



American Institute of CPAs
220 Leigh Farm Road
Durham, NC 27707-8110

April 26, 2016

Susan M. Cospers, CPA
Technical Director
FASB
401 Merritt 7
PO Box 5116
Norwalk, CT 06856-5116

Re: January 26, 2016 Exposure Draft of a Proposed Accounting Standards Update (ASU), *Compensation—Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost* [File Reference No. 2016-200]

Dear Ms. Cospers:

The American Institute of CPAs (AICPA) is the world's largest member association representing the accounting profession, with more than 412,000 members in 144 countries, and a history of serving the public interest since 1887. One of the objectives that the Council of the AICPA established for the PCPS Executive Committee is to speak on behalf of local and regional firms and represent those firms' interests on professional issues in keeping with the public interest, primarily through the Technical Issues Committee (TIC). This communication is in accordance with that objective. These comments, however, do not necessarily reflect the positions of the AICPA.

TIC has reviewed the ED and is providing the following comments for your consideration.

GENERAL COMMENTS

TIC believes private entities, including not-for-profit entities (NFPs), either should be exempt from this proposal or at least provided a disclosure option in lieu of changing the presentation of net periodic benefit costs in the income statement. A disclosure option would be needed only if some of the proposed amendments would prove useful to private entity stakeholders.

If the Board decides not to provide an exemption or alternative for private entities, TIC recommends that the final standard include guidance relating to the proper presentation of the cash and noncash financing elements of pension and other postretirement benefit costs within the statement of cash flows.

Finally, TIC is making a general request for the Board to provide more information in future proposals regarding the staff's outreach efforts, as well as details about the

stakeholder groups that bring concerns to the Board about existing financial accounting and reporting standards. TIC believes it is important for constituents to be aware of the extent of feedback the Board has obtained about the projects on its agenda, especially the extent to which feedback was obtained from private company financial statement users.

SPECIFIC COMMENTS

TIC believes this proposal is designed to address the information needs of public companies but lacks relevance for users of private company financial statements. The concerns raised in the Basis for Conclusions to the ED seem to relate to the type of financial statement analysis that would be performed by users of public company investors, not private company users. Paragraph BC6 states in part:

Stakeholders have raised concerns that the presentation of defined benefit cost on a net basis combines elements that are distinctly different in their predictive value, resulting in a presentation that has more limited value for financial statement users. The reduced transparency in the presentation of net benefit cost also makes financial statement users' analyses potentially less robust and more costly.

Appendix A of FASB Statement No. 132(R), *Employers' Disclosures about Pensions and Other Postretirement Benefits*, provided more detail on the information desired by investors relating to pension cost. Relevant excerpts from paragraphs A33 and A34 are reproduced below:

A33. ...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 have stated that they wish to analyze operating results absent the financing elements of pension plans and other postretirement benefit plans and to compare costs and margins across entities with and without those plans or alternative benefit plans or with different actuarial assumptions.

A34. Periodic variation in net benefit cost will affect operating cost trends. Users of financial statements have said that additional disclosures about the effects of net benefit cost on line items of 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 the additional disclosures would assist them in identifying the effect on operating results of financing elements of net benefit cost, such as expected long-term investment returns. Displaying the net benefit cost by income statement line item would enable users to better identify the effects of pension plans and other postretirement benefit plans on results, including both from a trend and a competitive standpoint.

TIC believes private company stakeholders do not analyze net benefit costs in this manner. This fact was made clear in paragraph A40 of FASB Statement No. 132(R):

A40. Nonpublic entities are exempt from the requirements of paragraphs 5(a)–(c), 5(h), 5(m), and 5(o)–(r) of this Statement and from the requirement to present interim-period disclosure of the separate components of net periodic benefit cost recognized. Users of financial statements have observed that when analyzing the financial statements of nonpublic entities, they rely on information about the benefit obligation, assets, and cash flows, but they do not require that same level of detail about benefit costs and net income as is provided by publicly traded entities.

