

*Proposed Accounting Standards Update*

Issued: July 28, 2016  
Comments Due: September 26, 2016

Plan Accounting:  
Defined Benefit Pension Plans (Topic 960)  
Defined Contribution Pension Plans (Topic 962)  
Health and Welfare Benefit Plans (Topic 965)

Employee Benefit Plan Master Trust Reporting

a consensus of the FASB Emerging Issues Task Force

The Board issued this Exposure Draft to solicit public comment on proposed changes to Topics 960, 962, and 965 of the *FASB Accounting Standards Codification*<sup>®</sup>. Individuals can submit comments in one of three ways: using the electronic feedback form on the FASB website, emailing comments to [director@fasb.org](mailto:director@fasb.org), or sending a letter to “Technical Director, File Reference No. EITF-16B, FASB, 401 Merritt 7, PO Box 5116, Norwalk, CT 06856-5116.”

## Notice to Recipients of This Exposure Draft of a Proposed Accounting Standards Update

The Board invites comments on all matters in this Exposure Draft until September 26, 2016. Interested parties may submit comments in one of three ways:

- Using the electronic feedback form available on the FASB website at [Exposure Documents Open for Comment](#)
- Emailing comments to [director@fasb.org](mailto:director@fasb.org), File Reference No. EITF-16B
- Sending a letter to “Technical Director, File Reference No. EITF-16B, FASB, 401 Merritt 7, PO Box 5116, Norwalk, CT 06856-5116.”

All comments received are part of the FASB’s public file and are available at [www.fasb.org](http://www.fasb.org).

The *FASB Accounting Standards Codification*<sup>®</sup> is the source of authoritative generally accepted accounting principles (GAAP) recognized by the FASB to be applied by nongovernmental entities. An Accounting Standards Update is not authoritative; rather, it is a document that communicates how the Accounting Standards Codification is being amended. It also provides other information to help a user of GAAP understand how and why GAAP is changing and when the changes will be effective. A copy of this Exposure Draft is available at [www.fasb.org](http://www.fasb.org).

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# Proposed Accounting Standards Update

## Plan Accounting:

Defined Benefit Pension Plans (Topic 960)

Defined Contribution Pension Plans (Topic 962)

Health and Welfare Benefit Plans (Topic 965)

## Employee Benefit Plan Master Trust Reporting

July 28, 2016

Comment Deadline: September 26, 2016

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# Summary and Questions for Respondents

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## Why Is the FASB Issuing This Proposed Accounting Standards Update (Update)?

The Board is issuing this proposed Update to improve the usefulness of the information reported to users of employee benefit plan financial statements. This proposed Update relates primarily to the reporting by an employee benefit plan (a plan) for its interest in a master trust. A master trust is a trust for which a regulated financial institution (bank, trust company, or similar financial institution that is regulated, supervised, and subject to periodic examination by a state or federal agency) serves as a trustee or custodian and in which assets of more than one plan sponsored by a single employer or by a group of employers under common control are held.

Current disclosure guidance about an employee benefit plan's interest in a master trust in Topic 960, Plan Accounting—Defined Benefit Pension Plans, and Topic 962, Plan Accounting—Defined Contribution Pension Plans, includes requirements for a plan to disclose the following items: the fair value of investments held by the master trust by general type of investment; the net change in the fair value of each significant type of investment of the master trust; the total investment income of the master trust by type; a description of the basis used to allocate net assets, net investment income or loss, and gains or losses to participating plans; and the plan's percentage interest in the master trust.

Many stakeholders find the master trust disclosure requirements to be limited and incomplete in generally accepted accounting principles (GAAP)—particularly relating to disclosures of the plan's interest in the master trust. Most preparers rely on the AICPA Audit and Accounting Guide, *Employee Benefit Plans*, to develop master trust disclosures in plan financial statements. Because many employee benefit plans hold investments in master trusts, some stakeholders have said that master trust disclosures is an area in which standard setting is needed.

The amendments in this proposed Update would clarify presentation requirements for a plan's interest in a master trust and require more detailed disclosures of the plan's interest in the master trust. The proposed amendments also would eliminate a redundancy relating to 401(h) account disclosures.

## Who Would Be Affected by the Amendments in This Proposed Update?

The amendments in this proposed Update would apply to reporting entities within the scope of Topic 960, 962, or Topic 965, Plan Accounting—Health and Welfare Benefit Plans.

## What Are the Main Provisions and Why Would They Be an Improvement to Current GAAP?

Under Topic 960, investments in master trusts are presented in a single line item in the statement of net assets available for benefits. Similar guidance is not provided in Topic 962 or 965, which has resulted in diversity in practice. The amendments in this proposed Update would require a plan's interest in a master trust and any change in interest in the master trust to be presented in single line items in the statement of net assets available for benefits and in the statement of changes in net assets available for benefits, respectively.

