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Financial Accounting Series

Statement of Financial Accounting Standards No. 158

Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans

an amendment of FASB Statements No. 87, 88, 106, and 132(R)

Financial Accounting Standards Board
of the Financial Accounting Foundation

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Summary

This Statement improves financial reporting by requiring an employer to recognize the overfunded or underfunded status of a defined benefit postretirement plan (other than a multiemployer plan) as an asset or liability in its statement of financial position and to recognize changes in that funded status in the year in which the changes occur through comprehensive income of a business entity or changes in unrestricted net assets of a not-for-profit organization. This Statement also improves financial reporting by requiring an employer to measure the funded status of a plan as of the date of its year-end statement of financial position, with limited exceptions.

This Statement requires an employer that is a business entity and sponsors one or more single-employer defined benefit plans to:

a. Recognize the funded status of a benefit plan—measured as the difference between plan assets at fair value (with limited exceptions) and the benefit obligation—in its statement of financial position. For a pension plan, the benefit obligation is the projected benefit obligation; for any other postretirement benefit plan, such as a retiree health care plan, the benefit obligation is the accumulated postretirement benefit obligation.
b. Recognize as a component of other comprehensive income, net of tax, the gains or losses and prior service costs or credits that arise during the period but are not recognized as components of net periodic benefit cost pursuant to FASB Statement No. 87, *Employers' Accounting for Pensions,* or No. 106, *Employers' Accounting for Postretirement Benefits Other Than Pensions.* Amounts recognized in accumulated other comprehensive income, including the gains or losses, prior service costs or credits, and the transition asset or obligation remaining from the initial application of Statements 87 and 106, are adjusted as they are subsequently recognized as components of net periodic benefit cost pursuant to the recognition and amortization provisions of those Statements.
c. Measure defined benefit plan assets and obligations as of the date of the employer's fiscal year-end statement of financial position (with limited exceptions).
d. Disclose in the notes to financial statements additional information about certain effects on net periodic benefit cost for the next fiscal year that arise from delayed recognition of the gains or losses, prior service costs or credits, and transition asset or obligation.

This Statement also applies to a not-for-profit organization or other entity that does not report other comprehensive income. This Statement's reporting requirements are tailored for those entities.

This Statement amends Statement 87, FASB Statement No. 88, *Employers' Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits,* Statement 106, and FASB Statement No. 132 (revised 2003), *Employers' Disclosures about Pensions and Other Postretirement Benefits,* and other related accounting literature. Upon initial application of this Statement and subsequently, an employer should continue to apply the provisions in Statements 87, 88, and 106 in measuring plan assets and benefit obligations as of the date of its statement of financial position and in determining the amount of net periodic benefit cost.

Reasons for Issuing This Statement

The Board issued this Statement to address concerns that prior standards on employers' accounting for defined benefit postretirement plans failed to communicate the funded status of those plans in a complete and understandable way. Prior standards did not require an employer to report in its statement of financial position the overfunded or underfunded status of a defined benefit postretirement plan. Those standards did not require an employer to recognize completely in earnings or other comprehensive income the financial effects of certain events affecting the plan's funded status when those events occurred.

Prior accounting standards allowed an employer to recognize in its statement of financial position an asset or liability arising from a defined benefit postretirement plan, which almost always differed from the plan's overfunded or underfunded status. Those standards allowed an employer to:

a. Delay recognition of economic events that affected the costs of providing postretirement benefits—changes in plan assets and benefit obligations—and recognize a liability that was sometimes significantly less than the underfunded status of the plan.
b. Recognize an asset in its statement of financial position, in some situations, for a plan that was underfunded.

Prior standards relegated information about the overfunded or underfunded status of a plan to the notes to financial statements. That information was in the form of a reconciliation of the overfunded or underfunded status to amounts recognized in an employer's statement of financial position. The Board was told that presenting such information only in the notes made it more difficult for users of financial statements to assess an employer's financial position and ability to satisfy postretirement benefit obligations.

The Board concluded that such reporting, together with other features of the existing standards, did not provide representationally faithful and understandable financial information and might lead to the inefficient allocation of resources in the capital markets. This Statement is the first step in a project to comprehensively reconsider Statements 87, 88, 106, 132(R), and related pronouncements.

How the Changes Improve Financial Reporting

This Statement improves financial reporting because the information reported by a sponsoring employer in its financial statements is more complete, timely, and, therefore, more representationally faithful. Thus, it will be easier for users of those financial statements to assess an employer's financial position and ability to satisfy postretirement benefit obligations.

This Statement results in financial statements that are more complete because it requires an employer that sponsors a single-employer defined benefit postretirement plan to report the overfunded or underfunded status of the plan in its statement of financial position rather than in the notes.

This Statement results in more timely financial information because it requires an employer to recognize all transactions and events affecting the overfunded or underfunded status of a defined benefit postretirement plan in comprehensive income (or changes in unrestricted net assets) in the year in which they occur. Moreover, this Statement requires that plan assets and benefit obligations be measured as of the date of an employer's fiscal year-end statement of financial position, thus eliminating the alternative of a measurement date that could be up to three months earlier.

This Statement results in financial reporting that is more understandable by eliminating the need for a reconciliation in the notes to financial statements.

How the Conclusions Underlying This Statement Relate to the FASB's Conceptual Framework

FASB Concepts Statements No. 1, *Objectives of Financial Reporting by Business Enterprises,* and No. 4, *Objectives of Financial Reporting by Nonbusiness Organizations,* explain that financial reporting should provide information that is useful in making business and resource allocation decisions. FASB Concepts Statement No. 2, *Qualitative Characteristics of Accounting Information,* explains that essential elements of decision usefulness are relevance and reliability. Information must be timely and complete for it to be relevant and reliable. This Statement results in financial information that is more complete, timely, and, therefore, more representationally faithful.

Benefits and Costs

The objective of financial reporting is to provide information that is useful to present and potential investors, creditors, and other capital market participants in making rational investment, credit, and similar resource allocation decisions. The Board recognizes that the benefits of providing information for that purpose should justify the related costs. After careful consideration, the Board concluded that the benefits of the improved financial reporting that result from this Statement outweigh the costs of its implementation.

The Board believes that this Statement provides financial statements that are more complete and easier to understand because information previously reported in the notes will be recognized in an employer's financial statements. Reporting the current funded status of a postretirement benefit plan as an asset or liability in an employer's statement of financial position allows users of those financial statements to assess an employer's financial position and its ability to satisfy the benefit obligations without referring to a reconciliation in the notes to financial statements. Likewise, recognizing transactions and events that affect the funded status in the financial statements in the year in which they occur enhances the timeliness and, therefore, the usefulness of the financial information.

The Board recognizes that employers will incur costs to implement this Statement. However, the Board believes that the expected benefits outweigh the costs. Several provisions of this Statement are intended to minimize the costs of implementation. For example, the Board decided not to require retrospective application of the changes after learning about the significant costs that some employers would incur in retrospectively revising financial statements of previous periods. Moreover, this Statement does not change the basic approach to measuring plan assets, benefit obligations, or annual net periodic benefit cost. Employers were previously required to disclose in the notes to financial statements amounts for a plan that, under the application of this Statement, are recognized in the statement of financial position. Therefore, no new information or new computations other than those related to income tax effects are required.

The Board acknowledges, however, that certain employers who previously did not use a fiscal year-end measurement date may incur incremental one-time costs when initially applying the requirement to measure plan assets and benefit obligations as of the date of the employer's year-end statement of financial position. Furthermore, some employers may have contractual arrangements that are affected because they reference financial statement metrics, such as book value. Those employers may incur costs associated with revising those contractual arrangements. To mitigate those costs, this Statement provides delayed effective dates for certain of its provisions and an alternative approach for initially applying the change in measurement date.

Effective Dates and Transition

The required date of adoption of the recognition and disclosure provisions of this Statement differs for an employer that is an issuer of publicly traded equity securities (as defined) and an employer that is not. For purposes of this Statement, an employer is deemed to have publicly traded equity securities if any of the following conditions is met:

a. The employer has issued equity securities that trade in a public market, which may be either a stock exchange (domestic or foreign) or an over-the-counter market, including securities quoted only locally or regionally.
b. The employer has made a filing with a regulatory agency in preparation for the sale of any class of equity securities in a public market.
c. The employer is controlled by an entity covered by (a) or (b).

An employer with publicly traded equity securities is required to initially recognize the funded status of a defined benefit postretirement plan and to provide the required disclosures as of the end of the fiscal year ending after December 15, 2006.

An employer without publicly traded equity securities is required to recognize the funded status of a defined benefit postretirement plan and to provide the required disclosures as of the end of the fiscal year ending after June 15, 2007.

However, an employer without publicly traded equity securities is required to disclose the following information in the notes to financial statements for a fiscal year ending after December 15, 2006, but before June 16, 2007, unless it has applied the recognition provisions of this Statement in preparing those financial statements:

a. A brief description of the provisions of this Statement
b. The date that adoption is required
c. The date the employer plans to adopt the recognition provisions of this Statement, if earlier.

The requirement to measure plan assets and benefit obligations as of the date of the employer's fiscal year-end statement of financial position is effective for fiscal years ending after December 15, 2008. If in the last quarter of the preceding fiscal year an employer enters into a transaction that results in a settlement or experiences an event that causes a curtailment of the plan, the related gain or loss pursuant to Statement 88 or 106 is required to be recognized in earnings or changes in unrestricted net assets of that quarter.

Earlier application of the recognition or measurement date provisions is encouraged; however, early application must be for all of an employer's benefit plans. Retrospective application of this Statement is not permitted.

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September 2006

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OBJECTIVE

1. This Statement results from the initial phase of a comprehensive project to improve an employer's accounting for defined benefit pension and other postretirement plans. The objectives of this Statement are for an employer to:

a. Recognize the overfunded or underfunded status of a single-employer[1] defined benefit postretirement plan (benefit plan or plan) as an asset or liability in its statement of financial position and to recognize changes in that funded status in comprehensive income (for a business entity) or changes in unrestricted net assets (for a not-for-profit organization) in the year in which the changes occur.
b. Measure the funded status of a plan as of the date of its year-end statement of financial position, with limited exceptions.

This Statement does not change the accounting for a multiemployer plan.

2. The changes to an employer's accounting and reporting for benefit plans required by this Statement are described in paragraphs 4–22 below. The amendments to the recognition, measurement date, and disclosure requirements of FASB Statements No. 87, *Employers' Accounting for Pensions,* No. 88, *Employers' Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits,* No. 106, *Employers' Accounting for Postretirement Benefits Other Than Pensions,* and No. 132 (revised 2003), *Employers' Disclosures about Pensions and Other Postretirement Benefits,* required to effect those changes are included in

[1]Consistent with paragraph 71 of FASB Statement No. 87, *Employers' Accounting for Pensions,* and paragraph 84 of FASB Statement No. 106, *Employers' Accounting for Postretirement Benefits Other Than Pensions,* a multiple-employer plan shall be considered a single-employer plan rather than a multiemployer plan for purposes of this Statement.

appendixes to this Statement. Those amendments are an integral part of this Statement. The definitions of terms used in this Statement are the same as those in Statements 87, 88, and 106 (as amended).

3. This Statement also amends Statements 87 and 106 to include guidance related to the selection of assumed discount rates that was previously included in the basis for conclusions of Statement 106 (see Appendixes C and D).

STANDARDS OF FINANCIAL ACCOUNTING AND REPORTING

Reporting by a Business Entity

Recognition of the Funded Status of a Single-Employer Defined Benefit Postretirement Plan

4. A business entity that sponsors one or more single-employer defined benefit plans shall:

a. Recognize the funded status of a benefit plan—measured as the difference between the fair value of plan assets[2] and the benefit obligation—in its statement of financial position. For a pension plan, the benefit obligation shall be the projected benefit obligation; for any other postretirement benefit plan, such as a retiree health care plan, the benefit obligation shall be the accumulated postretirement benefit obligation.
b. Aggregate the statuses of all overfunded plans and recognize that amount as an asset in its statement of financial position. It also shall aggregate the statuses of all underfunded plans and recognize that amount as a liability in its statement of financial position. A business entity that presents a classified statement of financial position shall classify the liability for an underfunded plan as a current liability, a noncurrent liability, or a combination of both. The current portion (determined on a plan-by-plan basis) is the amount by which the actuarial present value of benefits included in the benefit obligation payable in the next 12 months, or operating cycle if longer, exceeds the fair value of plan assets. The asset for

[2]Paragraph 49 of Statement 87 and paragraph 65 of Statement 106 address measuring plan assets at fair value. Paragraph 51 of Statement 87 and paragraph 66 of Statement 106 provide an exception to measuring plan assets at fair value. Plan assets used in plan operations shall be measured at cost less accumulated depreciation or amortization. Paragraph 61 of Statement 87 and paragraph 69 of Statement 106 also provide for a non-fair-value measurement of participation rights in certain insurance contracts.

an overfunded plan shall be classified as a noncurrent asset in a classified statement of financial position.

c. Recognize as a component of other comprehensive income[3] the gains or losses and prior service costs or credits that arise during the period but are not recognized as components of net periodic benefit cost of the period pursuant to Statements 87 and 106.
d. Recognize corresponding adjustments in other comprehensive income when the gains or losses, prior service costs or credits, and transition assets or obligations remaining from the initial application of Statements 87 and 106 are subsequently recognized as components of net periodic benefit cost pursuant to the recognition and amortization provisions of Statements 87, 88, and 106.
e. Apply the provisions of FASB Statement No. 109, *Accounting for Income Taxes,* to determine the applicable income tax effects of items (a)–(d) above.

Measurement Date of Plan Assets and Benefit Obligations

5. A business entity shall measure plan assets and benefit obligations as of the date of its fiscal year-end statement of financial position unless:

a. The plan is sponsored by a subsidiary that is consolidated using a fiscal period that differs from its parent's, as permitted by ARB No. 51, *Consolidated Financial Statements.*
b. The plan is sponsored by an investee that is accounted for using the equity method of accounting under APB Opinion No. 18, *The Equity Method of Accounting for Investments in Common Stock,* using financial statements of the investee for a fiscal period that is different from the investor's, as permitted by Opinion 18.

In those cases, a business entity shall measure the subsidiary's plan assets and benefit obligations as of the date used to consolidate the subsidiary's statement of financial position and shall measure the investee's plan assets and benefit obligations as of the date of the investee's financial statements used to apply the equity method. For example, if a calendar year-end parent consolidates a subsidiary using the subsidiary's September 30 financial statements, the funded status of the subsidiary's benefit plan included in the consolidated financial statements shall be measured as of September 30.

