FASB STAFF POSITION

No. FAS 132(R)-1

Title: Employers' Disclosures about Postretirement Benefit Plan Assets

Date Issued: December 30, 2008

Objective

1. This FASB Staff Position (FSP) amends FASB Statement No. 132 (revised 2003), *Employers' Disclosures about Pensions and Other Postretirement Benefits*, to provide guidance on an employer's disclosures about plan assets of a defined benefit pension or other postretirement plan.

2. This FSP also includes a technical amendment to Statement 132(R) that requires a nonpublic entity to disclose net periodic benefit cost for each annual period for which a statement of income is presented.

Background

3. At its August 2007 meeting, the Board directed the staff to research alternatives for improving an employer's disclosures about plan assets in Statement 132(R). The Board's directive was in response to users' concerns about the lack of transparency surrounding the types of assets and associated risks in an employer's defined benefit pension or other postretirement plan and events in the economy and markets that could have a significant effect on the value of plan assets.

4. At its November 2007 meeting, the Board broadened the scope of the project to consider requiring employers to disclose information about fair value measurements of plan assets that would be similar to the disclosures about fair value measurements required by FASB Statement No. 157, *Fair Value Measurements.* The Board reached this decision after concluding that disclosures about fair value measurements of plan assets are not within the scope of the disclosure requirements of Statement 157. The Board had two primary reasons for this conclusion. First, in an employer's statement of financial position, plan assets measured at fair value are presented net of benefit obligations, which are not measured at fair value. Therefore, the net amount presented on the face of the financial

statements is not measured at fair value. Second, the requirement in Statement 157 to disclose the gains or losses included in earnings attributable to the change in realized or unrealized gains or losses relating to Level 3 assets would be difficult to apply because gains or losses in plan assets do not directly affect net income due to the provisions of FASB Statements No. 87, *Employers' Accounting for Pensions*, and No. 106, *Employers' Accounting for Postretirement Benefits Other Than Pensions*, which allow delayed recognition in earnings of those gains or losses.

All paragraphs in this FSP have equal authority.
Paragraphs in bold set out the main principles.

FASB Staff Position

Scope

5. **This FSP applies to an employer that is subject to the disclosure requirements of Statement 132(R).**

Objectives of the Disclosures about Postretirement Benefit Plan Assets

6. **The objectives of the disclosures about plan assets in an employer's defined benefit pension or other postretirement plan are to provide users of financial statements with an understanding of:**

- **a. How investment allocation decisions are made, including the factors that are pertinent to an understanding of investment policies and strategies**
- **b. The major categories of plan assets**
- **c. The inputs and valuation techniques used to measure the fair value of plan assets**
- **d. The effect of fair value measurements using significant unobservable inputs (Level 3) on changes in plan assets for the period**
- **e. Significant concentrations of risk within plan assets.**

An employer should consider those overall objectives in providing detailed disclosures about plan assets.

Disclosures about Investment Policies and Strategies

7. **An employer shall disclose information about how investment allocation decisions are made, including factors that are pertinent to an understanding of investment policies and strategies.** To meet that objective, an employer shall disclose a narrative description of investment policies and strategies, including target allocation percentages or range of percentages considering the major categories of plan assets disclosed, as of the latest statement of financial position presented (on a weighted-average basis for employers with more than one plan), and other factors that are pertinent to an understanding of those policies and strategies such as investment goals, risk management practices, permitted and prohibited investments including the use of derivatives, diversification, and the relationship between plan assets and benefit obligations.

8. For investment funds disclosed as major categories as described in paragraph 9, a description of the significant investment strategies of those funds shall be provided.

Disclosures about Categories of Plan Assets

9. **An employer shall disclose separately for pension plans and other postretirement benefit plans the fair value of each major category of plan assets as of each annual reporting date for which a statement of financial position is presented. Asset categories shall be based on the nature and risks of assets in an employer's plan(s).** Examples of major categories include, but are not limited to, the following: cash and cash equivalents; equity securities (segregated by industry type, company size, or investment objective); debt securities issued by national, state, and local governments; corporate debt securities; asset-backed securities; structured debt; derivatives on a gross basis (segregated by type of underlying risk in the contract, for example, interest rate contracts, foreign exchange contracts, equity contracts, commodity contracts, credit contracts, and other contracts); investment funds (segregated by type of fund); and real estate. Those examples are not meant to be all inclusive. An employer should consider the overall objectives in this FSP in determining whether additional categories of plan assets or further disaggregation of major categories should be disclosed.

10. An employer shall disclose a narrative description of the basis used to determine the overall expected long-term rate-of-return-on-assets assumption, such as the general approach used, the extent to which the overall rate-of-return-on-assets assumption was based on historical returns, the extent to which adjustments were made to those historical returns in order to reflect expectations of future returns, and how those adjustments were determined. The description should consider the major categories of assets described above, as appropriate.

