

To the Point

FASB – final guidance

FASB makes minor changes to disclosure requirements for sponsors of defined benefit plans

The new guidance affects all employers that sponsor defined benefit pension and/or other postretirement benefit plans.

What you need to know

- ▶ The FASB issued final guidance that changes the disclosure requirements for employers that sponsor defined benefit pension and/or other postretirement benefit plans.
- ▶ The guidance eliminates requirements for certain disclosures that are no longer considered cost beneficial and requires new ones that the FASB considers pertinent.
- ▶ The guidance is effective for fiscal years ending after 15 December 2020 for public business entities and fiscal years ending after 15 December 2021 for all other entities. Early adoption is permitted.

Overview

The Financial Accounting Standards Board (FASB or Board) issued [final guidance](#)¹ that makes minor changes to the disclosure requirements for employers that sponsor defined benefit pension and/or other postretirement benefit plans.

The FASB reviewed the pension and other postretirement disclosures as part of its broader disclosure framework project and ultimately decided that the requirements in Accounting Standards Codification (ASC) 715² are generally consistent with its new disclosure framework. The Board said it does not expect entities to incur significant costs as a result of the changes because the new information they will have to disclose should be readily available.

The disclosure framework project aims to improve the effectiveness of disclosures in the notes to the financial statements by focusing on requirements that clearly communicate the most important information to users of the financial statements. The FASB also issued final

guidance on disclosure requirements for fair value measurement. The Board is working on changes to disclosure requirements for income taxes, inventory and interim reporting.

Key considerations

The new guidance affects all employers that sponsor defined benefit pension or other postretirement benefit plans, including not-for-profit entities.

The guidance requires all sponsors of defined benefit plans to provide these new disclosures:

- ▶ The weighted-average interest crediting rate for cash balance plans and other plans with promised interest crediting rates
- ▶ An explanation of the reasons for significant gains and losses related to changes in the benefit obligation for the period

The guidance eliminates these required disclosures for all sponsors of defined benefit plans:

- ▶ The amount and timing of plan assets expected to be returned to the employer, if any
- ▶ Information related to the June 2001 amendments to the Japanese Welfare Pension Insurance Law
- ▶ Information about the amount of future annual benefits covered by insurance contracts and significant transactions between the employer or related parties and the plan
- ▶ The amounts in accumulated other comprehensive income expected to be recognized as components of net periodic benefit cost over the next fiscal year

Public entities no longer have to disclose the effects of a one-percentage-point change in the assumed health care cost trend rates on the (1) aggregate of the service and interest cost components of net periodic benefit costs and the (2) benefit obligation for postretirement health care benefits.

Nonpublic entities no longer have to disclose a reconciliation of opening to closing balances of plan assets measured on a recurring basis in Level 3 of the fair value hierarchy. However, nonpublic entities are still required to disclose separately the amounts of transfers into and out of Level 3 of the fair value hierarchy as well as the plan's purchases of Level 3 assets.

The FASB also clarified the requirements for entities that provide aggregate disclosures for two or more plans. Entities that provide aggregated pension plan disclosures need to disclose (1) the projected benefit obligation (PBO) and the fair value of plan assets for plans with PBOs that exceed plan assets, and (2) the accumulated benefit obligation (ABO) and the fair value of plan assets for plans with ABOs that exceed plan assets. Entities that aggregate disclosures for other postretirement benefit plans need to disclose the accumulated postretirement benefit obligation (APBO) and the fair value of plan assets for plans with APBOs that exceed plan assets.

The FASB had proposed eliminating the requirement that plan sponsors disclose the ABO for pension plans, but it decided to retain this requirement because financial statement users said the disclosure helps them evaluate and compare entities' present benefit obligations.

No amendments were made to the interim disclosure requirements in ASC 715-20.

How we see it

While the changes to the required disclosures are minimal, entities may need to update their processes and controls over their financial statement disclosures.

Effective date and transition

The guidance is effective for public business entities in fiscal years ending after 15 December 2020. For all other entities, it is effective in fiscal years ending after 15 December 2021. Early adoption is permitted. Entities will apply the amendments using a retrospective approach.

Endnotes:

¹ Accounting Standards Update 2018-14, *Compensation – Retirement Benefits – Defined Benefit Plans – General (Subtopic 715-20): Disclosure Framework – Changes to the Disclosure Requirements for Defined Benefit Plans*.

² ASC 715, *Compensation – Retirement Benefits*.