[3]A business entity that is not required to report other comprehensive income pursuant to FASB Statement No. 130, *Reporting Comprehensive Income,* shall apply the provisions of paragraphs 8–10 of this Statement in an analogous manner that is appropriate for its method of financial reporting.

6. Unless a business entity remeasures both its plan assets and benefit obligations during the fiscal year, the funded status it reports in its interim-period statement of financial position shall be the same asset or liability recognized in the previous year-end statement of financial position adjusted for (a) subsequent accruals of net periodic benefit cost that exclude the amortization of amounts previously recognized in other comprehensive income (for example, subsequent accruals of service cost, interest cost, and return on plan assets) and (b) contributions to a funded plan, or benefit payments. Sometimes, a business entity remeasures both plan assets and benefit obligations during the fiscal year. That is the case, for example, when a significant event such as a plan amendment, settlement, or curtailment occurs that calls for a remeasurement. Upon remeasurement, a business entity shall adjust its statement of financial position in a subsequent interim period (on a delayed basis if the measurement date provisions of this Statement have not yet been implemented) to reflect the overfunded or underfunded status of the plan consistent with that measurement date.

Disclosure Requirements

7. A business entity that sponsors one or more benefit plans shall disclose the following information in the notes to its annual financial statements, separately for pension plans and other postretirement benefit plans:

a. For each annual statement of income presented, the amounts recognized in other comprehensive income, showing separately the net gain or loss and net prior service cost or credit. Those amounts shall be separated into amounts arising during the period and reclassification adjustments of other comprehensive income as a result of being recognized as components of net periodic benefit cost for the period.
b. For each annual statement of income presented, the net transition asset or obligation recognized as a reclassification adjustment of other comprehensive income as a result of being recognized as a component of net periodic benefit cost for the period.
c. For each annual statement of financial position presented, the amounts in accumulated other comprehensive income that have not yet been recognized as components of net periodic benefit cost, showing separately the net gain or loss, net prior service cost or credit, and net transition asset or obligation.
d. The amounts in accumulated other comprehensive income expected to be recognized as components of net periodic benefit cost over the fiscal year that follows the most recent annual statement of financial position presented, showing separately the net gain or loss, net prior service cost or credit, and net transition asset or obligation.

e. The amount and timing of any plan assets expected to be returned to the business entity during the 12-month period, or operating cycle if longer, that follows the most recent annual statement of financial position presented.

Reporting by a Not-for-Profit Organization

Recognition of the Funded Status of a Single-Employer Defined Benefit Postretirement Plan

8. A not-for-profit organization that sponsors one or more single-employer defined benefit plans (a not-for-profit employer) shall:

a. Recognize the funded status of a benefit plan—measured as the difference between the fair value of plan assets[4] and the benefit obligation—in its statement of financial position. For a pension plan, the benefit obligation shall be the projected benefit obligation; for any other postretirement benefit plan, such as a retiree health care plan, the benefit obligation shall be the accumulated postretirement benefit obligation.
b. Aggregate the statuses of all overfunded plans and recognize that amount as an asset in its statement of financial position. It also shall aggregate the statuses of all underfunded plans and recognize that amount as a liability in its statement of financial position. A not-for-profit employer that presents a classified statement of financial position shall report the liability for an underfunded plan as a current liability, a noncurrent liability, or a combination of both. The current portion (determined on a plan-by-plan basis) is the amount by which the actuarial present value of benefits included in the benefit obligation payable in the next 12 months, or operating cycle if longer, exceeds the fair value of plan assets. The asset recognized for an overfunded plan shall be presented as a noncurrent asset in a classified statement of financial position.
c. Recognize as a separate line item or items within changes in unrestricted net assets, apart from expenses, the gains or losses and the prior service costs or credits that arise during the period but are not recognized as components of net periodic benefit cost pursuant to Statements 87 and 106. Consistent with the provisions of FASB Statement No. 117, *Financial Statements of Not-for-Profit Organizations,* this Statement does not prescribe whether the separate line item or items shall be included within or outside an intermediate measure of operations or performance indicator, if one is presented. The AICPA Audit and Accounting Guide, *Health Care Organizations,* requires a not-for-profit organ-

[4]See footnote 2.

ization within its scope to report items of other comprehensive income outside the performance indicator.

d. Reclassify to net periodic benefit cost a portion of the net gain or loss and prior service costs or credits previously recognized in a separate line item or items, pursuant to paragraph 8(c), and a portion of the transition asset or obligation remaining from the initial application of Statements 87 and 106, pursuant to the recognition and amortization provisions of Statements 87, 88, and 106. The contra adjustment or adjustments shall be reported in the same line item or items within changes in unrestricted net assets, apart from expenses, as the initially recognized amounts. Net periodic benefit cost shall be reported by functional classification pursuant to paragraph 26 of Statement 117.
e. Apply the provisions of Statement 109 to determine the applicable income tax effects, if any, of items (a)–(d) above.

Measurement Date of Plan Assets and Benefit Obligations

9. A not-for-profit employer shall measure plan assets and benefit obligations as of the date of its fiscal year-end statement of financial position, unless it meets one of the exceptions described in paragraph 5 for a business entity. Similarly, a not-for-profit employer shall report the funded status in interim-period financial statements (if presented) in an analogous manner to that described in paragraph 6 for a business entity.

Disclosure Requirements

10. A not-for-profit employer that sponsors one or more benefit plans shall disclose the following information in the notes to its annual financial statements, separately for pension plans and other postretirement benefit plans:

a. For each annual statement of activities presented, the net gain or loss and net prior service cost or credit recognized in the statement of activities apart from expenses. Those amounts shall be separated into amounts arising during the period and amounts reclassified as components of net periodic benefit cost of the period (unless they are separately reported pursuant to paragraphs 8(c) and 8(d)).
b. For each annual statement of activities presented, the net transition asset or obligation recognized as a component of net periodic benefit cost of the period (if not separately reported pursuant to paragraphs 8(c) and 8(d)).
c. For each annual statement of financial position presented, the amounts that have not yet been recognized as components of net periodic benefit cost, showing separately the net gain or loss, net prior service cost or credit, and net transition asset or obligation.

d. The amounts of net gain or loss, net prior service cost or credit, and net transition asset or obligation that arose previously and are expected to be recognized as components of net periodic benefit cost over the fiscal year that follows the most recent annual statement of financial position presented.
e. The amount and timing of any plan assets expected to be returned to the not-for-profit employer during the 12-month period, or operating cycle if longer, that follows the most recent annual statement of financial position presented.

Effective Dates

11. This Statement provides different effective dates for the recognition and related disclosure provisions and for the required change to a fiscal year-end measurement date. Also, the effective date of the recognition and disclosure provisions differs for an employer that is an issuer of publicly traded equity securities from one that is not. For purposes of this Statement, an employer is deemed to have publicly traded equity securities if any of the following conditions is met:

a. The employer has issued equity securities that trade in a public market, which may be either a stock exchange (domestic or foreign) or an over-the-counter market, including securities quoted only locally or regionally.
b. The employer has made a filing with a regulatory agency in preparation for the sale of any class of equity securities in a public market.
c. The employer is controlled by an entity covered by (a) or (b).

Effective Dates for Recognition and Related Disclosure Provisions

12. An employer with publicly traded equity securities shall initially apply the requirement to recognize the funded status of a benefit plan (paragraph 4) and the disclosure requirements (paragraph 7) as of the end of the fiscal year ending after December 15, 2006. Application as of the end of an earlier fiscal year is encouraged; however, early application shall be for all of an employer's benefit plans.

13. An employer without publicly traded equity securities shall initially apply the requirement to recognize the funded status of a benefit plan (paragraphs 4 and 8) and the disclosure requirements (paragraphs 7 and 10) as of the end of the fiscal year ending after June 15, 2007. Application as of the end of an earlier fiscal year is encouraged; however, early application shall be for all of an employer's benefit plans.

14. An employer without publicly traded equity securities shall disclose the following information in the notes to the financial statements for a fiscal year ending after

December 15, 2006, but before June 16, 2007, unless it has applied the recognition provisions of this Statement in preparing those financial statements:

a. A brief description of the provisions of this Statement
b. The date that adoption is required
c. The date the employer plans to adopt the recognition provisions of this Statement, if earlier.

Effective Date for Measurement Date Provisions

15. The requirement to measure plan assets and benefit obligations as of the date of the employer's fiscal year-end statement of financial position (paragraphs 5, 6, and 9) shall be effective for fiscal years ending after December 15, 2008, and shall not be applied retrospectively. Earlier application is encouraged; however, early application shall be for all of an employer's benefit plans. The requirement in paragraphs 5(k) and 8(j) of Statement 132(R) to disclose the measurement date is eliminated, effective in the year the employer initially adopts the measurement date provisions of this Statement.

Transition

Recognition Provisions

16. An employer shall apply the recognition provisions of this Statement as of the end of the fiscal year of initial application. Retrospective application is not permitted. The amounts recognized in an employer's statement of financial position as of the end of the fiscal year before applying this Statement, including amounts required to recognize any additional minimum pension liability, shall be adjusted so that:

a. For a business entity, gains or losses, prior service costs or credits, and transition assets or obligations that have not yet been included in net periodic benefit cost as of the end of the fiscal year in which the Statement is initially applied are recognized as components of the ending balance of accumulated other comprehensive income, net of tax. Any required adjustment shall be reported as an adjustment of the ending balance of accumulated other comprehensive income.
b. For a not-for-profit employer, gains or losses, prior service costs or credits, and transition assets or obligations that have not yet been included in net periodic benefit cost as of the end of the fiscal year in which this Statement is initially applied are included in the ending balance of unrestricted net assets, net of tax, if any. Any required adjustment shall be reported in the statement of activities, in

a separate line item or items within changes in unrestricted net assets, apart from expenses and outside a performance indicator or other intermediate measure of operations, if one is presented.

Measurement Date Provisions

17. This Statement provides two approaches for an employer to transition to a fiscal year-end measurement date. In the first approach (paragraph 18), an employer remeasures plan assets and benefit obligations as of the beginning of the fiscal year that the measurement date provisions are applied. An employer uses those new measurements to determine the effects of the measurement date change as of the beginning of the fiscal year that the measurement date provisions are applied. In the second approach (paragraph 19), an employer continues to use the measurements determined for the prior fiscal year-end reporting to estimate the effects of the change.

18. Under the first approach, an employer shall measure plan assets and benefit obligations as of the beginning of the fiscal year that the measurement date provisions are applied. For an employer that is a business entity:

a. Net periodic benefit cost for the period between the measurement date that is used for the immediately preceding fiscal year-end and the beginning of the fiscal year that the measurement date provisions are applied, exclusive of any curtailment or settlement gain or loss, shall be recognized, net of tax, as a separate adjustment of the opening balance of retained earnings. That is, the pretax amount recognized as an adjustment to retained earnings is the net periodic benefit cost that without a change in measurement date otherwise would have been recognized on a delayed basis during the first interim period for the fiscal year that the measurement date provisions are applied.
b. Any gain or loss arising from a curtailment or settlement between the measurement date that is used for the immediately preceding fiscal year-end and the beginning of the fiscal year that the measurement date provisions are applied shall be recognized in earnings in that period and not as an adjustment to retained earnings. This provision prohibits an employer from early application of the measurement date provisions when the employer has issued financial statements for the prior year without recognition of such a settlement or curtailment. For example, assume an employer with a June 30 year-end that used a March 31 measurement date curtailed its benefit plan on May 31, 2006, resulting in a curtailment loss. That employer would be able to apply early the measurement date provisions in fiscal year 2007 if it recognizes the May 31, 2006 curtailment loss in its financial statements for the year ending June 30, 2006. That would not

be the case if its 2006 financial statements had been issued before it wished to early adopt for fiscal year 2007.

c. Other changes in the fair value of plan assets and the benefit obligations (for example, gains or losses) for the period between the measurement date that is used for the immediately preceding fiscal year-end and the beginning of the fiscal year that the measurement date provisions are applied shall be recognized, net of tax, as a separate adjustment of the opening balance of accumulated other comprehensive income for the fiscal year that the measurement date provisions are applied.

The guidance in this paragraph also shall apply to a not-for-profit employer, except that the adjustments that would be made to the opening balances of retained earnings and accumulated other comprehensive income shall instead be recognized as a change in unrestricted net assets in the statement of activities, net of tax, if any. Those amounts shall be reported in a separate line item or items apart from expenses and outside a performance indicator or other intermediate measure of operations, if one is presented.

19. In lieu of remeasuring plan assets and benefit obligations as of the beginning of the fiscal year that the measurement date provisions are applied, under the second approach, an employer shall use earlier measurements determined for the year-end reporting as of the fiscal year immediately preceding the year that the measurement date provisions are applied. For an employer that is a business entity:

a. Net periodic benefit cost for the period between the earlier measurement date and the end of the fiscal year that the measurement date provisions are applied, exclusive of any curtailment or settlement gain or loss, shall be allocated proportionately between amounts to be recognized as an adjustment of retained earnings and net periodic benefit cost for the fiscal year that the measurement date provisions are applied. For example, a calendar-year employer that uses a September 30 measurement date and has no settlement or curtailment during the period would allocate as an adjustment of retained earnings three-fifteenths of net periodic benefit cost determined for the period from September 30, 2007, to December 31, 2008. The remaining twelve-fifteenths would be recognized as net periodic benefit cost for the fiscal year that the measurement date provisions first are applied.
b. Any gain or loss arising from a curtailment or settlement between the measurement date that is used for the immediately preceding fiscal year-end and the beginning of the fiscal year that the measurement date provisions are applied shall be recognized in earnings in that period and not as an adjustment to retained earnings. This provision prohibits an employer from early application of the measurement date provisions when the employer has issued financial statements

for the prior year without recognition of such a settlement or curtailment (see paragraph 18(b)).

c. Other changes in the fair value of plan assets and the benefit obligations (for example, gains or losses) for the period between the earlier measurement date and the end of the fiscal year that the measurement date provisions are applied shall be recognized as other comprehensive income for the fiscal year that the measurement date provisions are applied.

That approach shall be adjusted if, during the period between the earlier measurement date and the beginning of the fiscal year that the change in measurement date occurs, an employer elects to remeasure plan assets and benefit obligations or there is an event, such as a settlement or curtailment, that requires an intervening measurement. In that case, a revised net periodic benefit cost for the remainder of that period is determined by prorating the revised net periodic benefit cost for the period from the date of the intervening remeasurement to the end of the fiscal year that the measurement date provisions are applied. The guidance in this paragraph also shall apply to a not-for-profit employer, except that the adjustment that would be made to retained earnings shall instead be recognized as a change in unrestricted net assets in the statement of activities, net of tax, if any. Those amounts shall be reported in a separate line item or items apart from expenses and outside a performance indicator or other intermediate measure of operations, if one is presented. The amounts that would be recognized in other comprehensive income shall be recognized pursuant to paragraph 8 of this Statement.