Disclosures about Fair Value Measurements of Plan Assets

11. **An employer shall disclose information that enables users of financial statements to assess the inputs and valuation techniques used to develop fair value measurements of plan assets at the annual reporting date. For fair value measurements using significant unobservable inputs (Level 3), an employer shall disclose the effect of the measurements on changes in plan assets for the period.**

12. To meet those objectives, an employer shall disclose the following information for each annual period separately for each major category of plan assets:

a. The level within the fair value hierarchy in which the fair value measurements in their entirety fall,[1] segregating fair value measurements using quoted prices in active markets for identical assets or liabilities (Level 1),[2] significant other observable inputs (Level 2),[3] and significant unobservable inputs (Level 3)[4]
b. For fair value measurements of plan assets using significant unobservable inputs (Level 3), a reconciliation of the beginning and ending balances, separately presenting changes during the period attributable to the following:
   (1) Actual return on plan assets (as defined in Statements 87 and 106), separately identifying the amount related to assets still held at the reporting date and the amount related to assets sold during the period
   (2) Purchases, sales, and settlements (as defined in FASB Statement No. 88, *Employers' Accounting for Settlements and Curtailments of Defined*

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[1]The following guidance from paragraph 22 of Statement 157 is applicable:

> In some cases, the inputs used to measure fair value might fall in different levels of the fair value hierarchy. The level in the fair value hierarchy within which the fair value measurement in its entirety falls shall be determined based on the lowest level input that is significant to the fair value measurement in its entirety. Assessing the significance of a particular input to the fair value measurement in its entirety requires judgment, considering factors specific to the asset or liability.

[2]As defined in Statement 157.
[3]See footnote 2.
[4]See footnote 2.

Benefit Pension Plans and for Termination Benefits, and Statement 106), net

(3) Transfers in and/or out of Level 3 (for example, transfers due to changes in the observability of significant inputs)

c. Information about the valuation technique(s) and inputs used to measure fair value and a discussion of changes in valuation techniques and inputs, if any, during the period.

Disclosures about Significant Concentrations of Risk

13. **An employer shall provide users of financial statements with an understanding of significant concentrations of risk in plan assets. This objective should be considered by employers in providing detailed disclosures about plan assets.**

Technical Amendment to Statement 132(R)

14. **A nonpublic entity that sponsors one or more defined benefit pension plans or one or more other defined benefit postretirement plans shall disclose the net periodic benefit cost recognized for each annual period for which an annual statement of income is presented.**

Effective Date and Transition

15. The disclosures about plan assets required by this FSP shall be provided for fiscal years ending after December 15, 2009. Upon initial application, the provisions of this FSP are not required for earlier periods that are presented for comparative purposes. Earlier application of the provisions of this FSP is permitted. The technical amendment to Statement 132(R) (see paragraph B1(c)) is effective upon issuance of this FSP.

The provisions of this FSP need not be applied to immaterial items.

This FSP was adopted by the unanimous vote of the five members of the Financial Accounting Standards Board:

Robert H. Herz, *Chairman*
Thomas J. Linsmeier
Leslie F. Seidman
Marc A. Siegel
Lawrence W. Smith

Appendix A

BACKGROUND INFORMATION AND BASIS FOR CONCLUSIONS

Introduction

A1. On March 18, 2008, the Board issued proposed FSP FAS 132(R)-a, *Employers' Disclosures about Postretirement Benefit Plan Assets*. This FSP is the result of the Board's redeliberations of that proposed FSP. This appendix summarizes considerations that Board members deemed significant in reaching the conclusions in this FSP. It includes reasons for accepting certain views and rejecting others.

A2. This FSP amends Statement 132(R) to provide guidance on an employer's disclosures about plan assets of a defined benefit pension or other postretirement plan. The Board decided to issue this FSP because of users' concerns about the lack of transparency surrounding the types of plan assets and associated risks in an employer's defined benefit pension or other postretirement plan and current events in the economy and markets that could have a significant impact on the value of plan assets.

Objectives of the Disclosures about Postretirement Benefit Plan Assets

A3. The objectives of an employer's disclosures about postretirement benefit plan assets are to provide users of financial statements with an understanding of:

a. How investment allocation decisions are made, including the factors that are pertinent to an understanding of investment policies and strategies
b. The major categories of plan assets
c. The inputs and valuation techniques used to measure the fair value of plan assets
d. The effect of fair value measurements using significant unobservable inputs (Level 3) on changes in plan assets for the period
e. Significant concentrations of risk within plan assets.

A4. The Board agreed that an employer should consider those overall objectives in providing the detailed disclosures about plan assets required in Statement 132(R) as amended by this FSP. Certain existing disclosure requirements in Statement 132(R) have been included in this FSP to enhance the understandability of the disclosure objectives.

Disclosures about Categories of Plan Assets

A5. Statement 132(R) requires that an employer disclose the percentage of the fair value of total plan assets for each major category of plan assets. It indicates that major categories include, but are not limited to, equity securities, debt securities, real estate, and all other assets. Statement 132(R) encourages disclosure of additional asset categories and additional information about specific assets within a category if that information is expected to be useful in understanding both the risks associated with each asset category and the overall expected long-term rate of return on assets.

A6. Users of financial statements have indicated that they need greater transparency about the types of assets and associated risks in an employer's defined benefit pension or other postretirement plan. The Board's research revealed that many employers solely provide information about the required categories of equity, debt, real estate, and other investments when disclosing each major category's percentage of the fair value of total plan assets held. Because the "other" or "alternative" investments category has grown to a significant percentage of total plan assets for many employers in recent years, users of financial statements have indicated that disclosures pertaining to the required categories of plan assets are not specific enough to evaluate the nature and risks of assets held as investments. Furthermore, for some employers, the value of plan assets is significant in relation to total assets in the statement of financial position. For those employers, changes in the value of plan assets can have a significant effect on comprehensive income, equity, and required contributions to the plan. Based on those concerns, the Board decided to provide additional guidance on disclosing categories of plan assets.

Principle for Disclosing Categories of Plan Assets

A7. The proposed FSP included a principle for disclosing the fair value of categories of plan assets based on the types of assets in an employer's plan(s). Some respondents recommended using a different principle for disaggregating categories of plan assets. For example, a few respondents stated that management's investment policies and strategies should be considered in determining categories of plan assets to be disclosed.