Topics 960 and 962 require plans to disclose their percentage interest in the master trust and a list of the investments held by the master trust, presented by general type, within the plan's financial statements. Stakeholders have said that the disclosure can be misleading when the plan has a divided interest in the individual investments of the master trust (that is, when the plan has a specific, rather than a proportionate, interest in the master trust). The amendments in this proposed Update would require all plans with a divided interest to disclose both a list of the general types of investments held by the master trust and the dollar amount of their interest in each of those general types of investments.

GAAP does not require disclosure of the master trust's other assets and liabilities. Examples of those balances include amounts due from brokers for securities sold, amounts due to brokers for securities purchased, accrued interest and dividends, and other accrued expenses. Some stakeholders have said that disclosure of these balances is necessary to understand the single line item presented in the statement of net assets available for benefits. The amendments in this proposed Update would require all plans to disclose (1) their master trust's other asset and liability balances and (2) the dollar amount of the plan's interest in each of those balances.

The Task Force decided not to require the plan to provide other applicable GAAP disclosures (for example, those required by Topic 815, Derivatives and Hedging, and Topic 820, Fair Value Measurement) for the underlying investments held by a master trust (that is, consistent with the notion that a plan holds an interest in the master trust, the Task Force concluded that a plan is not required to provide those disclosures regarding the underlying investments held by the master trust on a "look through" basis).

Lastly, investment disclosures (for example, those required by Topics 815 and 820) relating to 401(h) account assets are generally provided in both the defined benefit pension plan financial statements and the health and welfare benefit plan financial statements. Stakeholders have noted that the disclosures are redundant. The amendments in this proposed Update would remove that redundancy and not require the 401(h) account investment disclosures to be provided in the health and welfare benefit plan's financial statements. The proposed amendments would require the health and welfare benefit plan to disclose the name of the defined benefit pension plan in which those investment disclosures are provided, so that participants can easily access those statements for information about the 401(h) account assets, if needed.

## When Would the Amendments Be Effective?

The amendments in this proposed Update would be applied retrospectively to all periods presented. The effective date and the ability to early adopt will be determined after the Task Force considers stakeholder feedback on the proposed Update.

## Questions for Respondents

The Board invites individuals and organizations to comment on all matters in this proposed Update, particularly on the issues and questions below. Comments are requested from those who agree with the proposed guidance as well as from those who do not agree. Comments are most helpful if they identify and clearly explain the issue or question to which they relate. Those who disagree with the proposed guidance are asked to describe their suggested alternatives, supported by specific reasoning.

**Question 1:** Should a plan's interest in a master trust and the change in its interest in the master trust be presented in single line items in the plan's statement of net assets available for benefits and in the statement of changes in net assets available for benefits, respectively? Why or why not?

**Question 2:** Should a plan with a divided interest in a master trust be required to disclose the dollar amount of its interest in each general type of investment held by the master trust as well as the total investments held by the master trust, presented by general type? Why or why not?

**Question 3:** Should a plan be required to disclose a master trust's other assets and liabilities (for example, amounts due from brokers for securities sold, amounts due to brokers for securities purchased, accrued interest and dividends, and other accrued expenses) and the dollar amount of the plan's interest in each of those assets and liabilities? Why or why not?

**Question 4:** Should a health and welfare benefit plan not be required to include the 401(h) account investment disclosures? If so, should the health and welfare benefit plan be required to disclose the name of the defined benefit pension plan in which those 401(h) account investments are legally held? Why or why not?

**Question 5:** The Task Force decided not to require plans to provide other disclosures (for example, those required by Topics 815 and 820) for the underlying investments held by a master trust. Do you agree that such disclosures should not be required for the underlying investments held by the master trust? Why or why not?

**Question 6:** Should plans be required to provide the Topic 820 disclosures for a plan's interest in the master trust (that is, consistent with the single line item that is presented in the statement of net assets available for benefits)? For example, should a plan be required to disclose the fair value hierarchy level of its interest in the master trust and if its interest in the master trust is classified as Level 3, then also the relevant Level 3 disclosures? Why or why not?

**Question 7:** Are there other disclosures that should be required in the plan's financial statements related to the plan's interest in the master trust or related to the master trust's activity?

**Question 8:** Are there other current master trust disclosure requirements that should be amended or no longer be required? Why or why not?

**Question 9:** What costs do you anticipate would be incurred if the proposed amendments were implemented?

**Question 10:** Should the proposed amendments be applied retrospectively? Why or why not?

**Question 11:** How much time would be needed to implement the proposed amendments? Should early adoption be permitted?



# Amendments to the *FASB Accounting Standards Codification*<sup>®</sup>

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## Introduction

1. The Accounting Standards Codification is amended as described in paragraphs 2–13. In some cases, to put the change in context, not only are the amended paragraphs shown but also the preceding and following paragraphs. Terms from the Master Glossary are in **bold** type. Added text is underlined, and deleted text is ~~struck out~~.