Disclosures Required in the Year of Application

20. In the year that the recognition provisions of this Statement are initially applied, an employer shall disclose, in the notes to the annual financial statements, the incremental effect of applying this Statement on individual line items in the year-end statement of financial position.

21. In the year that the measurement date provisions of this Statement are initially applied, a business entity shall disclose the separate adjustments of retained earnings and accumulated other comprehensive income from applying this Statement. A not-for-profit employer shall disclose the separate adjustment of unrestricted net assets from applying this Statement.

22. The disclosures specified by paragraphs 17 and 18 of FASB Statement No. 154, *Accounting Changes and Error Corrections,* are not required.

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

This Statement was adopted by the unanimous vote of the seven members of the Financial Accounting Standards Board:

Robert H. Herz, *Chairman*
George J. Batavick
G. Michael Crooch
Thomas J. Linsmeier
Leslie F. Seidman
Edward W. Trott
Donald M. Young

Appendix A

IMPLEMENTATION GUIDANCE

Introduction

A1. This appendix is an integral part of this Statement. It provides guidance illustrating the transition provisions of this Statement in simplified situations. Applying those provisions to actual situations will require judgment; this appendix is intended to aid in making those judgments. Certain assumptions, including benefit payments, employer contributions, and obligations settled, have not been included because those transactions are not affected by the provisions of this Statement. Therefore, the examples do not include all the assumptions necessary to reconcile between various stated assumptions or the beginning and ending balances of plan assets or benefit obligations. Examples 1 and 2 provide implementation guidance for a business entity that sponsors a defined benefit postretirement plan. Example 3 provides guidance for a not-for-profit organization that sponsors a defined benefit postretirement plan.

Example 1—Application of the Recognition Provisions of This Statement

A2. Company A adopts the recognition and disclosure requirements of this Statement as of the end of its fiscal year (December 31, 2006). For simplicity, this example assumes that Company A's annual report includes a statement of financial position and a statement of changes in stockholders' equity. An income statement is not presented in this example because it is not affected by the recognition provisions of this Statement. Additionally, this example does not consider the effects on financial reporting for interim periods. In applying the recognition provisions of this Statement for transition, Company A adjusts the amounts recognized in the statement of financial position as of December 31, 2006, prior to application of this Statement, so that gains or losses, prior service costs or credits, and the transition asset or obligation that have not yet been included in net periodic benefit cost as of December 31, 2006, are recognized as a component of the ending balance of accumulated other comprehensive income, net of tax (illustrated in paragraph A4). The adjustment is reported as an adjustment of the ending balance of accumulated other comprehensive income (see paragraph A7).

A3. The funded status of Company A's defined benefit pension plan and the amounts not yet recognized as components of net periodic pension cost as of December 31, 2006, and December 31, 2007, are shown below. Company A measures plan assets and benefit obligations as of the date of its financial statements. Under the prior provisions of FASB Statement No. 87, *Employers' Accounting for Pensions,* Company A did not have an additional minimum pension liability at December 31, 2006. Company A is not required to amortize the cumulative net loss because it is less than 10 percent of the greater of the projected benefit obligation or the market-related value of plan assets for all years presented. No plan amendments affect the period from January 1, 2006, to December 31, 2007. Company A's applicable tax rate for 2006 and 2007 is 40 percent. All deferred tax assets recognized are evaluated by Company A, and no valuation allowance is considered necessary at any time. Under the prior provisions of Statement 87, Company A had a recognized liability of $45,000 at December 31, 2006, for the amount that past net periodic pension costs exceeded past contributions to the plan.

	12/31/06	**12/31/07**
	(in thousands)	
Projected benefit obligation	$(2,525)	$(2,700)
Plan assets at fair value	1,625	1,700
Funded status	$ (900)	$(1,000)
Items not yet recognized as a component of net periodic pension cost:		
Transition obligation	$ 240	$ 200
Prior service cost	375	350
Net loss	240	260
	$ 855	$ 810

A4. At December 31, 2006, Company A recognizes a liability for the underfunded status of its defined benefit pension plan and adjusts ending accumulated other comprehensive income, net of tax, for the transition obligation, prior service cost, and net loss that have not been recognized as a component of net periodic pension cost. The journal entry is shown below:

Accumulated other comprehensive income	855	
Deferred tax asset	342	
Deferred tax benefit—accumulated other comprehensive income		342
Liability for pension benefits		855

A5. The following table illustrates the adjustments made to Company A's statement of financial position for December 31, 2006. The table is not intended to illustrate the disclosure requirements of this Statement (see paragraph A6). This illustration assumes that plan assets exceed the actuarial present value of benefits to be paid over the next fiscal year. Therefore, the entire liability for pension benefits is classified as a long-term liability.

Company A
Statement of Financial Position
December 31, 2006
(in thousands)

	Before Application of Statement 158	Adjustments	After Application of Statement 158
Current assets:			
Cash	$ 40,000	$ 0	$ 40,000
Inventory	720,500	0	720,500
Total current assets	760,500	0	760,500
Intangible assets	100,000	0	100,000
Total assets	$860,500	$ 0	$860,500
Current liabilities	$ 60,000	$ 0	$ 60,000
Liability for pension benefits	45	855	900
Other long-term liabilities	99,955	0	99,955
Deferred income taxes	20,000	(342)	19,658
Total liabilities	180,000	513	180,513
Common stock	150,000	0	150,000
Paid-in capital	300,000	0	300,000
Retained earnings	205,500	0	205,500
Accumulated other comprehensive income	25,000	(513)	24,487
Total stockholders' equity	680,500	(513)	679,987
Total liabilities and stockholders' equity	$860,500	$ 0	$860,500

A6. The following table illustrates the disclosures required by paragraph 20 of this Statement in the year that the recognition provisions are initially adopted.

Incremental Effect of Applying FASB Statement No. 158
on Individual Line Items in the Statement of Financial Position
December 31, 2006
(in thousands)

	Before Application of Statement 158	Adjustments	After Application of Statement 158
Liability for pension benefits	$45	$855	$900
Deferred income taxes	20,000	(342)	19,658
Total liabilities	180,000	513	180,513
Accumulated other comprehensive income	25,000	(513)	24,487
Total stockholders' equity	680,500	(513)	679,987

A7. Company A's statement of changes in stockholders' equity for the year ended December 31, 2006, which includes the effects of applying the provisions of this Statement, follows. Brackets are used to highlight those effects. The table is not intended to illustrate the disclosure requirements of this Statement.

Company A
Statement of Changes in Stockholders' Equity
Year Ended December 31, 2006
(in thousands)

	Total	Comprehensive Income	Retained Earnings	Accumulated Other Comprehensive Income	Common Stock	Paid-in Capital
Balance at December 31, 2005	$612,979		$137,988	$24,991	$150,000	$300,000
Comprehensive income						
Net income for 2006	67,512	$67,512	67,512			
Other comprehensive income, net of tax						
Foreign currency translation gain	15	15				
Unrealized holding loss arising during period	(6)	(6)				
Other comprehensive income		9		9		
Comprehensive income		$67,521				
Adjustment to initially apply FASB Statement No. 158, net of tax	[(513)]			[(513)]		
Balance at December 31, 2006	$679,987		$205,500	$24,487	$150,000	$300,000

A8. In applying this Statement in 2007, Company A:

a. Adjusts other comprehensive income, net of tax, to recognize the amortization of the transition obligation in net periodic pension cost
b. Adjusts other comprehensive income, net of tax, to recognize the amortization of prior service cost in net periodic pension cost
c. Recognizes a pension liability for the additional net loss arising during the year, and a corresponding decrease in other comprehensive income, net of tax
d. Recognizes a pension liability and net periodic pension cost, net of tax, for the service cost, interest cost, and expected return on plan assets.

A9. The components of projected net periodic pension cost for the year ended December 31, 2007, are:

Service cost	$120
Interest cost	95
Expected return on plan assets	(80)
Amortization of prior service cost	25
Amortization of the transition obligation	40
Amortization of net (gain) loss	0
Net periodic benefit cost	$200

A10. For the year ending December 31, 2007, Company A makes the following journal entries in applying the recognition provisions of this Statement:

a. Recognize net periodic pension cost and a corresponding increase in other comprehensive income, net of tax, for amortization of the transition obligation (see paragraph A9):

Net periodic pension cost	40	
Deferred tax benefit—other comprehensive income	16	
Deferred tax benefit—net income		16
Other comprehensive income		40

b. Recognize net periodic pension cost and a corresponding increase in other comprehensive income, net of tax, for amortization of prior service cost (see paragraph A9):

Net periodic pension cost	25	
Deferred tax benefit—other comprehensive income	10	
Deferred tax benefit—net income		10
Other comprehensive income		25

c. Recognize a pension liability and net periodic pension cost, net of tax, for the service cost of $120, interest cost of $95, and the expected return on plan assets of $(80) (see paragraph A9):

Net periodic pension cost	135	
Deferred tax asset	54	
Deferred tax benefit—net income		54
Liability for pension benefits		135

d. Recognize a pension liability for the additional net loss arising during the year and a corresponding decrease in other comprehensive income, net of tax (this is the increase in net loss from $240 to $260 shown in paragraph A3):

Other comprehensive income	20	
Deferred tax asset	8	
Deferred tax benefit—other comprehensive income		8
Liability for pension benefits		20

Example 2(a)—Change in the Measurement Date and Plan Settlement

A11. Company B adopted the recognition provisions of this Statement in its December 31, 2006 financial statements. As required by this Statement, Company B changes the measurement date for its defined benefit pension plan from September 30 to December 31 for its 2008 financial statements. Company B elects to implement that change by remeasuring plan assets and obligations as of December 31, 2007 (see paragraph 18). Company B has a plan settlement on November 30, 2007, and remeasures its plan assets and benefit obligations as of November 30, 2007, resulting in a settlement loss before taxes of $60,000, which is a portion of the net loss in accumulated other comprehensive income. However, the effects of remeasuring plan assets and obligations as of November 30, 2007, on the funded status reported in Company B's statement of financial position are not recognized until the following fiscal year because the change in measurement date has not been adopted at November 30, 2007. In recognizing the effects of the plan settlement and change in measurement date, Company B:

a. Recognizes the settlement loss in net income in the fourth quarter of 2007 and a corresponding decrease in the cumulative net loss in other comprehensive income (illustrated in paragraph A14)
b. Recognizes the net periodic pension cost incurred from October 1, 2007, to December 31, 2007, net of tax, as an adjustment to beginning retained earnings and beginning accumulated other comprehensive income for 2008 (illustrated in paragraph A15(a))
c. Recognizes any gains or losses arising during the period from October 1, 2007, to December 31, 2007, net of tax, as an adjustment to beginning accumulated other comprehensive income for 2008 (illustrated in paragraph A15(b))
d. Recognizes corresponding changes in its pension liability and deferred tax accounts for the above items.

A12. The funded statuses of Company B's plan as of September 30, 2007, November 30, 2007, December 31, 2007, and December 31, 2008, and amounts included in accumulated other comprehensive income to be recognized as a component of net periodic pension cost are shown below. Company B has no remaining transition asset or obligation. Company B is not required to amortize the cumulative net loss because it is less than 10 percent of the greater of the market-related value of plan assets or the projected benefit obligation for all years presented. Company B's applicable tax rate for 2007 and 2008 is 40 percent. All deferred tax assets recognized are evaluated by Company B, and no valuation allowance is considered necessary at any time.

	9/30/07	**11/30/07**	**12/31/07**	**12/31/08**
		(in thousands)		
Projected benefit obligation	$(3,660)	$(3,200)	$(3,210)	$(3,700)
Plan assets at fair value	2,600	2,200	2,225	2,200
Funded status	$(1,060)	$(1,000)	$ (985)	$(1,500)
Items not yet recognized as a component of net periodic pension cost:				
Prior service cost	$ 380	$ 360	$ 350	$ 230
Net loss	265	220	315	365
	$ 645	$ 580	$ 665	$ 595

A13. Based on actuarial valuations performed as of September 30, 2007, and November 30, 2007, Company B determines its net periodic pension cost for the two-month period from October 1, 2007, to November 30, 2007, and for the one-month period from December 1, 2007, to December 31, 2007, respectively, to be:

Net Periodic Pension Cost for:	**2 Months**	**1 Month**	**Total**
Service cost	$ 25	$ 15	$ 40
Interest cost	30	15	45
Expected return on plan assets	(30)	(15)	(45)
Total service cost, interest cost, and expected return on plan assets	25	15	40
Amortization of prior service cost	20	10	30
Amortization of net loss	0	0	0
Total amortization	20	10	30
Net periodic benefit cost	$ 45	$ 25	$ 70

A14. In the fourth quarter of 2007, Company B makes the following journal entry to recognize the settlement loss:

Net periodic pension cost (settlement loss)	60	
Deferred tax benefit—other comprehensive income	24	
Deferred tax benefit—net income		24
Other comprehensive income		60

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A15. In 2008, Company B makes the following journal entries in applying the measurement date provisions of this Statement:

a. Adjust the beginning balances of retained earnings, accumulated other comprehensive income, pension liability, and deferred tax accounts for the amortization of prior service cost and the service cost, interest cost, and expected return on plan assets (see paragraph A13):

Retained earnings	70	
Deferred tax asset ($40 × 40%)	16	
Deferred tax benefit—other comprehensive income ($30 × 40%)	12	
Deferred tax benefit—retained earnings ($70 × 40%)		28
Accumulated other comprehensive income		30
Liability for pension benefits		40

b. Adjust the beginning balances of accumulated other comprehensive income, pension liability, and deferred tax accounts for the net loss arising during the period:

Accumulated other comprehensive income	110[a]	
Deferred tax asset	44	
Deferred tax benefit—accumulated other comprehensive income		44
Liability for pension benefits		110

[a]This is the net change in the cumulative net loss after recognition of the settlement loss, calculated as follows: Net loss at 12/31/07 of $315 – Net loss at 9/30/07 of $265 + Plan settlement loss of $60 = $110.

A16. Company B's statement of changes in stockholders' equity for 2007 and 2008, which shows the effects of the settlement loss and change in measurement date, follows. Brackets are used to highlight those effects. The table is not intended to illustrate the disclosure requirements of this Statement.