A8. During redeliberations, the Board clarified that categories of plan assets should be disaggregated based on the nature and risks of assets in an employer's plan. Additionally, the Board agreed that management's investment policies and strategies should be considered in determining how to identify categories of plan assets. Therefore, the Board decided that one of the overall objectives of the disclosures about plan assets is to provide users of financial statements with an understanding of how investment allocation decisions are made by management, including the factors that are pertinent to an understanding of the employer's investment policies and strategies. This objective should be considered in determining how to disaggregate categories of plan assets.

Examples of Categories of Plan Assets

A9. The proposed FSP included a list of specific categories of plan assets that, if significant, should be disclosed. During redeliberations, the Board agreed that including a list of detailed categories of plan assets in the FSP and enhancing the illustrations in Appendix C of Statement 132(R) would provide an example of how to disclose categories of plan assets consistent with the overall disclosure objectives of the FSP.

A10. Several respondents requested that the Board clarify how to categorize equity interests in mutual funds, pooled funds, and other types of funds or investment vehicles not listed as examples of categories of plan assets in the proposed FSP. Those respondents questioned whether equity interests in funds or investment vehicles should be included as a separate category of plan assets or if the underlying investments held in those funds should be disclosed as separate categories of plan assets. Those respondents noted that it would be too costly to obtain the information necessary to comply with a requirement to separately disclose the underlying investments held in each fund in which an employer invests plan assets.

A11. During redeliberations, the Board recognized that plan assets often are invested indirectly in many different types of assets and agreed that there may be some confusion about what should be disclosed as a major category. For example, plan assets may be invested in a mutual fund that invests in several different types of assets, such as common stocks, corporate bonds, and government securities. However, the Board decided not to provide prescriptive guidance on how to determine what should be disclosed for each major category of plan assets in each situation. Rather, the Board agreed that employers should consider the examples of categories of plan assets listed in the FSP, the illustrations in Appendix C of Statement 132(R), and the overall objectives of the FSP in determining what major categories of plan assets to disclose.

Disclosure of Significant Investment Strategies for Investments in Funds

A12. During redeliberations, the Board decided to amend Statement 132(R) to require an employer to disclose the significant investment strategies of the funds in which the employer invests plan assets if those funds are disclosed as major categories. The Board agreed that this requirement would provide users of financial statements with decision-useful information about the specific investment strategies of significant funds, such as hedge funds, mutual funds, and private equity funds, that are disclosed as major categories of plan assets. Additionally, the Board concluded that this disclosure is consistent with the existing requirement in Statement 132(R) to provide a narrative description of an employer's investment policies and strategies.

Disclosures about Fair Value Measurements of Plan Assets

A13. This FSP requires disclosures about fair value measurements of plan assets similar to those required by Statement 157. Employers are required to disclose the following information for each annual period separately for each major category of plan assets:

a. The level within the fair value hierarchy in which the fair value measurements in their entirety fall, segregating fair value measurements using quoted prices in active markets for identical assets or liabilities (Level 1), significant other observable inputs (Level 2), and significant unobservable inputs (Level 3)
b. For fair value measurements of plan assets using significant unobservable inputs (Level 3), a reconciliation of the beginning and ending balances, separately presenting changes during the period attributable to the following:
    (1) Actual return on plan assets (as defined in Statements 87 and 106), separately identifying the amount related to assets still held at the reporting date and the amount related to assets sold during the period
    (2) Purchases, sales, and settlements (as defined in Statements 88 and 106), net
    (3) Transfers in and/or out of Level 3 (for example, transfers due to changes in the observability of significant inputs)

c. Information about the valuation technique(s) and inputs used to measure fair value and a discussion of changes in valuation techniques and inputs, if any, during the period.

Fair Value Measurements

A14. During redeliberations, the Board affirmed that an employer should disclose information that enables users of financial statements to assess the inputs and valuation techniques used to measure the fair value of plan assets. The Board concluded that information about the inputs used for fair value measurements of plan assets would allow users to assess the relative reliability of those measurements and the effects of fair value measurements on an employer's financial statements.

Level 3 Reconciliation

A15. The Board affirmed that an employer should disclose information that enables users of financial statements to assess the effects of fair value measurements using significant unobservable inputs (Level 3) on changes in plan assets for the period. To meet that objective, this FSP requires employers to disclose a reconciliation of the beginning and ending balances of plan assets measured using significant unobservable inputs (Level 3). This provision is similar to the requirement in Statement 157, although it does not require segregating gains and losses recognized in earnings from those recognized in other comprehensive income in the Level 3 reconciliation. Because of the provisions in Statements 87 and 106 that permit delayed recognition in earnings of gains and losses in plan assets, the Board decided that the reconciliation should focus on gains and losses in Level 3 plan assets recognized in comprehensive income and not require disaggregation between changes in fair value that were recognized in earnings and those recognized in other comprehensive income. This will eliminate the difficulty of determining whether those gains or losses were included in net income or other comprehensive income for the period. Similar to the requirements of paragraph 32(d) of Statement 157, the total change in fair value for the period should be segregated between those related to assets still held at the end of the period and those sold during the period.

A16. Several respondents to the proposed FSP questioned the costs and benefits of the Level 3 reconciliation because gains or losses in plan assets do not directly affect net income due to the provisions of Statements 87 and 106, which allow delayed recognition in earnings of those gains or losses. Those respondents maintained that the Level 3 reconciliation would be difficult and costly to provide. The Board redeliberated the costs and benefits of the Level 3 reconciliation and concluded that if an employer is able to disclose the beginning and ending balances of the various levels in the fair value hierarchy, the employer already should have the information necessary to disclose the Level 3 reconciliation. Additionally, the Board indicated that the Level 3 reconciliation would enable users of financial statements to segregate the effect of fair value measurements of plan assets that are inherently subjective and enhance users' ability to assess the quality of total plan assets and comprehensive income, albeit indirectly.

