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FASB Issues Final Standard Toward Simplifying Employee Benefit Plan Reporting

401(K) PLANS, AUDIT, ERISA
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As part of its Simplification Initiative, the FASB issued Accounting Standards Update (ASU) No. 2015-12, Plan Accounting: Defined Benefit Pension Plans (Topic 960), Defined Contribution Pension Plans (Topic 962), and Health and Welfare Benefit Plans (Topic 965) - I. Fully Benefit-Responsive Investment Contracts; II. Plan Investment Disclosures, and III. Measurement Date Practical Expedient.

The amendments apply only to reporting entities that follow the requirements in Topics 960, 962, and 965.

The objective of the Simplification Initiative is to reduce complexity in employee benefit plan accounting and to identify, evaluate and improve areas of generally accepted accounting principles (GAAP) for which cost and complexity can be reduced while maintaining or improving the usefulness of the information provided to the users of the financial statements. This ASU is broken down into three parts as summarized below.

Fully Benefit-Responsive Investment Contracts

Topics 962 and 965 require fully benefit-responsive investment contracts to be measured at contract value. Those Topics also require adjustments to reconcile contract value to fair value, when these measures differ, on the face of the plan financial statements. Under the amendments, fully benefit-responsive investment contracts are measured, presented and disclosed only at contract value. A plan will continue to provide disclosures that help users understand the nature and risks of fully benefit-responsive contracts.

The amendments in Part I apply only to reporting entities within the scope of Topics 962 and 965 that classify investments as fully benefit-responsive investment contracts and are effective for fiscal years beginning after December 15, 2015, and should be applied retrospectively for all financial statements presented. Early application is permitted.

Plan Investment Disclosures

GAAP requires plans to disclose: (a) individual investments that represent 5% or more of net assets available for benefits; and (b) the net appreciation or depreciation for investments by general type. The amendments in Part II eliminate those requirements for both participant-directed investments and nonparticipant-directed investments. The net appreciation or depreciation in investments for the period should be presented in the aggregate, but is no longer required to be disaggregated and disclosed by general type.

Under Topic 820, classes of assets are grouped and disclosed on the basis of nature, characteristics, and risks. Under Topics 960, 962, and 965, classes of assets are grouped and disclosed on the basis of general type. Examples of classes of assets grouped and disclosed by general type include registered investment companies, government securities, common collective trusts, corporate bonds, common stocks and pooled separate accounts. Classification by general type might be inconsistent with classification by nature, characteristics, and risks, which often results in plans grouping their investments in two different ways. The amendments in Part II require that investments (both participant-directed and nonparticipant-directed investments) of employee benefit plans be grouped only by general type, eliminating the need to disaggregate the investments in multiple ways.

In addition, if an investment is measured using the net asset value per share (or its equivalent) practical expedient in Topic 820, and that investment is in a fund that files a U.S. Department of Labor Form 5500, Annual Return/Report of Employee Benefit Plan, as a direct filing entity, disclosure of that investment's strategy is no longer required.

The amendments in Part II of this ASU apply only to reporting entities that follow the requirements in Topics 960, 962, and 965 and are effective for fiscal years beginning after December 15, 2015, and should be applied retrospectively for all financial statements presented. Early application is permitted.

Measurement Date Practical Expedient

The amendments provide a practical expedient to permit plans to measure investments and investment-related accounts (e.g., a liability for a pending trade with a broker) as of a month-end date that is closest to the plan's fiscal year-end, when the fiscal period does not coincide with month-end.

If a plan applies the practical expedient and a contribution, distribution, and/or significant event occurs between the alternative measurement date and the plan's fiscal year-end, the plan should disclose the amount of the contribution, distribution, and/or significant event. The plan should disclose the accounting policy election and the date used to measure investments and investment-related accounts.

The amendments in Part III of this ASU apply only to entities that have a fiscal year-end date that does not coincide with a month-end and follow the requirements in Topics 960, 962 and 965 and are effective for fiscal years beginning after December 15, 2015, and should be applied prospectively. Early application is permitted.

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