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2016-210  
Comment Letter No. 27

Ms. Susan M. Cospers  
Technical Director  
Financial Accounting Standards Board  
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**Proposed Accounting Standards Update, Compensation – Retirement Benefits – Defined Benefit Plans – General (Subtopic 715-20): Changes to the Disclosure Requirements for Defined Benefit Plans (File Reference No. 2016-210)**

Dear Ms. Cospers:

We appreciate the opportunity to comment on the Proposed Accounting Standards Update (ASU), *Changes to the Disclosure Requirements for Defined Benefit Plans* (the Proposal), from the Financial Accounting Standards Board (FASB or Board).

We support the overall objective of the FASB's disclosure framework project, which aims to improve the effectiveness of disclosures in the notes to the financial statements.<sup>1</sup> We also support using the Proposal as a test case for the Proposed Concepts Statement, *Conceptual Framework for Financial Reporting – Chapter 8: Notes to Financial Statements* (the Proposed Concepts Statement) and removing certain disclosure requirements that are not consistent with the Proposed Concepts Statement. However, we believe it is important that the Board finalize the Proposed Concepts Statement before finalizing the proposed changes for defined benefit plan disclosures, given the potential for inconsistencies.

We are concerned about how entities would apply the materiality assessments that would be required by the Proposed ASU, *Notes to Financial Statements (Topic 235): Assessing Whether Disclosures Are Material* (the Materiality Proposal), to the proposed requirements for defined benefit plan disclosures.

We are also concerned that certain proposed disclosure requirements, together with the volume of disclosures that are currently required by Accounting Standards Codification (ASC) Subtopic 715-20, *Compensation – Retirement Benefits – Defined Benefit Plans – General* (ASC 715-20), could further reduce disclosure effectiveness.

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<sup>1</sup> Refer to our 23 December 2015 comment letter on Proposed ASU, *Assessing Whether Disclosures Are Material*.

## **Evaluating the materiality of disclosure requirements**

The Proposal refers to the Board's Materiality Proposal and would require an entity to provide the disclosures in ASC 715-20 if they are material. As discussed in our comment letter on the Materiality Proposal, we believe the Materiality Proposal is not sufficiently clear on how an entity would make an assessment of whether a disclosure is material. We also believe the Materiality Proposal would introduce more uncertainty into the process of assessing materiality than currently exists. Because we do not believe the Materiality Proposal would provide adequate guidance for an entity to make materiality assessments for disclosures, we have provided our responses to the questions raised in the Proposal assuming that all of the disclosures described in ASC 715-20 would be required in the financial statement footnotes.

## **Disclosure effectiveness**

We support the proposed amendments that would result in the elimination of disclosure requirements that are not consistent with the Proposed Concepts Statement. However, in our view, the proposed amendments do not go far enough to address concerns that disclosures for retirement benefits plans are cluttered and difficult for investors to understand.

ASC 715-20 currently requires a number of disclosures for defined benefit pension and other postretirement benefit plans that we believe make it difficult for users to find important information in the notes to the financial statements and compromise disclosure effectiveness. We believe that preparers should continue to provide the information that is most useful to financial statement users, such as information about the existence of defined benefit plans, the funding requirements and funded status of the plans, the periodic cost, the assumptions the preparer used in its accounting for the plans and the method used to recognize amounts of gains and losses in the financial statements (i.e., the immediate recognition or the deferral method). Unnecessary disclosures and redundant disclosures could be eliminated to help users focus on the information that is most relevant.

As we said in our comment letter on the Proposed Statement of Financial Accounting Concepts, *Chapter 8: Notes to Financial Statements*,<sup>2</sup> we generally support developing a framework that the Board would apply consistently when creating new disclosure requirements and when critically evaluating existing disclosure requirements. As part of this framework, we understand that the Board needs to address broadly what disclosures are relevant to financial statement users in making investment decisions.

We understand that using the Proposal as a test case for the Proposed Concepts Statement required the Board to separately evaluate each existing ASC 715-20 required disclosure, as well as new disclosures suggested by stakeholders, against the framework in the Proposed Concepts Statement to decide whether to propose eliminating or adding disclosures. We believe that evaluating individual disclosures is important, but we think the resulting list of required disclosures should be evaluated as a whole to determine whether the disclosures are effective in the aggregate.

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<sup>2</sup> Refer to our 14 July 2014 comment letter on the Proposed Statement of Financial Accounting Concepts, *Chapter 8: Notes to Financial Statements*.



