FASB EXPOSURE DRAFT

Proposed Accounting Standards Update

Issued: January 26, 2016
Comments Due: April 25, 2016

Compensation—Retirement Benefits (Topic 715)

Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost

The Board issued this Exposure Draft to solicit public comment on proposed changes to Topic 715 of the *FASB Accounting Standards Codification*®. Individuals can submit comments in one of three ways: using the electronic feedback form on the FASB website, emailing written comments to director@fasb.org, or sending a letter to "Technical Director, File Reference No. 2016-200, FASB, 401 Merritt 7, PO Box 5116, Norwalk, CT 06856-5116."

Financial Accounting Standards Board

The *FASB Accounting Standards Codification*® 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.

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

The Board invites comments on all matters in this Exposure Draft and is requesting comments by April 25, 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 a written letter to director@fasb.org, File Reference No. 2016-200
- Sending written comments to "Technical Director, File Reference No. 2016-200, FASB, 401 Merritt 7, PO Box 5116, Norwalk, CT 06856-5116."

Do not send responses by fax.

All comments received are part of the FASB's public file. The FASB will make all comments publicly available by posting them to the online public reference room portion of its website.

An electronic copy of this Exposure Draft is available on the FASB's website.

FINANCIAL ACCOUNTING STANDARDS BOARD

Proposed Accounting Standards Update

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Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost

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Summary and Questions for Respondents

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

The Board is issuing the amendments in this proposed Update primarily to improve the presentation of net periodic pension cost and net periodic postretirement benefit cost, as discussed below. This proposed Update also includes amendments to the Overview and Background Sections of the Accounting Standards Codification (as discussed in Part II of the amendments section) as part of the Board's initiative to unify and improve these sections across Topics and Subtopics.

Under generally accepted accounting principles (GAAP), defined benefit pension cost and postretirement benefit cost (net benefit cost) comprise several components that reflect different aspects of an employer's financial arrangements as well as the cost of benefits provided to employees. Those components are aggregated for reporting in the financial statements. Topic 715, Compensation—Retirement Benefits, does not prescribe where the amount of net benefit cost should be presented in an employer's income statement and does not require entities to disclose by line item the amount of net benefit cost that is presented in the income statement or capitalized in assets.

Many stakeholders have observed that the presentation of defined benefit cost on a net basis combines elements that are distinctly different in their predictive value. As such, these stakeholders have stated that the current presentation requirement has less value and requires users to incur greater costs in analyzing financial statements. The reduced transparency in the presentation of net benefit cost also reduces the usefulness of financial information.

To improve the reporting of net benefit cost in the financial statements, the Board added a standard-setting project to provide additional guidance on the presentation of net benefit cost in the income statement and on the components eligible for capitalization in assets.

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

The amendments in this proposed Update would apply to all employers, including not-for-profit entities, that offer defined benefit pension plans, other postretirement benefit plans, or other types of benefits accounted for under Topic 715 to their employees.

What Are the Main Provisions?

The amendments in this proposed Update would require an employer to report the service cost component in the same line item or items as other compensation costs arising from services rendered by the pertinent employees during the period. The other components of net benefit cost as defined in paragraphs 715-30-35-4 and 715-60-35-9 would be presented in the income statement separately from the service cost component and outside a subtotal of income from operations, if one is presented. If a separate line item or items are used to present the other components of net benefit cost, that line item or items must be appropriately described.

The amendments in this proposed Update also would allow only the service cost component to be eligible for capitalization when applicable (for example, as a cost of internally manufactured inventory or a self-constructed asset).

How Would the Main Provisions Differ from Current Generally Accepted Accounting Principles (GAAP) and Why Would They Be an Improvement?

Under the amendments in this proposed Update, an employer would disaggregate the service cost component from the other components of net benefit cost. The proposed amendments also would provide explicit guidance on how to present the service cost component and other components of net benefit cost in the income statement and would allow only the service cost component of net benefit cost to be eligible for capitalization.

The amendments in this proposed Update would improve the consistency, transparency, and usefulness of financial information to users that have communicated that the service cost component generally is analyzed differently from other components of net benefit cost.

The amendments in this proposed Update are considered an important part of the Board's continuing efforts to improve the accounting related to defined benefit pension or other postretirement benefit plans. The Board is conducting agenda consultations with stakeholders to identify and assess improvement to other areas related to defined benefit pension or other postretirement benefit plans that may be considered by those stakeholders to be in need of improvement and, therefore, should be added to the agenda.

When Would the Amendments Be Effective?

The amendments in this proposed Update would be applied retrospectively for the presentation of the service cost component and other components of net periodic pension cost and net periodic postretirement benefit cost in the income statement and prospectively, on and after the effective date, for the capitalization of the service cost component of net periodic pension cost and net periodic postretirement benefit in assets. Disclosures of the nature of and reason for the change in accounting principle would be required in the first interim and annual reporting periods of adoption. The effective date and the ability to apply the proposed amendments before the effective date will be determined after the Board considers stakeholder feedback.

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 the service cost component be reported in the income statement apart from the other components of net benefit cost as defined in paragraphs 715-30-35-4 and 715-60-35-9 and be the only component eligible to be capitalized in assets? Why or why not?

Question 2: Would it be useful to require presentation of the prior service cost or credit component separately from the other components? Should all of the components of net benefit cost other than the service cost component (for example, the prior service cost or credit component) be presented outside a subtotal of income from operations, if one is presented? Why or why not?

Question 3: Would it be useful to require presentation of the net amount of the interest cost component and expected return on plan assets separately from the other components of net benefit cost to improve convergence with International Financial Reporting Standards (IFRS) or for other purposes? Why or why not?

Question 4: Would the proposed amendments improve the usefulness of financial information provided to users? Why or why not?

Question 5: Should the proposed amendments be different for rate-regulated entities? Why or why not?

Question 6: Would the proposed amendments be operable without incurring significant incremental costs by entities (such as not-for-profit entities, entities that enter into cost-plus contracts or government contracts including but not limited to contracts under Cost Accounting Standards Board regulations, and entities that allocate cost from cost pools)? Why or why not?

Question 7: How much time would be necessary to adopt the proposed amendments? Should early adoption be permitted? Would the amount of time needed to apply the proposed amendments by entities other than public business entities be different from the amount of time needed by public business entities? Why or why not?

Question 8: Should the proposed amendments be applied retrospectively for the presentation of the service cost component and other components of net benefit cost in the income statement and prospectively, on and after the effective date, for the capitalization of the service cost component of net benefit cost in assets when applicable?

Question 9: Should the disclosures of the nature of and reason for the change in accounting principle be required in the first interim and annual reporting periods of adoption? Why or why not?

Amendments to the *FASB Accounting Standards Codification*®

Introduction

1. The Accounting Standards Codification is amended as described in paragraphs 2–13, which are related to the presentation of net periodic pension cost and net periodic postretirement benefit cost, and in paragraphs 14–18, which are related to the Overview and Background Sections of Topic 715. The amendments in this proposed Update are separated into two parts to provide a clear view of each of the subjects on which the Board is focused. 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~~.

Part I—Amendments Related to the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost

Amendments to Master Glossary

2. Amend the Master Glossary term *Net Periodic Pension Cost*, with a link to transition paragraph 715-20-65-3, as follows:

Net Periodic Pension Cost

The amount recognized in an employer's financial statements as the cost of a pension plan for a period. Components of net periodic pension cost are service cost, interest cost, actual return on plan assets, gain or loss, amortization of prior service cost or credit, and amortization of the transition asset or obligation existing at the date of initial application of Subtopic 715-30. The term net periodic pension cost is used instead of net pension expense because part of the service cost component recognized in a period may be capitalized ~~along with other costs~~ as part of an asset such as inventory.

Amendments to Subtopic 715-20

3. Add paragraph 715-20-45-3A, with a link to transition paragraph 715-20-65-3, as follows:

Compensation—Retirement Benefits—Defined Benefit Plans—General

Other Presentation Matters

> Classification

715-20-45-3A An employer shall present:

a. The service cost component of net periodic pension cost and net periodic postretirement benefit cost in the same line item or items as other compensation costs arising from services rendered by the pertinent employees during the period (including being capitalized, if appropriate, as part of an asset such as inventory or property, plant, and equipment)
b. The other components as defined in paragraphs 715-30-35-4 and 715-60-35-9 separately in the income statement from the service cost component and outside a subtotal of income from operations, if one is presented. If a separate line item or items are used to present the other components, that line item or items shall be described appropriately.

For the purpose of applying the guidance in this paragraph, a gain or loss from a settlement or curtailment or the cost of certain termination benefits accounted for under this Topic shall be reported in the same way as the other components in (b).

4. Amend paragraph 715-20-55-13, with a link to transition paragraph 715-20-65-3, as follows:

Implementation Guidance and Illustrations

> Implementation Guidance

> > Application of the Recognition Provisions

715-20-55-13 For the year ending December 31, 2007, Entity A makes the following journal entries in applying the recognition provisions of Section 715-30-25:

a. Recognize net periodic pension cost and a corresponding increase in other comprehensive income, net of tax, for amortization of the transition obligation (see the preceding paragraph).

Net periodic pension cost—transition obligation	40	
Deferred tax benefit—other comprehensive income	16	
Deferred tax benefit—net income		16
Other comprehensive income		40

b. Recognize net periodic pension cost and a corresponding increase in other comprehensive income, net of tax, for amortization of prior service cost (see the preceding paragraph).

Net periodic pension cost—prior service cost	25	
Deferred tax benefit—other comprehensive income	10	
Deferred tax benefit—net income		10
Other comprehensive income		25

c. Recognize a pension liability and net periodic pension cost, net of tax, for the service cost of $120, interest cost of $95, and the expected return on plan assets of $(80) (see the preceding paragraph). The service cost should be recognized separately and the interest cost and expected return on plan assets could be recognized together or separately.

Net periodic pension cost—service cost	~~135~~ 120	
Net periodic pension cost—interest cost	95	
Net periodic pension cost—expected return on plan assets		80
Deferred tax asset	54	
Deferred tax benefit—net income		54
Liability for pension benefits		135

d. Recognize a pension liability for the additional net loss arising during the year and a corresponding decrease in other comprehensive income, net of tax (this is the increase in net loss from $240 to $260 shown in paragraph 715-20-55-6).

Other comprehensive income	20	
Deferred tax asset	8	
Deferred tax benefit—other comprehensive income		8
Liability for pension benefits		20

5. Add paragraph 715-20-65-3 and its related heading as follows:

> Transition Related to Accounting Standards Update No. 2016-XX, *Compensation—Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost*

715-20-65-3 The following represents the transition and effective date information related to Accounting Standards Update No. 2016-XX, *Compensation—Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost:*

a. The pending content that links to this paragraph shall be effective for annual periods, and interim periods within those annual periods, beginning after the effective date [date to be inserted after exposure].
b. An entity shall apply the pending content that links to this paragraph as follows:
    1. Retrospectively for the presentation in the income statement of the service cost component and other components of net periodic pension cost and net periodic postretirement benefit cost
    2. Prospectively, on and after the effective date, for the capitalization in assets of the service cost component of net periodic pension cost and net periodic postretirement benefit cost.
c. An entity shall disclose the nature of and reason for the change in accounting principle in the first interim and annual reporting periods in which the entity adopts the pending content that links to this paragraph.

Amendments to Subtopic 715-30

6. Add paragraph 715-30-35-7A, with a link to transition paragraph 715-20-65-3, as follows:

Compensation—Retirement Benefits—Defined Benefit Plans—Pension

Subsequent Measurement

> > Service Cost

715-30-35-7A The service cost component shall be the only component of net periodic pension cost eligible to be capitalized as part of the cost of inventory or other assets.

7. Amend paragraph 715-30-60-2, with a link to transition paragraph 715-20-65-3, as follows:

Relationships

> Inventory

715-30-60-2 For guidance on the capitalization of <u>the service cost component of</u> **net periodic pension cost** ~~or net periodic pension income~~ as part of the cost of inventory or other assets, see Subtopic 330-10.

Amendments to Subtopic 715-60

8. Add paragraph 715-60-35-10A, with a link to transition paragraph 715-20-65-3, as follows:

Compensation—Retirement Benefits—Defined Benefit Plans—Other Postretirement

Subsequent Measurement

> > Service Cost

<u>**715-60-35-10A** The service cost component shall be the only component of net periodic postretirement benefit cost eligible to be capitalized as part of the cost of inventory or other assets.</u>

Amendments to Subtopic 220-10

9. Amend paragraph 220-10-55-17B and 55-17E, with a link to transition paragraph 715-20-65-3, as follows:

Comprehensive Income—Overall

Implementation Guidance and Illustrations

> Illustrations

> > Example 2: Presenting Accumulated Other Comprehensive Income

> > > Disclosure of Amounts Reclassified Out of Accumulated Other Comprehensive Income

220-10-55-17B ~~Topic 715 does not require an entity to reclassify the amortization of defined benefit pension and other employee benefit cost components from accumulated other comprehensive income directly to net income in their entirety. Rather, it requires an entity to reclassify those amortized costs in their entirety to net periodic pension cost. Some portion of net periodic pension cost is immediately reported in net income, but other portions may be capitalized to an asset balance such as fixed assets or inventory.~~ An entity with significant defined benefit pension costs reclassified out of accumulated other comprehensive income ~~but not to net income in its entirety in the same reporting period~~ should identify the amount of each pension cost component reclassified out of accumulated other comprehensive income and make reference to the relevant pension cost disclosure that provides greater detail about these reclassifications.

220-10-55-17E The following illustrates a disclosure in a tabular format of significant amounts reclassified out of each component of accumulated other comprehensive income, as required by paragraph 220-10-45-17B. The amounts used in this Example correspond to those in the Example in paragraph 220-10-55-15.