Company B
Statement of Changes in Stockholders' Equity
Years Ended December 31, 2007, and 2008
(in thousands)

	Total	Comprehensive Income	Retained Earnings	Accumulated Other Comprehensive Income	Common Stock	Paid-in Capital
Balance at December 31, 2006	$289,140		$55,000	$(360)	$195,000	$39,500
Comprehensive income						
Net income for 2007	5,464	[$5,464[b]]	5,464			
Other comprehensive income, net of tax						
Settlement loss (see paragraph A14)	[36]	[36]				
Prior service cost	72	72				
Net loss	(99)	(99)				
Other comprehensive income		9		9		
Comprehensive income		$5,473				
Balance at December 31, 2007	294,613		60,464	(351)	195,000	39,500

Effects of changing pension plan measurement date pursuant to FASB Statement No. 158						
Service cost, interest cost, and expected return on plan assets for October 1–December 31, net of tax (see paragraph A15(a))	[(24)]		[(24)]			
Amortization of prior service cost for October 1–December 31, net of tax (see paragraph A15(a))	0		[(18)]	[18]		
Additional loss for October 1–December 31, net of tax (see paragraph A15(b))	[(66)]			[(66)]		
Beginning balance, as adjusted	294,523		60,422	(399)	195,000	39,500
Comprehensive income						
Net income for 2008	12,000	$12,000	12,000			
Other comprehensive income, net of tax						
Prior service cost	72	72				
Net loss	(30)	(30)				
Other comprehensive income		42		42		
Comprehensive income		$12,042				
Balance at December 31, 2008	$306,565		$72,422	$(357)	$195,000	$39,500

[b]Includes the settlement loss of $60 ($36, net of tax).

Example 2(b)—Change in the Measurement Date (Alternative Method)

A17. Company C adopted the recognition provisions of this Statement in its December 31, 2006 financial statements. As required by this Statement, Company C changes the measurement date for its defined benefit pension plan from September 30 to December 31 for its 2008 financial statements. Company C elects the alternative transition method (see paragraph 19). Based on the measurement of plan assets and benefit obligations as of September 30, 2007, Company C's actuary prepares a 15-month projection of net periodic pension cost to December 31, 2008. In recognizing the effects of the change in measurement date for its 2008 financial statements, Company C:

a. Allocates the net periodic pension cost for the 15-month period from October 1, 2007, to December 31, 2008, net of tax, proportionately between amounts to be recognized as an adjustment of retained earnings and net periodic pension cost for 2008 (illustrated in paragraphs A19, A20(a), and A20(b))
b. Recognizes any net gain or loss arising during the period from October 1, 2007, to December 31, 2008, net of tax, in other comprehensive income for 2008 (illustrated in paragraph A21)
c. Recognizes corresponding changes in its pension liability and deferred tax accounts for the above items.

A18. The funded statuses of Company C's plan as of September 30, 2007, and December 31, 2008, and amounts included in accumulated other comprehensive income to be recognized as components of net periodic pension cost are shown below. Company C has no remaining transition asset or obligation. Company C is not required to amortize the cumulative net loss because it is less than 10 percent of the greater of the market-related value of plan assets or the projected benefit obligation for all years presented. Company C's applicable tax rate for 2007 and 2008 is 40 percent. All deferred tax assets recognized are evaluated by Company C, and no valuation allowance is considered necessary at any time.

	9/30/07	12/31/08
	(in thousands)	
Projected benefit obligation	$(3,200)	$(3,500)
Plan assets at fair value	2,200	2,330
Funded status	$(1,000)	$(1,170)
Items not yet recognized as a component of net periodic pension cost:		
Prior service cost	$ 400	$ 275
Net loss	265	315
	$ 665	$ 590

A19. Based on an actuarial valuation performed as of September 30, 2007, Company C determines its net periodic pension cost for the 15-month period from October 1, 2007, to December 31, 2008, and allocates its net periodic pension cost proportionately between amounts to be recognized as an adjustment of retained earnings and net periodic pension cost for 2008 as follows:

Net Periodic Pension Cost for:	15 Months	3 Months	12 Months
Service cost	$ 130		
Interest cost	150		
Expected return on plan assets	(105)		
Total service cost, interest cost, and expected return on plan assets	175	$35	$140
Amortization of prior service cost	125		
Amortization of net loss	0		
Total amortization	125	25	100
Net periodic pension cost	$ 300	$60	$240

A20. In 2008, Company C makes the following journal entries in applying the measurement date provisions of this Statement:

a. Adjust retained earnings, accumulated other comprehensive income, pension liability, and deferred tax accounts for three-fifteenths of the net periodic pension cost projected for the 15-month period from October 1, 2007, to December 31, 2008 (see paragraph A19):

Retained earnings	60	
Deferred tax assets ($35 × 40%)	14	
Deferred tax benefit—other comprehensive income ($25 × 40%)	10	
Deferred tax benefit—retained earnings ($60 × 40%)		24
Accumulated other comprehensive income		25
Liability for pension benefits		35

b. Recognize net periodic pension cost for twelve-fifteenths of the net periodic pension cost projected for the 15-month period from October 1, 2007, to December 31, 2008, and make corresponding changes to the pension liability and deferred tax accounts (see paragraph A19):

Net periodic pension cost	240	
Deferred tax assets ($140 × 40%)	56	
Deferred tax benefit—other comprehensive income ($100 × 40%)	40	
Deferred tax benefit—net income ($240 × 40%)		96
Other comprehensive income		100
Liability for pension benefits		140

A21. In 2008, Company C adjusts other comprehensive income and pension liability for the entire net loss arising during the period from October 1, 2007, to December 31, 2008, because net gains or losses cannot be readily identifiable as arising in certain periods. The journal entry is as follows:

Other comprehensive income	50[a]	
Deferred tax asset	20	
Deferred tax benefit—other comprehensive income		20
Liability for pension benefits		50

[a]This is the net change in the cumulative net loss, calculated as follows: Net loss at 12/31/07 of \$315 – Net loss at 9/30/07 of \$265 = \$50.

A22. Company C's statement of changes in stockholders' equity for 2007 and 2008, which shows the effects of the change in measurement date, follows. Brackets are used to highlight those effects. The table is not intended to illustrate the disclosure requirements of this Statement.

Company C
Statement of Changes in Stockholders' Equity
Years Ended December 31, 2007, and 2008
(in thousands)

	Total	Comprehensive Income	Retained Earnings	Accumulated Other Comprehensive Income	Common Stock	Paid-in Capital
Balance at December 31, 2006	$559,800		$30,000	$(200)	$400,000	$130,000
Comprehensive income						
Net income for 2007	10,500	$10,500	10,500			
Other comprehensive income, net of tax						
Prior service cost	60	60				
Net loss	(39)	(39)				
Other comprehensive income		21		21		
Comprehensive income		$10,521				
Balance at December 31, 2007	570,321		40,500	(179)	400,000	130,000
Comprehensive income						
Net income for 2008 (see paragraph A20(b))	11,856	[$11,856[b]]	11,856			
Other comprehensive income, net of tax						
Prior service cost (see paragraph A20(b))	[60]	[60]				
Net loss (see paragraph A21)	[(30)]	[(30)]				
Other comprehensive income		30		30		
Comprehensive income		$11,886				

Effects of changing the pension plan measurement date pursuant to FASB Statement No. 158						
Service cost, interest cost, and expected return on plan assets for October 1–December 31, 2007, net of tax (see paragraph A20(a))	[(21)]		[(21)]			
Amortization of prior service cost for October 1–December 31, 2007, net of tax (see paragraph A20(a))	0		[(15)]	[15]		
	(21)		(36)	15		
Balance at December 31, 2008	$582,186		$52,320	$(134)	$400,000	$130,000

[b]Includes the net periodic pension cost of $240 ($144, net of tax).

Example 2(c)—Change in the Measurement Date (Alternative Method) and Plan Settlement

A23. Company D adopted the recognition provisions of this Statement in its December 31, 2006 financial statements. As required by this Statement, Company D changes the measurement date for its defined benefit pension plan from September 30 to December 31 for its 2008 financial statements. Company D elects the alternative transition method (see paragraph 19). As of September 30, 2007, Company D's actuary prepares a 15-month projection of net periodic pension cost to December 31, 2008. Company D has a plan settlement on November 30, 2007, resulting in new measurements of plan assets and obligations and recognition of a loss before taxes of $90,000, which is a portion of the net loss in accumulated other comprehensive income. As a result of the plan settlement, the actuary prepares a new projection of net periodic pension cost for the 13 months to December 31, 2008. Pursuant to paragraph 19, the loss from the plan settlement is recognized in the last quarter of 2007. However, the effects of remeasuring plan assets and obligations as of November 30, 2007, on the funded status reported in Company D's statement of financial position are not recognized until the following fiscal year because the change in measurement date has not been adopted at November 30, 2007. In recognizing the effects of the plan settlement and change in measurement date, Company D:

a. Recognizes the settlement loss in net income in the fourth quarter of 2007 and a corresponding decrease in the cumulative net loss in other comprehensive income (illustrated in paragraph A25)
b. Determines the net periodic pension cost for the period between September 30, 2007, and December 31, 2007, net of tax, to be recognized in 2008 as an adjustment of retained earnings by proportionately allocating projections of net periodic pension cost for 15 months and 13 months made as of September 30, 2007, and November 30, 2007, respectively (illustrated in paragraphs A27, A28(a), and A28(c))
c. Recognizes any net gain or loss arising during the period from October 1, 2007, to November 30, 2007, net of tax, as an adjustment of accumulated other comprehensive income and recognizes any net gain or loss arising during the period from December 1, 2007, to December 31, 2008, net of tax, as an adjustment of other comprehensive income for 2008 (illustrated in paragraphs A28(b) and A29)
d. Recognizes corresponding changes in its pension liability and deferred tax accounts for the above items.

A24. The funded statuses of Company D's plan as of September 30, 2007, November 30, 2007, and December 31, 2008, and amounts previously included in accumulated other comprehensive income that are to be recognized as a component of net periodic pension cost are shown below. Company D has no remaining transition asset or obligation. Company D is not required to amortize the cumulative net loss because it is less than 10 percent of the greater of the market-related value of plan assets or the projected benefit obligation for all years presented. Company D's applicable tax rate for 2007 and 2008 is 40 percent. All deferred tax assets recognized are evaluated by Company D, and no valuation allowance is considered necessary at any time.

	9/30/07	**11/30/07**	**12/31/08**
		(in thousands)	
Projected benefit obligation	$(3,550)	$(3,600)	$(3,610)
Plan assets at fair value	2,500	2,525	2,510
Funded status	$(1,050)	$(1,075)	$(1,100)
Items not yet recognized as a component of net periodic pension cost:			
Prior service cost	$ 400	$ 380	$ 250
Net loss	200	250	300
	$ 600	$ 630	$ 550

A25. In the fourth quarter of 2007, Company D makes the following journal entry to recognize the settlement loss:

Net periodic pension cost (settlement loss)	90	
Deferred tax benefit—other comprehensive income	36	
Deferred tax benefit—net income		36
Other comprehensive income		90

A26. Based on actuarial valuations performed as of September 30, 2007, and November 30, 2007, Company D determines its net periodic pension cost for the 2-month period from October 1, 2007, to November 30, 2007, and 13-month period from December 1, 2007, to December 31, 2008, respectively, to be:

Net Periodic Pension Cost for:	**2 Months**	**13 Months**
Service cost	$ 17	$ 110
Interest cost	20	140
Expected return on plan assets	(14)	(100)
Total service cost, interest cost, and expected return on plan assets	23	150
Amortization of prior service cost	20	130
Amortization of net (gain) loss	0	0
Total amortization	20	130
Net periodic pension cost	$ 43	$ 280

A27. Company D allocates its net periodic pension cost proportionately between the amounts to be recognized as an adjustment of retained earnings and net periodic pension cost for 2008 as follows:

Adjustment to Retained Earnings:	**2 Months**	**13 Months (above) × (1/13)**	**Total**
Service cost	$ 17	$ 8	$ 25
Interest cost	20	11	31
Expected return on plan assets	(14)	(7)	(21)
Total service cost, interest cost, and expected return on plan assets	23	12	35
Amortization of prior service cost	20	10	30
Amortization of net (gain) loss	0	0	0
Total amortization	20	10	30
Net periodic pension cost	$ 43	$22	$ 65

Adjustment to Net Periodic Pension Cost:	**13 Months (above) × (12/13)**
Service cost	$101
Interest cost	129
Expected return on plan assets	(92)
Total service cost, interest cost, and expected return on plan assets	138
Amortization of prior service cost	120
Amortization of net (gain) loss	0
Total amortization	120
Net periodic pension cost	$258

A28. In 2008, Company D makes the following journal entries in applying the measurement date provisions of this Statement:

a. Adjust retained earnings, accumulated other comprehensive income, pension liability, and deferred tax accounts for the net periodic pension cost for the 2-month period from October 1, 2007, to November 30, 2007, and one-thirteenth of the net periodic pension cost projected for the 13-month period from December 1, 2007, to December 31, 2008 (see paragraph A27):

Retained earnings	65	
Deferred tax assets ($35 × 40%)	14	
Deferred tax benefit—other comprehensive income ($30 × 40%)	12	
Deferred tax benefit—retained earnings ($65 × 40%)		26
Accumulated other comprehensive income		30
Liability for pension benefits		35

b. Adjust accumulated other comprehensive income, pension liability, and deferred tax accounts for the net loss arising during the two-month period from October 1, 2007, to November 30, 2007:

Accumulated other comprehensive income	140[a]	
Deferred tax assets	56	
Deferred tax benefit—accumulated other comprehensive income		56
Liability for pension benefits		140

c. Recognize net periodic pension cost, pension liability, and deferred tax assets for twelve-thirteenths of the net periodic pension cost projected for the 13-month period from December 1, 2007, to December 31, 2008 (see paragraph A27):

Net periodic pension cost	258	
Deferred tax assets ($138 × 40%)	55	
Deferred tax benefit—other comprehensive income ($120 × 40%)	48	
Deferred tax benefit—net income ($258 × 40%)		103
Other comprehensive income		120
Liability for pension benefits		138

[a]This is the net change in the cumulative net loss after recognition of the settlement loss, calculated as follows: Net loss at 11/30/07 of $250 – Net loss at 9/30/07 of $200 + Plan settlement loss of $90 = $140.

