2	$100	$152
20X3	75	137
20X4 (expected)	125	150

Of the $125 million expected to be contributed to the pension plans during 20X4, $80 million is estimated to be needed to satisfy minimum funding requirements, and an additional $45 million is expected to be contributed at Company A's discretion. The Company anticipates that the contributions will comprise $110 million in cash and $15 million of Company A common stock.

Of the $150 million expected to be contributed to fund the other postretirement benefit plans during 20X4, the entire contribution is discretionary, as the plans are not subject to any minimum regulatory funding requirements. The contribution is expected to be in the form of cash.

Contributions by participants to the other benefit plans were $20 million and $13 million for the years ending December 31, 20X3, and 20X2, respectively.

Benefit Payments

	Pension Benefits	Other Benefits
20X2	$ 114	$ 70
20X3	125	90

Estimated Future Payments

20X4	$ 200	$ 150
20X5	208	155
20X6	215	160
20X7	225	165
20X8	235	170
Thereafter	5,174	2,827
Total undiscounted payments	6,257	3,627
Less discount for interest	(3,980)	(2,314)
Benefit obligations	$ 2,277	$ 1,313

Illustration 2—Interim Period Disclosures of a Publicly Traded Entity

C3. The following illustrates the disclosures of a publicly traded entity for the first fiscal quarter of the year following initial application of the annual disclosure requirements.

Components of Net Periodic Benefit Cost

Three months ended March 31

	Pension Benefits		Other Benefits	
	20X4	20X3	20X4	20X3
Service cost	$35	$19	$16	$ 9
Interest cost	38	23	23	14
Expected return on plan assets	(41)	(21)	(6)	(4)
Amortization of prior service cost	7	5	(3)	(1)
Amortization of net (gain) loss	2	0	0	0
Net periodic benefit cost	$41	$26	$30	$18

Employer Contributions

Company A previously disclosed in its financial statements for the year ended December 31, 20X3, that it expected to contribute $125 million to its pension plan, of which $80 million is estimated to satisfy minimum funding requirements, and an additional $45 million is expected to be contributed at Company A's discretion. The contributions are expected to comprise $110 million in cash and $15 million of Company A common shares. As of March 31, 20X4, $20 million of the cash contributions have been made. Company A presently anticipates contributing $15 million in cash, in addition to the $125 million previously expected, to fund its pension plan.

Illustration 3—Interim-Period Disclosures of a Nonpublic Entity in a Complete Set of Financial Statements

C4. The following illustrates the disclosures for a nonpublic entity for the first fiscal quarter of the year following initial application of the annual disclosure requirements.

Entity A previously disclosed in its financial statements for the year ended December 31, 20X3, that it expected to contribute $125 million to its pension plan, of which $80 million is estimated to satisfy minimum funding requirements, and an additional $45 million is expected to be contributed at Entity A's discretion. The contributions are expected to comprise $110 million in cash and $15 million of Entity A common shares. Entity A presently anticipates contributing $15 million in cash, in addition to the $125 million previously expected, to fund its pension plan.

Appendix D

IMPACT ON RELATED LITERATURE

D1. This appendix addresses the impact of this Statement on authoritative accounting literature included in categories (a) and (b) in the GAAP hierarchy discussed in AICPA Statement on Auditing Standards No. 69, *The Meaning of Present Fairly in Conformity With Generally Accepted Accounting Principles.* It does not address literature included in categories (c) and (d) of that hierarchy.

EITF Consensuses

D2. The following table lists EITF Issues and Topics relating to employers' disclosures about pensions and other postretirement benefits and indicates (a) the status of that literature after issuance of this Statement and (b) the impact of this Statement on that literature (if any) or the reasons that the literature is beyond the scope of this Statement.

Status Legend	
N/A	Guidance is either outside the scope of this Statement or unaffected by this Statement.
Nullified	Guidance is nullified by this Statement.
Resolved	Issue is resolved by this Statement.

EITF Issue No.	**Title**	**Status**	**Commentary**	**Status Section Update**
92-12	Accounting for OPEB Costs by Rate-Regulated Enterprises	N/A	The consensus in Issue 92-12 states that a rate-regulated enterprise should disclose a description of the regulatory treatment of OPEB costs, the status of any pending regulatory action, the amount of any Statement 106 costs deferred, and the period over which the deferred amounts are expected to be recovered in rates.	This Statement does not affect the guidance provided by the EITF on the OPEB disclosures for rate-regulated enterprises.
92-13	Accounting for Estimated Payments in Connection with the Coal Industry Retiree Health Benefit Act of 1992	N/A	The consensus in Issue 92-13 states that enterprises should disclose the impact of the Act, including the estimated amount of their total obligation and the method of accounting adopted.	This Statement does not affect the guidance provided by the EITF on the required disclosures from the Coal Industry Retiree Health Benefit Act of 1992.