Concentrations of Risk in Plan Assets

A17. The proposed FSP would have required an employer to disclose the nature and amount of a concentration of risk arising within or across categories of plan assets. Examples of concentrations of risk included, but were not limited to, significant investments in a single entity, industry, country, commodity, or investment fund.

A18. Many respondents were concerned about the proposed FSP's definition of a concentration of risk in plan assets. Those respondents noted that it would be too costly to identify and disclose the nature and amount of each significant concentration of risk within plan assets, particularly because the information necessary for such disclosures often is supplied by third parties that are responsible for investing plan assets. Additionally, some respondents noted that employers would have to aggregate information from many different sources in order to identify each significant concentration of risk. Due to the concerns noted by many respondents, the Board decided not to prescribe how a significant concentration of risk in plan assets should be identified. However, the Board concluded that providing users of financial statements with an understanding of significant concentrations of risk in plan assets should be retained as an objective of the FSP, and that employers should consider this objective in providing the detailed disclosures required by the FSP.

Effective Date and Transition

A19. The proposed FSP included an effective date for fiscal years ending after December 15, 2008. Based on comments received from respondents on implementation issues and the timing of the actual issuance of the final FSP, the Board decided to delay the effective date until fiscal years ending after December 15, 2009. The Board concluded that this effective date would provide sufficient time for employers and their third-party service providers to prepare for the provisions of this FSP.

A20. At initial application, the provisions of this FSP are not required for earlier periods that are presented for comparative purposes. However, earlier application of the provisions of this FSP is permitted. Because Statement 157 was applied prospectively, the Board concluded that the disclosures about fair value measurements of plan assets in this FSP should be applied consistent with the transition method in Statement 157. The Board also decided to permit early application because users indicated that enhanced disclosures about postretirement benefit plan assets are more important than achieving comparability of disclosures among employers.

Technical Amendment Requiring Nonpublic Entities to Disclose Net Periodic Benefit Cost

A21. FASB Statement No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans,* eliminates the requirement to measure and recognize a minimum pension liability. Statement 158 amended Statements 87 and 132(R) to reflect this change. Accordingly, paragraph 8(h) of Statement 132(R) was deleted because of its reference to *minimum pension liability recognized*. Paragraph 8(h) also included a requirement that a nonpublic entity disclose net periodic benefit costs for the period. However, the Board did not intend for Statement 158 to eliminate that disclosure, which is still included in the illustrations in Appendix C of Statement 132(R). Therefore, this FSP amends Statement 132(R) to restore that requirement, explicitly stating that a nonpublic entity must continue to disclose net periodic benefit cost for the period.

Appendix B

AMENDMENTS TO STATEMENT 132(R)

B1. Statement 132(R) is amended as follows: [Added text is underlined and deleted text is ~~struck out~~.]

a. Paragraph 5(d):

The objectives of the disclosures ~~Information~~ about postretirement benefit plan assets are to provide users of financial statements with an understanding of:

(1) How investment allocation decisions are made, including the factors that are pertinent to an understanding of investment policies and strategies

(2) The major categories of plan assets

(3) The inputs and valuation techniques used to measure the fair value of plan assets

(4) The effect of fair value measurements using significant unobservable inputs (Level 3) on changes in plan assets for the period

(5) Significant concentrations of risk within plan assets.

An employer shall consider those overall objectives in providing the following information about plan assets:

~~(1) For each major category of plan assets, which shall include, but is not limited to,~~ ~~**equity securities, debt securities,**~~ ~~real estate, and all other assets, the percentage of the fair value of total plan assets held as of the measurement date used for each statement of financial position presented.~~

~~(2)~~ i. A narrative description of investment policies and strategies, including target allocation percentages or range of percentages considering the ~~for each~~ major categories~~category~~ of plan assets disclosed pursuant to (ii) below,~~presented on a weighted-average basis~~ as of the ~~measurement date(s) of the~~ latest statement of financial position presented (on a weighted-average basis for employers with more than one plan), ~~if applicable,~~ and other factors that are pertinent to an understanding of those~~the~~ policies and~~or~~ strategies such as investment goals, risk management practices, permitted and prohibited investments including the use of derivatives, diversification, and the relationship between plan assets and benefit obligations. For investment funds disclosed as major categories as described in (ii) below, a description of the significant investment strategies of those funds shall be provided.

ii. The fair value of each major category of plan assets as of each date for which a statement of financial position is presented. Asset categories shall be based on the nature and risks of assets in an employer's plan(s). Examples of major categories include, but are not limited to, the following: cash and cash equivalents; **equity securities** (segregated by industry type, company size, or investment objective); **debt securities** issued by national, state, and local governments; corporate debt securities; asset-backed securities; structured debt; derivatives on a gross basis (segregated by type of underlying risk in the contract, for example, interest rate contracts, foreign exchange contracts, equity contracts, commodity contracts, credit contracts, and other contracts); investment funds (segregated by type of fund); and real estate. Those examples are not meant to be all inclusive. An employer should consider the overall objectives in paragraph 5(d) in determining whether additional categories of plan assets or further disaggregation of major categories should be disclosed.