## Amendments to Subtopic 960-30

2. Supersede paragraph 960-30-45-11 and its related heading, with a link to transition paragraph 962-10-65-4, as follows:

### **Plan Accounting—Defined Benefit Pension Plans—Net Assets Available for Plan Benefits**

#### **Other Presentation Matters**

##### ~~> Investments in Master Trusts~~

**960-30-45-11** Paragraph superseded by Accounting Standards Update No. 2016-XX. ~~Investments in master trusts are presented in a single line item in the statement of net assets available for benefits. [Content amended and moved to paragraph 960-205-45-7]~~

3. Supersede paragraphs 960-30-50-1 through 50-3 and their related heading, with a link to transition paragraph 962-10-65-4, as follows:

#### **Disclosure**

##### ~~> Master Trust Investments~~

**960-30-50-1** Paragraph superseded by Accounting Standards Update No. 2016-XX. ~~In the notes to financial statements the investments of a master trust measured~~

using fair value shall be detailed by general type, such as the following, as of the date of each statement of ~~net assets available for benefits~~ presented:

- a. ~~Government securities~~
- b. ~~Short-term securities~~
- c. ~~Corporate bonds~~
- d. ~~Common stocks~~
- e. ~~Mortgages~~
- f. ~~Real estate.~~ **[Content amended and moved to paragraph 960-325-50-9]**

**960-30-50-2** Paragraph superseded by Accounting Standards Update No. 2016-XX. ~~The net change in the fair value of investments of the master trust and total investment income of the master trust by type, including interest, dividends, and so forth, also shall be disclosed in the notes for each period for which a statement of changes in net assets available for benefits is presented.~~ **[Content amended and moved to paragraph 960-325-50-7]**

**960-30-50-3** Paragraph superseded by Accounting Standards Update No. 2016-XX. ~~The notes to financial statements shall also include both of the following:~~

- a. ~~Description of the basis used to allocate all of the following:~~
  - 1. ~~Net assets~~
  - 2. ~~Net investment income~~
  - 3. ~~Gains and losses to participating plans.~~
- b. ~~The plan's percentage interest in the master trust as of the date of each statement of net assets available for benefits presented.~~ **[Content amended and moved to paragraph 960-325-50-8]**

## Amendments to Subtopic 960-205

4. Add paragraph 960-205-45-7 and its related heading, with a link to transition paragraph 962-10-65-4, as follows:

### **Plan Accounting—Defined Benefit Pension Plans— Presentation of Financial Statements**

#### **Other Presentation Matters**

##### **> ~~Investments~~Interests in Master Trusts**

**960-205-45-7** A plan's interest in each master trust and the change in its interest in the master trust ~~investments in master trusts are~~ shall be presented in a single line ~~item~~items in the statement of net assets available for benefits and in the

statement of changes in net assets available for benefits, respectively. **[Content amended as shown and moved from paragraph 960-30-45-11]**

## Amendments to Subtopic 960-325

5. Add paragraphs 960-325-50-7 through 50-11 and their related heading, with a link to transition paragraph 962-10-65-4, as follows:

### Disclosure

#### > Master Trust Investments

**960-325-50-7** The net ~~change~~ appreciation or depreciation in the fair value of investments of the master trust and total investment income of the master trust by type, including ~~interest~~ interest, and dividends, and so forth, also shall be disclosed in the notes for each period for which a statement of changes in net assets available for benefits is presented. Net appreciation or depreciation includes realized gains and losses on investments that were both purchased and sold during the period as well as unrealized appreciation or depreciation of the investments held at year-end. **[Content amended as shown and moved from paragraph 960-30-50-2]**

**960-325-50-8** The notes to financial statements also shall ~~also~~ include both of the following:

- a. Description of the basis used to allocate all of the following:
  1. Net assets
  2. ~~Total~~ Net investment income
  3. Subparagraph superseded by Accounting Standards Update No. 2016-XX, Gains and losses to participating plans.
- b. The plan's percentage interest in the master trust as of the date of each statement of net assets available for benefits presented. **[Content amended as shown and moved from paragraph 960-30-50-3]**

**960-325-50-9** In the notes to financial statements the investments of a master trust measured using fair value shall be ~~detailed~~ presented by general type of investment, such as the following, as of the date of each statement of **net assets available for benefits** presented:

- a. Registered investment companies (for example, mutual funds)
- ~~a-b.~~ Government securities
- c. Common-collective trusts
- d. Pooled separate accounts
- ~~b-e.~~ Short-term securities
- ~~e-f.~~ Corporate bonds

- ~~d.g.~~ Common stocks
- ~~e.h.~~ Mortgages
- ~~f.i.~~ Real estate. **[Content amended as shown and moved from paragraph 960-30-50-1]**

**960-325-50-10** If a plan has a divided interest in the individual investments of a master trust (that is, when the plan has a specific, rather than a proportionate, interest in the master trust), then the plan shall disclose the dollar amount of its interest in each general type of investment held by the master trust, consistent with the disclosure required by paragraph 960-325-50-9. See paragraph 962-325-55-18 for an example of this disclosure.

