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Welcome Relief

FASB Permits Use of Practical Expedient for Retirement Benefit Plan Measurement

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On April 15, 2015, the FASB issued ASU 2015-04,[1] which gives an employer whose fiscal year-end does not coincide with a calendar month-end (e.g., an entity that has a 52- or 53-week fiscal year) the ability, as a practical expedient, to measure defined benefit retirement obligations and related plan assets as of the month-end that is closest to its fiscal year-end. The ASU is effective for public business entities for financial statements issued for fiscal years beginning after December 15, 2015, and interim periods within those fiscal years. For all other entities, the ASU is effective for financial statements issued for fiscal years beginning after December 15, 2016, and interim periods within fiscal years beginning after December 15, 2017. Early application is permitted, and the ASU should be applied prospectively.

If elected, the practical expedient would be an accounting policy that the employer would need to apply consistently to all plans. The employer would also be required to disclose the policy election as well as the resulting alternative measurement date used for its year-end measurement of retirement benefit obligations and plan assets.

Background

Under current U.S. GAAP, an employer that sponsors a defined benefit retirement plan (for pension or other postretirement benefits) is required to measure its retirement benefit obligations and plan assets as of its fiscal year-end (with the exception of plans sponsored by a consolidated subsidiary or equity method investee that has a fiscal year-end that is different from the parent's or investor's).[2]

The FASB established the practical expedient as part of its simplification initiative,[3] recognizing that an employer whose fiscal year-end does not coincide with a calendar month-end may have difficulty and incur additional costs in measuring the fair value of plan assets for its defined benefit retirement plans. Since third parties often provide information about fair value and classes of plan assets only as of the month-end, electing the practical expedient would relieve an employer from having to adjust the asset values to the appropriate fair values as of its fiscal year-end.

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

[2] ASC 715-30-35-62 and ASC 715-60-35-121. For titles of *FASB Accounting Standards Codification* (ASC) references, see Deloitte's "Titles of Topics and Subtopics in the *FASB Accounting Standards Codification*."

[3] Launched in June 2014, the FASB's simplification initiative is intended to reduce the cost and complexity of current U.S. GAAP while maintaining or enhancing the usefulness of the related financial statement information. The initiative focuses on narrow-scope projects that involve limited changes to guidance.

Editor's Note: In practice, some employers with fiscal year-ends that do not coincide with a month-end have nevertheless used measurements of the fair value of plan assets as of the nearest month-end as a reasonable approximation of the fiscal-year-end asset values. In such situations, the employer has needed to support its assertion that those amounts were "reasonably expected not to be materially different"[4] from the results of a more precise measurement as of the fiscal-year-end measurement date. The practical expedient removes the requirement for the employer to perform this analysis in support of the reasonableness of its month-end fair value measurement.

Other Provisions of the ASU

The ASU also provides guidance on accounting for (1) contributions to the plan and (2) significant events that require a remeasurement (e.g., a plan amendment, settlement, or curtailment) that occur during the period between a month-end measurement date and the employer's fiscal year-end. An entity should reflect the effects of those contributions or significant events in the measurement of the retirement benefit obligations and related plan assets.

Specifically, the funded status would be adjusted to reflect (1) an addition to plan assets for a contribution made after the measurement date but before the fiscal year-end or (2) a deduction from plan assets for a contribution made after the fiscal year-end but before the measurement date. The employer would not be required to adjust the fair value of each class of plan assets for a contribution made between the measurement date and fiscal year-end. Instead, the contribution amount would be disclosed separately to reconcile to the fair value of all the classes of plan assets reflected in the fiscal-year-end balance sheet. The ASU provides the following example of this disclosure:

		Fair Value Measurements at February 3, 20X5 (in thousands)		
Asset Class	**Total**	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
Cash	$ 14,770	$ 14,770	$ —	$ —
Equity securities:				
U.S. companies	41,200	37,000	1,200	3,000
International companies	32,900	24,000	7,600	1,300
Mortgage-backed securities	13,335	—	12,780	555
Assets at fair value at measurement date of 1/31/20X5	102,205	$ 75,770	$ 21,580	$ 4,855
Contributions after measurement date	25,000			
Total assets reported at 2/3/20X5	$ 127,205			

If a significant event requiring remeasurement occurs between a month-end measurement date and the employer's fiscal year-end, the effect of the significant event should be accounted for in the fiscal year in which the event occurs. However, as a separate practical expedient, an entity may elect to measure the effects of a significant event as of the calendar month-end closest to the date of the significant event. This practical expedient for a remeasurement related to a significant event can be elected by an entity on a case-by-case basis as significant events occur at any time of the year and does not need to be consistently applied for all significant events.

[4] ASC 715-30-35-1 and ASC 715-60-35-1.

Editor's Note: This separate practical expedient related to significant events could also be elected by an entity that has a fiscal-year-end that coincides with a month-end since a significant event requiring remeasurement could occur on any date. In practice, many entities have historically applied similar practical approaches for certain types of events, such as lump-sum settlements that extend over a period in which plan participants make lump-sum elections upon retirement.

The ASU clarifies that in applying either practical expedient, an employer should not adjust the month-end measurement of the benefit obligations and related plan assets for other events outside its control that occur between the month-end measurement date and its fiscal year-end (e.g., changes in interest rates).

Benefit Plan Financial Statements

The practical expedients permitted under ASU 2015-04 do not apply to plan financial statements prepared in accordance with ASC 960, ASC 962 or ASC 965. However, on March 19, the EITF tentatively decided to permit similar practical expedients for such plan financial statements as part of Issue 15-C, "Employee Benefit Plan Simplifications." The Task Force decided that an employee benefit plan could use an alternative measurement date consisting of the month-end date closest to its fiscal year-end. However, it concluded that contributions and distributions made, and other significant events that occur, between the alternative measurement date and the fiscal year-end would be disclosed rather than adjusted for in the plan's financial statements. See Deloitte's March 2015 *EITF Snapshot* for additional information.

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