~~(3)~~ iii. A narrative description of the basis used to determine the overall expected long-term rate-of-return-on-assets assumption, such as the general approach used, the extent to which the overall rate-of-return-on-assets assumption was based on historical returns, the extent to which adjustments were made to those historical returns in order to reflect expectations of future returns, and how those adjustments were determined. The description should consider the major categories of assets described in (ii) above, as appropriate.

~~(4) Disclosure of additional asset categories and additional information about specific assets within a category is encouraged if that information is expected to be useful in understanding the risks associated with each asset category and the overall expected long-term rate of return on assets.~~

iv. Information that enables users of financial statements to assess the inputs and valuation techniques used to develop fair value measurements of plan assets at the reporting date. For fair value measurements using significant unobservable inputs, an employer shall disclose the effect of the measurements on changes in plan assets for the period. To meet those objectives, the employer shall disclose the following information for each major category of plan assets disclosed pursuant to (ii) above for each annual period:

(a) The level within the fair value hierarchy in which the fair value measurements in their entirety fall,[6a] segregating fair value measurements using quoted prices in active markets for identical assets or liabilities (Level 1), significant other observable inputs (Level 2), and significant unobservable inputs (Level 3)

(b) For fair value measurements of plan assets using significant unobservable inputs (Level 3), a reconciliation of the beginning and ending balances, separately presenting changes during the period attributable to the following:

(i) Actual return on plan assets (as defined in Statements 87 and 106), separately identifying the amount related to assets still held at the reporting date and the amount related to assets sold during the period

(ii) Purchases, sales, and settlements (as defined in Statements 88 and 106), net

(iii) Transfers in and/or out of Level 3 (for example, transfers due to changes in the observability of significant inputs)

(c) Information about the valuation technique(s) and inputs used to measure fair value and a discussion of changes in valuation techniques and inputs, if any, during the period.

[6a]The following guidance from paragraph 22 of FASB Statement No. 157, *Fair Value Measurements*, is applicable:

> In some cases, the inputs used to measure fair value might fall in different levels of the fair value hierarchy. The level in the fair value hierarchy within which the fair value measurement in its entirety falls shall be determined based on the lowest level input that is significant to the fair value measurement in its entirety. Assessing the significance of a particular input to the fair value measurement in its entirety requires judgment, considering factors specific to the asset or liability.

b. Paragraph 8(c):

The objectives of the disclosures ~~Information~~ about postretirement benefit plan assets are to provide users of financial statements with an understanding of:

(1) How investment allocation decisions are made, including the factors that are pertinent to an understanding of investment policies and strategies

(2) The major categories of plan assets

(3) The inputs and valuation techniques used to measure the fair value of plan assets

(4) The effect of fair value measurements using significant unobservable inputs (Level 3) on changes in plan assets for the period

(5) Significant concentrations of risk within plan assets.

An employer shall consider those overall objectives in providing the following information about plan assets:

~~(1) For each major category of plan assets which shall include, but is not limited to, equity securities, debt securities, real estate, and all other assets, the percentage of the fair value of total plan assets held as of the measurement date used for each statement of financial position presented.~~

~~(2)~~ i. A narrative description of investment policies and strategies, including target allocation percentages or range of percentages considering the ~~for each~~ major categories~~category~~ of plan assets disclosed pursuant to (ii) below,~~presented on a weighted-average basis~~ as of the ~~measurement date(s) of the~~ latest statement of financial position presented (on a weighted-average basis for employers with more than one plan), ~~if applicable,~~ and other factors that are pertinent to an understanding of those~~the~~ policies or strategies such as investment goals, risk management practices, permitted and prohibited investments including the use of derivatives, diversification, and the relationship between plan assets and benefit obligations. For investment funds disclosed as major categories as described in (ii) below, a description of the significant investment strategies of those funds shall be provided.

ii. The fair value of each major category of plan assets as of each date for which a statement of financial position is presented. Asset categories shall be based on the nature and risks of assets in an employer's plan(s). Examples of major categories include, but are not limited to, the following: cash and cash equivalents; equity securities (segregated by industry type, company size, or investment objective); debt securities issued by national, state, and local governments; corporate debt securities; asset-backed securities; structured debt; derivatives on a gross basis (segregated by type of underlying risk in the contract, for example, interest rate contracts, foreign exchange contracts, equity contracts, commodity contracts, credit contracts, and other contracts); investment funds (segregated by type of fund); and real estate. Those examples are not meant to be all inclusive. An employer should consider the overall objectives in paragraph 8(c) in determining whether additional categories of plan assets or further disaggregation of major categories should be disclosed.

~~(3)~~ iii. A narrative description of the basis used to determine the overall expected long-term rate-of-return-on-assets assumption, such as the general approach used, the extent to which the overall rate-of-return-on-assets assumption was based on historical returns, the extent to which adjustments were made to those historical returns in order to reflect expectations of future returns, and how those adjustments were determined. The description should consider the major categories of assets described in (ii) above, as appropriate.

~~(4) Disclosure of additional asset categories and additional information about specific assets within a category is encouraged if that information is expected to be useful in understanding the risks associated with each asset category and the overall expected long-term rate of return on assets.~~

iv. Information that enables users of financial statements to assess the inputs and valuation techniques used to develop fair value measurements of plan assets at the reporting date. For fair value measurements using significant unobservable inputs, an employer shall disclose the effect of the measurements on changes in plan assets for the period. To meet those objectives, the employer shall disclose the following information for each major category of plan assets disclosed pursuant to (ii) above for each annual period:

(a) The level within the fair value hierarchy in which the fair value measurements in their entirety fall,[6b] segregating fair value measurements using quoted prices in active markets for identical assets or liabilities (Level 1), significant other observable inputs (Level 2), and significant unobservable inputs (Level 3)

(b) For fair value measurements of plan assets using significant unobservable inputs (Level 3), a reconciliation of the beginning and ending balances, separately presenting changes during the period attributable to the following:

(i) Actual return on plan assets (as defined in Statements 87 and 106), separately identifying the amount related to assets still held at the reporting date and the amount related to assets sold during the period

(ii) Purchases, sales, and settlements (as defined in Statements 88 and 106), net

(iii) Transfers in and/or out of Level 3 (for example, transfers due to changes in the observability of significant inputs)

(c) Information about the valuation technique(s) and inputs used to measure fair value and a discussion of changes in valuation techniques and inputs, if any, during the period.