**960-325-50-11** The master trust's other assets and liabilities and the dollar amount of the plan's interest in each of the master trust's other assets and liabilities also shall be disclosed. Examples of those balances include the following:

- a. Amounts due from brokers for securities sold
- b. Amounts due to brokers for securities purchased
- c. Receivables relating to derivatives
- d. Payables relating to derivatives
- e. Accrued interest and dividends
- f. Other accrued expenses.

See paragraphs 960-325-55-1 and 962-325-55-18 for examples of this disclosure.

6. Add Section 960-325-55, with a link to transition paragraph 962-10-65-4, as follows:

## **Implementation Guidance and Illustrations**

### **> Illustrations**

#### **> > Example 1: Illustrative Master Trust Disclosures for a Plan with an Undivided Interest**

**960-325-55-1** This Example illustrates the disclosures required by paragraphs 960-325-50-9 and 960-325-50-11 for a plan with an undivided interest in a master trust (that is, when the plan holds a proportionate interest in the net assets of the master trust but has no specific interest in any of the individual balances of the master trust). The plan's interest in the master trust, as presented on the statement of net assets available for benefits, is \$8,540,000 as of December 31, 20X2.

**[For ease of readability the new illustration is not underlined.]**

	<b>Master Trust Balances</b>	<b>Plan's Interest in Master Trust Balances</b>
Mutual funds	\$ 13,560,000	
Self-directed brokerage account	308,000	
Common stock	2,245,000	
U.S. government securities	575,000	
Corporate bonds	327,500	
Total investments at fair value	<u>\$ 17,015,500</u>	8,428,548
Plus:		
Due from broker for securities sold	\$ 225,000	\$ 111,452
Accrued interest and dividends	125,000	61,918
Less:		
Due to broker for securities purchased	(95,000)	(47,058)
Accrued expenses	(30,000)	(14,860)
Total	<u>\$ 17,240,500</u>	<u>\$ 8,540,000</u>

## Amendments to Subtopic 962-205

7. Add paragraph 962-205-45-10 and its related heading, with a link to transition paragraph 962-10-65-4, as follows:

### **Plan Accounting—Defined Contribution Pension Plans— Presentation of Financial Statements**

#### **Other Presentation Matters**

##### **> Interests in Master Trusts**

**962-205-45-10** A plan's interest in each master trust and the change in its interest in the master trust shall be presented in single line items in the statement of net assets available for benefits and in the statement of changes in net assets available for benefits, respectively.

## Amendments to Subtopic 962-325

8. Supersede paragraph 962-325-50-6, amend paragraphs 962-325-50-7 through 50-8, and add paragraphs 962-325-50-8A through 50-8C, with a link to transition paragraph 962-10-65-4, as follows:

### **Plan Accounting—Defined Contribution Pension Plans—Investments—Other**

#### **Disclosure**

##### **> Master Trust Investments**

**962-325-50-6** Paragraph superseded by Accounting Standards Update No. 2016-XX. ~~In the notes to financial statements the investments of a master trust measured using fair value shall be presented by general type, such as the following, as of the date of each statement of net assets available for benefits presented:~~

- ~~a. Government securities~~
- ~~b. Short-term securities~~
- ~~c. Corporate bonds~~
- ~~d. Common stocks~~
- ~~e. Mortgages~~
- ~~f. Real estate~~
- ~~g. Self-directed brokerage accounts (that is, an investment option that allows participants to select investments outside the plan's core options).~~

~~For the presentation of **fully benefit-responsive investment contracts**, which are measured at contract value, see paragraphs 962-325-35-5A and 962-325-50-3. [Content amended and moved to paragraph 962-325-50-8A]~~

**962-325-50-7** ~~The total net change~~appreciation or depreciation ~~in the~~ fair value of investments of the master trust and total investment income of the master trust by type, ~~for example, interest, including interest~~ and dividends, also shall be disclosed in the notes for each period for which a statement of changes in net assets available for benefits is presented. Net appreciation or depreciation includes realized gains and losses on investments that were both purchased and sold during the period as well as unrealized appreciation or depreciation of the investments held at year-end.