Furthermore, reporting the financing cost components outside of income from operations would add another layer of complexity to the statement of operations and the statement of cash flows. Unlike public companies, nonpublic entities do not have a current requirement to disclose the amounts attributed to the separate components of net benefit cost in either the notes or the financial statements. Since there is no current disclosure requirement, users of private company financial statements may be unaware of the components of net periodic benefit cost. Therefore, the cost components would have no current decision-useful purpose for private company users. Disaggregating the components and presenting them in the operating and nonoperating sections of the income statement, respectively, could be confusing to users who wouldn't understand what these amounts represent or why they should be separated in the income statement. TIC believes such changes would not be meaningful or provide any benefit to private company users.

There will also be additional costs, mostly in terms of additional time and effort, for private entities that sponsor defined benefit plans to implement the new standard. They will have to re-design their charts of accounts and implement system changes to ensure proper coding of the components of pension and other postretirement benefit costs. It's unclear whether the actuarial report will include the proper allocation of the various cost components. If they do not, private companies with unsophisticated accounting personnel may be unable to determine where the various components would be presented in the income statement. In the year of implementation, preparers will be required to apply the amendments retrospectively, which involves additional effort. While this expenditure of cost and time would create only one-time implementation issues, preparers should not have to incur these expenses for presentation changes that will not be useful to private company stakeholders, especially when so many other accounting changes are on the horizon.

Applicability to NFP Entities

Most small NFPs do not have defined benefit plans; therefore, the ED is not likely to apply to most of them. The ones it does apply to, primarily larger NFPs, including those in the health care industry, will rely on the plan actuaries to provide the required information and would have the same burdens and concerns as other organizations. However, NFPs also have an added consideration. With the pending changes to NFP financial reporting, this is just another compliance requirement with which NFPs will have to contend. TIC believes users of NFP financial statements are not requesting the proposed changes. If

NFP users do not intend to use the changes in their financial statement analysis, then NFP entities should not be required to implement the changes.

Recommendations

TIC recommends providing an exemption from the proposed amendments, or at the very least, a disclosure alternative, for private entities. TIC believes this ED would meet the decision criteria in the *Private Company Decision-Making Framework: A Guide for Evaluating Financial Accounting and Reporting for Private Companies* (the Framework) for consideration of either an exemption or an alternative.

The Framework includes a presumption that both private companies and public companies should apply the same financial statement display guidance unless certain factors are present. Those factors are presented in paragraph 3.2 in the Framework, as follows:

- a. Whether private companies already are permitted an exception from providing related or similar types of information, for example, earnings per share and segment information, under existing guidance
- b. Whether there is a basis to support alternative recognition and measurement or alternative disclosure requirements of the related financial statement components
- c. Whether the information affects amounts and metrics on which typical users of private company financial statements focus (see paragraph 2.8).

TIC reviewed the above factors and concluded that (a) private companies are already exempt from providing disaggregated information on most of the components of net benefit cost; (b) if deemed necessary by private company users, the Board could adopt a requirement to disclose the amount of current service cost in the notes to the financial statements; and (c) the proposed amendments would not affect the amounts and metrics that are relevant to typical users of private company financial statements.

If the Board exempts private companies from the scope of the proposed amendments, TIC also recommends a similar exemption for NFP entities.

If the Board decides to require the proposed presentation for all entities, TIC recommends the final standard address any classification changes that may be necessary within the statement of cash flows. Without additional guidance, questions may arise as to whether classification of the financing elements of net benefit cost should be reflected as noncash adjustments of operating activities or as financing or investing activities.

Finally, for future reference, TIC requests the Board consider providing more detail in its proposals about the staff's outreach efforts, as well as details about the stakeholder groups that bring concerns to the Board about existing financial accounting and reporting standards. When a proposal refers only to input from "stakeholders," constituents have no way of knowing the pervasiveness of the concerns or the specific group or groups that have raised those concerns. For example, it would be very helpful to constituents who

work in the private company arena to know whether feedback was received from private company financial statement users. TIC believes such details would increase the transparency of the FASB's due process and allow constituents to better understand the issues being raised to the Board.

TIC appreciates the opportunity to present these comments on behalf of PCPS member firms. We would be pleased to discuss our comments with you at your convenience.

Sincerely,

A handwritten signature in black ink that reads "Michael A. Westervelt". The signature is written in a cursive, slightly slanted style.

Michael A. Westervelt, Chair
PCPS Technical Issues Committee
cc: PCPS Executive and Technical Issues Committees