[6b] See footnote 6a.

c. Paragraph 8(gg) is added as follows:

The amount of net periodic benefit cost recognized.

d. Paragraph C2:

The following illustrates the fiscal 20X3 financial statement disclosures for an employer (Company A) with multiple defined benefit pension plans and other postretirement benefit plans (dollar amounts in millions). Narrative descriptions of the basis used to determine the overall expected long-term rate-of-return-on-assets assumption (paragraph 5(d)~~(3)~~(iii)) ~~and investment policies and strategies for plan assets (paragraph 5(d)(2))~~ and disclosure of the valuation technique(s) and inputs used to measure the fair value of plan assets and a discussion of changes in valuation techniques and inputs (paragraph 5(d)(iv)(c)), if any, are not included in this illustration. The~~These~~ narrative description~~s~~ of the basis used to determine the overall expected long-term rate-of-return-on-assets assumption is~~are~~ meant to be entity-specific~~ and should reflect an entity's basis for selecting the expected long-term rate-of-return-on-assets assumption and the most important investment policies and strategies~~. For purposes of this illustration, the disclosures required by paragraphs 5(d)(ii) and 5(d)(iv) are provided for only the fiscal year ending December 31, 20X3. However, those paragraphs indicate that the disclosures are required to be presented as of each date for which a statement of financial position is presented.

e. Paragraph C3:

During 20X3, Company A acquired FV Industries and amended its plans.

Notes to Financial Statements

Pension and Other Postretirement Benefit Plans

Company A has both funded and unfunded noncontributory defined benefit pension plans that together cover substantially all of its employees. The plans provide defined benefits based on years of service and final average salary.

Company A also has other postretirement benefit plans covering substantially all of its employees. The health care plans are contributory with participants' contributions adjusted annually; the life insurance plans are noncontributory. The accounting for the health care plans anticipates future cost-sharing changes to the written plans that are consistent with the company's expressed intent to increase retiree contributions each year by 50 percent of health care cost increases in excess of 6 percent. The postretirement health care plans include a limit on the company's share of costs for recent and future retirees.

Company A acquired FV Industries on December 27, 20X3, including its pension plans and other postretirement benefit plans. Amendments made at the end of 20X3 to Company A's plans increased the pension benefit obligations by $70 and reduced the other postretirement benefit obligations by $75.

Obligations and Funded Status

At December 31

	Pension Benefits		Other Benefits	
	20X3	20X2	20X3	20X2
Change in benefit obligation				
Benefit obligation at beginning of year	$1,246	$1,200	$742	$712
Service cost	76	72	36	32
Interest cost	90	88	55	55
Plan participants' contributions			20	13
Amendments	70		(75)	
Actuarial loss	20		25	
Acquisition	900		600	
Benefits paid	(125)	(114)	(90)	(70)
Benefit obligation at end of year	2,277	1,246	1,313	742
Change in plan assets				
Fair value of plan assets at beginning of year	1,068	894	206	87
Actual return on plan assets	29	188	5	24
Acquisition	1,000		25	
Employer contributions	75	100	137	152
Plan participants' contributions			20	13
Benefits paid	(125)	(114)	(90)	(70)
Fair value of plan assets at end of year	2,047	1,068	303	206
Funded status at end of year	$(230)	$(178)	$(1,010)	$(536)

Note: Nonpublic entities are not required to provide information in the above tables; they are required to disclose the employer's contributions, participants' contributions, benefit payments, and the funded status.

Amounts recognized in the statement of financial position consist of:

	Pension Benefits		Other Benefits	
	20X3	20X2	20X3	20X2
Noncurrent assets	$227	$127	$ 0	$ 0
Current liabilities	(125)	(125)	(150)	(150)
Noncurrent liabilities	(332)	(180)	(860)	(386)
	$(230)	$(178)	$(1,010)	$(536)

Amounts recognized in accumulated other comprehensive income consist of:

	Pension Benefits		Other Benefits	
	20X3	20X2	20X3	20X2
Net loss (gain)	$ 94	$ 18	$(11)	$(48)
Prior service cost (credit)	210	160	(92)	(22)
	$304	$178	$(103)	$(70)

The accumulated benefit obligation for all defined benefit pension plans was $1,300 and $850 at December 31, 20X3, and 20X2, respectively.