**962-325-50-8** The notes to financial statements also ~~also~~ include both of the following:

- a. Description of the basis used to allocate all of the following:
  - 1. Net assets

2. ~~Total~~ Net investment income
  3. Subparagraph superseded by Accounting Standards Update No. 2016-XX, Gains and losses to participating plans.
- b. The plan's percentage interest in the master trust as of the date of each statement of net assets available for benefits presented.

**962-325-50-8A** In the notes to financial statements the investments of a master trust measured using fair value shall be presented by general type of investment, such as the following, as of the date of each statement of net assets available for benefits presented:

- a. Registered investment companies (for example, mutual funds)
- ~~a-b.~~ Government securities
- c. Common-collective trusts
- d. Pooled separate accounts
- ~~b-e.~~ Short-term securities
- ~~e-f.~~ Corporate bonds
- ~~d-g.~~ Common stocks
- ~~e-h.~~ Mortgages
- ~~f-i.~~ Real estate
- ~~g-j.~~ Self-directed brokerage accounts (that is, an investment option that allows participants to select investments outside the plan's core options).

For the presentation of **fully benefit-responsive investment contracts**, which are measured at contract value, see paragraphs 962-325-35-5A and 962-325-50-3. **[Content amended as shown and moved from paragraph 962-325-50-6]**

**962-325-50-8B** If a plan has a divided interest in the individual investments of a master trust (that is, when the plan has a specific, rather than proportionate, interest in the master trust), then the plan shall disclose the dollar amount of its interest in each general type of investment held by the master trust, consistent with the disclosure required by paragraph 962-325-50-8A. See paragraph 962-325-55-18 for an example of this disclosure.

**962-325-50-8C** The master trust's other assets and liabilities and the dollar amount of the plan's interest in each of those other assets and liabilities also shall be disclosed. Examples of those balances include the following:

- a. Amounts due from brokers for securities sold
- b. Amounts due to brokers for securities purchased
- c. Receivables relating to derivatives
- d. Payables relating to derivatives
- e. Accrued interest and dividends
- f. Other accrued expenses.

See paragraphs 960-325-55-1 and 962-325-55-18 for examples of this disclosure.

9. Add paragraph 962-325-55-18 and its related heading, with a link to transition paragraph 962-10-65-4, as follows:

## Implementation Guidance and Illustrations

### > Illustrations

#### > > Example 3: Illustrative Master Trust Disclosures for a Plan with a Divided Interest

**962-325-55-18** This Example illustrates the disclosures required by paragraphs 962-325-50-8A through 50-8C for a plan with a divided interest in a master trust. The plan's interest in the master trust, as presented on the statement of net assets available for benefits, is \$8,540,000 as of December 31, 20X2.

[For ease of readability, the new illustration is not underlined.]

	<b>Master Trust Balances</b>	<b>Plan's Interest in Master Trust Balances</b>
Mutual funds	\$ 13,560,000	\$ 6,508,800
Self-directed brokerage account	308,000	308,000
Common stock	2,245,000	1,638,200
U.S. government securities	575,000	-
Corporate bonds	327,500	-
Total investments at fair value	<u>\$ 17,015,500</u>	<u>\$ 8,455,000</u>
Plus:		
Due from broker for securities sold	\$ 225,000	\$ 100,000
Accrued interest and dividends	125,000	50,000
Less:		
Due to broker for securities purchased	(95,000)	(50,000)
Accrued expenses	(30,000)	(15,000)
Total	<u>\$ 17,240,500</u>	<u>\$ 8,540,000</u>

## Amendments to Subtopic 965-205

10. Add paragraph 965-205-45-11 and its related heading, with a link to transition paragraph 962-10-65-4, as follows:

### **Plan Accounting—Health and Welfare Benefit Plans— Presentation of Financial Statements**



## **Other Presentation Matters**

### **> Interest in Master Trusts**

**965-205-45-11** A plan's interest in each master trust and the change in its interest in the master trust shall be presented in single line items in the statement of net assets available for benefits and in the statement of changes in net assets available for benefits, respectively.

11. Add paragraph 965-205-50-5, with a link to transition paragraph 962-10-65-4, as follows:

## **Disclosure**

### **> 401(h) Accounts**

**965-205-50-5** The plan is not required to provide investment disclosures (for example, the disclosures required by Topic 815 on derivatives and hedging and Topic 820 on fair value measurement) for the 401(h) account assets. The plan shall disclose the name of the defined benefit pension plan that allocated the funds to the health and welfare benefit plan and that provides the related investment disclosures.

