

Heads Up

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FASB Issues ASU on Employee Benefit Plan Accounting

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On July 31, 2015, the FASB issued [ASU 2015-12](#),¹ a three-part standard that provides guidance on certain aspects of the accounting by employee benefit plans. The ASU, which is being released in response to consensuses reached by the EITF, (1) requires an employee benefit plan to use contract value as the only measurement amount for fully benefit-responsive investment contracts (FBRICs), (2) simplifies and increases the effectiveness of plan investment disclosure requirements for employee benefit plans, and (3) provides employee benefit plans with a measurement-date practical expedient similar to the practical expedient provided to employers in [ASU 2015-04](#).²

Editor's Note: Early adoption of ASU 2015-12 is permitted for any employee benefit plan reporting entity's financial statements that have not yet been issued, even if the plan's year-end occurred before the issuance of the ASU. For example, if a plan's year-end is December 31, 2014, and the plan's financial statements for 2014 have not been issued, the plan may apply the ASU's guidance when it prepares those financial statements. Plans may early adopt an individual part of the three-part ASU, but all aspects of the adopted part must be applied.

Part I — Fully Benefit-Responsive Investment Contracts

Under the new standard, plan reporting entities within the scope of ASC 962³ and ASC 965 no longer need to measure FBRICs at fair value and would only measure them at contract value. Consequently, plan reporting entities should no longer present a reconciliation of a FBRIC's fair value to its contract value (if different) on the face of the plan financial statements. The amendments also remove the fair-value-related disclosure requirements for FBRICs in ASC 962 and ASC 965. However, the following disclosures describing the nature and risks of FBRICs are still required:

- "A description of the nature of those investment contracts (including how they operate) by the type of investment contract."
- "A description of the events that limit the ability of the plan to transact at contract value with the issuer, including a statement that the occurrence of each of those events . . . is not probable of occurring."
- "A description of the events and circumstances that would allow issuers to terminate [the contracts] with the plan and settle at an amount different from contract value."

¹ FASB Accounting Standards Update No. 2015-12, (Part I) Fully Benefit-Responsive Investment Contracts, (Part II) Plan Investment Disclosures, (Part III) Health and Welfare Benefit Plans — consensuses of the FASB Emerging Issues Task Force.

² FASB Accounting Standards Update No. 2015-04, Practical Expedient for the Measurement Date of an Employer's Defined Benefit Obligation and Plan Assets.

³ For titles of FASB Accounting Standards Codification (ASC) references, see Deloitte's "Titles of Topics and Subtopics in the FASB Accounting Standards Codification."

Further, plans are required to disclose the contract value for each type of FBRIC (e.g., synthetic investment contracts or traditional investment contracts). See the [appendix](#) for an example illustrating the presentation and disclosure requirements for investments in FBRICs.

Investments in FBRICs held in a master trust are subject to the same presentation and disclosure requirements as FBRICs held directly by the plan.

The guidance is effective for fiscal years beginning after December 15, 2015, and must be applied retrospectively to all periods presented in the financial statements for the fiscal year of adoption. Early adoption is permitted.

Editor’s Note: The EITF determined that synthetic guaranteed investment contracts, which are investments in which a plan owns the underlying investments and enters into a third-party guarantee contract related to those investments, may meet the requirements of a FBRIC and, if so, would be measured at contract value. The contract value for synthetic guaranteed investment contracts would be separately disclosed in the footnotes as a specific type of FBRIC.

The new guidance does not apply to a plan’s investments in stable value funds (e.g., indirect investments in FBRICs) because FBRICs, as defined in the Codification Master Glossary, are limited to direct investments between the plan and the issuer. However, investments in stable value common or collective trust funds may be measured in a manner similar to how direct investments in FBRICs are measured. The ASU’s Basis for Conclusions indicates that investments in stable value funds generally are in investment companies that calculate net asset value (NAV) per share in a manner consistent with the measurement principles in ASC 946. Those measurement principles indicate that, in the determination of a stable value fund’s NAV, the relevant measurement for a FBRIC held by the fund is contract value. An investment in a stable value common or collective trust fund should be presented at fair value in a plan’s statement of net assets available for benefits and should be included in a single line along with other investments at fair value, as illustrated in the [appendix](#). However, under ASC 820, plans may elect the practical expedient⁴ related to NAV per share (or its equivalent) to determine the fair value of most stable value funds. The NAV for a stable value fund would reflect contract value for the FBRICs held by the fund. NAV-related disclosure requirements would continue to apply, including the impact of [ASU 2015-07⁵](#) (see below).