Information for pension plans with an accumulated benefit obligation in excess of plan assets

	December 31	
	20X3	20X2
Projected benefit obligation	$263	$247
Accumulated benefit obligation	237	222
Fair value of plan assets	84	95

Components of Net Periodic Benefit Cost and Other Amounts Recognized in Other Comprehensive Income

	Pension Benefits		Other Benefits	
Net Periodic Benefit Cost	20X3	20X2	20X3	20X2
Service cost	$ 76	$ 72	$ 36	$32
Interest cost	90	88	55	55
Expected return on plan assets	(85)	(76)	(17)	(8)
Amortization of prior service cost	20	16	(5)	(5)
Amortization of net (gain) loss	0	0	0	0
Net periodic benefit cost	$101	$100	$ 69	$74

Other Changes in Plan Assets and Benefit Obligations Recognized in Other Comprehensive Income				
Net loss (gain)	$76	$112	$37	$(48)
Prior service cost (credit)	70	0	(75)	(27)
Amortization of prior service cost	(20)	(16)	5	5
Total recognized in other comprehensive income	126	96	(33)	(70)
Total recognized in net periodic benefit cost and other comprehensive income	$227	$196	$36	$4

The estimated net loss and prior service cost for the defined benefit pension plans that will be amortized from accumulated other comprehensive income into net periodic benefit cost over the next fiscal year are $4 and $27, respectively. The estimated prior service credit for the other defined benefit postretirement plans that will be amortized from accumulated other comprehensive income into net periodic benefit cost over the next fiscal year is $10.

Note: Nonpublic entities are not required to separately disclose components of net periodic benefit cost.

Assumptions

Weighted-average assumptions used to determine benefit obligations at December 31

	Pension Benefits		Other Benefits	
	20X3	**20X2**	**20X3**	**20X2**
Discount rate	6.75%	7.25%	7.00%	7.50%
Rate of compensation increase	4.25	4.50		

Weighted-average assumptions used to determine net periodic benefit cost for years ended December 31

	Pension Benefits		Other Benefits	
	20X3	**20X2**	**20X3**	**20X2**
Discount rate	7.25%	7.50%	7.50%	7.75%
Expected long-term return on plan assets	8.00	8.50	8.10	8.75
Rate of compensation increase	4.50	4.75		

(Entity-specific narrative description of the basis used to determine the overall expected long-term rate of return on assets, as described in paragraph 5(d)~~(3)~~(iii) would be included here.)

Assumed health care cost trend rates at December 31

	20X3	20X2
Health care cost trend rate assumed for next year	12%	12.5%
Rate to which the cost trend rate is assumed to decline (the ultimate trend rate)	6%	5%
Year that the rate reaches the ultimate trend rate	20X9	20X9

Assumed health care cost trend rates have a significant effect on the amounts reported for the health care plans. A one-percentage-point change in assumed health care cost trend rates would have the following effects:

	1-Percentage-Point Increase	1-Percentage-Point Decrease
Effect on total of service and interest cost	$ 22	$ (20)
Effect on postretirement benefit obligation	173	(156)

Note: Nonpublic entities are not required to provide the above information about the impact of a one-percentage-point increase and one-percentage-point decrease in the assumed health care cost trend rates.

Plan Assets

The company's overall investment strategy is to achieve a mix of approximately 75 percent of investments for long-term growth and 25 percent for near-term benefit payments with a wide diversification of asset types, fund strategies, and fund managers. The target allocations for plan assets are 65 percent equity securities, 20 percent corporate bonds and U.S. Treasury securities, and 15 percent to all other types of investments. Equity securities primarily include investments in large-cap and mid-cap companies primarily located in the United States. Fixed income securities include corporate bonds of companies from diversified industries, mortgage-backed securities, and U.S. Treasuries. Other types of investments include investments in hedge funds and private equity funds that follow several different strategies.

The fair values of Company A's pension plan assets ~~weighted-average asset allocations~~ at December 31, 20X3, ~~and 20X2,~~ by asset category are as follows:

~~Asset Category~~	~~Plan Assets at December 31 20X3~~	~~20X2~~
~~Equity securities~~	~~50%~~	~~48%~~
~~Debt securities~~	~~30~~	~~31~~
~~Real estate~~	~~10~~	~~12~~
~~Other~~	~~10~~	~~9~~
~~Total~~	~~100%~~	~~100%~~

Note: The two methods for disclosing the fair value of major categories of plan assets presented below are not intended to be treated as a template. While they both provide examples of disclosures that comply with the requirements of paragraph 5(d)(ii), the major categories disclosed should be tailored to the nature and risks of assets in an employer's plan(s). Additionally, an employer should consider the overall objectives in paragraphs 5(d)(1), 5(d)(2), and 5(d)(5).

Method 1:

		Fair Value Measurements at December 31, 20X3 (in millions)		
Asset Category	**Total**	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
Cash	$ 150	$ 150		
Equity securities:				
U.S. large-cap (a)	550	550		
U.S. mid-cap growth	100	100		
International large-cap value	325	325		
Emerging markets growth	75	25	$ 50	
Domestic real estate	100	20	80	
Fixed income securities:				
U.S. Treasuries	200	200		
Corporate bonds (b)	200		200	
Mortgage-backed securities	50		50	
Other types of investments:				
Equity long/short hedge funds (c)	55			$ 55
Event driven hedge funds (d)	45			45
Global opportunities hedge funds (e)	35			35
Multi strategy hedge funds (f)	40			40
Private equity funds (g)	47			47
Real estate	75			75
Total	**$2,047**	**$1,370**	**$380**	**$297**

(a) This category comprises low-cost equity index funds not actively managed that track the S&P 500.

(b) This category represents investment grade bonds of U.S. issuers from diverse industries.

(c) This category includes hedge funds that invest both long and short in primarily U.S. common stocks. Management of the hedge funds has the ability to shift investments from value to growth strategies, from small to large capitalization stocks, and from a net long position to a net short position.

(d) This category includes investments in approximately 60% equities and 40% bonds to profit from economic, political, and government driven events. A majority of the investments are targeted at economic policy decisions.