Entity XYZ
Notes to Financial Statements
Reclassifications Out of Accumulated Other Comprehensive Income [(a)]
For the Period Ended December 31, 201X

Details about Accumulated Other Comprehensive Income Components	Amount Reclassified from Accumulated Other Comprehensive Income		Affected Line Item in the Statement Where Net Income Is Presented
Gains and losses on cash flow hedges			
Interest rate contracts	$ 1,000		Interest income/(expense)
Credit derivatives	(500)		Other income/(expense)
Foreign exchange contracts	2,500		Sales/revenue
Commodity contracts	(2,000)		Cost of sales
	1,000		Total before tax
	(250)		Tax (expense) or benefit
	$ 750		Net of tax
Unrealized gains and losses on available-for-sale debt securities			
	$ 2,300		Realized gain/(loss) on sale of securities
	(285)		Impairment expense
Insignificant items	(15)		
	2,000		Total before tax
	(500)		Tax (expense) or benefit
	$ 1,500		Net of tax
Amortization of defined benefit pension items			
Prior-service costs	$ (2,000)	(b)	Other income/(expense)
Transition obligation	(2,500)	(b)	Other income/(expense)
Actuarial gains/(losses)	(1,500)	(b)	Other income/(expense)
	(6,000)		Total before tax
	1,500		Tax (expense) or benefit
	$ (4,500)		Net of tax
Total reclassifications for the period	$ (2,250)		Net of tax

(a) Amounts in parentheses indicate debits to profit/loss.

(b) These accumulated other comprehensive income components are ~~included in the computation~~ the components of net periodic pension cost (see pension footnote for additional details).

Amendments to Subtopic 330-10

10. Supersede paragraphs 330-10-55-5 through 55-7 and their related headings, add paragraph 330-10-55-6A, and amend the heading preceding paragraph 330-10-55-5, with a link to transition paragraph 715-20-65-3, as follows:

Inventory—Overall

Implementation Guidance and Illustrations

> Implementation Guidance

> > Capitalizing into Inventory the Service Cost Component of Pension and Other Postretirement Benefit Costs~~Cost into Inventory~~

~~> > > Interest Cost Component~~

330-10-55-5 Paragraph superseded by Accounting Standards Update No. 2016-XX.~~A fundamental aspect of Sections 715-30-35 and 715-60-35 is to combine or aggregate the various pension and other postretirement cost components, including service cost, interest cost, expected return on plan assets, and amortization of all of the following items recognized in accumulated other comprehensive income:~~

- ~~a. Net transition asset or obligation~~
- ~~b. Prior service cost or credit~~
- ~~c. Net gain or loss.~~

330-10-55-6 Paragraph superseded by Accounting Standards Update No. 2016-XX.~~In the aggregate, net periodic pension and other postretirement cost is viewed as an element of employee compensation. Therefore, when it is appropriate to capitalize employee compensation in connection with the construction or production of an asset, the net periodic pension and other postretirement cost applicable to the pertinent employees for the period (including interest cost), not individual components of that amount, is the relevant amount.~~

330-10-55-6A The service cost component of net periodic pension cost and net periodic postretirement benefit cost is the only component directly arising from employees' services provided in the current period. Therefore, when it is appropriate to capitalize employee compensation in connection with the construction or production of an asset, the service cost component applicable to the pertinent employees for the period is the relevant amount.

~~> > > Net Periodic Pension Income~~

330-10-55-7 Paragraph superseded by Accounting Standards Update No. 2016-XX.~~If an entity's cost allocation process capitalizes net periodic pension cost as part of the cost of inventory or other assets, net periodic pension income also shall be capitalized, thereby reducing the total employee compensation and other costs being capitalized.~~

Amendments to Subtopic 958-715

[Note: The amendments to Subtopic 958-715 in this proposed Update do not incorporate the amendments in proposed Accounting Standards Update, *Not-for-Profit Entities (Topic 958) and Health Care Entities (Topic 954): Presentation of Financial Statements of Not-for-Profit Entities,* issued on

April 22, 2015. Please see that proposed Update for other proposed amendments to Subtopic 958-715.]

11. Amend paragraphs 958-715-45-1 through 45-2 and add paragraph 958-715-45-3, with a link to transition paragraph 715-20-65-3, as follows:

Not-for-Profit Entities—Compensation—Retirement Benefits

Other Presentation Matters

958-715-45-1 A **not-for-profit entity** (NFP) shall recognize as a separate line item or items, outside an intermediate measure of operations or performance indicator, if one is presented, within changes in **unrestricted net assets**, ~~apart from expenses,~~ the ~~gains or losses and~~ net gain or loss, the prior service costs or credits, and the transition asset or obligation that would be recognized in other comprehensive income pursuant to the following Sections:

a. Section 715-30-35
b. Section 715-60-35.

~~Consistent with paragraphs 958-225-45-9 through 45-12, this Subtopic does not prescribe whether the separate line item or items shall be included within or outside an intermediate measure of operations or performance indicator, if one is presented.~~

958-715-45-2 An NFP shall reclassify a portion of the net gain or ~~loss and~~ loss, the prior service costs or credits, and the transition asset or obligation previously recognized in accordance with paragraph 958-715-45-1 ~~in a separate line item or items and a portion of the transition asset or obligation remaining from the initial application of Topic 715~~ as follows:

a. To net periodic pension cost, pursuant to the recognition and amortization provisions of paragraphs 715-30-35-3 through 35-28
b. To net ~~period~~periodic postretirement benefit cost, pursuant to the recognition and amortization provisions of paragraphs 715-60-35-7 through 35-40.

The contra adjustment or adjustments to the initially recognized net gain or loss, the prior service costs or credits, and the transition asset or obligation shall be reported in the same line item or items, outside an intermediate measure of operations or performance indicator, if one is presented, within changes in unrestricted net assets, ~~apart from expenses,~~ as the initially recognized amounts. ~~Net periodic postretirement benefit cost and net periodic pension cost shall be reported by **functional classification** pursuant to paragraph 958-720-45-2.~~

958-715-45-3 The service cost component of net periodic pension cost and net periodic postretirement benefit cost shall be reported by **functional classification** in accordance with paragraph 958-720-45-2. The other components of net periodic pension cost and net periodic postretirement benefit cost as defined in paragraphs 715-30-35-4 and 715-60-35-9 shall be reported separately from the service cost component and outside an intermediate measure of operations, if one is presented, within changes in unrestricted net assets. If a separate line item or items are used to present the other components, that line item or items shall be appropriately described and different from the separate line item or items used to present the net gain or loss, the prior service costs or credits, and the transition asset or obligation that would be recognized in other comprehensive income in accordance with Sections 715-30-35 and 715-60-35.

12. Amend paragraphs 958-715-55-4 and 958-715-55-6 and supersede paragraphs 958-715-55-7 through 55-8, with a link to transition paragraph 715-20-65-3, as follows:

Implementation Guidance and Illustrations

> Illustrations

> > Example 1: Reporting Net Periodic Pension Cost and Changes in a Plan’s Funded Status

958-715-55-4 Not-for-Profit Entity A’s (NFP A’s) actuary prepares a 12-month projection of net periodic pension cost for July 1, 2007, to June 30, 2008. The funded status of NFP A’s defined benefit pension plan as of June 30, 2007, and June 30, 2008, and amounts to be recognized as components of net periodic pension cost are shown in the following paragraph. The cumulative net loss not yet recognized as a component of net periodic pension cost is less than 10 percent of the greater of the projected benefit obligation and the market-related value of plan assets. No plan amendments affect the period from July 1, 2007, to June 30, 2008. Assumptions about benefit payments and **contributions** made by NFP A have not been included in this Example. During the fiscal year ending June 30, 2008, NFP A does the following:

a. Recognizes the additional net loss as a change in **unrestricted net assets** and a change in the liability that reflects the underfunded status of the plan
b. Recognizes the amortization of the transition obligation as a component of net periodic pension cost
c. Recognizes the amortization of prior service cost as a component of net periodic pension cost
d. Recognizes net periodic pension cost for 2008, with the service cost component reported within the appropriate functional expense categories as part of the intermediate measure of operations (for example, increase in net assets from operating activities) and the other components in a

separate line item, outside the intermediate measure of operations presented by NFP A, within changes in unrestricted net assets.

958-715-55-6 For the year ending June 30, 2008, NFP A recognizes the amortizations of the transition obligation and prior service cost as components of net periodic pension cost and recognizes the additional loss arising during the year. The journal entries are as follows:

a. Recognize the additional loss in unrestricted net assets.

Net loss not yet recognized in net periodic pension cost	50	
Liability for pension benefits		50

b. Recognize the amortization of the transition obligation in net periodic pension cost.

Net periodic pension cost ~~(functionalized)~~—transition obligation	40	
Transition obligation not yet recognized in net periodic pension cost		40

c. Recognize the amortization of prior service cost in net periodic pension cost.

Net periodic pension cost ~~(functionalized)~~—prior service cost	100	
Prior service cost not yet recognized in net periodic pension cost		100

d. Recognize service cost separately and~~, interest cost,~~ recognize the interest cost and the expected return on plan assets together in net periodic pension cost.

Net periodic pension cost—service cost (functionalized)	~~105~~ (a) 110	
Net periodic pension cost—interest cost and expected return on plan assets		5 (b)
Liability for pension benefits		105

~~(a) Equals $110 service cost + $120 interest cost - $125 expected return on plan assets.~~

(b) Equals $120 interest cost—$125 expected return on plan assets.

In its statement of activities, NFP A ~~chooses to present~~presents the service cost component by appropriate functional expense categories within the intermediate measure of operations (for example, increase in net assets from operating activities) presented by NFP A, within changes in unrestricted net assets, and presents the other components (encompassing the interest cost, the expected return on plan assets, and the amortizations of the transition obligation and prior service cost) in a separate line item (different from the separate line item discussed below for the items not yet recognized as the components of net periodic pension cost) outside the intermediate measure of operations, within changes in unrestricted net assets. NFP A presents in a~~one combined~~ separate line item, outside the intermediate measure of operations, within changes in unrestricted net assets, the items (encompassing the net loss arising during the year and the ~~amortizations of~~changes in the transition obligation and prior service cost) not yet recognized as the components of net periodic pension cost ~~apart from expenses~~. NFP A would disclose ~~the components of that combined line item in the notes to financial statements, pursuant to paragraph 958-715-50-1(i).~~, in the notes to financial statements, both the component items not yet recognized as the components of net periodic pension cost and each of the other components of net periodic pension cost that are all required to be presented outside the intermediate measure of operations, within changes in unrestricted net assets, in accordance with paragraph 958-715-50-1.

958-715-55-7 Paragraph superseded by Accounting Standards Update No. 2016-XX.~~The following statement of activities reflects the presentation of the combined line item if NFP A chooses to present it outside its intermediate measure of operations.~~

~~**Not-for-Profit Entity A**~~
~~**Statement of Activities**~~
~~**Year Ended June 30, 2008**~~
~~**(in thousands)**~~

	~~Unrestricted~~	~~Temporarily Restricted~~	~~Permanently Restricted~~	~~Total~~
~~Operating:~~				
~~Revenues, gains, and other support:~~				
~~Private contributions, other than bequests~~	~~$ 60,000~~	~~$ 14,200~~		~~$ 74,200~~
~~Bequests~~	~~17,000~~			~~17,000~~
~~Government grants~~		~~9,000~~		~~9,000~~
~~Investment income used for operating activities~~	~~11,500~~	~~1,000~~		~~12,500~~
~~Sales of educational materials~~	~~2,000~~			~~2,000~~
~~Other~~	~~2,000~~			~~2,000~~
~~Net assets released from restrictions~~	~~17,000~~	~~(17,000)~~		~~-~~
~~Total revenues, gains, and other support~~	~~109,500~~	~~7,200~~		~~116,700~~
~~Expenses:~~				
~~Program services:~~				
~~Research and medical support~~	~~58,000~~			~~58,000~~
~~Public education~~	~~9,000~~			~~9,000~~
~~Community service~~	~~15,000~~			~~15,000~~
~~Total program services~~	~~82,000~~			~~82,000~~
~~Supporting services:~~				
~~Fund raising~~	~~15,000~~			~~15,000~~
~~Management and general~~	~~9,000~~			~~9,000~~
~~Total supporting services~~	~~24,000~~			~~24,000~~
~~Total expenses~~	~~106,000~~			~~106,000~~
~~Increase in net assets from operating activities~~	~~3,500~~	~~7,200~~		~~10,700~~
~~Nonoperating:~~				
~~Investment income in excess of amount used for operating activities~~	~~1,500~~			~~1,500~~
~~Contributions for endowment funds~~			~~$ 15,000~~	~~15,000~~
~~Pension-related changes other than net periodic pension cost~~ (a)	~~90~~			~~90~~
~~Increase in net assets~~	~~5,090~~	~~7,200~~	~~15,000~~	~~27,290~~
~~Net assets, beginning of year~~	~~147,110~~	~~48,800~~	~~30,000~~	~~225,910~~
~~Net assets, end of year~~	~~$ 152,200~~	~~$ 56,000~~	~~$ 45,000~~	~~$ 253,200~~

~~(a) Equals $40 amortization of transition obligation + $100 amortization of prior service cost - $50 net loss.~~

958-715-55-8 Paragraph superseded by Accounting Standards Update No. 2016-XX.~~The following statement of activities reflects the presentation of the combined separate line item if, alternatively, NFP A chooses to present it within its intermediate measure of operations. This alternative would not be available to NFP A if it were within the scope of Topic 954, and presented a performance indicator pursuant to the provisions of paragraphs 954-225-45-4 through 45-7.~~

~~**Not-for-Profit Entity A**~~

~~**Statement of Activities**~~

~~**Year Ended June 30, 2008**~~

~~**(in thousands)**~~

	~~**Unrestricted**~~	~~**Temporarily Restricted**~~	~~**Permanently Restricted**~~	~~**Total**~~
~~Operating:~~				
~~Revenues, gains, and other support:~~				
~~Private contributions, other than bequests~~	~~$ 60,000~~	~~$ 14,200~~		~~$ 74,200~~
~~Bequests~~	~~17,000~~			~~17,000~~
~~Government grants~~		~~9,000~~		~~9,000~~
~~Investment income used for operating~~	~~11,500~~	~~1,000~~		~~12,500~~
~~Sales of educational materials~~	~~2,000~~			~~2,000~~
~~Other~~	~~2,000~~			~~2,000~~
~~Net assets released from restrictions~~	~~17,000~~	~~(17,000)~~		~~-~~
~~Total revenues, gains, and other support~~	~~109,500~~	~~7,200~~		~~116,700~~
~~Expenses:~~				
~~Program services:~~				
~~Research and medical support~~	~~58,000~~			~~58,000~~
~~Public education~~	~~9,000~~			~~9,000~~
~~Community service~~	~~15,000~~			~~15,000~~
~~Total program services~~	~~82,000~~			~~82,000~~
~~Supporting services:~~				
~~Fund raising~~	~~15,000~~			~~15,000~~
~~Management and general~~	~~9,000~~			~~9,000~~
~~Total supporting services~~	~~24,000~~			~~24,000~~
~~Total expenses~~	~~106,000~~			~~106,000~~
~~Pension-related changes other than net periodic pension cost~~	~~90~~ (a)			~~90~~
~~Increase in net assets from operating activities~~	~~3,590~~	~~7,200~~		~~10,610~~
~~Nonoperating:~~				
~~Investment income in excess of amount used for operating activities~~	~~1,500~~			~~1,500~~
~~Contributions for endowment funds~~			~~$ 15,000~~	~~15,000~~
~~Increase in net assets~~	~~5,090~~	~~7,200~~	~~15,000~~	~~27,290~~
~~Net assets, beginning of year~~	~~147,110~~	~~48,800~~	~~30,000~~	~~225,910~~
~~Net assets, end of year~~	~~$ 152,200~~	~~$ 56,000~~	~~$ 45,000~~	~~$ 253,200~~

~~(a) Equals $40 amortization of transition obligation + $100 amortization of prior service cost - $50 net loss.~~

Amendments to Subtopic 980-715

13. Add Section 980-715-45, with a link to transition paragraph 715-20-65-3, as follows:

Regulated Operations—Compensation—Retirement Benefits

<u>Other Presentation Matters</u>

<u>General</u>

<u>**980-715-45-1** A rate-regulated entity shall present the amount of net periodic pension cost and net periodic postretirement benefit cost that is recognized in the</u>

income statement in accordance with the presentation provision of paragraph 715-20-45-3A.