## **Amendments to Subtopic 965-325**

12. Add paragraphs 965-325-50-5 through 50-9 and their related heading, with a link to transition paragraph 962-10-65-4, as follows:

## **Plan Accounting—Health and Welfare Benefit Plans— Investments—Other**

## **Disclosure**

### **> Master Trust Investments**

**965-325-50-5** The net appreciation or depreciation in fair value of investments of the master trust and total investment income of the master trust by type, including interest and dividends, also shall be disclosed in the notes for each period for which a statement of changes in net assets available for benefits is presented. Net appreciation or depreciation includes realized gains and losses on investments

that were both purchased and sold during the period as well as unrealized appreciation or depreciation of the investments held at year-end.

**965-325-50-6** The notes to financial statements also shall include both of the following:

- a. Description of the basis used to allocate all of the following:
  1. Net assets
  2. Total investment income.
- b. The plan's percentage interest in the master trust as of the date of each statement of net assets available for benefits presented.

**965-325-50-7** In the notes to financial statements the investments of a master trust measured using fair value shall be presented by general type of investment, such as the following, as of the date of each statement of net assets available for benefits presented:

- a. Registered investment companies (for example, mutual funds)
- b. Government securities
- c. Common-collective trusts
- d. Pooled separate accounts
- e. Short-term securities
- f. Corporate bonds
- g. Common stocks
- h. Mortgages
- i. Real estate.

For the presentation of **fully benefit-responsive investment contracts**, which are measured at contract value, see paragraphs 965-325-35-8 and 965-325-50-2.

**965-325-50-8** If a plan has a divided interest in the individual investments of a master trust (that is, when the plan has a specific, rather than a proportionate, interest in the master trust), then the plan shall disclose the dollar amount of its interest in each general type of investment held by the master trust, consistent with the disclosure required by paragraph 965-325-50-7. See paragraph 962-325-55-18 for an example of this disclosure.

**965-325-50-9** The master trust's other assets and liabilities and the dollar amount of the plan's interest in each of those other assets and liabilities also shall be disclosed. Examples of those balances include the following:

- a. Amounts due from brokers for securities sold
- b. Amounts due to brokers for securities purchased
- c. Receivables relating to derivatives
- d. Payables relating to derivatives
- e. Accrued interest and dividends
- f. Other accrued expenses.

See paragraphs 960-325-55-1 and 962-325-55-18 for examples of this disclosure.

## Amendments to Subtopic 962-10

13. Add paragraph 962-10-65-4 and its related heading as follows:

### **Plan Accounting—Defined Contribution Pension Plans— Overall**

#### **Transition and Open Effective Date Information**

##### **> Transition Related to Accounting Standards Update No. 2016-XX, *Plan Accounting (Topics 960, 962, and 965): Employee Benefit Plan Master Trust Reporting***

**962-10-65-4** The following represents the transition and effective date information related to Accounting Standards Update No. 2016-XX, *Plan Accounting (Topics 960, 962, and 965): Employee Benefit Plan Master Trust Reporting*:

- a. The pending content that links to this paragraph shall be effective for fiscal years beginning after [date to be inserted after exposure].
- b. An entity shall apply the pending content that links to this paragraph retrospectively to all periods presented.
- c. An entity shall provide the disclosures in paragraph 250-10-50-1(a) in the first annual period the entity adopts the pending content that links to this paragraph.

*The amendments in this proposed Update were approved for publication by the affirmative vote of seven members of the Financial Accounting Standards Board.*

*Members of the Financial Accounting Standards Board:*

Russell G. Golden, *Chair*  
James L. Kroeker, *Vice Chair*  
Christine A. Botosan  
Daryl E. Buck  
R. Harold Schroeder  
Marc A. Siegel  
Lawrence W. Smith

# Background Information and Basis for Conclusions

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## Introduction

BC1. The following summarizes the Task Force's considerations in reaching the conclusions in this proposed Update. It includes the Board's basis for ratifying the Task Force conclusions when needed to supplement the Task Force's considerations. It also includes reasons for accepting certain approaches and rejecting others. Individual Task Force and Board members gave greater weight to some factors than to others.

## Background Information

BC2. Many employee benefit plans hold investments in master trusts. A master trust is a trust for which a regulated financial institution (bank, trust company, or similar financial institution that is regulated, supervised, and subject to periodic examination by a state or federal agency) serves as a trustee or custodian and in which assets of more than one plan sponsored by a single employer or by a group of employers under common control are held. The regulated financial institution may or may not have discretionary control over the assets.

BC3. Current disclosure guidance about an employee benefit plan's interest in a master trust in Topics 960 and 962 includes requirements for a plan to disclose the following items: the fair value of investments held by the master trust by general type of investment; the net change in the fair value of each significant type of investment of the master trust; the total investment income of the master trust by type; a description of the basis used to allocate net assets, net investment income or loss, and gains or losses to participating plans; and the plan's percentage interest in the master trust.