Part II — Plan Investment Disclosures

The ASU’s amendments to the plan investment disclosure requirements for employee benefit plans, including disclosure requirements for investments in master trusts, within the scope of ASC 960, ASC 962, and ASC 965 (for both participant-directed and nonparticipant-directed investments) include the following:

- Plan investments need to be disaggregated only by general type within the statement of net assets available for benefits or within the footnotes. Plans are no longer required to provide the disclosures by investment class in accordance with ASC 820-10-50 but must instead provide such disclosures by general type.

⁴ The NAV practical expedient is discussed in ASC 820-10-35-59 through 35-62.

⁵ FASB Accounting Standards Update No. 2015-07, *Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)* — a consensus of the FASB Emerging Issues Task Force.

Editor’s Note: The term “general type” is not defined; however, the level of aggregation for a general type is the same as or higher than that for an “investment class.” The ASU notes that examples of investments that are “presented by general type” include registered investment companies, government securities, common collective trusts, pooled separate accounts, short-term securities, corporate bonds, common stocks, mortgages, and real estate. The ASU does not amend the filing requirements for plans that report the classification and level of aggregation of plan investments in the U.S. Department of Labor’s Form 5500.

- Participant self-directed brokerage accounts are disclosed in the aggregate as a single “general type” of plan investment.
- Plan investments representing 5 percent or more of net assets available for benefits no longer need to be listed individually.
- Presentation of net appreciation or depreciation for each general type of plan investment is no longer required; however, plan investment appreciation or depreciation must still be presented in the aggregate.
- Employee benefit plans are not required to disclose the investment strategies of plan investments that are (1) measured at fair value by using the NAV practical expedient permitted by ASC 820-10 and (2) in a fund entity that directly files Form 5500 with the U.S. Department of Labor.

The guidance is effective for fiscal years beginning after December 15, 2015, and must be applied retrospectively to all periods presented in the financial statements for the fiscal year of adoption. Early adoption is permitted.

Editor’s Note: For investments for which the practical expedient in ASC 820-10 is used to measure fair value at NAV, ASU 2015-07 (issued in May 2015) removes the requirement to present the investments within the individual levels in the fair value hierarchy. Instead, an entity is required to include those investments as a reconciling line item so that the total fair value amount of investments in the hierarchy disclosure is consistent with the amount on the balance sheet. ASU 2015-07 applies retrospectively to employee benefit plan reporting entities and is effective for interim and annual periods beginning after December 15, 2015 (nonpublic business entities are granted an additional year); early adoption is permitted. The remaining disclosure requirements⁶ related to investments measured using the NAV practical expedient continue to apply.

Part III — Measurement-Date Practical Expedient

ASU 2015-12 permits employee benefit plans that are within the scope of ASC 960, ASC 962, and ASC 965 to elect a practical expedient of using, as an alternative measurement date for plan investments (and investment-related accounts such as a liability for a pending trade with a broker), the month-end date closest to the plan’s fiscal year-end when the fiscal year-end does not coincide with a month-end. Any contributions, distributions, or other significant events occurring between the employee benefit plan’s fiscal year-end and the alternative measurement date should be disclosed.

If the practical expedient is elected, a plan must apply the guidance consistently from one year to the next. In addition, the plan must provide the following disclosures:

- The accounting policy elected to measure investments and investment-related accounts by using the practical expedient for the measurement date.
- The practical expedient month-end measurement date.

⁶ See ASC 820-10-50-6A for the disclosure requirements.

- Contributions, distributions, and significant events that occur between the practical-expedient month-end measurement date and the plan's fiscal year-end.

Editor's Note: The measurement-date practical expedient is similar to the one in ASU 2015-04 for an employer's defined benefit plan assets and obligations. Although an employer must adjust its financial statements for plan contributions, distributions, and other significant events between the fiscal year-end and the alternative measurement date, an employee benefit plan reporting entity only needs to disclose these transactions and events.

The guidance is effective for fiscal years beginning after December 15, 2015, and must be applied prospectively. Early adoption is permitted.

Appendix — Example Illustrating Disclosures About Fully Benefit-Responsive Investment Contracts

The example below, which has been adapted from ASC 962-325-55-17 (added by ASU 2015-12), illustrates the ASU's presentation and disclosure requirements for investments in FBRICs.