Part II—Amendments Related to the Overview and Background Sections of Topic 715

14. As part of the Board's initiative to unify and improve the Overview and Background Sections across Topics and Subtopics, the amendments in this proposed Update include the amendments to the Overview and Background Sections of Subtopics 715-10, 715-20, 715-30, and 715-60, which are related to defined benefit plans. These proposed amendments are considered to be nonsubstantial changes and are not expected to affect the related guidance in those Subtopics.

Amendments to Subtopic 715-10

15. Amend paragraph 715-10-05-2 and supersede paragraphs 715-10-05-4, 715-10-05-8, and 715-10-05-10, with no link to a transition paragraph, as follows:

Compensation—Retirement Benefits—Overall

Overview and Background

715-10-05-1 The Compensation—Retirement Benefits Topic establishes standards of financial accounting and reporting for an employer that offers pension, other postretirement, and certain special or contractual termination benefits to its employees.

715-10-05-2 This Topic contains the following Subtopics:

a. Overall (Subtopic 715-10)
b. Defined Benefit Plans—General (Subtopic 715-20)
c. Defined Benefit Plans—Pension (Subtopic 715-30)
cc. Defined Benefit Plans—Other Postretirement (Subtopic 715-60)
d. Defined Contribution Plans (Subtopic 715-70)
e. Multiemployer Plans (Subtopic 715-80)
f. Subparagraph superseded by Accounting Standards Update No. 2016-XX.~~Defined Benefit Plans—Other Postretirement.~~

715-10-05-3 Throughout the Codification, content is structured and authored using an asset and liability model as its underlying premise. However, the original content used to populate this Topic was based on an expense recognition model rather than an asset and liability model. Because the expense recognition model focuses primarily on remeasurement, the majority of the guidance throughout this

Topic is contained in the Subsequent Measurement Sections of the applicable Subtopics.

715-10-05-4 Paragraph superseded by Accounting Standards Update No. 2016-XX.~~Subtopic 715-20 provides disclosure and other presentation guidance related to defined benefit pension and other postretirement benefit plans. The disclosure requirements for multiemployer and defined contribution plans are contained within each of those respective Subtopics.~~

715-10-05-5 Paragraph not used.

715-10-05-6 The guidance in this Topic is derived from the basic idea that a benefit plan is an exchange between the employer and the employee. In exchange for services provided by the employee, the employer promises to provide, in addition to current wages and other benefits, an amount of retirement income or benefit. It follows from that basic view that benefits are not gratuities but instead are part of an employee's compensation, and because payment is deferred, the benefit plan is a type of deferred compensation. It also follows that the employer's obligation for that compensation is incurred when the services are rendered.

715-10-05-7 A benefit plan is an arrangement that is mutually understood by an employer and its employees, whereby an employer undertakes to provide its current and former employees with benefits after they retire in exchange for the employees' services over a specified period of time, upon attaining a specified age while in service, or both. Benefits may commence immediately upon termination of service or may be deferred until retired employees attain a specified age.

715-10-05-8 Paragraph superseded by Accounting Standards Update No. 2016-XX.~~As discussed in Subtopic 715-30, pension benefits are ordinarily in the form of periodic payments to retired employees or their survivors, but they may also include benefits payable as a single lump sum and other types of benefits such as death benefits provided through a pension plan. As discussed in Subtopic 715-60, other postretirement benefits are ordinarily in the form of a reimbursement to plan participants or direct payment to providers for the cost of specified services, but they may also include benefits payable as a lump sum, such as death benefits.~~

715-10-05-9 Because the obligation to provide benefits arises as employees render the services necessary to earn the benefits pursuant to the terms of the plan, this Topic provides guidance regarding when the cost of providing the benefits should be recognized over those employee service periods.

715-10-05-10 Paragraph superseded by Accounting Standards Update No. 2016-XX.~~This Topic uses the term *net periodic pension cost* rather than *net periodic pension expense* and *net periodic postretirement benefit cost* rather than *net periodic postretirement benefit expense* because part of the cost recognized in a period may be capitalized along with other costs as part of an asset such as inventory.~~

Amendments to Subtopic 715-20

16. Amend paragraphs 715-20-05-1 through 05-3, with no link to a transition paragraph, as follows:

Compensation—Retirement Benefits—Defined Benefit Plans—General

Overview and Background

715-20-05-1 This Subtopic provides guidance on the disclosure and other accounting and reporting requirements related to single-employer defined benefit pension and other postretirement benefit plans. ~~The following Subtopics provide additional accounting and reporting guidance:~~

a. Subparagraph superseded by Accounting Standards Update No. 2016-XX.~~Subtopic 715-30 provides guidance related to single-employer defined benefit pension plans~~
b. Subparagraph superseded by Accounting Standards Update No. 2016-XX.~~Subtopic 715-60 provides guidance related to single-employer defined benefit other postretirement benefit plans.~~

715-20-05-2 This Subtopic addresses:

a. The content and organization of annual disclosures about defined benefit pension plans and other postretirement benefits
b. Disclosures required for interim-period financial reports.
c. The presentation matters about defined benefit pension and other postretirement benefits plans.

715-20-05-3 An employer that sponsors one or more defined benefit pension or other postretirement benefit plans ~~shall~~should provide the information called for in Section 715-20-50 separately for pension plans and other postretirement benefit plans.

Amendments to Subtopic 715-30

17. Amend paragraphs 715-30-05-2, 715-30-05-4 (and supersede its related heading), 715-30-05-6, and 715-30-05-9 and supersede paragraphs 715-30-05-5, 715-30-05-7 through 05-8, and 715-30-05-10 through 05-11, with no link to a transition paragraph, as follows:

Compensation—Retirement Benefits—Defined Benefit Plans—Pension

Overview and Background

General

715-30-05-1 This Subtopic provides guidance on defined benefit pension accounting for an employer that offers **pension benefits** to its employees. This Subtopic focuses on an employer's accounting for a single-employer **defined benefit pension plan**.

715-30-05-2 Many of the provisions in this Subtopic are the same as or are similar to the provisions of Subtopic 715-60. Consequently, the guidance provided in that Subtopic may be useful in understanding and implementing many of the provisions of this Subtopic. However, there are differences between the specific requirements of the two Subtopics, and therefore the specific guidance in one Subtopic ~~shall~~ should not be used to override guidance of the other.

715-30-05-3 The guidance in this Subtopic is presented in the following two Subsections:

a. General
b. Settlements, Curtailments, and Certain Termination **Benefits**.

~~**> Defined Benefit Pension Plans**~~

715-30-05-4 The General Subsections address the fundamentals of defined benefit pension accounting. A pension benefit is part of the compensation paid to an employee for services. ~~In a defined benefit pension plan, the employer promises to provide, in addition to current wages, retirement income payments in future years after the employee retires or terminates **service**.~~ Generally, the amount of benefit to be paid depends on a number of future events that are incorporated in the **plan's benefit formula**, often including how long the employee and any survivors live, how many years of **service** the employee renders, and the employee's compensation in the years immediately before retirement or termination. Conceptually, compensation cost should be recognized in the period in which the employee renders services. Although the complexity and uncertainty of the pension arrangement may preclude complete achievement of that goal, a fundamental objective of this Subtopic is to approximate more closely the recognition of the compensation cost of an employee's pension benefits over that employee's service period. **[Content moved from paragraph 715-30-05-7]**

715-30-05-5 Paragraph superseded by Accounting Standards Update No. 2016-XX.~~In most cases, services are rendered over a number of years before an~~

~~employee retires and collects or begins collecting the pension. Even though the services rendered by an employee are complete and the employee has retired, the total amount of benefit that the employer has promised and the cost to the employer of the services rendered are not precisely determinable but can only be estimated using the~~ ~~**benefit formula**~~ ~~and estimates of the relevant future events, many of which the employer cannot control.~~

715-30-05-6 The ~~basic~~core elements of pension accounting ~~are described in paragraphs 715-30-35-1A through 35-5; they are the foundation of the accounting and reporting requirements set forth in this Subtopic~~include measurement of net periodic pension cost and benefit obligations (see paragraphs 715-30-35-1A through 35-41), assumptions (see paragraphs 715-30-35-42 through 35-49), and measurement of plan assets (see paragraphs 715-30-35-50 through 35-52).

715-30-05-7 Paragraph superseded by Accounting Standards Update No. 2016-XX.~~Conceptually, compensation cost should be recognized in the period in which the employee renders services. Although the complexity and uncertainty of the pension arrangement may preclude complete achievement of that goal, a fundamental objective of this Subtopic is to approximate more closely the recognition of the compensation cost of an employee's pension benefits over that employee's service period.~~ **[Content moved to paragraph 715-30-05-4]**

715-30-05-8 Paragraph superseded by Accounting Standards Update No. 2016-XX.~~The following terms are widely used when addressing pensions, yet are not included in the text of the standards:~~ ~~**Actuarial Funding Method, Actuarial Gain or Loss, Allocated Contract, Benefit Approach, Cost-Compensation Approach, Contributory Plan, Funding Method, Funding Policy, mplicit Approach to Assumptions, Plan Assets Available for Benefits, Sponsor,**~~ ~~and~~ ~~**Unallocated Contract**~~.

Settlements, Curtailments, and Certain Termination Benefits

715-30-05-9 The Settlements, Curtailments, and Certain Termination Benefits Subsections establish standards for an employer's accounting for **settlement** of defined benefit pension obligations, for **curtailment** of a **defined benefit pension plan**, and for certain termination benefits, and define the events that require adjustments to assets and liabilities and that require certain amounts previously recognized in accumulated other comprehensive income to be recognized in earnings. The Settlements, Curtailments, and Certain Termination Benefits Subsections provide guidance that results in the net **gain or loss** and **prior service cost**, which were previously recognized in accumulated other comprehensive income, being recognized in income in the period when ~~all of the following~~specific conditions are met.~~met:~~

a. Subparagraph superseded by Accounting Standards Update No. 2016-XX.~~All pension obligations are settled.~~

b. Subparagraph superseded by Accounting Standards Update No. 2016-XX.~~Defined benefits are no longer accrued under the plan.~~
c. Subparagraph superseded by Accounting Standards Update No. 2016-XX.~~The plan is not replaced by another defined benefit plan.~~
d. Subparagraph superseded by Accounting Standards Update No. 2016-XX.~~No **plan assets** remain.~~
e. Subparagraph superseded by Accounting Standards Update No. 2016-XX.~~The employees are terminated.~~
f. Subparagraph superseded by Accounting Standards Update No. 2016-XX.~~The plan ceases to exist as an entity.~~

715-30-05-10 Paragraph superseded by Accounting Standards Update No. 2016-XX.~~It is not uncommon for some, but not all, of these conditions to exist in a particular situation. For example, the present obligation for benefits may be settled without terminating the plan, or a plan may be suspended so that no further benefits will accrue for future services but its obligations are not settled. In other situations one or more of the conditions may apply to only part of a plan. For example, one plan may be divided into two plans, one of which is then terminated, or one-half of the employees in a plan may terminate employment and the obligation for their benefits may be settled. The Settlements, Curtailments, and Certain Termination Benefits Subsections provide guidance in accounting for those situations.~~

715-30-05-11 Paragraph superseded by Accounting Standards Update No. 2016-XX.~~An individual Subsection will not necessarily present guidance on all three subject matters (settlements, curtailments, and certain termination benefits).~~

Amendments to Subtopic 715-60

18. Amend paragraphs 715-60-05-2, 715-60-05-7, and 715-60-05-11 and supersede paragraphs 715-60-05-3 through 05-5 and 715-60-05-9 through 05-10, with no link to a transition paragraph, as follows:

Compensation—Retirement Benefits—Defined Benefit Plans—Other Postretirement

Overview and Background

General

715-60-05-1 This Subtopic provides accounting and reporting guidance for other **postretirement benefits**. The guidance in this Subtopic is presented in the following four Subsections:

a. General

b. Medicare Prescription Drug, Improvement, and Modernization Act
c. Settlements, Curtailments, and Certain Termination Benefits
d. Split-Dollar Life Insurance Arrangements.