BC4. Each plan's interest in the net assets of the master trust may be divided or undivided. A plan has an undivided interest in a master trust when the plan holds a proportionate interest in the net assets of the master trust but has no specific interest in any of the individual balances of the master trust. All other interests in a master trust are considered to be divided.

BC5. Historically, most benefit plans were defined benefit plans in which the sponsor promised to pay a specific benefit that was determined by specific factors (for example, age, years of service, and compensation). Under those defined benefit plans, the plan's investments were typically directed by the sponsor (otherwise known as nonparticipant-directed investments). When a master trust was used to hold those investments, the plans typically held an undivided interest

in that master trust. However, employee benefit plans have evolved over time. The vast majority of plans are now defined contribution plans that involve more participant-directed investments (that is, the participant can elect specific investments based on options that the plan provides). Today, it is not uncommon for plans to have divided interests in master trusts. The sum of the individual participant-directed investments in a master trust establishes the plan's divided interest in each general type of investment held by the master trust.

BC6. Some stakeholders have said that the evolution of employee benefit plans has resulted in a need to clarify and improve some of the GAAP requirements relating to master trusts.

## Scope

BC7. The Task Force reached a consensus-for-exposure that the amendments in this proposed Update should apply to reporting entities within the scope of Topic 960, 962, or 965.

## Presentation

BC8. The existing presentation guidance in Topic 960 relating to master trusts is not consistently provided within each of the plan accounting Topics. Topic 960 requires that defined benefit pension plans present investments in a master trust in a single line item in the statement of net assets available for benefits. However, similar guidance is not included in Topic 962 or 965 for defined contribution pension plans and health and welfare benefit plans, respectively, and no guidance is included in any of the Topics on how to present a plan's changes in interest of the master trust in the plan's statement of changes in net assets available for benefits.

BC9. In addition, based on outreach, the Task Force understands that there is diversity in practice in the presentation of other master trust balances and activity within the plan's financial statements (for example, amounts due from brokers for securities sold, amounts due to brokers for securities purchased, accrued interest and dividends, and other accrued expenses).

BC10. The Task Force reached a consensus-for-exposure that all plans should present their interest in each master trust and the change in interest in the master trust as single line items in the statement of net assets available for benefits and the statement of changes in net assets available for benefits, respectively. The Task Force believes that this presentation appropriately reflects the plan's interest in the legal structure that is the master trust. That is, the presentation retains a crucial distinction between an interest in the master trust and all other plan activity and balances (such as the investments the plan holds directly). Furthermore, while there is some diversity in practice, the Task Force understands that the majority of

plans currently follow a single-line presentation for purposes of reflecting a plan's interest in a master trust. The Task Force also notes that this presentation was supported by the majority of stakeholders during outreach and is more consistent with regulatory reporting. In reaching this conclusion, Task Force members expressed the view that the plan's asset is its interest in the master trust, which is what should be presented in the statement of net assets available for benefits. Some Task Force members believe that separately presenting the plan's interest in the master trust's assets and liabilities in the plan's statement of net assets available for benefits would be presenting items that are not the assets and liabilities of the plan but those of another unconsolidated entity.

## Disclosure

BC11. The Task Force reached a consensus-for-exposure to require disclosure of the dollar amount of a plan's interest in each general type of investment held by the master trust for plans with a divided interest in the master trust, as well as disclosure of the master trust's other assets and liabilities and the dollar amount of a plan's interest in each of those balances for all plans.

BC12. With respect to the plan's interest in each general type of investment held by the master trust, the Task Force understands that because today more plans have a divided interest and participant-directed investments, the current requirement to disclose the plan's total percentage interest in the master trust may not appropriately reflect the plan's interest in each type of investment that is held by the master trust. As such, some stakeholders have said, and the Task Force ultimately agreed, that the current disclosure could be improved to provide additional information for plans with a divided interest and, therefore, proposed providing the dollar amount of the plan's interest in each type of investment held by the master trust for plans with a divided interest in the master trust.

BC13. With respect to disclosing the master trust's other assets and liabilities and the plan's interest in each of those balances, the Task Force understands that the current disclosure requirements do not provide insight into all of the balances in the master trust's statement of net assets, which make up the plan's interest in the master trust. That is, the current disclosures only focus on the investments. As such, the Task Force decided that the master trust's other assets and liabilities and the dollar amount of the plan's interest in each of those balances also should be disclosed for all plans. The Task Force understands that the information is useful at the master trust level, provides information about the legal structure that is the master trust, and facilitates the regulator's ability to reconcile the disclosure with the master trust's Form 5500 regulatory filing under the Employee Retirement Income Security Act of 1974. The Task Force also believes that the dollar amount of the plan's interest in each of the master trust's other asset and liability balances is useful because it helps a user better understand the amounts included in the plan's interest in the master trust that is presented in the plan's statement of net assets available for benefits.