A29. In 2008, Company D adjusts other comprehensive income and pension liability for the entire net loss arising during the period from December 1, 2007, to December 31, 2008, because net gains and losses cannot be readily identifiable as arising in certain periods. The journal entry is as follows:

Other comprehensive income	50[b]	
Deferred tax asset	20	
Deferred tax benefit—other comprehensive income		20
Liability for pension benefits		50

[b]This is the net change in the cumulative net loss, calculated as follows: Net loss at 12/31/08 of $300 – Net loss at 11/30/07 of $250 = $50.

A30. The following is Company D's statement of changes in stockholders' equity for 2007 and 2008 that shows the effects of the change in measurement date. Brackets are used to highlight those effects. The table is not intended to illustrate the disclosure requirements of this Statement.

Company D
Statement of Changes in Stockholders' Equity
Years Ended December 31, 2007, and 2008
(in thousands)

	Total	Comprehensive Income	Retained Earnings	Accumulated Other Comprehensive Income	Common Stock	Paid-in Capital
Balance at December 31, 2006	$659,100		$100,000	$(900)	$500,000	$60,000
Comprehensive income						
Net income for 2007	20,446	[$20,446[c]]	20,446			
Other comprehensive income, net of tax						
Settlement loss (see paragraph A25)	[54]	[54]				
Prior service cost	72	72				
Net loss	(60)	(60)				
Other comprehensive income		66		66		
Comprehensive income		$20,512				
Balance at December 31, 2007	679,612		120,446	(834)	500,000	60,000
Comprehensive income						
Net income for 2008 (see paragraph A28(c))	11,845	[$11,845[d]]	11,845			
Other comprehensive income, net of tax						
Prior service cost	72	72				
Net loss (see paragraph A29)	[(30)]	[(30)]				
Other comprehensive income		42		42		
Comprehensive income		$11,887				

Effects of accounting change regarding pension plan measurement date pursuant to FASB Statement No. 158						
Service cost, interest cost, and expected return on plan assets for October 1–December 31, 2007, net of tax (see paragraph A28(a))	[(21)]		[(21)]			
Additional net loss for October 1–November 30, 2007 (see paragraph A28(b))	[(84)]			[(84)]		
Amortization of prior service cost for October 1–December 31, 2007, net of tax (see paragraph A28(a))	0		[(18)]	[18]		
	(105)		(39)	(66)		
Balance at December 31, 2008	$691,394		$132,252	$(858)	$500,000	$60,000

[c]Includes the settlement loss of $90 ($54, net of tax).

[d]Includes the net periodic pension cost of $258 ($155, net of tax).

A31. If Company D issues financial information about its financial position as of a date in 2008 but prior to December 31, 2008, the effects of remeasuring plan assets and obligations as of November 30, 2007, on the funded status reported in Company D's statement of financial position would be recognized prior to issuing that information as follows:

a. Adjust other comprehensive income for amortization of prior service cost:

Retained earnings	20	
Deferred tax benefit—other comprehensive income	8	
Deferred tax benefit—retained earnings		8
Other comprehensive income		20

b. Recognize the additional loss in other comprehensive income:

Other comprehensive income	140	
Deferred tax asset	56	
Deferred tax benefit—other comprehensive income		56
Liability for pension benefits		140

Example 3—Application of the Recognition Provisions and Early Adoption of the Measurement Date Provisions of This Statement by a Not-for-Profit Organization

Year of Initial Adoption

A32. Organization E, a not-for-profit, voluntary health and welfare organization, adopts the recognition provisions of this Statement at the end of its fiscal year (June 30, 2007). Organization E also elects to adopt early the measurement date provisions of this Statement and changes the measurement date for its defined benefit pension plan from March 31 to June 30 for its 2007 financial statements. Organization E is able to adopt early because it did not have any settlements or curtailments during the three-month period ended June 30, 2006, for which there would have been delayed recognition (see paragraphs 18(b) and 19(b)). Organization E elects the alternative transition method for the change in measurement date (see paragraph 19). Organization E's actuary prepares a 15-month projection of net periodic pension cost for April 1, 2006, to June 30, 2007 (based on the 12-month projection previously prepared for April 1, 2006, to March 31, 2007).

A33. In applying the recognition provisions of this Statement for transition, Organization E adjusts the amounts recognized in its statement of financial position as of June 30, 2007, prior to application of this Statement, so that gains or losses, prior service costs or credits, and the transition asset or obligation that have not yet been included in net periodic benefit cost as of June 30, 2007, are included in the ending balance of unrestricted net assets, net of tax, if any. Any required adjustment is reported in the statement of activities, in a separate line item or items within changes in unrestricted net assets, apart from expenses and outside a performance indicator or other intermediate measure of operations, if one is presented.

A34. The funded status of Organization E's defined benefit pension plan as of March 31, 2006, and June 30, 2007, and amounts to be recognized as components of net periodic pension cost are shown below. Under the prior provisions of Statement 87, Organization E would not have had an additional minimum pension liability at June 30, 2007. The cumulative net loss not yet recognized as a component of net periodic pension cost is less than 10 percent of the greater of the projected benefit obligation or the market-related value of plan assets for both years presented. No plan amendments affect the period from April 1, 2006, to June 30, 2007. Organization E is not subject to income taxes.

	3/31/06	6/30/07
	(in thousands)	
Projected benefit obligation	$(3,660)	$(3,670)
Plan assets at fair value	2,600	2,510
Funded status	$(1,060)	$(1,160)
Items not yet recognized as a component of net periodic pension cost:		
Transition obligation	$ 290	$ 240
Prior service cost	400	275
Net loss	265	315
	$ 955	$ 830
Components of projected 15 months' net periodic pension cost:		
Service cost	$ 130	
Interest cost	150	
Expected return on plan assets	(155)	
Amortization of prior service cost	125	
Amortization of net (gain) loss	0	
Amortization of transition obligation	50	
Net periodic pension cost	$ 300	

At June 30, 2007, Organization E recognizes a liability for the underfunded status of its defined benefit pension plan and adjusts the ending balance of unrestricted net assets for the transition obligation, prior service cost, and net loss that have not been recognized as components of net periodic pension cost. The journal entry is shown below:

Change in unrestricted net assets to initially apply the recognition provisions of FASB Statement No. 158	830	
Liability for pension benefits		830

A35. In recognizing the effects of the change in measurement date for its 2007 financial statements, Organization E allocates the net periodic pension cost for the 15-month period from April 1, 2006, to June 30, 2007, proportionately between amounts to be recognized as an adjustment of unrestricted net assets and net periodic pension cost for 2007 (illustrated in paragraph A36). The latter is reported within the appropriate functional expense categories.

A36. The 15-month projection of net periodic pension cost is allocated proportionately between amounts to be recognized as an adjustment of unrestricted net assets and net periodic pension cost for 2007:

	4/1/06–6/30/06	**7/1/06–6/30/07**
Net periodic pension cost	$300 × (3/15) = $60	$300 × (12/15) = $240

The journal entry to recognize the adjustment of unrestricted net assets is as follows:

Change in unrestricted net assets related to change in measurement date under FASB Statement No. 158	60	
Liability for pension benefits		60

A37. The following is Organization E's statement of activities, which includes an intermediate measure of operations. The estimated $240 of net periodic pension cost for 2007 is reported within the appropriate functional expense categories. The $890 decrease in unrestricted assets displayed as the effect of adoption of the recognition and measurement date provisions of this Statement comprises $830 of items not yet recognized in net periodic pension cost as of June 30, 2007 (transition obligation, prior service cost, and net loss), and $60 of net periodic pension cost allocated to the period from April 1, 2006, to June 30, 2006. Pursuant to paragraphs 16(b) and 19, Organization E recognizes the $890 accounting adjustment apart from expenses and outside its intermediate measure of operations. Because Organization E elects to present the accounting changes in a single line item, it discloses the individual components in the notes to financial statements (see paragraphs 10, 20, and 21).

Organization E
Statement of Activities
Year Ended June 30, 2007
(in thousands)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Operating:				
Revenues, gains, and other support:				
Private contributions, other than bequests	$ 65,000	$ 15,800		$ 80,800
Bequests	9,000			9,000
Government grants		7,000		7,000
Investment income used for operating activities	12,000	1,000		13,000
Sales of educational materials	1,000			1,000
Other	3,000			3,000
Net assets released from restrictions	15,000	(15,000)		0
Total revenues, gains, and other support	105,000	8,800		113,800
Expenses:				
Program services:				
Research and medical support	62,000			62,000
Public education	8,000			8,000
Community service	13,000			13,000
Total program services	83,000			83,000
Supporting services:				
Fund raising	9,000			9,000
Management and general	8,000			8,000
Total supporting services	17,000			17,000
Total expenses	100,000			100,000
Increase in net assets from operating activities	5,000	8,800		13,800
Nonoperating:				
Investment income in excess of amount used for operating activities	3,000			3,000
Contributions for endowment funds			$10,000	10,000
Increase in net assets before effect of adoption of FASB Statement No. 158	8,000	8,800	10,000	26,800
Effect of adoption of recognition and measurement date provisions of FASB Statement No. 158	(890)			(890)
Increase in net assets	7,110	8,800	10,000	25,910
Net assets, beginning of year	140,000	40,000	20,000	200,000
Net assets, end of year	$147,110	$ 48,800	$30,000	$225,910

Subsequent Year

A38. Organization E's actuary prepares a 12-month projection of net periodic pension cost for July 1, 2007, to June 30, 2008. The funded status of Organization E's defined benefit pension plan as of June 30, 2007 (repeated from above), and June 30, 2008, and amounts to be recognized as components of net periodic pension cost, are shown below. The cumulative net loss not yet recognized as a component of net periodic pension cost is less than 10 percent of the greater of the projected benefit obligation and the market-related value of plan assets. No plan amendments affect the period from July 1, 2007, to June 30, 2008. Assumptions about benefit payments and contributions made by Organization E have not been included in this example because those transactions are not affected by the provisions of this Statement. During the fiscal year ending June 30, 2008, Organization E:

a. Recognizes the additional net loss as a change in unrestricted net assets and a change in the liability that reflects the underfunded status of the plan
b. Recognizes the amortization of the transition obligation as a component of net periodic pension cost
c. Recognizes the amortization of prior service cost as a component of net periodic pension cost
d. Recognizes net periodic pension cost for 2008, reported within the appropriate functional expense categories.

	6/30/07	6/30/08
	(in thousands)	
Projected benefit obligation	$(3,670)	$(3,600)
Plan assets at fair value	2,510	2,385
Funded status	$(1,160)	$(1,215)
Items not yet recognized as a component of net periodic pension cost:		
Transition obligation	$ 240	$ 200
Prior service cost	275	175
Net loss	315	365
	$ 830	$ 740
Components of projected 12 months' net periodic pension cost for fiscal year 2008:		
Service cost	$ 110	
Interest cost	120	
Expected return on plan assets	(125)	
Amortization of prior service cost	100	
Amortization of net (gain) loss	0	
Amortization of transition obligation	40	
Net periodic pension cost	$ 245	

A39. For the year ending June 30, 2008, Organization E recognizes the amortizations of the transition obligation and prior service cost as components of net periodic pension cost and recognizes the additional loss arising during the year. The journal entries are shown below:

a. Recognize the additional loss in unrestricted net assets:

Net loss not yet recognized in net periodic pension cost	50	
Liability for pension benefits		50

b. Recognize the amortization of the transition obligation in net periodic pension cost:

Net periodic pension cost (functionalized)	40	
Transition obligation not yet recognized in net periodic pension cost		40

c. Recognize the amortization of prior service cost in net periodic pension cost:

Net periodic pension cost (functionalized)	100	
Prior service cost not yet recognized in net periodic pension cost		100

d. Recognize service cost, interest cost, and the expected return on plan assets in net periodic pension cost:

Net periodic pension cost (functionalized)	105[a]	
Liability for pension benefits		105

In its statement of activities, Organization E chooses to present one combined separate line item (encompassing the net loss arising during the year and the amortizations of the transition obligation and prior service cost) apart from expenses. Organization E would disclose the components of that combined line item in the notes to financial statements, pursuant to paragraph 10 of this Statement.

[a]Equals \$110 service cost + \$120 interest cost – \$125 expected return on plan assets.

A40. The following statement of activities reflects the presentation of the combined line item if Organization E chooses to present it outside its intermediate measure of operations:

Organization E
Statement of Activities
Year Ended June 30, 2008
(in thousands)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Operating:				
Revenues, gains, and other support:				
Private contributions, other than bequests	$ 60,000	$ 14,200		$ 74,200
Bequests	17,000			17,000
Government grants		9,000		9,000
Investment income used for operating activities	11,500	1,000		12,500
Sales of educational materials	2,000			2,000
Other	2,000			2,000
Net assets released from restrictions	17,000	(17,000)		0
Total revenues, gains, and other support	109,500	7,200		116,700
Expenses:				
Program services:				
Research and medical support	58,000			58,000
Public education	9,000			9,000
Community service	15,000			15,000
Total program services	82,000			82,000
Supporting services:				
Fund raising	15,000			15,000
Management and general	9,000			9,000
Total supporting services	24,000			24,000
Total expenses	106,000			106,000
Increase in net assets from operating activities	3,500	7,200		10,700
Nonoperating:				
Investment income in excess of amount used for operating activities	1,500			1,500
Contributions for endowment funds			$15,000	15,000
Pension-related changes other than net periodic pension cost	90[b]			90
Increase in net assets	5,090	7,200	15,000	27,290
Net assets, beginning of year	147,110	48,800	30,000	225,910
Net assets, end of year	$152,200	$ 56,000	$45,000	$253,200

[b]Equals $40 amortization of transition obligation + $100 amortization of prior service cost – $50 net loss.

A41. The following statement of activities reflects the presentation of the combined separate line item if, alternatively, Organization E chooses to present it within its intermediate measure of operations. This alternative would not be available to Organization E if it was within the scope of AICPA Audit and Accounting Guide, *Health Care Organizations,* and presented a performance indicator pursuant to the provisions of that Guide.