715-60-05-2 The General Subsections provide guidance on an employee's accounting and reporting for a **defined benefit postretirement benefit plan**, that is, a **single-employer plan** that defines the nonpension **postretirement benefits** to be provided to **retirees**. This Subtopic refers to these **benefits** as postretirement benefits and to these **plans** as postretirement plans. ~~For purposes of this Subtopic, a postretirement benefit plan is an arrangement that is mutually understood by an employer and its employees whereby an employer undertakes to provide its current and former employees with benefits after they retire in exchange for the employees' services over a specified period of time, upon attaining a specified age while in service, or both. Benefits may commence immediately upon termination of service or may be deferred until retired employees attain a specified age.~~ Generally, the amount of those benefits depends on the **{add link to 2nd definition}benefit formula{add link to 2nd definition}** (which may include factors such as the number of years of service rendered or the employee's compensation before retirement or termination), the longevity of the retiree and any beneficiaries and covered dependents, and the incidence of events requiring benefit payments (for example, illnesses affecting the amount of health care required). **[Content moved from paragraph 715-60-05-4]**

715-60-05-3 Paragraph superseded by Accounting Standards Update No. 2016-XX.~~A postretirement benefit is part of the compensation paid to an employee for services rendered. In a defined benefit other postretirement plan, the employer promises to provide, in addition to current wages and benefits, future benefits during retirement.~~

715-60-05-4 Paragraph superseded by Accounting Standards Update No. 2016-XX.~~Generally, the amount of those benefits depends on the **benefit formula** (which may include factors such as the number of years of service rendered or the employee's compensation before retirement or termination), the longevity of the retiree and any beneficiaries and covered dependents, and the incidence of events requiring benefit payments (for example, illnesses affecting the amount of health care required).~~ **[Content moved to paragraph 715-60-05-2]**

715-60-05-5 Paragraph superseded by Accounting Standards Update No. 2016-XX.~~In most cases, services are rendered over a number of years before an employee retires and begins to receive benefits or is entitled to receive benefits as a need arises. Even though the services rendered by the employee are complete and the employee has retired, the total amount of benefits the employer has promised and the cost to the employer of the services rendered are not precisely determinable but can be estimated using the plan's benefit formula and estimates of the effects of relevant future events.~~

715-60-05-6 Although this Subtopic applies to all defined benefit postretirement plans other than pensions, **postretirement health care benefits** are likely to be the most significant in terms of cost and prevalence, and certain of the issues that arise in measuring those benefits are unique.

715-60-05-7 Many of the provisions in this Subtopic are the same as or similar to the provisions of Subtopic 715-30. Consequently, the guidance provided in that Subtopic may be useful in understanding and implementing many of the provisions of this Subtopic. However, there are differences between the specific requirements of this Subtopic and that Subtopic, and therefore the specific guidance in one Subtopic ~~shall~~should not be used to override guidance of the other.

Medicare Prescription Drug, Improvement, and Modernization Act

715-60-05-8 The Medicare Prescription Drug, Improvement, and Modernization Act Subsections provide guidance on the accounting for the effects of the Medicare Prescription Drug, Improvement, and Modernization Act of 2003 for employers that sponsor postretirement health care plans that provide prescription drug **benefits**.

715-60-05-9 Paragraph superseded by Accounting Standards Update No. 2016-XX.~~On December 8, 2003, the president signed the Act into law. The Act introduces a prescription drug benefit under Medicare (Medicare Part D) as well as a federal subsidy to sponsors of retiree health care benefit plans that provide a benefit that is at least actuarially equivalent to Medicare Part D.~~

715-60-05-10 Paragraph superseded by Accounting Standards Update No. 2016-XX.~~An employer's eligibility for the 28 percent federal subsidy depends on whether the prescription drug benefit available under its **plan** is at least actuarially equivalent (as defined by the Act) to the Medicare Part D benefit. In addition, the magnitude of the subsidy for an employer depends on how many of the employer's Medicare-eligible retired plan participants choose not to enroll in the voluntary Medicare Part D plan.~~

715-60-05-11 The Medicare Prescription Drug, Improvement, and Modernization Act Subsections make reference to various provisions of the Act and, in many cases, paraphrases those provisions. However, nothing in these Subsections ~~shall~~ should be considered a definitive interpretation of any provision of the Act for any purpose.

Settlements, Curtailments, and Certain Termination Benefits

715-60-05-12 The Settlements, Curtailments, and Certain Termination Benefits Subsections provide guidance on an employer's accounting for **settlement** of defined benefit postretirement obligations, for **curtailment of a defined benefit postretirement plan**, and for **termination benefits**.

Split-Dollar Life Insurance Arrangements

715-60-05-13 The Split-Dollar Life Insurance Arrangements Subsections provide guidance on accounting and reporting for split-dollar life insurance arrangements.

715-60-05-14 Entities purchase life insurance for various reasons that may include protecting against the loss of key employees, funding deferred compensation and postretirement benefit obligations, and providing an investment return. One form of this insurance is split-dollar life insurance. The structure of split-dollar life insurance arrangements can be complex and varied.

715-60-05-15 The two most common types of arrangements are **endorsement split-dollar life insurance** arrangements and **collateral assignment split-dollar life insurance** arrangements. Generally, the difference between these arrangements is dependent on the ownership and control of the life insurance policy.

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

Russell G. Golden, *Chairman*
James L. Kroeker, *Vice Chairman*
Daryl E. Buck
Thomas J. Linsmeier
R. Harold Schroeder
Marc A. Siegel
Lawrence W. Smith

Background Information and Basis for Conclusions

Introduction

BC1. The following summarizes the Board's considerations in reaching the conclusions in this proposed Update on Part I of the amendments to the Accounting Standards Codification on the presentation of net periodic pension cost and net periodic postretirement benefit cost. It includes reasons for accepting certain approaches and rejecting others. Individual Board members gave greater weight to some factors than to others. The proposed amendments in Part II on the amendments related to the Overview and Background Sections of Topic 715 are part of the Board's initiative to unify and improve the Overview and Background Sections across Topics and Subtopics.

BC2. On June 29, 2015, the Board added a project to its technical agenda to improve the presentation of net periodic pension cost and net periodic postretirement benefit cost.

BC3. The objectives of the amendments in this proposed Update are to increase transparency of the presentation of net periodic pension cost and net periodic postretirement benefit cost (net benefit cost) and provide financial statement users with additional disaggregated information to facilitate their analyses. Those objectives align with the objective of financial reporting, which is to provide information that is useful to present and potential investors, creditors, donors, and other capital market participants in making rational investment, credit, and similar resource allocation decisions. However, the benefits of providing information for that purpose should justify the related costs. Present and potential investors, creditors, donors, and other users of financial information benefit from improvements in financial reporting, while the costs to implement new guidance are borne primarily by present investors. The Board'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. The proposed amendments would provide the benefit of improving consistent application of GAAP by providing explicit guidance on the presentation of the service cost component and other components of net benefit cost in the income statement and changing the requirement on the capitalization of net benefit cost as assets in the statement of financial position. The Board does not anticipate that entities will incur significant costs as a result of the amendments in this proposed Update.

Background Information

BC4. According to paragraphs 715-30-35-4 and 715-60-35-9, net benefit cost is made up of the following components that reflect different aspects of an employer's financial arrangements as well as the cost of benefits earned by employees:

a. Service cost
b. Interest cost
c. Actual return on plan assets, if any
d. Amortization of any prior service cost or credit included in accumulated other comprehensive income
e. Gain or loss (including the effects of changes in assumptions), which includes, to the extent recognized, amortization of the net gain or loss included in accumulated other comprehensive income
f. Amortization of any net transition asset or obligation existing at the date of initial application of Topic 715 and remaining in accumulated other comprehensive income.

BC5. Topic 715 requires an entity to present defined benefit cost as a net amount that may be capitalized as part of an asset where appropriate (for example, as a part of the cost of inventory produced during the period). However, that Topic does not prescribe where that amount should be presented in the income statement and does not require an entity to disclose by line item the amount of net benefit cost that is presented in the income statement or capitalized in assets.

BC6. 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. Stakeholders also have highlighted the growing significance of this issue in the current environment in which some entities have elected to recognize all gains and losses from the remeasurements of plan assets and defined benefit obligations immediately in the income statement. This may result in significantly more volatility in the line items that typically include net benefit cost—for example, cost of sales or selling, general, and administrative expenses. As a result, interim measures of performance such as gross profit and operating income (loss) can be significantly affected with reduced predictive value to users.

Presentation of Net Benefit Cost in the Income Statement

BC7. The Board noted that disaggregation of material and economically different components of net benefit cost would improve consistency with the reporting practice for many other parts of an employer's operations. However, it would change one of the fundamental aspects of the pension accounting model under

GAAP—reporting net cost. The Board expects that the proposed amendments would better meet the needs of financial statement users.

BC8. The Board decided to require separation of the service cost component from the other components of net benefit cost, considering that service cost is the component that exclusively originates from employee services during the current period and potentially has a significantly different effect in terms of predictive value of the reported information. Excluding the other components of net benefit cost from the line item or items reporting current employee compensation costs would make those line item or items more relevant for assessing an entity's continuing operating costs. The Board considered pursuing, but decided not to pursue, an alternative to include the prior service cost or credit component in the line item or items reporting current employee compensation because this component is not exclusively related to the current period's employee services, is not expected to arise frequently in the future, and is not useful in financial statement users' analyses of an entity's core operating performance. The Board also noted that users generally view the service cost component as most clearly representing an operating component included in net benefit cost.

BC9. The Board further considered various alternatives to disaggregate the other components of net benefit cost. For example:

a. The Board considered an alternative to present the net amount of the interest cost component and expected return on plan assets separately from the other components. This alternative is based on the view that the net amount of these two components represents a plan's net financing cost or income and has sufficiently different predictive value to financial statement users when compared with the other components. In addition, this alternative would improve convergence with IFRS that requires recognizing net interest cost/income separately from other components of defined benefit cost. However, the Board noted that expected return on plan assets includes both an amount that arises from the passage of time and amounts that arise from other changes. Aggregating interest cost with expected return on plan assets could result in potentially misleading information about a plan's net financing cost or income. The Board also noted that financial statement users usually calculate a plan's net financing cost or income differently from the net amount of the interest cost component and expected return on plan assets.
b. The Board considered an alternative to present the gain or loss component separately from any other components. This alternative is based on the view that the gain or loss component has completely different characteristics and represents the effects of changes in estimates, rather than the result of financing or investing decisions. In the forthcoming proposed Accounting Standards Update, *Compensation—Retirement Benefits—Defined Benefit Plans—General (Subtopic 715-20): Changes to the Disclosure Requirements for Defined Benefit Plans*, an entity would be required to disclose reasons for significant gains and

losses affecting the benefit obligation or plan assets that were recognized during the period. The Board decided that disaggregated presentation of the gain or loss component should not be required because the amendments on the presentation of net benefit cost in this proposed Update along with the current and proposed disclosure requirements relating to the separate components of net benefit cost would provide sufficient information to financial statement users.

BC10. The Board decided not to require further disaggregation of the other components of net benefit cost; however, the proposed amendments would not prohibit an entity from providing disaggregated information if the entity believes that such information is sufficiently important to financial statement users to merit separate presentation as long as the nature of each line item presenting the disaggregated components is appropriately described.

BC11. The Board decided to require an entity to present the other components of net benefit cost outside a subtotal of income from operations, if one is presented. In general, the Board believes that these components either are related to an entity's financing or investing activities or are driven by the effects of recycling prior periods' changes and results in subsequent periods. Therefore, the majority of the effect in these components would not be directly relevant for assessing an entity's continuing operating costs and should not be included in the operating metric, if one is presented. However, the Board understands the varieties of presentations and subtotals used in entities' income statements. If a subtotal of income from operations is not presented, an entity would have discretion to present, wherever it is appropriate in the income statement, the other components of net benefit cost, as long as such presentation conveys the underlying nature of these components, is separated from the presentation of the service cost component, and does not conflict with the Board's intent. The Board considered but decided not to require that an entity present the other components of net benefit cost in a separate line item or items in the income statement because the Board noted that such presentation might be required under other regulations and rules. However, if a separate line item or items are used, that line item or items must be appropriately described.

Capitalization of Net Benefit Cost in Assets

BC12. The Board noted that disaggregated presentation of net benefit cost in the income statement provides an opportunity to reassess the components that are eligible to be capitalized in assets because the other components of net benefit cost would no longer be reported as net employee compensation cost. Capitalizing net benefit cost at the aggregate level includes the costs that are related to financing or investing activities or includes the effects that are recycled from prior periods into the capitalized amounts of assets. Designating the service cost component as the only component eligible for capitalization would limit capitalized amounts to those costs related to operating activities, would improve comparability between entities, and would reduce the need for a potential requirement to disclose the capitalized amount of net benefit cost in assets. The Board also decided that the amount of net benefit cost capitalized in an asset would not be subject to further disaggregation for presentation or disclosure purposes when the cost of the asset is subsequently reported in net income as cost of products sold, depreciation and amortization expense, and so forth.

BC13. The Board considered requiring capitalization of the interest cost component of net benefit cost in assets. However, the Board noted that there is a conceptual difference between the interest cost component of net benefit cost and the interest cost required to be capitalized under Subtopic 835-20, Interest—Capitalization of Interest. The interest cost component of net benefit cost only reflects the effects of the passage of time on the employee benefit obligation, while the interest cost under Subtopic 835-20 reflects the borrowing cost of accumulated expenditures incurred for the qualifying asset. The Board therefore decided not to require capitalization of the interest cost component of net benefit cost.

Convergence with International Financial Reporting Standards (IFRS)

BC14. Under IFRS, defined benefit costs are separated into three categories: service cost, net interest on the net defined benefit liability (asset), and remeasurements. Service cost and net interest are recognized in an employer's income statement, and remeasurements of the net defined benefit liability (asset) are recognized in other comprehensive income (without recycling). However, IAS 19, *Employee Benefits,* does not specify how an entity should present service cost and net interest but requires the entity to present those components in accordance with IAS 1, *Presentation of Financial Statements*.

BC15. The amendments in this proposed Update would more closely align with IFRS by requiring disaggregation of the service cost component from the other components of net benefit cost.

BC16. Although limiting the capitalization of net benefit cost to the service cost component would result in differences between GAAP and IFRS, the amendments in this proposed Update would increase the relevance of the resulting expenses as measures of current period's operating activities and improve consistency and comparability of financial information.

Effective Date and Transition

BC17. The Board decided to require retrospective application of the proposed amendments for the presentation of the service cost component and other components of net benefit cost in the income statement to improve comparability of financial information across current and comparative periods. The Board does not anticipate that an entity would incur significant costs in applying the proposed amendments retrospectively and believes that the benefits of retrospective application justify the costs.

