Employee Benefit Plan Accounting and Reporting Update

March 1, 2016
Overview

• Accounting and Reporting Update
  – Recap of Significant Items From 2015
  – Hot Topics for 2016
  – On the Horizon

• DOL Audit Quality Update
  – Audit Quality Study Outcomes
  – EBSA Audit Quality Initiatives: On the Horizon
Key Accounting and Reporting Considerations
Recap of 2015 (2014 Plan Year Filings)

• 2014 Mortality Tables and 2015 Improvement Scale
  – AICPA Technical Q&A (TIS 3700.01) Effect of New Mortality Tables on Nongovernmental Employee Benefit Plans (EBPs) and Nongovernmental Entities That Sponsor EBPs (February 2015)

• Liquidation Basis of Accounting (ASU 2013-07)
  – Technical questions and answers - AICPA TIS sections 6931.18 through 6931.30

• PCAOB AS No. 17, Auditing Supplementary Information
  – New wording for auditor’s report: 11-k supplementary schedule paragraph
Hot Topics for 2016 (2015 Plan Years)

• Non-Attest Services and New AICPA Independence Rules

• New Accounting Standards
  – ASU 2015-07, Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)
  – ASU 2015-12, Plan Accounting

• PCAOB AS No. 18, Related Parties
Non-Attest Services and the New AICPA Independence Rules

• Revised Ethics Rules—effective for periods beginning on or after December 15, 2014
• Services no longer considered part of the audit
  – Financial statement preparation
  – Cash-to-accrual conversions
  – Reconciliations
  – Other
• Permitted to assist management with financial statement preparation, but must make certain the requirements are met and other non-attest services do not have a cumulative effect
ASU 2015-07, Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)

- Issued May 2015
- Effective for fiscal years beginning after December 15, 2015 (public entities) and 2016 (other entities), early adoption permitted
- Retrospective application
- Eliminates the requirement to categorize investments for which fair values are measured using the net asset value per share as a practical expedient
ASU 2015-07, Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent), cont.

- Sufficient information must be provided to permit reconciliation of the fair value of the assets categorized within the FV hierarchy table to amounts presented in the statement of net assets

- Continue to disclose investment strategy, future investment commitments and redemption requirements
ASU 2015-12, Plan Accounting

• FASB issued a three-part ASU to simplify financial reporting for benefit plans
  – Part I: Fully Benefit-Responsive Investment Contracts
  – Part II: Plan Investment Disclosures
  – Part III: Measurement Date Practical Expedient

• Effective for fiscal years beginning after December 15, 2015
  – Early application is permitted
  – Plans can early adopt any of the ASU’s three parts without early adopting the other parts
Part I: Fully Benefit-Responsive Investment Contracts

- Affects defined contribution pension and health and welfare plans

- Definition of a fully benefit-responsive investment contract (FBRIC) in master glossary did not change

- Clarifies that contract value is the relevant measure for FBRICs because that is the amount participants would receive in a transaction

- Eliminates requirements to measure fair value and present related fair value measurement disclosures
Part I: Fully Benefit-Responsive Investment Contracts (continued)

• Instead, plans will present FBRICs at contract value in the statement of net assets available for benefits, either as
  – Investments at contract value
  – Fully benefit-responsive investment contracts at contract value

• Investment contracts that do not meet the definition of a FBRIC continue to be presented at fair value

• Apply new guidance retrospectively
Part II: Plan Investment Disclosures

- Affects all types of plans
- Simplifies the level of disaggregation for investments measured using fair value
  - Disaggregate by general type of investment (e.g., common stocks, corporate bonds, mutual funds)
  - Disclosure of fair value information required by ASC 820 shall be provided by general type rather than class (e.g., valuation techniques, inputs, Level 3 reconciliation)
  - Self-directed brokerage accounts are one general type
  - Applies to investments held in a master trust
Part II: Plan Investment Disclosures (continued)

• Disclosure simplifications
  – No longer required: the significant investment strategies for an investment in a fund that files an annual report on Form 5500 as a direct filing entity when the plan measures that investment using the NAV practical expedient
  – Eliminates the requirement to disclose the net appreciation or depreciation in fair value of investments by general type
    • Instead, plans only need to disclose this amount in the aggregate
  – Plans are no longer required to disclose individual investments with a value equal to or greater than 5% of net assets available for benefits
  – Applies to investments held in a master trust

• ASU is to be applied retrospectively
Part III: Measurement Date Practical Expedient

• Simplifies accounting for a plan with a fiscal year end (FYE) that doesn’t coincide with a calendar month-end

• Allows a plan to measure its investments and investment-related accounts using the month-end closest to its FYE (i.e., an alternative measurement date)

• ASU to be applied prospectively
PCAOB AS No. 18, Related Parties...

• Effective for audits of financial statements for fiscal years beginning on or after December 15, 2014

• The objective of the auditor is to obtain sufficient appropriate audit evidence to determine whether related parties and relationships and transactions with related parties have been properly identified, accounted for and disclosed in the financial statements

• Communications with the Audit Committee
On the Horizon

- **ASU 2014-15, Going concern**

- **PCAOB new transparency rules**

- **AICPA EBP Expert Panel advocacy efforts with the FASB (Phase II)**

- **Determination Letters**
PCAOB New Transparency Rules

• Subject to approval by the SEC, on Dec 15, 2015 the PCAOB approved new rules that require audit firms to disclose the name of the engagement partner and information about certain other audit participants on a new PCAOB Form AP, Auditor Reporting of Certain Audit Participants.

• Will affect SEC filings (including 11-k) for auditor’s reports issued on or after Jan 31, 2017 (or 3 months after SEC approval, whichever is later).
DOL Audit Quality Update
DOL Study Outcomes

• DOL communications to state boards, plan administrators and auditors

• DOL will make direct referrals to state boards (in addition to AICPA Ethics)

• DOL will continue to review EBP audit workpapers and perform larger firm inspections
DOL Audit Quality Reviews in 2016

- Audits will be selected from 2014 plan year Forms 5500
  - Firms performing < 100 plan audits
    • Will review 200-300 plans done by firms with <100 EBP audits
    • Selection of will be done on a statistical basis, using the same tiers as the recent study
  - Firms performing between 100 - 200 plan audits
    • Will look at all 53 of these firms
    • May review one or two audits of each firm
  - Firms performing > 200 plan audits
    • Will continue to use “firm inspection” approach
    • Likely review 4 to 6 of these firms

- DOL will continue to make only one request for documents.
EBSA Audit Quality Initiatives

Increasing Transparency of EBP Audit Report

• DOL requested AICPA Auditing Standards Board (ASB) to enhance audit report transparency
• DOL believes addressee should include plan participants and their beneficiaries
• Use of emphasis-of-matter and other-matter paragraphs to communicate key audit matters “KAM” (ISA 701) Reporting on Form and Content of supplemental schedules
• Emphasize management’s responsibilities
• Provide information on compliance and internal control material weaknesses and significant deficiencies (similar to GAO “Yellow Book”)
• Identify audit engagement partner and peer reviewer firm