Organization E
Statement of Activities
Year Ended June 30, 2008
(in thousands)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Operating:				
Revenues, gains, and other support:				
Private contributions, other than bequests	$ 60,000	$ 14,200		$ 74,200
Bequests	17,000			17,000
Government grants		9,000		9,000
Investment income used for operating activities	11,500	1,000		12,500
Sales of educational materials	2,000			2,000
Other	2,000			2,000
Net assets released from restrictions	17,000	(17,000)		0
Total revenues, gains, and other support	109,500	7,200		116,700
Expenses:				
Program services:				
Research and medical support	58,000			58,000
Public education	9,000			9,000
Community service	15,000			15,000
Total program services	82,000			82,000
Supporting services:				
Fund raising	15,000			15,000
Management and general	9,000			9,000
Total supporting services	24,000			24,000
Total expenses	106,000			106,000
Pension-related changes other than net periodic pension cost	90[c]			90
Increase in net assets from operating activities	3,590	7,200		10,790
Nonoperating:				
Investment income in excess of amount used for operating activities	1,500			1,500
Contributions for endowment funds			$15,000	15,000
Increase in net assets	5,090	7,200	15,000	27,290
Net assets, beginning of year	147,110	48,800	30,000	225,910
Net assets, end of year	$152,200	$ 56,000	$45,000	$253,200

[c]Equals $40 amortization of transition obligation + $100 amortization of prior service cost – $50 net loss.

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Appendix B

BACKGROUND INFORMATION AND BASIS FOR CONCLUSIONS

CONTENTS

Appendix B

BACKGROUND INFORMATION AND BASIS FOR CONCLUSIONS

Introduction

B1. This appendix summarizes considerations that Board members deemed significant in reaching the conclusions in this Statement. It includes reasons for accepting certain approaches and rejecting others. Individual Board members gave greater weight to some factors than to others.

Background Information

B2. In November 2005, the Board added a project to its agenda to comprehensively reconsider the guidance in FASB Statements No. 87, *Employers' Accounting for Pensions,* No. 88, *Employers' Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits,* No. 106, *Employers' Accounting for Postretirement Benefits Other Than Pensions,* and No. 132 (revised 2003), *Employers' Disclosures about Pensions and Other Postretirement Benefits.* The project was undertaken because of concerns about the existing accounting requirements for defined benefit postretirement obligations, including pensions.

B3. Statement 87 was issued in 1985 and was effective for financial statements for fiscal years beginning after December 15, 1986. It establishes standards of financial reporting and accounting for an employer that offers pension benefits to its employees. Statement 87 prescribes the measurement of net periodic pension cost and required recognition of a liability that at least equaled the excess, if any, of the accumulated benefit obligation over the fair value of plan assets. Statement 87 also did not limit the amount that could be recognized as an employer's asset (for example, contributions to the plan in excess of net periodic pension cost recognized), even if the plan was significantly underfunded.

B4. Statement 106 was issued in 1990 and was effective for financial statements for fiscal years beginning after December 15, 1992. Before the issuance of that Statement, an employer generally recognized, on a cash basis, the costs arising from the exchange of employee service for postretirement benefits other than pensions (principally, retiree health care). That is, the costs were recognized when the obligation was satisfied rather than when it was incurred. Statement 106 requires an employer to recognize the cost incurred over the periods in which employees render service in exchange for the promise to provide postretirement benefits. Statement 106 did not require that a minimum liability be recognized. Similar to Statement 87, it also did not limit the amount that could be recognized as an asset by an employer (for example, contributions to the plan in excess of net periodic postretirement benefit cost recognized).

B5. Statements 87 and 106 take similar approaches to the delayed recognition of certain economic events in measuring periodic benefit cost, to the net reporting of periodic benefit cost, and to the offsetting of assets and liabilities. Delayed recognition allows changes in the value of plan assets or in the benefit obligation (including changes resulting from plan amendments) that were not anticipated in measuring the net periodic benefit cost or benefit obligation to be recognized over subsequent periods instead of in the year they occur.

B6. The net reporting of periodic benefit cost means that the recognized consequences of different types of events and transactions affecting a postretirement benefit plan are aggregated into a single net amount (net periodic benefit cost) in an employer's financial statements. That reporting aggregates certain items that usually would be reported separately for any other part of an employer's operations, such as compensation cost of benefits promised, interest cost resulting from deferred payment of those benefits, and investment results from assets contributed to prefund the obligation.

B7. The offsetting of assets and liabilities refers to combining in an employer's statement of financial position the recognized effects of investing in plan assets and incurring liabilities for benefits. The assets and liabilities are offset, even though the liability has not been settled, the assets may still be largely controlled by the employer, and substantial risks and rewards associated with both of those amounts are borne by an employer.

B8. The primary criticisms of those and other features of the existing and past standards of accounting for postretirement benefit arrangements include the following:

a. An employer that sponsors a defined benefit plan is not required to recognize the economic events that affect the cost of providing postretirement benefits—the changes in plan assets and benefit obligations—as those changes take place.
b. Important information about postretirement plans is relegated to the notes to financial statements, in the form of a reconciliation of the overfunded or underfunded status to amounts recognized in the statement of financial position.
c. Net reporting of periodic benefit cost in an employer's reported results of operations obscures the individual effects of compensation, investing, and financing activities.

B9. The Board understood and acknowledged the first two of the above issues when it developed Statement 87. In Statement 87, the Board concluded that ". . . it would be conceptually appropriate and preferable to recognize a net pension liability or asset measured as the difference between the projected benefit obligation and plan assets, either with no delay in recognition of gains and losses, or perhaps with gains and losses reported currently in comprehensive income but not in earnings. However, it concluded that those approaches would be too great a change from past practice to be adopted at the present time" (paragraph 107). In Statement 87, the Board also noted that "because gains and losses may reflect refinements in estimates as well as real changes in economic values and because some gains in one period may be offset by losses in another or vice versa, this Statement does not require recognition of gains and losses as components of net pension cost of the period in which they arise" (paragraph 29; footnote reference omitted).

B10. The Board improved disclosures twice since Statements 87 and 106 were issued. FASB Statement No. 132, *Employers' Disclosures about Pensions and Other Postretirement Benefits,* issued in 1998, standardized the disclosure requirements for pensions and other postretirement benefits. Statement 132(R) added requirements for disclosures about the:

a. Types of plan assets held and the related investment strategy
b. Employer's annual measurement date(s) used in the accounting for the benefit arrangements
c. Plan obligations and expected near-term cash flows
d. Components of net periodic benefit cost recognized during interim periods.

B11. Some constituents believe the disclosures that are required by Statement 132(R) compensate for the lack of transparency that results from delayed recognition and net reporting. However, in Statement 87, the Board observed that:

> Footnote disclosure is not an adequate substitute for recognition. The argument that the information is equally useful regardless of how it is presented could be applied to any financial statement element, but the usefulness and integrity of financial statements are impaired by each omission of an element that qualifies for recognition. . . . If the argument were valid, the consequences of recognition would not be different from those of not recognizing but disclosing the same information. . . . [paragraph 116]

B12. When issued, Statements 87 and 106 represented evolutionary improvements in accounting. However, many years have passed and requests for the Board to address issues related to employers' accounting for defined benefit postretirement plans have increased. Those requests were made by users of financial statements and others, including the SEC staff (in its June 2005 report to Congress on off-balance-sheet arrangements that was required by the Sarbanes-Oxley Act of 2002), members of the Board's Financial Accounting Standards Advisory Council and User Advisory Council, and representatives of the Pension Benefit Guaranty Corporation. Those constituents urged the Board to undertake a project that would improve the transparency and understandability of an employer's financial statements regarding the costs and obligations of providing postretirement benefits. Those improved financial statements would better serve the informational needs of equity owners, creditors, employees, retirees, donors, and other users.

B13. In light of the Board's discussions in the development of Statement 87, particularly the conclusions summarized in paragraph B9 of this Statement, as well as requests from certain constituents, the Board concluded that the accounting for defined benefit postretirement plans should be reconsidered. Although the trend of sponsoring defined benefit postretirement plans, particularly defined benefit pension plans, has declined in recent years, the Board decided to address the perceived deficiencies in the accounting because of the long-term nature and magnitude of existing arrangements.

B14. In March 2006, the Board issued an Exposure Draft, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans,* and received comment letters from over 245 respondents. On June 27, 2006, the Board held 2 public roundtable meetings with a total of 33 constituents to discuss issues raised in the comment letters. At the roundtable meetings, constituents discussed several aspects of the Exposure Draft, including the scope and objective of the project; implementation of the proposed recognition provisions; measurement and effective date provisions; perceived economic consequences, including the effect of the proposed Statement on financial metrics referenced in contractual arrangements of nonpublic employers; and other matters.

B15. In July and August 2006, the Board redeliberated the issues raised by respondents to the Exposure Draft and by participants in the roundtable meetings. During redeliberations, the Board affirmed its conclusion that greater transparency and understandability of an employer's financial statements related to postretirement benefit obligations were necessary to better serve the needs of investors, creditors, donors, employees, retirees, and other capital market participants in making rational investment, credit, and similar resource allocation decisions.

Scope

B16. The Board intends to comprehensively reconsider the accounting for postretirement benefit plans. A project to improve and internationally converge the accounting will take years to complete. Thus, to provide timely and significant improvements in postretirement benefit accounting, the Board decided to conduct the project in phases. The first phase led to this Statement.

B17. The objective of this Statement is to improve the understandability and representational faithfulness of the amounts reported in an employer's statement of financial position by recognizing as an asset or a liability the overfunded or underfunded status of a single-employer defined benefit postretirement plan. This Statement does not change the accounting and reporting with respect to a multiemployer plan, and it does not change the amount of net periodic benefit cost recognized in earnings.

B18. This Statement does not change the basic approach to measuring plan assets, benefit obligations, or net periodic benefit cost. This Statement requires an employer to recognize the gains or losses and the prior service costs or credits that arise during the period but are not recognized as components of net periodic benefit cost of the period as a component of other comprehensive income, or other appropriate components of equity or net assets in the statement of financial position for an entity that does not report other comprehensive income. To more accurately reflect the funded statuses of defined benefit plans and to further improve the understandability of the financial statements, this Statement also requires that the measurement of plan assets and benefit obligations be as of the date of the employer's statement of financial position, not up to three months earlier as had been permitted by Statements 87 and 106.

B19. Some respondents suggested that the Board expand the scope of the first phase to include reconsideration of measurement of a benefit obligation before requiring recognition of the funded status of a defined benefit postretirement plan in an employer's statement of financial position. Others suggested that the Board address all proposed changes in a single comprehensive project to prevent multiple large adjustments to shareholders' equity should the Board later determine that recognition should be based on measures other than the projected benefit obligation (for pensions) and accumulated postretirement benefit obligation (for other postretirement benefits). They stated that a phased approach could result in confusing financial statements in the interim between the two phases.

B20. Many respondents, whether or not they supported a phased approach, considered the projected benefit obligation to be an inappropriate measure of the liability for pension benefit obligations because they believe it does not meet the definition of a liability under FASB Concepts Statement No. 6, *Elements of Financial Statements.* Specifically, they stated that because that measure reflects estimated future increases in compensation, it does not represent a present obligation. Of those respondents, most thought that the accumulated benefit obligation should be used to measure the liability for pension benefits because it does not reflect future increases in compensation and because it better reflects the amount the obligation could be settled for with a third party.

B21. Other respondents suggested that recognizing the funded status using the projected benefit obligation represented a change in measurement that was outside the scope of the first phase. They considered it to be a change in measurement because Statement 87 only required a minimum pension liability to be recognized when the accumulated benefit obligation was greater than the fair value of plan assets.

B22. During redeliberations, the Board affirmed its prior decision to conduct the project in phases. The objective of the first phase was to make meaningful, near-term improvements in an employer's financial reporting of pensions and other postretirement benefits by making the statement of financial position more complete, transparent, and understandable. In deciding to exclude measurement of the obligation from the scope of this Statement, the Board considered the following factors:

a. In Statement 87, the Board concluded after extensive debate that the pension obligation did meet Concepts Statement 6's definition of a liability and that the projected benefit obligation was the most relevant measure of the pension obligation. That conclusion was not one of the departures from the conceptually preferable alternatives acknowledged in Statement 87. The Board's current decision, therefore, is consistent with that conclusion. The Board decided to accept the Board's assessment in Statement 87 for purposes of the first phase of the project.
b. Most users of financial statements that commented on the Exposure Draft believe the projected benefit obligation reflects an employer's economic obligation and the terms of the substantive plan.
c. Using a measure of the obligation other than the projected benefit obligation might necessitate changing how other assumptions are determined, specifically the discount rate. Views on that issue are described in paragraphs 140–142 of Statement 87's basis for conclusions.
d. For most plans that provide postretirement benefits other than pensions, there is no measure of the obligation that is analogous to the accumulated benefit obligation in a pension plan. Therefore, if the Board was to require that the accumulated benefit obligation be used to measure the pension obligation, the

Board also would have to determine the equivalent measure for other postretirement benefits. Thus, the issue is broader than pension plans alone.

e. There generally has been no criticism that the measure of net periodic pension cost should exclude the effects of future compensation increases. Paragraph 139 of Statement 87's basis for conclusions states:

> Among those respondents who argued that obligations dependent on future compensation increases are excluded by the definition of a liability, very few were prepared to accept a measure of net periodic pension cost that was based only on compensation to date. The Board notes that under the double entry accounting system, recognition of an accrued cost as a charge against operations requires recognition of a liability for that accrued cost. Thus, excluding future compensation from the liability and including it in net periodic pension cost are conflicting positions.

B23. Furthermore, present measurements of the pension obligation, including the accumulated benefit obligation, reflect factors relating to expectations about the future, for example, future employee service and eligibility for actuarially unreduced early retirement benefits. The Board affirmed that the scope of the first phase of the project should exclude reconsidering which forward-looking information should be included in the measure of the obligation to be recognized. The Board noted that it would be inconsistent to reconsider some and not others.

B24. Some respondents did not support recognition of other postretirement benefits using the accumulated postretirement benefit obligation. Those respondents stated that retiree health care is a revocable commitment by an employer because an employer typically has the discretion to unilaterally freeze, reduce, or withdraw those benefits. Therefore, respondents suggested that obligations should only be recognized when participants become fully eligible for the benefits or when the obligation is legally enforceable.

B25. The Board acknowledges that the legal statuses of pension benefits and retiree health care benefits are generally different. However, that difference existed when Statement 106 was issued. Statement 106 focuses on substantive postretirement benefit plans. The issues raised by certain respondents to the Exposure Draft are fundamental to the accounting and are inconsistent with the assumption of an ongoing plan that underlies both Statements 87 and 106.

B26. For the reasons noted in paragraphs B22–B25, the Board affirmed its prior decision to require an employer to recognize the funded status—measured as the difference between the fair value of plan assets and the benefit obligation—in its statement of financial position. For a pension plan, the benefit obligation should be the projected benefit obligation; for any other postretirement benefit plan, such as a retiree health care plan, the benefit obligation should be the accumulated postretirement benefit obligation. The Board's decision simply carries over the measurement principles from Statements 87 and 106 and the conclusion that the projected benefit obligation is the most relevant measure of a defined benefit pension obligation.