BC18. The Board decided to require prospective application of the proposed amendments for the capitalization of the service cost component of net benefit cost in assets because retrospective application would be costly and complicated. The Board does not believe that the benefits of providing a comparable benefit cost element in assets would justify the costs.

BC19. The Board decided not to require an entity that adopts the amendments in this proposed Update to disclose certain information required by Topic 250, Accounting Changes and Error Corrections. Specifically, the Board decided that providing the transition disclosures about (a) the method of applying the change and (b) a description of the indirect effects of a change in accounting principle would not be applicable.

BC20. The Board will decide on the effective date after it considers stakeholders' feedback on how much time they believe would be necessary to adopt the proposed amendments.

Amendments to the XBRL Taxonomy

The provisions of this Exposure Draft, if finalized as proposed, would require changes to the U.S. GAAP Financial Reporting Taxonomy (Taxonomy). We welcome comments on these proposed changes to the Taxonomy through ASU Taxonomy Changes provided at www.fasb.org. After the FASB has completed its deliberations and issued a final Accounting Standards Update, proposed amendments to the Taxonomy will be made available for public comment at www.fasb.org and finalized as part of the annual release process.

Summary and Questions for Respondents

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

The Board is issuing the amendments in this proposed Update primarily to improve the presentation of net periodic pension cost and net periodic postretirement benefit cost, as discussed below. This proposed Update also includes amendments to the Overview and Background Sections of the Accounting Standards Codification (as discussed in Part II of the amendments section) as part of the Board's initiative to unify and improve these sections across Topics and Subtopics.

Under generally accepted accounting principles (GAAP), defined benefit pension cost and postretirement benefit cost (net benefit cost) comprise several components that reflect different aspects of an employer's financial arrangements as well as the cost of benefits provided to employees. Those components are aggregated for reporting in the financial statements. Topic 715, Compensation—Retirement Benefits, does not prescribe where the amount of net benefit cost should be presented in an employer's income statement and does not require entities to disclose by line item the amount of net benefit cost that is presented in the income statement or capitalized in assets.

Many stakeholders have observed that the presentation of defined benefit cost on a net basis combines elements that are distinctly different in their predictive value. As such, these stakeholders have stated that the current presentation requirement has less value and requires users to incur greater costs in analyzing financial statements. The reduced transparency in the presentation of net benefit cost also reduces the usefulness of financial information.

To improve the reporting of net benefit cost in the financial statements, the Board added a standard-setting project to provide additional guidance on the presentation of net benefit cost in the income statement and on the components eligible for capitalization in assets.

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

The amendments in this proposed Update would apply to all employers, including not-for-profit entities, that offer defined benefit pension plans, other postretirement benefit plans, or other types of benefits accounted for under Topic 715 to their employees.

What Are the Main Provisions?

The amendments in this proposed Update would require an employer to report the service cost component in the same line item or items as other compensation costs arising from services rendered by the pertinent employees during the period. The other components of net benefit cost as defined in paragraphs 715-30-35-4 and 715-60-35-9 would be presented in the income statement separately from the service cost component and outside a subtotal of income from operations, if one is presented. If a separate line item or items are used to present the other components of net benefit cost, that line item or items must be appropriately described.

The amendments in this proposed Update also would allow only the service cost component to be eligible for capitalization when applicable (for example, as a cost of internally manufactured inventory or a self-constructed asset).

How Would the Main Provisions Differ from Current Generally Accepted Accounting Principles (GAAP) and Why Would They Be an Improvement?

Under the amendments in this proposed Update, an employer would disaggregate the service cost component from the other components of net benefit cost. The proposed amendments also would provide explicit guidance on how to present the service cost component and other components of net benefit cost in the income statement and would allow only the service cost component of net benefit cost to be eligible for capitalization.

The amendments in this proposed Update would improve the consistency, transparency, and usefulness of financial information to users that have communicated that the service cost component generally is analyzed differently from other components of net benefit cost.

The amendments in this proposed Update are considered an important part of the Board's continuing efforts to improve the accounting related to defined benefit pension or other postretirement benefit plans. The Board is conducting agenda consultations with stakeholders to identify and assess improvement to other areas related to defined benefit pension or other postretirement benefit plans that may be considered by those stakeholders to be in need of improvement and, therefore, should be added to the agenda.

When Would the Amendments Be Effective?

The amendments in this proposed Update would be applied retrospectively for the presentation of the service cost component and other components of net periodic pension cost and net periodic postretirement benefit cost in the income statement and prospectively, on and after the effective date, for the capitalization of the service cost component of net periodic pension cost and net periodic postretirement benefit in assets. Disclosures of the nature of and reason for the change in accounting principle would be required in the first interim and annual reporting periods of adoption. The effective date and the ability to apply the proposed amendments before the effective date will be determined after the Board considers stakeholder feedback.

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 the service cost component be reported in the income statement apart from the other components of net benefit cost as defined in paragraphs 715-30-35-4 and 715-60-35-9 and be the only component eligible to be capitalized in assets? Why or why not?

Question 2: Would it be useful to require presentation of the prior service cost or credit component separately from the other components? Should all of the components of net benefit cost other than the service cost component (for example, the prior service cost or credit component) be presented outside a subtotal of income from operations, if one is presented? Why or why not?

Question 3: Would it be useful to require presentation of the net amount of the interest cost component and expected return on plan assets separately from the other components of net benefit cost to improve convergence with International Financial Reporting Standards (IFRS) or for other purposes? Why or why not?

Question 4: Would the proposed amendments improve the usefulness of financial information provided to users? Why or why not?

Question 5: Should the proposed amendments be different for rate-regulated entities? Why or why not?

Question 6: Would the proposed amendments be operable without incurring significant incremental costs by entities (such as not-for-profit entities, entities that enter into cost-plus contracts or government contracts including but not limited to contracts under Cost Accounting Standards Board regulations, and entities that allocate cost from cost pools)? Why or why not?

Question 7: How much time would be necessary to adopt the proposed amendments? Should early adoption be permitted? Would the amount of time needed to apply the proposed amendments by entities other than public business entities be different from the amount of time needed by public business entities? Why or why not?

Question 8: Should the proposed amendments be applied retrospectively for the presentation of the service cost component and other components of net benefit cost in the income statement and prospectively, on and after the effective date, for the capitalization of the service cost component of net benefit cost in assets when applicable?

Question 9: Should the disclosures of the nature of and reason for the change in accounting principle be required in the first interim and annual reporting periods of adoption? Why or why not?

Amendments to the *FASB Accounting Standards Codification*®

Introduction

1. The Accounting Standards Codification is amended as described in paragraphs 2–13, which are related to the presentation of net periodic pension cost and net periodic postretirement benefit cost, and in paragraphs 14–18, which are related to the Overview and Background Sections of Topic 715. The amendments in this proposed Update are separated into two parts to provide a clear view of each of the subjects on which the Board is focused. 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 <u>underlined</u>, and deleted text is ~~struck out~~.

Part I—Amendments Related to the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost

Amendments to Master Glossary

2. Amend the Master Glossary term *Net Periodic Pension Cost*, with a link to transition paragraph 715-20-65-3, as follows:

Net Periodic Pension Cost

The amount recognized in an employer's financial statements as the cost of a pension plan for a period. Components of net periodic pension cost are service cost, interest cost, actual return on plan assets, gain or loss, amortization of prior service cost or credit, and amortization of the transition asset or obligation existing at the date of initial application of Subtopic 715-30. The term net periodic pension cost is used instead of net pension expense because part of the <u>service</u> cost <u>component</u> recognized in a period may be capitalized ~~along with other costs~~ as part of an asset such as inventory.

Amendments to Subtopic 715-20

3. Add paragraph 715-20-45-3A, with a link to transition paragraph 715-20-65-3, as follows:

Compensation—Retirement Benefits—Defined Benefit Plans—General

Other Presentation Matters

> Classification

715-20-45-3A An employer shall present:

a. The service cost component of net periodic pension cost and net periodic postretirement benefit cost in the same line item or items as other compensation costs arising from services rendered by the pertinent employees during the period (including being capitalized, if appropriate, as part of an asset such as inventory or property, plant, and equipment)
b. The other components as defined in paragraphs 715-30-35-4 and 715-60-35-9 separately in the income statement from the service cost component and outside a subtotal of income from operations, if one is presented. If a separate line item or items are used to present the other components, that line item or items shall be described appropriately.

For the purpose of applying the guidance in this paragraph, a gain or loss from a settlement or curtailment or the cost of certain termination benefits accounted for under this Topic shall be reported in the same way as the other components in (b).

4. Amend paragraph 715-20-55-13, with a link to transition paragraph 715-20-65-3, as follows:

Implementation Guidance and Illustrations

> Implementation Guidance

> > Application of the Recognition Provisions

715-20-55-13 For the year ending December 31, 2007, Entity A makes the following journal entries in applying the recognition provisions of Section 715-30-25:

a. Recognize net periodic pension cost and a corresponding increase in other comprehensive income, net of tax, for amortization of the transition obligation (see the preceding paragraph).

Net periodic pension cost—transition obligation	40	
Deferred tax benefit—other comprehensive income	16	
Deferred tax benefit—net income		16
Other comprehensive income		40

b. Recognize net periodic pension cost and a corresponding increase in other comprehensive income, net of tax, for amortization of prior service cost (see the preceding paragraph).

Net periodic pension cost—prior service cost	25	
Deferred tax benefit—other comprehensive income	10	
Deferred tax benefit—net income		10
Other comprehensive income		25

c. Recognize a pension liability and net periodic pension cost, net of tax, for the service cost of $120, interest cost of $95, and the expected return on plan assets of $(80) (see the preceding paragraph). The service cost should be recognized separately and the interest cost and expected return on plan assets could be recognized together or separately.

Net periodic pension cost—service cost	~~135~~ 120	
Net periodic pension cost—interest cost	95	
Net periodic pension cost—expected return on plan assets		80
Deferred tax asset	54	
Deferred tax benefit—net income		54
Liability for pension benefits		135

d. Recognize a pension liability for the additional net loss arising during the year and a corresponding decrease in other comprehensive income, net of tax (this is the increase in net loss from $240 to $260 shown in paragraph 715-20-55-6).

Other comprehensive income	20	
Deferred tax asset	8	
Deferred tax benefit—other comprehensive income		8
Liability for pension benefits		20

5. Add paragraph 715-20-65-3 and its related heading as follows:

> Transition Related to Accounting Standards Update No. 2016-XX, *Compensation—Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost*

715-20-65-3 The following represents the transition and effective date information related to Accounting Standards Update No. 2016-XX, *Compensation—Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost:*

a. The pending content that links to this paragraph shall be effective for annual periods, and interim periods within those annual periods, beginning after the effective date [date to be inserted after exposure].
b. An entity shall apply the pending content that links to this paragraph as follows:
   1. Retrospectively for the presentation in the income statement of the service cost component and other components of net periodic pension cost and net periodic postretirement benefit cost
   2. Prospectively, on and after the effective date, for the capitalization in assets of the service cost component of net periodic pension cost and net periodic postretirement benefit cost.
c. An entity shall disclose the nature of and reason for the change in accounting principle in the first interim and annual reporting periods in which the entity adopts the pending content that links to this paragraph.

Amendments to Subtopic 715-30

6. Add paragraph 715-30-35-7A, with a link to transition paragraph 715-20-65-3, as follows:

Compensation—Retirement Benefits—Defined Benefit Plans—Pension

Subsequent Measurement

> > Service Cost

715-30-35-7A The service cost component shall be the only component of net periodic pension cost eligible to be capitalized as part of the cost of inventory or other assets.

7. Amend paragraph 715-30-60-2, with a link to transition paragraph 715-20-65-3, as follows:

Relationships

> Inventory

715-30-60-2 For guidance on the capitalization of <u>the service cost component of</u> **net periodic pension cost** ~~or net periodic pension income~~ as part of the cost of inventory or other assets, see Subtopic 330-10.

Amendments to Subtopic 715-60

8. Add paragraph 715-60-35-10A, with a link to transition paragraph 715-20-65-3, as follows:

Compensation—Retirement Benefits—Defined Benefit Plans—Other Postretirement

Subsequent Measurement

> > Service Cost

<u>**715-60-35-10A** The service cost component shall be the only component of net periodic postretirement benefit cost eligible to be capitalized as part of the cost of inventory or other assets.</u>

Amendments to Subtopic 220-10

9. Amend paragraph 220-10-55-17B and 55-17E, with a link to transition paragraph 715-20-65-3, as follows:

Comprehensive Income—Overall

Implementation Guidance and Illustrations

> Illustrations

> > Example 2: Presenting Accumulated Other Comprehensive Income

> > > Disclosure of Amounts Reclassified Out of Accumulated Other Comprehensive Income

220-10-55-17B ~~Topic 715 does not require an entity to reclassify the amortization of defined benefit pension and other employee benefit cost components from accumulated other comprehensive income directly to net income in their entirety. Rather, it requires an entity to reclassify those amortized costs in their entirety to net periodic pension cost. Some portion of net periodic pension cost is immediately reported in net income, but other portions may be capitalized to an asset balance such as fixed assets or inventory.~~ An entity with significant defined benefit pension costs reclassified out of accumulated other comprehensive income ~~but not to net income in its entirety in the same reporting period~~ should identify the amount of each pension cost component reclassified out of accumulated other comprehensive income and make reference to the relevant pension cost disclosure that provides greater detail about these reclassifications.

220-10-55-17E The following illustrates a disclosure in a tabular format of significant amounts reclassified out of each component of accumulated other comprehensive income, as required by paragraph 220-10-45-17B. The amounts used in this Example correspond to those in the Example in paragraph 220-10-55-15.