We encourage the FASB to broadly reconsider all of the disclosures in the Proposal and those that are currently required by ASC 715-20 to determine whether these disclosures provide decision-useful information to financial statement users and whether certain of them could be eliminated or aggregated to enhance disclosure effectiveness.

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Our responses to certain questions in the Proposal are set out in the appendix to this letter.

We would be pleased to discuss our comments with the Board or its staff at your convenience.

Very truly yours,

*Ernst & Young LLP*

**Appendix – Responses to specific questions raised in the Proposed Accounting Standards Update, *Changes to the Disclosure Requirements for Defined Benefit Plans***

**Question 2:** Are the proposed disclosure requirements operable and auditable? If not, which aspects pose operability or auditability issues and why?

We believe that most of the proposed disclosures are operational and auditable. However, we are concerned that it may be difficult for reporting entities that sponsor many defined benefit plans with different benefit plan formulas to concisely disclose a description of the nature of the benefits provided, the employee groups covered and the type of benefit plan formula. If the Board doesn't clarify how this information should be presented before finalizing the Proposal, these reporting entities would either incur significant costs to provide voluminous disclosures, or the disclosures would become boilerplate. In either case, the disclosures would not provide users with decision-useful information. We recommend that the Board include implementation guidance to illustrate the level of detail expected from entities that sponsor many defined benefit plans.

We also believe that it is not clear whether a reporting entity that has foreign or domestic plans that are immaterial would disclose information only for material plans or aggregated information for all plans. We recommend that the Board clarify its intent.

**Question 3:** Would any of the proposed disclosures impose significant incremental costs? If so, please describe the nature and extent of the additional costs.

Please see our response to Question 2. We anticipate that some reporting entities may incur significant costs to change their financial reporting processes and procedures and update their internal control documentation to properly capture the information needed for the proposed disclosures and management's review process relating to the employer's financial statements (e.g., entities that have internal control reporting requirements). While certain disclosures (e.g., the weighted-average interest crediting rate for cash balance plans and other plans with a promised interest crediting rate, quantitative and qualitative disclosures from ASC 820 about assets measured at net asset value using a practical expedient) are already provided in the plan financial statements as required by ASC 960, *Plan Accounting – Defined Benefit Pension Plans*, we expect that entities would incur costs for these and the other proposed disclosures because plan sponsors that have internal control reporting requirements may not have included these disclosures in their internal control documentation and management review processes.

**Question 5:** Are there any other disclosure requirements retained following the review of Subtopic 715-20 that should be removed on the basis of the proposed Concepts Statement or for other reasons? Please explain why.

We recommend that the FASB broadly reconsider all of the disclosures that would continue to be required by ASC 715-20 to determine whether these disclosures as a whole provide decision-useful information to financial statement users or whether some of them could be aggregated or eliminated to avoid duplicative information. For example, the following existing disclosures require information

that is either duplicative or provided elsewhere in the financial statements (e.g., statement of comprehensive income):

- ▶ ASC 715-20-50-1B(a) on the reconciliation of the beginning and ending balances of the benefit obligation
- ▶ ASC 715-20-50-1B(b) on the reconciliation of the beginning and ending balances of the fair value of plan assets
- ▶ ASC 715-20-50-1D(b) on the amount of net benefit cost recognized
- ▶ ASC 715-20-50-1D(c) on the amounts recognized in other comprehensive income

In addition, we observe that the requirement in ASC 715-20-50-1C (c) to disclose the discount rate assumptions on a weighted-average basis may no longer be relevant or is not a natural outcome of the measurement process for reporting entities that are changing from using a weighted-average discount rate to disaggregated interest rates for calculating interest and service costs for defined benefit pension and other postretirement plans. Therefore, we recommend that the Board consider allowing an alternative disclosure (e.g., a range of spot rates used to discount the service cost and/or interest cost component) if the weighted-average rate is not used to calculate these costs.

**Question 6:** How much time would be needed to implement the proposed amendments? Should the amount of time needed to implement the proposed amendments by nonpublic entities be different from the amount of time needed by public entities? Should early adoption be permitted? If yes to either question, please explain why.

We anticipate that some reporting entities may need to change their systems and processes to capture information to make some of the proposed disclosures. These entities may need more time than others to implement the Proposal. Early adoption should be permitted to allow reporting entities that don't have these issues to take advantage of the proposed disclosure eliminations.

We also support a one-year deferral of the effective date for nonpublic entities so that they have time to learn about the new disclosure requirements.