B27. The Board expects to readdress in the second phase of the project many issues that were initially addressed by Statements 87 and 106 as well as those that have been raised about the measurement of postretirement benefit obligations, such as the effects of evolving changes in benefit plan design (for example, cash balance pension plans and plans with lump-sum benefits payable upon an employee's termination). However, the Board's commitment to readdress those issues and the issues raised by respondents to the Exposure Draft should not be viewed as a conclusion that the present measurements of defined benefit postretirement obligations are inappropriate or will change. The issues about measurement of postretirement benefit obligations are complex, and considering them will require substantial time. Therefore, considering those issues as part of this Statement would have delayed other significant improvements the Board concluded should be made promptly. In the second multiyear phase of the project, the Board will comprehensively reconsider those and other accounting issues for postretirement benefit obligations, including:

a. How the items that affect the cost of providing postretirement benefits should be recognized and displayed in earnings or other comprehensive income
b. How to measure an employer's benefit obligations, including whether more or different guidance should be provided about measurement assumptions
c. Whether postretirement benefit trusts should be consolidated by the plan sponsor.

B28. The Board expects that the second phase of the project will benefit from:

a. Progress on the project to complete, improve, and converge the FASB's conceptual framework with the International Accounting Standards Board's (IASB) framework
b. Progress on the joint FASB-IASB project on financial statement presentation
c. Progress on researching and analyzing the accounting for cash balance pension plans and plans with lump-sum benefits payable upon an employee's termination.

However, the Board does not intend that progress on the second phase must await completion of any other project on its agenda.

Amendments Considered and Made

Recognition of the Funded Status

B29. The Board wished to implement significant improvements in financial reporting on a more timely basis than would be possible in the context of its comprehensive project described in paragraph B27. Therefore, the Board decided not to consider in this Statement changes in either the basic approach for measuring plan assets and benefit obligations or the basic approach for measuring and reporting the amount of net periodic benefit cost recognized in annual or interim financial statements. As described in paragraph B22, the Board concluded in Statement 87 that the projected benefit obligation is the conceptually appropriate and preferable measure of the benefit obligation. Statement 87's basis for conclusions explains the Board's reasons for that conclusion.

B30. The Board reasoned that financial reporting will be significantly improved by requiring recognition in an employer's statement of financial position of the funded statuses of its sponsored defined benefit postretirement plans other than multiemployer plans. The Board believes that recognition requirement will significantly improve the understandability of reported financial information, thereby facilitating analysis of an employer's financial reports.

B31. After determining that the funded statuses of all plans should be recognized, the Board considered how those recognized amounts should be displayed. The Board decided to require separate recognition of an asset for overfunded plans and separate recognition of a liability for underfunded plans. The Board rejected the alternative of aggregating all plans and reporting the net amount as a single net asset or net liability because an employer does not have the ability to offset excess assets of one plan against the underfunded obligations of another plan, other than through a legal merger that may or may not be possible. In reaching that conclusion, the Board affirmed paragraph 156 of Statement 87's basis for conclusions, which states:

> The Board believes that an employer with one well-funded plan and another less well funded or unfunded plan is in a different position than an employer with similar obligations and assets in a single plan. The Board was not convinced that combining plans would be easy or even possible in many cases. For example, the Board believes it would be difficult to combine a qualified plan with an unqualified plan or a flat benefit plan with a final-pay plan. Further, netting all plans would be inconsistent with other standards that preclude offsetting assets and liabilities unless a right of offset exists.

Respondents generally agreed that the funded statuses of overfunded plans and underfunded plans should not be aggregated and recognized as a single net amount.

Gains and Losses

B32. Gains and losses are changes in measures of the benefit obligation or plan assets that occur during a period because of differences between experience and assumptions or that occur because of changes in one or more actuarial assumptions. For example, gains and losses can arise from differences between the expected return and actual return on plan assets, from changes in the benefit obligation due to changes in discount rates, or from changes in assumptions about future compensation, retirement dates, mortality rates, employee turnover, retiree participation rates, health care cost trend rates, or government subsidies.

B33. The Board acknowledges that before this Statement delayed recognition in net periodic benefit cost of gains and losses was often the principal reason why an employer had not recognized the overfunded or underfunded statuses of its postretirement benefit plans in its statement of financial position. In developing the provisions of this Statement, the Board considered how those previously unrecognized gains and losses should be recognized, specifically, whether they should be recognized by a business entity in other comprehensive income.

B34. The Board proposed that gains and losses arising during a period but not included as a component of net periodic benefit cost of that period be recognized as increases or decreases in other comprehensive income. Gains and losses initially recognized in other comprehensive income should be adjusted as they are subsequently recognized as a component of net periodic benefit cost based on the applicable recognition or amortization requirements of Statement 87, 88, or 106.

B35. Most respondents supported recognition through other comprehensive income. Respondents representing cooperative businesses stated that recognizing gains and losses in that manner would be a disadvantage to businesses with contractual arrangements that require an employer to buy or sell equity or membership interests at book value. They asked the Board to consider allowing recognition as an asset (a deferred charge) or as a liability (a deferred credit) amounts that would otherwise decrease or increase shareholders' equity. The Board considered that suggestion but concluded that it would not be representationally faithful to report losses and gains, such as those from the performance of plan assets, as deferred charges or credits because those items do not meet the definition of an asset or a liability in Concepts Statement 6.

B36. In affirming its conclusions about the recognition of previously unrecognized gains and losses, the Board noted that the recognition requirements of this Statement eliminate any need to recognize a minimum pension liability. In addition, recognition of previously unrecognized gains and losses through other comprehensive income is consistent with the prior required accounting for any net unrecognized gain or loss that was recognized when an additional minimum pension liability was recognized. Recognition of gains and losses in other comprehensive income is consistent with the objective of this Statement not to change how net periodic benefit cost is determined. This Statement does not change the past practice of delaying recognition of gains and losses as a component of net periodic benefit cost, reflecting the long-term nature of postretirement benefit arrangements. Furthermore, that treatment is consistent with the practice of including in other comprehensive income certain changes in value that have not been recognized in earnings (for example, unrealized gains or losses on available-for-sale equity securities). Decisions about such potential changes in the recognition of net periodic benefit cost will be considered in the second phase of the project.

Prior Service Costs and Credits

B37. Before this Statement, the effect of a plan amendment that retroactively changes benefits attributable to prior employee service was not fully recognized in net periodic benefit cost in the period the amendment was adopted. The Board considered the following two alternatives for a business entity for recognizing the remaining unamortized prior service costs or credits that result from previous plan amendments or initiations:

a. Recognition through other comprehensive income
b. Recognition as an intangible asset (or negative intangible asset that would be considered as a reduction of employee-related intangible assets, some of which are unrecognized).

B38. The Board members who supported the alternative to classify previously unrecognized prior service costs and credits in the statement of financial position on an aggregate basis for all plans as a net intangible asset (or net negative intangible asset) considered that approach to be consistent with the previous accounting required when an additional minimum pension liability was recognized and an intangible asset was recognized to the extent of any unrecognized prior service cost. Those Board members also noted that unrecognized prior service costs and credits are not characterized as losses or gains in Statements 87 and 106. Therefore, they are unlike other items presently recognized in other comprehensive income. Although those Board members questioned whether the effect of a plan amendment qualifies conceptually for recognition as an asset or negative asset, they concluded that the characterization of such an effect, as set forth in Statements 87 and 106, would best be reconsidered during the second phase of the project.

B39. The Board members who supported recognition through other comprehensive income noted the reasoning in paragraph 286 of Statement 106:

> Some Board members support immediate recognition of prior service cost as an expense, particularly the portion related to existing retirees. Although some intangible economic benefits of a plan initiation or amendment may be received in future periods from benefit improvements for active plan participants, they believe that those intangible benefits do not qualify for recognition as an asset. Therefore, they believe there is little basis for delaying recognition of the underlying prior service cost to future periods. Other Board members believe that a plan initiation or amendment is made with a view to benefiting the employer's future operations through reduced employee turnover, improved productivity, or reduced demands for increases in cash compensation.

B40. The Board decided to adopt the first alternative and require prior service costs and credits to be recognized initially through other comprehensive income and subsequently recognized as a component of net periodic benefit cost based on the existing recognition and amortization provisions of Statements 87, 88, and 106.

B41. That approach also is consistent with the treatment of previously unrecognized gains and losses. The Board reasoned that there is not a sufficient distinction between previously unrecognized gains and losses and prior service costs and credits to support different accounting treatment. In addition, the resulting accounting is simple, transparent, and symmetrical. The Board believes that an amendment that increases benefits attributable to service already rendered does not give rise to an asset and the reduction of benefits by a negative plan amendment does not give rise to a liability. The Board rejected the notion of a negative intangible asset on both conceptual and understandability grounds. The Board also concluded that recognition of prior service costs and credits related to both retired employees and active employees should be reconsidered in the second phase of the project. Doing so will take full advantage of the ongoing work in the conceptual framework project related to the definitions of an asset and a liability.

Transition Assets and Obligations

B42. Upon initial application of Statement 87 or 106, an employer typically had an unrecognized net asset or an unrecognized net obligation measured as the difference between the funded status of the plan and amounts recognized in the employer's statement of financial position. For postretirement benefits other than pensions, it often was a net obligation because those benefits are not typically funded by plan assets. Statement 87 required delayed recognition for the net transition asset or obligation by requiring prospective recognition (amortization) as part of net periodic benefit cost.

B43. The transition guidance in Statement 106 permitted, but did not require, an employer to delay recognition and amortize the transition asset or obligation on a basis similar to Statement 87's requirements. The Board observed that even though Statement 87 was issued in 1985, and Statement 106 was issued in 1990, certain employers have yet to completely amortize the transition asset or obligation.

B44. The Board considered various alternatives for a business entity to recognize any remaining transition asset or obligation upon initial application of this Statement, including:

a. Adjust retained earnings, similar to the accounting for changes in an accounting principle.
b. Recognize an intangible asset for a transition obligation or recognize a credit in accumulated other comprehensive income for a transition asset.
c. Recognize an increase or decrease in accumulated other comprehensive income, similar to the recognition treatment for unrecognized gains and losses.
d. Elect either alternative (a) or (b).

B45. The Board proposed the first alternative in the Exposure Draft, which would have required that any remaining transition amounts be recognized under the retrospective transition method proposed by the Exposure Draft as direct charges or credits to beginning retained earnings, net of applicable income taxes. Those amounts would not have been subsequently recognized as a component of net periodic benefit cost. The Board viewed any remaining transition asset or obligation as similar to the cumulative effect resulting from a change in accounting principle that should not affect current or future reported earnings. The Board believed that alternative would reduce recordkeeping costs and improve the comparability of ongoing net periodic benefit cost reported between an employer that elected immediate recognition of the transition amount for Statement 106 and one that did not.

B46. Some respondents stated that recognizing any remaining transition asset or obligation as an adjustment of retained earnings was inconsistent with the Board's stated objective of not changing net periodic benefit cost, since those amounts would no longer be amortized. Furthermore, some respondents indicated that the amount of the transition asset or obligation remaining after having been amortized for many years since initial adoption of Statements 87 and 106 generally was not significant and, therefore, the costs associated with changing accounting procedures should not be imposed by the Board. Other respondents were concerned with the proposed accounting's effects for rate regulated entities.

B47. As a result of respondents' feedback through comment letters and the roundtable meetings, the Board concluded that the benefits of recognizing any remaining transition asset or obligation as an adjustment of retained earnings did not exceed the costs and was inconsistent with the Board's intent not to change amounts reported as net periodic benefit cost as part of the first phase of the project. Therefore, the Board decided that previously unrecognized transition assets or obligations resulting from the initial adoption of Statements 87 and 106 should be recognized in the same way as previously unrecognized net gains and losses and prior service costs and credits (the second alternative); that is, those previously unrecognized transition assets or obligations should be recognized as an adjustment to accumulated other comprehensive income with subsequent amortization as a component of net periodic benefit cost pursuant to the existing recognition and amortization provisions of Statements 87, 88, and 106.

Classification of Recognized Assets and Liabilities

B48. Respondents to the Exposure Draft asked the Board to clarify how net postretirement benefit liabilities would be reported in a classified statement of financial position. The Board decided to provide explicit guidance about the net postretirement assets and liabilities in a classified statement of financial position. The Board concluded that an employer that presents a classified statement of financial position should report the liability for an underfunded plan as a current liability, a noncurrent liability, or a combination of both. The current portion (determined on a plan-by-plan basis) is the amount by which the actuarial present value of benefits included in the benefit obligation payable in the next 12 months, or operating cycle if longer, exceeds the fair value of plan assets. If plan assets exceed the actuarial present value of those payments, the unfunded obligation should be classified as a noncurrent liability. The amount classified as a current liability is limited to the amount of the plan's unfunded status recognized in the employer's statement of financial position.

B49. The Board considered an alternative whereby a current liability would be based on the contributions required to prefund the plan over the next fiscal year or operating cycle if longer. Board members who supported that alternative reasoned that postretirement benefit plans are not consolidated and that the net liability recognized for an underfunded plan represents an employer's obligation to contribute assets to the plan.

B50. The Board rejected the alternative approach. The Board reasoned that the amount expected to be contributed to prefund the plan was substantively an intercompany transaction that should not affect the classification of the benefit payment liability. Because the net overfunded or underfunded status is based on the difference between the plan assets and benefit obligation, the plan assets and benefit obligation have been effectively consolidated and presented on a net basis for reporting purposes. The Board decided to place the emphasis on cash outflows from the employer to independent third parties. To the extent there are sufficient plan assets to cover benefit payments to plan participants and settlements of the obligation (for example, to a retiree or an insurance company), none of the net postretirement liability should be classified as current. To the extent there are insufficient plan assets, the employer would disburse cash to an independent third party (for example, a retiree). The amount of that expected disbursement should be classified as a current liability. The Board reasoned that net postretirement assets should be classified as noncurrent because their use is generally restricted to the payment of benefit obligations and because any refunds from the plan essentially represent a transfer of the employer's assets to itself. The Board decided to require disclosure of the amount and timing of any plan assets expected to be returned to the employer during the 12-month period, or operating cycle if longer, that follows the most recent statement of financial position presented in annual financial statements.