Entity XYZ
Notes to Financial Statements
Reclassifications Out of Accumulated Other Comprehensive Income [(a)]
For the Period Ended December 31, 201X

Details about Accumulated Other Comprehensive Income Components	Amount Reclassified from Accumulated Other Comprehensive Income		Affected Line Item in the Statement Where Net Income Is Presented
Gains and losses on cash flow hedges			
Interest rate contracts	$ 1,000		Interest income/(expense)
Credit derivatives	(500)		Other income/(expense)
Foreign exchange contracts	2,500		Sales/revenue
Commodity contracts	(2,000)		Cost of sales
	1,000		Total before tax
	(250)		Tax (expense) or benefit
	$ 750		Net of tax
Unrealized gains and losses on available-for-sale debt securities			
	$ 2,300		Realized gain/(loss) on sale of securities
	(285)		Impairment expense
Insignificant items	(15)		
	2,000		Total before tax
	(500)		Tax (expense) or benefit
	$ 1,500		Net of tax
Amortization of defined benefit pension items			
Prior-service costs	$ (2,000)	(b)	Other income/(expense)
Transition obligation	(2,500)	(b)	Other income/(expense)
Actuarial gains/(losses)	(1,500)	(b)	Other income/(expense)
	(6,000)		Total before tax
	1,500		Tax (expense) or benefit
	$ (4,500)		Net of tax
Total reclassifications for the period	$ (2,250)		Net of tax

(a) Amounts in parentheses indicate debits to profit/loss.

(b) These accumulated other comprehensive income components are ~~included in the computation~~ the components of net periodic pension cost (see pension footnote for additional details).

Amendments to Subtopic 330-10

10. Supersede paragraphs 330-10-55-5 through 55-7 and their related headings, add paragraph 330-10-55-6A, and amend the heading preceding paragraph 330-10-55-5, with a link to transition paragraph 715-20-65-3, as follows:

Inventory—Overall

Implementation Guidance and Illustrations

> Implementation Guidance

> > Capitalizing <u>into Inventory the Service Cost Component of</u> Pension and Other Postretirement <u>Benefit Costs</u>~~Cost into Inventory~~

~~> > > Interest Cost Component~~

330-10-55-5 <u>Paragraph superseded by Accounting Standards Update No. 2016-XX.</u>~~A fundamental aspect of Sections 715-30-35 and 715-60-35 is to combine or aggregate the various pension and other postretirement cost components, including service cost, interest cost, expected return on plan assets, and amortization of all of the following items recognized in accumulated other comprehensive income:~~

- ~~a. Net transition asset or obligation~~
- ~~b. Prior service cost or credit~~
- ~~c. Net gain or loss.~~

330-10-55-6 <u>Paragraph superseded by Accounting Standards Update No. 2016-XX.</u>~~In the aggregate, net periodic pension and other postretirement cost is viewed as an element of employee compensation. Therefore, when it is appropriate to capitalize employee compensation in connection with the construction or production of an asset, the net periodic pension and other postretirement cost applicable to the pertinent employees for the period (including interest cost), not individual components of that amount, is the relevant amount.~~

<u>**330-10-55-6A** The service cost component of net periodic pension cost and net periodic postretirement benefit cost is the only component directly arising from employees' services provided in the current period. Therefore, when it is appropriate to capitalize employee compensation in connection with the construction or production of an asset, the service cost component applicable to the pertinent employees for the period is the relevant amount.</u>

~~> > > Net Periodic Pension Income~~

330-10-55-7 <u>Paragraph superseded by Accounting Standards Update No. 2016-XX.</u>~~If an entity's cost allocation process capitalizes net periodic pension cost as part of the cost of inventory or other assets, net periodic pension income also shall be capitalized, thereby reducing the total employee compensation and other costs being capitalized.~~

Amendments to Subtopic 958-715

[Note: The amendments to Subtopic 958-715 in this proposed Update do not incorporate the amendments in proposed Accounting Standards Update, *Not-for-Profit Entities (Topic 958) and Health Care Entities (Topic 954): Presentation of Financial Statements of Not-for-Profit Entities,* issued on

April 22, 2015. Please see that proposed Update for other proposed amendments to Subtopic 958-715.]

11. Amend paragraphs 958-715-45-1 through 45-2 and add paragraph 958-715-45-3, with a link to transition paragraph 715-20-65-3, as follows:

Not-for-Profit Entities—Compensation—Retirement Benefits

Other Presentation Matters

958-715-45-1 A **not-for-profit entity** (NFP) shall recognize as a separate line item or items, outside an intermediate measure of operations or performance indicator, if one is presented, within changes in **unrestricted net assets**, ~~apart from expenses,~~ the ~~gains or losses and~~ net gain or loss, the prior service costs or credits, and the transition asset or obligation that would be recognized in other comprehensive income pursuant to the following Sections:

a. Section 715-30-35
b. Section 715-60-35.

~~Consistent with paragraphs 958-225-45-9 through 45-12, this Subtopic does not prescribe whether the separate line item or items shall be included within or outside an intermediate measure of operations or performance indicator, if one is presented.~~

958-715-45-2 An NFP shall reclassify a portion of the net gain or ~~loss and~~ loss, the prior service costs or credits, and the transition asset or obligation previously recognized in accordance with paragraph 958-715-45-1 ~~in a separate line item or items and a portion of the transition asset or obligation remaining from the initial application of Topic 715~~ as follows:

a. To net periodic pension cost, pursuant to the recognition and amortization provisions of paragraphs 715-30-35-3 through 35-28
b. To net ~~period~~periodic postretirement benefit cost, pursuant to the recognition and amortization provisions of paragraphs 715-60-35-7 through 35-40.

The contra adjustment or adjustments to the initially recognized net gain or loss, the prior service costs or credits, and the transition asset or obligation shall be reported in the same line item or items, outside an intermediate measure of operations or performance indicator, if one is presented, within changes in unrestricted net assets, ~~apart from expenses,~~ as the initially recognized amounts. ~~Net periodic postretirement benefit cost and net periodic pension cost shall be reported by **functional classification** pursuant to paragraph 958-720-45-2.~~

958-715-45-3 The service cost component of net periodic pension cost and net periodic postretirement benefit cost shall be reported by **functional classification** in accordance with paragraph 958-720-45-2. The other components of net periodic pension cost and net periodic postretirement benefit cost as defined in paragraphs 715-30-35-4 and 715-60-35-9 shall be reported separately from the service cost component and outside an intermediate measure of operations, if one is presented, within changes in unrestricted net assets. If a separate line item or items are used to present the other components, that line item or items shall be appropriately described and different from the separate line item or items used to present the net gain or loss, the prior service costs or credits, and the transition asset or obligation that would be recognized in other comprehensive income in accordance with Sections 715-30-35 and 715-60-35.

12. Amend paragraphs 958-715-55-4 and 958-715-55-6 and supersede paragraphs 958-715-55-7 through 55-8, with a link to transition paragraph 715-20-65-3, as follows:

Implementation Guidance and Illustrations

> Illustrations

> > Example 1: Reporting Net Periodic Pension Cost and Changes in a Plan's Funded Status

958-715-55-4 Not-for-Profit Entity A's (NFP A's) actuary prepares a 12-month projection of net periodic pension cost for July 1, 2007, to June 30, 2008. The funded status of NFP A's defined benefit pension plan as of June 30, 2007, and June 30, 2008, and amounts to be recognized as components of net periodic pension cost are shown in the following paragraph. The cumulative net loss not yet recognized as a component of net periodic pension cost is less than 10 percent of the greater of the projected benefit obligation and the market-related value of plan assets. No plan amendments affect the period from July 1, 2007, to June 30, 2008. Assumptions about benefit payments and **contributions** made by NFP A have not been included in this Example. During the fiscal year ending June 30, 2008, NFP A does the following:

a. Recognizes the additional net loss as a change in **unrestricted net assets** and a change in the liability that reflects the underfunded status of the plan
b. Recognizes the amortization of the transition obligation as a component of net periodic pension cost
c. Recognizes the amortization of prior service cost as a component of net periodic pension cost
d. Recognizes net periodic pension cost for 2008, with the service cost component reported within the appropriate functional expense categories as part of the intermediate measure of operations (for example, increase in net assets from operating activities) and the other components in a

separate line item, outside the intermediate measure of operations presented by NFP A, within changes in unrestricted net assets.

958-715-55-6 For the year ending June 30, 2008, NFP A recognizes the amortizations of the transition obligation and prior service cost as components of net periodic pension cost and recognizes the additional loss arising during the year. The journal entries are as follows:

a. Recognize the additional loss in unrestricted net assets.

Net loss not yet recognized in net periodic pension cost	50	
Liability for pension benefits		50

b. Recognize the amortization of the transition obligation in net periodic pension cost.

Net periodic pension cost ~~(functionalized)~~—transition obligation	40	
Transition obligation not yet recognized in net periodic pension cost		40

c. Recognize the amortization of prior service cost in net periodic pension cost.

Net periodic pension cost ~~(functionalized)~~—prior service cost	100	
Prior service cost not yet recognized in net periodic pension cost		100

d. Recognize service cost separately and~~, interest cost,~~ recognize the interest cost and the expected return on plan assets together in net periodic pension cost.

Net periodic pension cost—service cost (functionalized)	~~105~~ (a) 110	
Net periodic pension cost—interest cost and expected return on plan assets		5 (b)
Liability for pension benefits		105

~~(a) Equals $110 service cost + $120 interest cost - $125 expected return on plan assets.~~

(b) Equals $120 interest cost—$125 expected return on plan assets.

In its statement of activities, NFP A ~~chooses to present~~presents the service cost component by appropriate functional expense categories within the intermediate measure of operations (for example, increase in net assets from operating activities) presented by NFP A, within changes in unrestricted net assets, and presents the other components (encompassing the interest cost, the expected return on plan assets, and the amortizations of the transition obligation and prior service cost) in a separate line item (different from the separate line item discussed below for the items not yet recognized as the components of net periodic pension cost) outside the intermediate measure of operations, within changes in unrestricted net assets. NFP A presents in a~~one combined~~ separate line item, outside the intermediate measure of operations, within changes in unrestricted net assets, the items (encompassing the net loss arising during the year and the ~~amortizations of~~changes in the transition obligation and prior service cost) not yet recognized as the components of net periodic pension cost~~ apart from expenses~~. NFP A would disclose~~ the components of that combined line item in the notes to financial statements, pursuant to paragraph 958-715-50-1(i).~~, in the notes to financial statements, both the component items not yet recognized as the components of net periodic pension cost and each of the other components of net periodic pension cost that are all required to be presented outside the intermediate measure of operations, within changes in unrestricted net assets, in accordance with paragraph 958-715-50-1.

958-715-55-7 Paragraph superseded by Accounting Standards Update No. 2016-XX.~~The following statement of activities reflects the presentation of the combined line item if NFP A chooses to present it outside its intermediate measure of operations.~~

~~**Not-for-Profit Entity A**~~

~~**Statement of Activities**~~

~~**Year Ended June 30, 2008**~~

~~**(in thousands)**~~

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Operating:				
Revenues, gains, and other support:				
Private contributions, other than bequests	$ 60,000	$ 14,200		$ 74,200
Bequests	17,000			17,000
Government grants		9,000		9,000
Investment income used for operating activities	11,500	1,000		12,500
Sales of educational materials	2,000			2,000
Other	2,000			2,000
Net assets released from restrictions	17,000	(17,000)		-
Total revenues, gains, and other support	109,500	7,200		116,700
Expenses:				
Program services:				
Research and medical support	58,000			58,000
Public education	9,000			9,000
Community service	15,000			15,000
Total program services	82,000			82,000
Supporting services:				
Fund raising	15,000			15,000
Management and general	9,000			9,000
Total supporting services	24,000			24,000
Total expenses	106,000			106,000
Increase in net assets from operating activities	3,500	7,200		10,700
Nonoperating:				
Investment income in excess of amount used for operating activities	1,500			1,500
Contributions for endowment funds			$ 15,000	15,000
Pension-related changes other than net periodic pension cost	90 (a)			90
Increase in net assets	5,090	7,200	15,000	27,290
Net assets, beginning of year	147,110	48,800	30,000	225,910
Net assets, end of year	$ 152,200	$ 56,000	$ 45,000	$ 253,200

~~(a) Equals $40 amortization of transition obligation + $100 amortization of prior service cost - $50 net loss.~~

958-715-55-8 Paragraph superseded by Accounting Standards Update No. 2016-XX.~~The following statement of activities reflects the presentation of the combined separate line item if, alternatively, NFP A chooses to present it within its intermediate measure of operations. This alternative would not be available to NFP A if it were within the scope of Topic 954, and presented a performance indicator pursuant to the provisions of paragraphs 954-225-45-4 through 45-7.~~

~~**Not-for-Profit Entity A**~~

~~**Statement of Activities**~~

~~**Year Ended June 30, 2008**~~

~~**(in thousands)**~~

	~~**Unrestricted**~~	~~**Temporarily Restricted**~~	~~**Permanently Restricted**~~	~~**Total**~~
~~Operating:~~				
~~Revenues, gains, and other support:~~				
~~Private contributions, other than bequests~~	~~$ 60,000~~	~~$ 14,200~~		~~$ 74,200~~
~~Bequests~~	~~17,000~~			~~17,000~~
~~Government grants~~		~~9,000~~		~~9,000~~
~~Investment income used for operating~~	~~11,500~~	~~1,000~~		~~12,500~~
~~Sales of educational materials~~	~~2,000~~			~~2,000~~
~~Other~~	~~2,000~~			~~2,000~~
~~Net assets released from restrictions~~	~~17,000~~	~~(17,000)~~		~~-~~
~~Total revenues, gains, and other support~~	~~109,500~~	~~7,200~~		~~116,700~~
~~Expenses:~~				
~~Program services:~~				
~~Research and medical support~~	~~58,000~~			~~58,000~~
~~Public education~~	~~9,000~~			~~9,000~~
~~Community service~~	~~15,000~~			~~15,000~~
~~Total program services~~	~~82,000~~			~~82,000~~
~~Supporting services:~~				
~~Fund raising~~	~~15,000~~			~~15,000~~
~~Management and general~~	~~9,000~~			~~9,000~~
~~Total supporting services~~	~~24,000~~			~~24,000~~
~~Total expenses~~	~~106,000~~			~~106,000~~
~~Pension-related changes other than net periodic pension cost~~	~~90~~ (a)			~~90~~
~~Increase in net assets from operating activities~~	~~3,590~~	~~7,200~~		~~10,610~~
~~Nonoperating:~~				
~~Investment income in excess of amount used for operating activities~~	~~1,500~~			~~1,500~~
~~Contributions for endowment funds~~			~~$ 15,000~~	~~15,000~~
~~Increase in net assets~~	~~5,090~~	~~7,200~~	~~15,000~~	~~27,290~~
~~Net assets, beginning of year~~	~~147,110~~	~~48,800~~	~~30,000~~	~~225,910~~
~~Net assets, end of year~~	~~$ 152,200~~	~~$ 56,000~~	~~$ 45,000~~	~~$ 253,200~~

~~(a) Equals $40 amortization of transition obligation + $100 amortization of prior service cost - $50 net loss.~~

Amendments to Subtopic 980-715

13. Add Section 980-715-45, with a link to transition paragraph 715-20-65-3, as follows:

Regulated Operations—Compensation—Retirement Benefits

<u>Other Presentation Matters</u>

<u>General</u>

<u>**980-715-45-1** A rate-regulated entity shall present the amount of net periodic pension cost and net periodic postretirement benefit cost that is recognized in the</u>

income statement in accordance with the presentation provision of paragraph 715-20-45-3A.