BC14. The Task Force decided not to require that plans disclose the master trust's statement of net assets available for benefits and the statement of changes in net assets available for benefits. The Task Force believes that much of the same information would be provided through the other asset and liability disclosure, which would be less costly and provide more targeted information to users. As such, the Task Force did not think the benefits would justify the costs.

BC15. The Task Force also decided not to specify in situations in which financial statements were being prepared for the master trust, rather than for a specific plan, whether master trust financial statements should follow investment company or employee benefit plan guidance—or some combination of the two. The Task Force noted that while it agreed that the simplifications provided for employee benefit plans during the Board's simplification initiative in 2015 (including presentation of fully-benefit-responsive investment contracts at contract value, and providing investment disclosures by general type of investment as opposed to nature, characteristics, and risks) should be considered for master trusts, it did not think this issue was within the scope of this proposed Update.

BC16. The Task Force also decided not to require individual plans to provide GAAP disclosures (for example, Topics 815 and 820) for the underlying investments held by a master trust. While some Task Force members noted that the disclosure requirements (for example, the requirement to disclose the fair value hierarchy of investments) relate more to the underlying investments held in the master trust (as opposed to the interest in the master trust), the Task Force ultimately decided that those disclosures would be more appropriate within master trust financial statements, when prepared—as opposed to plan financial statements.

BC17. Lastly, the Task Force reached a consensus-for-exposure that a health and welfare benefit plan is not required to provide investment disclosures (for example, the disclosures required by Topics 815 and 820) for 401(h) account assets because those disclosures are required to be provided within the defined benefit pension plan financial statements. The Task Force understands that the defined benefit pension plan legally owns the assets within 401(h) accounts. Therefore, the health and welfare benefit plan's interest is that of a receivable from the defined benefit pension plan, not an investment. Furthermore, the Task Force also notes that including the investment disclosures with the defined benefit pension plan financial statements more closely aligns with regulatory reporting requirements. As such, the Task Force sees no need to require the same investment disclosures within multiple financial statements; however, the Task Force also reached a consensus-for-exposure to require disclosure of the defined benefit pension plan name within the health and welfare benefit plan's financial statements so that all users can access the disclosure information relating to the 401(h) accounts if desired.

## Effective Date and Transition

BC18. The Task Force reached a consensus-for-exposure that the amendments in this proposed Update should be applied retrospectively to all periods presented beginning in a reporting entity's fiscal year of adoption. The Task Force believes that it is appropriate for the disclosures to be consistent in all periods presented in a reporting entity's financial statements because it would allow for greater comparability.

BC19. The effective date and the ability to early adopt will be determined after the Task Force considers stakeholder feedback on the proposed Update.

BC20. The Task Force considered whether the disclosures related to changes in accounting principle in paragraphs 250-10-50-1 through 50-3 should apply to the proposed amendments. Many of the disclosure requirements are not applicable to employee benefit plans because plan financial statements generally do not contain any of the items referred to in those paragraphs, such as per share amounts or retained earnings. As such, the Task Force believes that a reporting entity should be required to only disclose the nature of and reason for the change in accounting principle (that is, the requirements of paragraph 250-10-50-1(a)).

## Benefits and Costs

BC21. The primary objective of employee benefit plan financial reporting is to provide financial information that is useful in assessing a plan's present and future ability to pay benefits as they become due. However, the benefits of providing information for that purpose should justify the related costs. The users of plan financial statements include the U.S. Department of Labor, the U.S. Department of the Treasury (specifically, the Internal Revenue Service), the Pension Benefit Guaranty Corporation, plan sponsors, trustees, and plan participants. The users of financial information benefit from improvements in financial reporting, while the costs to implement new guidance are borne primarily by current plan sponsors and plan participants. The Task Force's assessment of the costs and benefits of issuing new guidance is unavoidably more qualitative than quantitative because there is no method to objectively measure the costs to implement new guidance or to quantify the value of improved information in financial statements.

BC22. The Task Force does not anticipate that entities would incur significant costs as a result of the amendments in this proposed Update because the proposed amendments do not require additional information to be compiled. That is, the information needed to compile the disclosures should already be available for purposes of complying with current regulatory reporting requirements. Furthermore, the Task Force understands that the disclosures will provide more transparent information to users about the plan's interest in the master trust. Ultimately, the Task Force believes that the benefits of requiring the additional disclosures justify the related costs.



## Amendments to the XBRL Taxonomy

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The provisions of this Exposure Draft, if finalized as proposed, would not require changes to the U.S. GAAP Financial Reporting Taxonomy (Taxonomy). Any stakeholders who believe that changes to the Taxonomy are required should provide their comments and suggested changes through [ASU Taxonomy Changes](#) provided at [www.fasb.org](http://www.fasb.org).