XYZ Company 401(k) Plan Statements of Net Assets Available for Benefits		
December 31,		
	20X1	20X0
Assets:		
Investments at fair value (See Note C)	\$ 7,397,000	\$ 7,014,000
Investments at contract value (See Note D)	1,500,000	650,000
Receivables:		
Employer contributions	14,000	10,000
Participant contributions	52,000	50,000
Notes receivable from participants	<u>300,000</u>	<u>350,000</u>
Total receivables	<u>366,000</u>	<u>410,000</u>
Total assets	<u>9,263,000</u>	<u>8,074,000</u>
Liabilities:		
Accrued expenses	10,000	20,000
Excess contributions payable	<u>15,000</u>	<u>—</u>
Total liabilities	<u>25,000</u>	<u>20,000</u>
Net assets available for benefits	<u>\$ 9,238,000</u>	<u>\$ 8,054,000</u>
See accompanying notes to the financial statements.		

[Note] D. Fully Benefit-Responsive Investment Contracts

The Plan holds a portfolio of investment contracts that comprises a traditional investment contract and a portfolio of synthetic investment contracts. These contracts meet the fully benefit-responsive investment contract criteria and therefore are reported at contract value. Contract value is the relevant measure for fully benefit-responsive investment contracts because this is the amount received by participants if they were to initiate permitted transactions under the terms of the Plan. Contract value represents contributions made under each contract, plus earnings, less participant withdrawals, and administrative expenses. The following represents the disaggregation of contract value between types of investment contracts held by the Plan.

	20X1	20X0
Synthetic investment contracts	\$ 1,250,000	\$ 500,000
Traditional investment contract	<u>250,000</u>	<u>150,000</u>
Total	<u>\$ 1,500,000</u>	<u>\$ 650,000</u>

The key difference between a synthetic investment contract and a traditional investment contract is that the Plan owns the underlying assets of the synthetic investment contract. A synthetic investment contract includes a wrapper contract, which is an agreement for the wrap issuer, such as a bank or insurance company, to make payments to the Plan in certain circumstances. The wrapper contract typically includes certain conditions and limitations on the underlying assets owned by the Plan. With traditional investment contracts, the Plan owns only the contract itself. Synthetic and traditional investment contracts are designed to accrue interest based on crediting rates established by the contract issuers.

The synthetic investment contracts held by the Plan include wrapper contracts that provide a guarantee that the credit rate will not fall below 0 percent. Cash flow volatility (for example, timing of benefit payments) as well as asset underperformance can be passed through to the Plan through adjustments to future contract crediting rates. Formulas are provided in each contract that adjusts renewal crediting rates to recognize the difference between the fair value and the book value of the underlying assets. Crediting rates are reviewed monthly for resetting.

The traditional investment contract held by the Plan is a guaranteed investment contract. The contract issuer is contractually obligated to repay the principal and interest at a specified interest rate that is guaranteed to the Plan. The crediting rate is based on a formula established by the contract issuer but may not be less than 4 percent. The crediting rate is reviewed on a quarterly basis for resetting. The contract cannot be terminated before the scheduled maturity date.

The Plan's ability to receive amounts due in accordance with fully benefit-responsive investment contracts is dependent on the third-party issuer's ability to meet its financial obligations. The issuer's ability to meet its contractual obligations may be affected by future economic and regulatory developments.

Certain events might limit the ability of the Plan to transact at contract value with the contract issuer. These events may be different under each contract. Examples of such events include the following:

1. The Plan's failure to qualify under Section 401(a) of the Internal Revenue Code or the failure of the trust to be tax-exempt under Section 501(a) of the Internal Revenue Code
2. Premature termination of the contracts
3. Plan termination or merger
4. Changes to the Plan's prohibition on competing investment options
5. Bankruptcy of the plan sponsor or other plan sponsor events (for example, divestitures or spinoffs of a subsidiary) that significantly affect the Plan's normal operations.

No events are probable of occurring that might limit the ability of the Plan to transact at contract value with the contract issuers and that also would limit the ability of the Plan to transact at contract value with the participants.

In addition, certain events allow the issuer to terminate the contracts with the Plan and settle at an amount different from contract value. Those events may be different under each contract. Examples of such events include the following:

1. An uncured violation of the Plan's investment guidelines
2. A breach of material obligation under the contract
3. A material misrepresentation
4. A material amendment to the agreements without the consent of the issuer.

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