Part II—Amendments Related to the Overview and Background Sections of Topic 715

14. As part of the Board's initiative to unify and improve the Overview and Background Sections across Topics and Subtopics, the amendments in this proposed Update include the amendments to the Overview and Background Sections of Subtopics 715-10, 715-20, 715-30, and 715-60, which are related to defined benefit plans. These proposed amendments are considered to be nonsubstantial changes and are not expected to affect the related guidance in those Subtopics.

Amendments to Subtopic 715-10

15. Amend paragraph 715-10-05-2 and supersede paragraphs 715-10-05-4, 715-10-05-8, and 715-10-05-10, with no link to a transition paragraph, as follows:

Compensation—Retirement Benefits—Overall

Overview and Background

715-10-05-1 The Compensation—Retirement Benefits Topic establishes standards of financial accounting and reporting for an employer that offers pension, other postretirement, and certain special or contractual termination benefits to its employees.

715-10-05-2 This Topic contains the following Subtopics:

a. Overall (Subtopic 715-10)
b. Defined Benefit Plans—General (Subtopic 715-20)
c. Defined Benefit Plans—Pension (Subtopic 715-30)
cc. Defined Benefit Plans—Other Postretirement (Subtopic 715-60)
d. Defined Contribution Plans (Subtopic 715-70)
e. Multiemployer Plans (Subtopic 715-80)
f. Subparagraph superseded by Accounting Standards Update No. 2016-XX.~~Defined Benefit Plans—Other Postretirement.~~

715-10-05-3 Throughout the Codification, content is structured and authored using an asset and liability model as its underlying premise. However, the original content used to populate this Topic was based on an expense recognition model rather than an asset and liability model. Because the expense recognition model focuses primarily on remeasurement, the majority of the guidance throughout this

Topic is contained in the Subsequent Measurement Sections of the applicable Subtopics.

715-10-05-4 Paragraph superseded by Accounting Standards Update No. 2016-XX.~~Subtopic 715-20 provides disclosure and other presentation guidance related to defined benefit pension and other postretirement benefit plans. The disclosure requirements for multiemployer and defined contribution plans are contained within each of those respective Subtopics.~~

715-10-05-5 Paragraph not used.

715-10-05-6 The guidance in this Topic is derived from the basic idea that a benefit plan is an exchange between the employer and the employee. In exchange for services provided by the employee, the employer promises to provide, in addition to current wages and other benefits, an amount of retirement income or benefit. It follows from that basic view that benefits are not gratuities but instead are part of an employee's compensation, and because payment is deferred, the benefit plan is a type of deferred compensation. It also follows that the employer's obligation for that compensation is incurred when the services are rendered.

715-10-05-7 A benefit plan is an arrangement that is mutually understood by an employer and its employees, whereby an employer undertakes to provide its current and former employees with benefits after they retire in exchange for the employees' services over a specified period of time, upon attaining a specified age while in service, or both. Benefits may commence immediately upon termination of service or may be deferred until retired employees attain a specified age.

715-10-05-8 Paragraph superseded by Accounting Standards Update No. 2016-XX.~~As discussed in Subtopic 715-30, pension benefits are ordinarily in the form of periodic payments to retired employees or their survivors, but they may also include benefits payable as a single lump sum and other types of benefits such as death benefits provided through a pension plan. As discussed in Subtopic 715-60, other postretirement benefits are ordinarily in the form of a reimbursement to plan participants or direct payment to providers for the cost of specified services, but they may also include benefits payable as a lump sum, such as death benefits.~~

715-10-05-9 Because the obligation to provide benefits arises as employees render the services necessary to earn the benefits pursuant to the terms of the plan, this Topic provides guidance regarding when the cost of providing the benefits should be recognized over those employee service periods.

715-10-05-10 Paragraph superseded by Accounting Standards Update No. 2016-XX.~~This Topic uses the term *net periodic pension cost* rather than *net periodic pension expense* and *net periodic postretirement benefit cost* rather than *net periodic postretirement benefit expense* because part of the cost recognized in a period may be capitalized along with other costs as part of an asset such as inventory.~~

Amendments to Subtopic 715-20

16. Amend paragraphs 715-20-05-1 through 05-3, with no link to a transition paragraph, as follows:

Compensation—Retirement Benefits—Defined Benefit Plans—General

Overview and Background

715-20-05-1 This Subtopic provides guidance on the disclosure and other accounting and reporting requirements related to single-employer defined benefit pension and other postretirement benefit plans. ~~The following Subtopics provide additional accounting and reporting guidance:~~

a. Subparagraph superseded by Accounting Standards Update No. 2016-XX.~~Subtopic 715-30 provides guidance related to single-employer defined benefit pension plans~~
b. Subparagraph superseded by Accounting Standards Update No. 2016-XX.~~Subtopic 715-60 provides guidance related to single-employer defined benefit other postretirement benefit plans.~~

715-20-05-2 This Subtopic addresses:

a. The content and organization of annual disclosures about defined benefit pension plans and other postretirement benefits
b. Disclosures required for interim-period financial reports.
c. The presentation matters about defined benefit pension and other postretirement benefits plans.

715-20-05-3 An employer that sponsors one or more defined benefit pension or other postretirement benefit plans ~~shall~~should provide the information called for in Section 715-20-50 separately for pension plans and other postretirement benefit plans.

Amendments to Subtopic 715-30

17. Amend paragraphs 715-30-05-2, 715-30-05-4 (and supersede its related heading), 715-30-05-6, and 715-30-05-9 and supersede paragraphs 715-30-05-5, 715-30-05-7 through 05-8, and 715-30-05-10 through 05-11, with no link to a transition paragraph, as follows:

Compensation—Retirement Benefits—Defined Benefit Plans—Pension

Overview and Background

General

715-30-05-1 This Subtopic provides guidance on defined benefit pension accounting for an employer that offers **pension benefits** to its employees. This Subtopic focuses on an employer's accounting for a single-employer **defined benefit pension plan**.

715-30-05-2 Many of the provisions in this Subtopic are the same as or are similar to the provisions of Subtopic 715-60. Consequently, the guidance provided in that Subtopic may be useful in understanding and implementing many of the provisions of this Subtopic. However, there are differences between the specific requirements of the two Subtopics, and therefore the specific guidance in one Subtopic ~~shall~~ should not be used to override guidance of the other.

715-30-05-3 The guidance in this Subtopic is presented in the following two Subsections:

a. General
b. Settlements, Curtailments, and Certain Termination **Benefits**.

~~**> Defined Benefit Pension Plans**~~

715-30-05-4 The General Subsections address the fundamentals of defined benefit pension accounting. A pension benefit is part of the compensation paid to an employee for services. ~~In a defined benefit pension plan, the employer promises to provide, in addition to current wages, retirement income payments in future years after the employee retires or terminates **service**.~~ Generally, the amount of benefit to be paid depends on a number of future events that are incorporated in the **plan's benefit formula**, often including how long the employee and any survivors live, how many years of **service** the employee renders, and the employee's compensation in the years immediately before retirement or termination. Conceptually, compensation cost should be recognized in the period in which the employee renders services. Although the complexity and uncertainty of the pension arrangement may preclude complete achievement of that goal, a fundamental objective of this Subtopic is to approximate more closely the recognition of the compensation cost of an employee's pension benefits over that employee's service period. **[Content moved from paragraph 715-30-05-7]**

715-30-05-5 Paragraph superseded by Accounting Standards Update No. 2016-XX.~~In most cases, services are rendered over a number of years before an~~

~~employee retires and collects or begins collecting the pension. Even though the services rendered by an employee are complete and the employee has retired, the total amount of benefit that the employer has promised and the cost to the employer of the services rendered are not precisely determinable but can only be estimated using the **benefit formula** and estimates of the relevant future events, many of which the employer cannot control.~~

715-30-05-6 The ~~basic~~core elements of pension accounting ~~are described in paragraphs 715-30-35-1A through 35-5; they are the foundation of the accounting and reporting requirements set forth in this Subtopic~~include measurement of net periodic pension cost and benefit obligations (see paragraphs 715-30-35-1A through 35-41), assumptions (see paragraphs 715-30-35-42 through 35-49), and measurement of plan assets (see paragraphs 715-30-35-50 through 35-52).

715-30-05-7 Paragraph superseded by Accounting Standards Update No. 2016-XX.~~Conceptually, compensation cost should be recognized in the period in which the employee renders services. Although the complexity and uncertainty of the pension arrangement may preclude complete achievement of that goal, a fundamental objective of this Subtopic is to approximate more closely the recognition of the compensation cost of an employee's pension benefits over that employee's service period.~~ **[Content moved to paragraph 715-30-05-4]**

715-30-05-8 Paragraph superseded by Accounting Standards Update No. 2016-XX.~~The following terms are widely used when addressing pensions, yet are not included in the text of the standards: **Actuarial Funding Method, Actuarial Gain or Loss, Allocated Contract, Benefit Approach, Cost-Compensation Approach, Contributory Plan, Funding Method, Funding Policy, mplicit Approach to Assumptions, Plan Assets Available for Benefits, Sponsor,** and **Unallocated Contract**.~~

Settlements, Curtailments, and Certain Termination Benefits

715-30-05-9 The Settlements, Curtailments, and Certain Termination Benefits Subsections establish standards for an employer's accounting for **settlement** of defined benefit pension obligations, for **curtailment** of a **defined benefit pension plan**, and for certain termination benefits, and define the events that require adjustments to assets and liabilities and that require certain amounts previously recognized in accumulated other comprehensive income to be recognized in earnings. The Settlements, Curtailments, and Certain Termination Benefits Subsections provide guidance that results in the net **gain or loss** and **prior service cost**, which were previously recognized in accumulated other comprehensive income, being recognized in income in the period when ~~all of the following~~specific conditions are met.~~met:~~

a. Subparagraph superseded by Accounting Standards Update No. 2016-XX.~~All pension obligations are settled.~~

b. Subparagraph superseded by Accounting Standards Update No. 2016-XX.~~Defined benefits are no longer accrued under the plan.~~
c. Subparagraph superseded by Accounting Standards Update No. 2016-XX.~~The plan is not replaced by another defined benefit plan.~~
d. Subparagraph superseded by Accounting Standards Update No. 2016-XX.~~No **plan assets** remain.~~
e. Subparagraph superseded by Accounting Standards Update No. 2016-XX.~~The employees are terminated.~~
f. Subparagraph superseded by Accounting Standards Update No. 2016-XX.~~The plan ceases to exist as an entity.~~

715-30-05-10 Paragraph superseded by Accounting Standards Update No. 2016-XX.~~It is not uncommon for some, but not all, of these conditions to exist in a particular situation. For example, the present obligation for benefits may be settled without terminating the plan, or a plan may be suspended so that no further benefits will accrue for future services but its obligations are not settled. In other situations one or more of the conditions may apply to only part of a plan. For example, one plan may be divided into two plans, one of which is then terminated, or one-half of the employees in a plan may terminate employment and the obligation for their benefits may be settled. The Settlements, Curtailments, and Certain Termination Benefits Subsections provide guidance in accounting for those situations.~~

715-30-05-11 Paragraph superseded by Accounting Standards Update No. 2016-XX.~~An individual Subsection will not necessarily present guidance on all three subject matters (settlements, curtailments, and certain termination benefits).~~

Amendments to Subtopic 715-60

18. Amend paragraphs 715-60-05-2, 715-60-05-7, and 715-60-05-11 and supersede paragraphs 715-60-05-3 through 05-5 and 715-60-05-9 through 05-10, with no link to a transition paragraph, as follows:

Compensation—Retirement Benefits—Defined Benefit Plans—Other Postretirement

Overview and Background

General

715-60-05-1 This Subtopic provides accounting and reporting guidance for other **postretirement benefits**. The guidance in this Subtopic is presented in the following four Subsections:

a. General

b. Medicare Prescription Drug, Improvement, and Modernization Act
c. Settlements, Curtailments, and Certain Termination Benefits
d. Split-Dollar Life Insurance Arrangements.

715-60-05-2 The General Subsections provide guidance on an employee's accounting and reporting for a **defined benefit postretirement benefit plan**, that is, a **single-employer plan** that defines the nonpension **postretirement benefits** to be provided to **retirees**. This Subtopic refers to these **benefits** as postretirement benefits and to these **plans** as postretirement plans. ~~For purposes of this Subtopic, a postretirement benefit plan is an arrangement that is mutually understood by an employer and its employees whereby an employer undertakes to provide its current and former employees with benefits after they retire in exchange for the employees' services over a specified period of time, upon attaining a specified age while in service, or both. Benefits may commence immediately upon termination of service or may be deferred until retired employees attain a specified age.~~ Generally, the amount of those benefits depends on the **{add link to 2nd definition}benefit formula{add link to 2nd definition}** (which may include factors such as the number of years of service rendered or the employee's compensation before retirement or termination), the longevity of the retiree and any beneficiaries and covered dependents, and the incidence of events requiring benefit payments (for example, illnesses affecting the amount of health care required). **[Content moved from paragraph 715-60-05-4]**

715-60-05-3 Paragraph superseded by Accounting Standards Update No. 2016-XX.~~A postretirement benefit is part of the compensation paid to an employee for services rendered. In a defined benefit other postretirement plan, the employer promises to provide, in addition to current wages and benefits, future benefits during retirement.~~

715-60-05-4 Paragraph superseded by Accounting Standards Update No. 2016-XX.~~Generally, the amount of those benefits depends on the **benefit formula** (which may include factors such as the number of years of service rendered or the employee's compensation before retirement or termination), the longevity of the retiree and any beneficiaries and covered dependents, and the incidence of events requiring benefit payments (for example, illnesses affecting the amount of health care required).~~ **[Content moved to paragraph 715-60-05-2]**

715-60-05-5 Paragraph superseded by Accounting Standards Update No. 2016-XX.~~In most cases, services are rendered over a number of years before an employee retires and begins to receive benefits or is entitled to receive benefits as a need arises. Even though the services rendered by the employee are complete and the employee has retired, the total amount of benefits the employer has promised and the cost to the employer of the services rendered are not precisely determinable but can be estimated using the plan's benefit formula and estimates of the effects of relevant future events.~~

715-60-05-6 Although this Subtopic applies to all defined benefit postretirement plans other than pensions, **postretirement health care benefits** are likely to be the most significant in terms of cost and prevalence, and certain of the issues that arise in measuring those benefits are unique.