(e) This category includes approximately 80% investments in non-U.S. common stocks in the health care, energy, information technology, utilities, and telecommunications sectors and approximately 20% investments in diversified currencies.

(f) This category invests in multiple strategies to diversify risks and reduce volatility. It includes investments in approximately 50% U.S. common stocks, 30% global real estate projects, and 20% arbitrage investments.

(g) This category includes several private equity funds that invest primarily in U.S. commercial real estate.

Note: Presented below is another method by which management could disclose categories of plan assets.

Method 2:

		Fair Value Measurements at December 31, 20X3 (in millions)		
Asset Category	**Total**	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
Cash	$ 150	$ 150		
Equity securities:				
U.S. companies	400	400		
International companies	300	300		
Mutual funds (a)	450	320	$130	
U.S. Treasury securities	200	200		
AA corporate bonds	100		100	
A corporate bonds	100		100	
Mortgage-backed securities	50		50	
Equity long/short hedge funds (b)	55			$ 55
Event driven hedge funds (c)	45			45
Global opportunities hedge funds (d)	35			35
Multi strategy hedge funds (e)	40			40
Private equity funds (f)	47			47
Real estate	75			75
Total	**$2,047**	**$1,370**	**$380**	**$297**

(a) 70% of mutual funds invest in common stock of large-cap U.S. companies. 30% of the company's mutual fund investments focus on emerging markets and domestic real estate common stocks.
(b) This category includes hedge funds that invest both long and short in primarily U.S. common stocks. Management of the hedge funds has the ability to shift investments from value to growth strategies, from small to large capitalization stocks, and from a net long position to a net short position.
(c) This category includes investments in approximately 60% equities and 40% bonds to profit from economic, political, and government driven events. A majority of the investments are targeted at economic policy decisions.
(d) This category includes approximately 80% investments in non-U.S. common stocks in the health care, energy, information technology, utilities, and telecommunications sectors and approximately 20% investments in diversified currencies.
(e) This category invests in multiple strategies to diversify risks and reduce volatility. It includes investments in approximately 50% U.S. common stocks, 30% global real estate projects, and 20% arbitrage investments.
(f) This category includes several private equity funds that invest primarily in U.S. commercial real estate.

Note: An entity shall disclose the following information regardless of its method for disclosing major categories of plan assets.

	Equity Long/ Short Hedge Funds	Event Driven Hedge Funds	Global Opportu-nities Hedge Funds	Multi Strategy Hedge Funds	Private Equity Funds	Real Estate	Total
	Fair Value Measurements Using Significant Unobservable Inputs (Level 3)						
Beginning balance at December 31, 20X2	$40	$35	$39	$35	$40	$ 10	$199
Actual return on plan assets:							
Relating to assets still held at the reporting date	(2)	5	(7)	5	2	3	6
Relating to assets sold during the period		3			2		5
Purchases, sales, and settlements	15	2			3	62	82
Transfers in and/or out of Level 3	2		3				5
Ending balance at December 31, 20X3	$55	$45	$35	$40	$47	$75	$297

(Entity specific narrative description of investment policies and strategies for plan assets, including weighted-average target asset allocations [if used as part of those policies and strategies] as described in paragraph 5(d)~~(2)~~(i) would be included here.)

~~Equity securities include Company A common stock in the amounts of $80 million (4 percent of total plan assets) and $64 million (6 percent of total plan assets) at December 31, 20X3, and 20X2, respectively.~~

The fair values of Company A's other postretirement benefit plan assets ~~weighted-average asset allocations~~ at December 31, 20X3, ~~and 20X2,~~ by asset category are as follows:

~~Asset Category~~	~~Plan Assets at December 31 20X3~~	~~20X2~~
~~Equity securities~~	~~60%~~	~~52%~~
~~Debt securities~~	~~30~~	~~27~~
~~Real estate~~	~~5~~	~~13~~
~~Other~~	~~5~~	~~8~~
~~Total~~	~~100%~~	~~100%~~

Asset Category	Total	Fair Value Measurements at December 31, 20X3 (in millions) Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Diversified equity securities	$ 150	$ 150	—	$ —
U.S. Treasury securities	50	50	—	—
Diversified corporate bonds	103	—	$ 103	—
Total	$ 303	$ 200	$ 103	$ —

Diversified ~~E~~equity securities include Company A common stock in the amount~~s~~ of $12 ~~million (4 percent of total plan assets) and $8 million (4 percent of total plan assets)~~ at December 31, 20X3~~, and 20X2, respectively~~.

Cash Flows

Contributions

Company A expects to contribute $125 million to its pension plan and $150 million to its other postretirement benefit plan in 20X4.

Estimated Future Benefit Payments

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid:

	Pension Benefits	Other Benefits
20X4	$ 200	$ 150
20X5	208	155
20X6	215	160
20X7	225	165
20X8	235	170
Years 20X9–20Y3	1,352	984

Appendix C

AMENDMENT TO EXISTING PRONOUNCEMENT

C1. FASB Statement No. 157, *Fair Value Measurements*, is amended as follows:

[Added text is underlined and deleted text is ~~struck out~~.]

a. Paragraph 31A is added as follows under the heading "Disclosures":

   Plan assets of a defined benefit pension or other postretirement plan that are accounted for under FASB Statements No. 87, *Employers' Accounting for Pensions*, and No. 106, *Employers' Accounting for Postretirement Benefits Other Than Pensions*, are not subject to the disclosure requirements of this Statement. Instead, the disclosures required in paragraphs 5(d)(iv) and 8(c)(iv) of Statement 132(R) shall apply for fair value measurements of plan assets of a defined benefit pension or other postretirement plan.