715-60-05-7 Many of the provisions in this Subtopic are the same as or similar to the provisions of Subtopic 715-30. Consequently, the guidance provided in that Subtopic may be useful in understanding and implementing many of the provisions of this Subtopic. However, there are differences between the specific requirements of this Subtopic and that Subtopic, and therefore the specific guidance in one Subtopic ~~shall~~should not be used to override guidance of the other.

Medicare Prescription Drug, Improvement, and Modernization Act

715-60-05-8 The Medicare Prescription Drug, Improvement, and Modernization Act Subsections provide guidance on the accounting for the effects of the Medicare Prescription Drug, Improvement, and Modernization Act of 2003 for employers that sponsor postretirement health care plans that provide prescription drug **benefits**.

715-60-05-9 Paragraph superseded by Accounting Standards Update No. 2016-XX.~~On December 8, 2003, the president signed the Act into law. The Act introduces a prescription drug benefit under Medicare (Medicare Part D) as well as a federal subsidy to sponsors of retiree health care benefit plans that provide a benefit that is at least actuarially equivalent to Medicare Part D.~~

715-60-05-10 Paragraph superseded by Accounting Standards Update No. 2016-XX.~~An employer's eligibility for the 28 percent federal subsidy depends on whether the prescription drug benefit available under its **plan** is at least actuarially equivalent (as defined by the Act) to the Medicare Part D benefit. In addition, the magnitude of the subsidy for an employer depends on how many of the employer's Medicare-eligible retired plan participants choose not to enroll in the voluntary Medicare Part D plan.~~

715-60-05-11 The Medicare Prescription Drug, Improvement, and Modernization Act Subsections make reference to various provisions of the Act and, in many cases, paraphrases those provisions. However, nothing in these Subsections ~~shall~~ should be considered a definitive interpretation of any provision of the Act for any purpose.

Settlements, Curtailments, and Certain Termination Benefits

715-60-05-12 The Settlements, Curtailments, and Certain Termination Benefits Subsections provide guidance on an employer's accounting for **settlement** of defined benefit postretirement obligations, for **curtailment of a defined benefit postretirement plan**, and for **termination benefits**.

Split-Dollar Life Insurance Arrangements

715-60-05-13 The Split-Dollar Life Insurance Arrangements Subsections provide guidance on accounting and reporting for split-dollar life insurance arrangements.

715-60-05-14 Entities purchase life insurance for various reasons that may include protecting against the loss of key employees, funding deferred compensation and postretirement benefit obligations, and providing an investment return. One form of this insurance is split-dollar life insurance. The structure of split-dollar life insurance arrangements can be complex and varied.

715-60-05-15 The two most common types of arrangements are **endorsement split-dollar life insurance** arrangements and **collateral assignment split-dollar life insurance** arrangements. Generally, the difference between these arrangements is dependent on the ownership and control of the life insurance policy.

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

Russell G. Golden, *Chairman*
James L. Kroeker, *Vice Chairman*
Daryl E. Buck
Thomas J. Linsmeier
R. Harold Schroeder
Marc A. Siegel
Lawrence W. Smith

Background Information and Basis for Conclusions

Introduction

BC1. The following summarizes the Board's considerations in reaching the conclusions in this proposed Update on Part I of the amendments to the Accounting Standards Codification on the presentation of net periodic pension cost and net periodic postretirement benefit cost. It includes reasons for accepting certain approaches and rejecting others. Individual Board members gave greater weight to some factors than to others. The proposed amendments in Part II on the amendments related to the Overview and Background Sections of Topic 715 are part of the Board's initiative to unify and improve the Overview and Background Sections across Topics and Subtopics.

BC2. On June 29, 2015, the Board added a project to its technical agenda to improve the presentation of net periodic pension cost and net periodic postretirement benefit cost.

BC3. The objectives of the amendments in this proposed Update are to increase transparency of the presentation of net periodic pension cost and net periodic postretirement benefit cost (net benefit cost) and provide financial statement users with additional disaggregated information to facilitate their analyses. Those objectives align with the objective of financial reporting, which is to provide information that is useful to present and potential investors, creditors, donors, and other capital market participants in making rational investment, credit, and similar resource allocation decisions. However, the benefits of providing information for that purpose should justify the related costs. Present and potential investors, creditors, donors, and other users of financial information benefit from improvements in financial reporting, while the costs to implement new guidance are borne primarily by present investors. The Board'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. The proposed amendments would provide the benefit of improving consistent application of GAAP by providing explicit guidance on the presentation of the service cost component and other components of net benefit cost in the income statement and changing the requirement on the capitalization of net benefit cost as assets in the statement of financial position. The Board does not anticipate that entities will incur significant costs as a result of the amendments in this proposed Update.

Background Information

BC4. According to paragraphs 715-30-35-4 and 715-60-35-9, net benefit cost is made up of the following components that reflect different aspects of an employer's financial arrangements as well as the cost of benefits earned by employees:

a. Service cost
b. Interest cost
c. Actual return on plan assets, if any
d. Amortization of any prior service cost or credit included in accumulated other comprehensive income
e. Gain or loss (including the effects of changes in assumptions), which includes, to the extent recognized, amortization of the net gain or loss included in accumulated other comprehensive income
f. Amortization of any net transition asset or obligation existing at the date of initial application of Topic 715 and remaining in accumulated other comprehensive income.

BC5. Topic 715 requires an entity to present defined benefit cost as a net amount that may be capitalized as part of an asset where appropriate (for example, as a part of the cost of inventory produced during the period). However, that Topic does not prescribe where that amount should be presented in the income statement and does not require an entity to disclose by line item the amount of net benefit cost that is presented in the income statement or capitalized in assets.

BC6. 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. Stakeholders also have highlighted the growing significance of this issue in the current environment in which some entities have elected to recognize all gains and losses from the remeasurements of plan assets and defined benefit obligations immediately in the income statement. This may result in significantly more volatility in the line items that typically include net benefit cost—for example, cost of sales or selling, general, and administrative expenses. As a result, interim measures of performance such as gross profit and operating income (loss) can be significantly affected with reduced predictive value to users.

Presentation of Net Benefit Cost in the Income Statement

BC7. The Board noted that disaggregation of material and economically different components of net benefit cost would improve consistency with the reporting practice for many other parts of an employer's operations. However, it would change one of the fundamental aspects of the pension accounting model under

GAAP—reporting net cost. The Board expects that the proposed amendments would better meet the needs of financial statement users.

BC8. The Board decided to require separation of the service cost component from the other components of net benefit cost, considering that service cost is the component that exclusively originates from employee services during the current period and potentially has a significantly different effect in terms of predictive value of the reported information. Excluding the other components of net benefit cost from the line item or items reporting current employee compensation costs would make those line item or items more relevant for assessing an entity's continuing operating costs. The Board considered pursuing, but decided not to pursue, an alternative to include the prior service cost or credit component in the line item or items reporting current employee compensation because this component is not exclusively related to the current period's employee services, is not expected to arise frequently in the future, and is not useful in financial statement users' analyses of an entity's core operating performance. The Board also noted that users generally view the service cost component as most clearly representing an operating component included in net benefit cost.

BC9. The Board further considered various alternatives to disaggregate the other components of net benefit cost. For example:

a. The Board considered an alternative to present the net amount of the interest cost component and expected return on plan assets separately from the other components. This alternative is based on the view that the net amount of these two components represents a plan's net financing cost or income and has sufficiently different predictive value to financial statement users when compared with the other components. In addition, this alternative would improve convergence with IFRS that requires recognizing net interest cost/income separately from other components of defined benefit cost. However, the Board noted that expected return on plan assets includes both an amount that arises from the passage of time and amounts that arise from other changes. Aggregating interest cost with expected return on plan assets could result in potentially misleading information about a plan's net financing cost or income. The Board also noted that financial statement users usually calculate a plan's net financing cost or income differently from the net amount of the interest cost component and expected return on plan assets.
b. The Board considered an alternative to present the gain or loss component separately from any other components. This alternative is based on the view that the gain or loss component has completely different characteristics and represents the effects of changes in estimates, rather than the result of financing or investing decisions. In the forthcoming proposed Accounting Standards Update, *Compensation—Retirement Benefits—Defined Benefit Plans—General (Subtopic 715-20): Changes to the Disclosure Requirements for Defined Benefit Plans*, an entity would be required to disclose reasons for significant gains and

losses affecting the benefit obligation or plan assets that were recognized during the period. The Board decided that disaggregated presentation of the gain or loss component should not be required because the amendments on the presentation of net benefit cost in this proposed Update along with the current and proposed disclosure requirements relating to the separate components of net benefit cost would provide sufficient information to financial statement users.

BC10. The Board decided not to require further disaggregation of the other components of net benefit cost; however, the proposed amendments would not prohibit an entity from providing disaggregated information if the entity believes that such information is sufficiently important to financial statement users to merit separate presentation as long as the nature of each line item presenting the disaggregated components is appropriately described.

BC11. The Board decided to require an entity to present the other components of net benefit cost outside a subtotal of income from operations, if one is presented. In general, the Board believes that these components either are related to an entity's financing or investing activities or are driven by the effects of recycling prior periods' changes and results in subsequent periods. Therefore, the majority of the effect in these components would not be directly relevant for assessing an entity's continuing operating costs and should not be included in the operating metric, if one is presented. However, the Board understands the varieties of presentations and subtotals used in entities' income statements. If a subtotal of income from operations is not presented, an entity would have discretion to present, wherever it is appropriate in the income statement, the other components of net benefit cost, as long as such presentation conveys the underlying nature of these components, is separated from the presentation of the service cost component, and does not conflict with the Board's intent. The Board considered but decided not to require that an entity present the other components of net benefit cost in a separate line item or items in the income statement because the Board noted that such presentation might be required under other regulations and rules. However, if a separate line item or items are used, that line item or items must be appropriately described.

Capitalization of Net Benefit Cost in Assets

BC12. The Board noted that disaggregated presentation of net benefit cost in the income statement provides an opportunity to reassess the components that are eligible to be capitalized in assets because the other components of net benefit cost would no longer be reported as net employee compensation cost. Capitalizing net benefit cost at the aggregate level includes the costs that are related to financing or investing activities or includes the effects that are recycled from prior periods into the capitalized amounts of assets. Designating the service cost component as the only component eligible for capitalization would limit capitalized amounts to those costs related to operating activities, would improve comparability between entities, and would reduce the need for a potential requirement to disclose the capitalized amount of net benefit cost in assets. The Board also decided that the amount of net benefit cost capitalized in an asset would not be subject to further disaggregation for presentation or disclosure purposes when the cost of the asset is subsequently reported in net income as cost of products sold, depreciation and amortization expense, and so forth.

BC13. The Board considered requiring capitalization of the interest cost component of net benefit cost in assets. However, the Board noted that there is a conceptual difference between the interest cost component of net benefit cost and the interest cost required to be capitalized under Subtopic 835-20, Interest—Capitalization of Interest. The interest cost component of net benefit cost only reflects the effects of the passage of time on the employee benefit obligation, while the interest cost under Subtopic 835-20 reflects the borrowing cost of accumulated expenditures incurred for the qualifying asset. The Board therefore decided not to require capitalization of the interest cost component of net benefit cost.

Convergence with International Financial Reporting Standards (IFRS)

BC14. Under IFRS, defined benefit costs are separated into three categories: service cost, net interest on the net defined benefit liability (asset), and remeasurements. Service cost and net interest are recognized in an employer's income statement, and remeasurements of the net defined benefit liability (asset) are recognized in other comprehensive income (without recycling). However, IAS 19, *Employee Benefits,* does not specify how an entity should present service cost and net interest but requires the entity to present those components in accordance with IAS 1, *Presentation of Financial Statements*.

BC15. The amendments in this proposed Update would more closely align with IFRS by requiring disaggregation of the service cost component from the other components of net benefit cost.

BC16. Although limiting the capitalization of net benefit cost to the service cost component would result in differences between GAAP and IFRS, the amendments in this proposed Update would increase the relevance of the resulting expenses as measures of current period's operating activities and improve consistency and comparability of financial information.

Effective Date and Transition

BC17. The Board decided to require retrospective application of the proposed amendments for the presentation of the service cost component and other components of net benefit cost in the income statement to improve comparability of financial information across current and comparative periods. The Board does not anticipate that an entity would incur significant costs in applying the proposed amendments retrospectively and believes that the benefits of retrospective application justify the costs.

BC18. The Board decided to require prospective application of the proposed amendments for the capitalization of the service cost component of net benefit cost in assets because retrospective application would be costly and complicated. The Board does not believe that the benefits of providing a comparable benefit cost element in assets would justify the costs.

BC19. The Board decided not to require an entity that adopts the amendments in this proposed Update to disclose certain information required by Topic 250, Accounting Changes and Error Corrections. Specifically, the Board decided that providing the transition disclosures about (a) the method of applying the change and (b) a description of the indirect effects of a change in accounting principle would not be applicable.

BC20. The Board will decide on the effective date after it considers stakeholders' feedback on how much time they believe would be necessary to adopt the proposed amendments.

Amendments to the XBRL Taxonomy

The provisions of this Exposure Draft, if finalized as proposed, would require changes to the U.S. GAAP Financial Reporting Taxonomy (Taxonomy). We welcome comments on these proposed changes to the Taxonomy through ASU Taxonomy Changes provided at www.fasb.org. After the FASB has completed its deliberations and issued a final Accounting Standards Update, proposed amendments to the Taxonomy will be made available for public comment at www.fasb.org and finalized as part of the annual release process.