Measurement Date

B51. Statements 87 and 106 required that plan assets and benefit obligations be measured as of the date of an employer's fiscal year-end statement of financial position or, if used consistently from year to year, as of a date not more than three months before that date. The Exposure Draft proposed eliminating the choice of a measurement date other than the date of an employer's fiscal year-end statement of financial position. Measuring postretirement plans as of the date of an employer's fiscal year-end statement of financial position would improve the representational faithfulness of amounts recognized by eliminating delayed recognition of events and transactions arising between the measurement date and the fiscal year-end.

B52. Some respondents stated that any change in measurement date should be considered in the second phase of the project because it relates to measurement, which the Board stated was beyond the scope of the first phase. The Board noted that the notion of recognizing the overfunded or underfunded statuses of postretirement plans as of the fiscal year-end is inseparable from measuring those statuses as of the same point in time. Therefore, aligning the measurement date with the date of an employer's statement of financial position is a prerequisite to recognizing the overfunded or underfunded status as of the reporting date. The Board acknowledges that a change in measurement date will affect net periodic benefit cost for some employers. However, those changes in amounts are not the result of a fundamental change in how the amounts are determined. Therefore, those changes are consistent with the objectives and scope of the first phase of the project.

B53. Many respondents to the Exposure Draft acknowledged the conceptual merit of measuring plan assets and benefit obligations as of the date of an employer's statement of financial position. However, a majority of respondents thought the costs would outweigh the benefits. Those respondents stated that collecting data related to certain plan assets and benefit obligations could be time-consuming. Determining the fair value of plan assets that do not have readily available market values (for example, private equity and real estate) and collecting data related to foreign plans can be particularly difficult. They also noted that the sequential nature of the flow of information from an investment manager to an actuary, and then to an employer and an auditor, adds a significant amount of time to the data collection and analysis process. Other respondents raised concerns that the proposed change would put additional stress on actuarial resources at the end of the calendar year and would likely increase the cost of services.

B54. Some respondents stated that aligning the measurement date and fiscal year-end would not result in more reliable measures of liabilities due to the long-term nature of postretirement benefit obligations. Respondents described the long-term nature of postretirement benefit obligations, the relative uncertainty associated with estimating future cash flows, and what they believed was an illusory improvement (false precision) associated with measuring benefit obligations as of the date of the statement of financial position.

B55. The Board reasoned that allowing alternative measurement dates added complexity and reduced understandability because potentially significant changes in plan assets and benefit obligations that arise after the measurement date but before the fiscal year-end are not recognized until the following period. The required note disclosures to reconcile plan assets and benefit obligations as of that earlier measurement date to amounts recognized in an employer's statement of financial position as of the reporting date also added complexity. Aligning the measurement date with the date of an employer's statement of financial position makes reported postretirement benefit information more representationally faithful and increases the comparability of financial statements of employers with similar fiscal years.

B56. During redeliberations, the Board considered an alternative to an explicit requirement that an employer measure plan assets and benefit obligations at the date of its statement of financial position. That alternative would have established an objective similar to IAS 19, *Employee Benefits,* which does not specify the date on which plan assets and benefit obligations are to be measured. Instead, IAS 19 requires that amounts recognized not be materially different from what they would be if they had been determined as of the date of an employer's statement of financial position. The Board noted that such a provision can raise issues about how to determine materiality and whether such a provision was intended to be different from, or in addition to, the materiality exemption set forth at the end of the standards section of this Statement. Further, that provision may often require an employer to measure plan assets and benefit obligations as of its fiscal year-end so it can assess the materiality of any differences between those amounts and amounts determined as of an earlier measurement date. The notion in IAS 19 could be applied to other amounts in an employer's statement of financial position; however, that notion is not present in other standards. Therefore, the Board decided against adopting that approach as an alternative to requiring that plan assets and benefit obligations be measured as of the employer's fiscal year-end.

B57. The Board noted that many employers already measure postretirement plan assets and obligations, at least for some of their plans, as of their fiscal year-ends, which suggests that it is often practicable to obtain the necessary data as of the reporting date. Furthermore, the Board noted that recognizing the funded statuses of postretirement plans in the statement of financial position increases the importance of measuring postretirement assets and obligations as of the same date as the employer's other reported assets and liabilities. Therefore, the Board affirmed its prior decision to require an employer to measure the funded status of a plan as of the date of its statement of financial position. However, the effective date for this change was delayed to fiscal years ending after December 15, 2008, to provide more time for a preparer and its external resource providers to implement any necessary changes in systems and processes in an efficient manner.

Note Disclosures Required

Transitional Disclosures

B58. This Statement requires transitional disclosures for a fiscal year ending after December 15, 2006, and before June 16, 2007, if an employer has not implemented this Statement as a result of the delayed effective date allowed for an employer without publicly traded equity securities (paragraph 14). The Board decided that an employer should provide a brief description of the provisions of this Statement, the date that adoption is required, and the date that the employer plans to adopt the recognition provisions of this Statement, if earlier. That disclosure will provide users, particularly parties that have contractual or other relationships with an employer that might be affected by this Statement, with an early notice of any significant accounting changes resulting from this Statement. Such disclosure is similar to the disclosures required for SEC registrants pursuant to SEC Staff Accounting Bulletin No. 74, *Disclosure of the Impact That Recently Issued Accounting Standards Will Have on the Financial Statements of the Registrant When Adopted in a Future Period.*

B59. The Board agreed to explicitly require an employer to disclose in the notes to financial statements the incremental effect of applying this Statement on line items in the year-end statement of financial position for the year that the recognition provisions of this Statement are initially applied. The Board noted that this disclosure will give users a basis to isolate the effects of this Statement from other changes that occur during the year. The Board concluded that this Statement has the potential to affect several line items on an employer's statement of financial position and, therefore, it was important to provide users with clear information about this Statement's effects.

B60. The Board agreed that any other disclosures ordinarily required by FASB Statement No. 154, *Accounting Changes and Error Corrections,* would not apply to the recognition of the net overfunded or underfunded status or to changes in the measurement date required to measure plan assets and benefit obligations as of the date of an employer's statement of financial position. The Board concluded that the disclosures required by Statement 154 are not necessary for those changes. However, the Board decided that this Statement should require that the effects of the changes on retained earnings, accumulated other comprehensive income, and other comprehensive income not be obscured through aggregation of the effects with other unrelated items. Furthermore, the Board decided that a business entity should disclose, in the year the measurement date provisions of this Statement are initially adopted, the separate adjustments of retained earnings and accumulated other comprehensive income from applying this Statement. That disclosure may be made either by reporting the adjustments as separate line items within the statement of changes in shareholders' equity or by disclosing the adjustments in the notes to financial statements. A not-for-profit organization should disclose similarly the separate adjustments of unrestricted net assets either within the statement of activities or in the notes to financial statements.

Amendments to Existing Disclosure Requirements Made Necessary by Changes in Recognition

Reconciliation of the Funded Status to Amounts Recognized

B61. This Statement's recognition requirements for gains or losses, prior service costs or credits, and any remaining transition asset or obligation related to the initial application of Statement 87 or 106 eliminate all differences between a plan's funded status and amounts recognized in an employer's statement of financial position. Therefore, this Statement eliminates the previous requirement in paragraph 5(c) of Statement 132(R) to reconcile the funded status of the plan to amounts recognized in the employer's statement of financial position once the employer applies both the recognition provisions and measurement date provisions of this Statement. Likewise, this Statement eliminates the Statement 132(R) disclosures that reference the additional minimum pension liability (paragraphs 5(i), 8(g), and 8(h)) and measurement date (paragraphs 5(k) and 8(j)).

Disclosure by a Business Entity of Amounts Recognized in Other Comprehensive Income and Accumulated Other Comprehensive Income

B62. The Board considered the items that are initially recognized in other comprehensive income pursuant to this Statement and subsequently recognized as components of net periodic benefit cost based on the recognition and amortization provisions of Statements 87, 88, and 106 and concluded that they should be separately disclosed. That is, gains or losses and prior service costs or credits from plan amendments arising during the period and amortization of gains or losses, prior service costs or credits, and the transition asset or obligation for the period should be disclosed to provide information about the nature of the items affecting an employer's financial statements. The Board decided not to require separate disclosure of the amount recognized in other comprehensive income from application of the measurement date provisions of this Statement when the alternative transition approach (paragraph 19) is elected. Under the alternative approach for a change in measurement date, the net gain or loss associated with the change in measurement date cannot be separated from the net gain or loss recognized in other comprehensive income for the period. The Board concluded that requiring an employer that elects this method to allocate the net gain or loss recognized in other comprehensive income would result in disclosures that are based on arbitrary amounts that may not be representationally faithful.

B63. The Board recognizes that certain of those disclosures might be redundant with other standards, given paragraphs 17 and 24–26 of FASB Statement No. 130, *Reporting Comprehensive Income.* However, disclosure related to certain amounts reported in the statement of changes in shareholders' equity could be satisfied by cross-referencing to the postretirement benefits note, which would be more complete under the approach selected by the Board. Furthermore, Statement 130 allows alternative disclosure formats. Requiring certain disclosures in the notes describing postretirement benefits will result in more consistent disclosure of the information by all employers. It also will eliminate the need for a user to analyze multiple parts of the financial statements and notes to find all relevant information about the accounting for postretirement benefits.

Estimated Amount of Amortization for the Next Fiscal Year

B64. Some respondents requested additional disclosures about the effect of the delayed recognition provisions of Statements 87 and 106 on net periodic benefit cost for future periods because they find it difficult to project the amortization of gains or losses and prior service costs or credits. Others asked the Board to consider requiring disclosure of all projected components, including service cost, interest cost, and investment returns. However, others noted that all elements of net periodic benefit cost already recognized are disclosed in interim-period financial reports. Therefore, projections for at least the remainder of the year should be enhanced.

The Board considered three alternatives:

a. Require separate disclosure of the amounts subject to amortization (that is, gains or losses beyond the corridor established by paragraphs 32 and 33 of Statement 87 and paragraphs 59 and 60 of Statement 106, respectively, and prior service costs or credits) and the average period over which each item is amortized
b. Require disclosure of the estimated portions of the net gain or loss and the prior service cost or credit in accumulated other comprehensive income that will be recognized as components of net periodic benefit cost over the fiscal year that follows the most recent annual statement of financial position presented
c. Permit an employer to choose either of the foregoing alternatives and require that disclosure only if the amount is expected to differ significantly from the current period.

B65. The Board evaluated those alternatives in light of its decision to make only those changes in disclosure requirements that are directly related to the changes to recognition made by this Statement. The Board noted that the first alternative might be of limited usefulness, and potentially misleading, if the reclassification pattern is other than straight line. Therefore, the Board affirmed the disclosure proposed in the Exposure Draft (the second alternative) because that alternative provides a straightforward and easily understood forecast (and not merely the information that could be used to form a forecast). Also, the data to prepare that forecast should be readily available to an employer. The Board decided that such disclosure should include all amounts subject to amortization and, therefore, also should include the estimated portion of any net transition asset or obligation that will be recognized as a component of net periodic benefit cost over the fiscal year that follows the most recent statement of financial position presented.

Excess or Surplus Plan Assets

B66. Respondents asked the Board to provide additional guidance on the current-noncurrent classification of net postretirement benefit assets and liabilities recognized. The Board decided to provide additional guidance and to require disclosure of the amount and timing of any plan assets expected to be returned to the employer during the 12-month period, or operating cycle if longer, that follows the most recent statement of financial position presented (see paragraphs B48–B50).

Note Disclosures Considered but Not Required

B67. The Board considered, but decided not to require, the disclosures described in paragraphs B68–B74. Each proposed disclosure was rejected for reasons noted below as well as for one or more of the following reasons: the disclosed information would have limited usefulness, the disclosure was considered and rejected by the Board during previous projects, such as Statement 132(R), and the disclosure was outside the scope of the first phase of the project.

Disclosure of the Retroactive Effect of This Statement on the Prior Year's Statement of Financial Position

B68. To make year-to-year financial statements comparable, the Exposure Draft proposed requiring retrospective application of this Statement effective for fiscal years ending after December 15, 2006, for all changes except those that relate to the measurement date. Respondents argued that the costs associated with retrospective application would exceed the benefits that would be derived from year-to-year comparability. The Board determined in its redeliberations that retrospective application would not be required or permitted by this Statement.

B69. Some respondents suggested limited retrospective application, at least for the year immediately preceding the initial year the recognition provisions of this Statement are implemented. The Board considered whether to require disclosure of the effect that recognizing the funded statuses would have had on the individual line items in the statement of financial position for the end of the year immediately preceding the year of adoption. The Board considered the implementation issues associated with providing that disclosure, primarily those related to accounting for deferred income taxes. Preparers would still have to assess the realizability of any incremental deferred tax assets and possibly other issues as noted in paragraphs B89 and B90. Additionally, not all employers would be affected equally if the Board retained an impracticability exemption from the disclosure requirement because an employer was unable to assess the realizability of deferred tax assets for the prior year without considering information that subsequently became available.

B70. The Board considered allowing an employer to use information obtained after the end of the prior fiscal year in developing its forecast of the reversal of temporary differences and future taxable income. The Board decided, however, that determining the deferred tax accounting, including the realizability of deferred taxes on a retrospective basis, with or without the use of hindsight, was subject to sufficient implementation difficulties that made it not justifiable on a benefit-cost basis. The Board also concluded that there was extensive information already available in the notes to financial statements for that prior year.

Market-Related Value

B71. The market-related value of plan assets is used to determine the expected-return-on-plan-assets component of net periodic benefit cost. It also is used to establish the minimum annual amortization threshold (that is, 10 percent of the greater of the market-related value of plan assets or the benefit obligation) for gains or losses not yet recognized as a component of net periodic benefit cost. The Board considered, but decided not to require, disclosure of the market-related value of plan assets and the method used to determine it. Certain users of financial statements asked the Board to consider that disclosure because it would help them forecast the expected return on plan assets and future amortization of gains or losses. The Board observed that the new disclosures stated in paragraph 7 are responsive, in part, to that request. In addition, the Board observed that disclosure of the market-related value of plan assets would not add sufficient benefits to justify the additional costs of compliance. An aggregate market-related value would not necessarily be useful for an employer with multiple plans. To make the information more useful, an employer with several plans with different characteristics would need to provide disaggregated information about market-related values. The Board concluded that requiring that level of disclosure was beyond the limited scope of this Statement.

Sensitivity of the Postretirement Benefit Obligation to Changes in Interest Rates

B72. Certain respondents asked the Board to consider requiring disclosure of the sensitivity of the postretirement benefit obligation to changes in interest rates. Those respondents believe the potential volatility of amounts recognized from changes in interest rates should be quantified in the notes to financial statements. The Board acknowledges that the requirements of this Statement may increase both the amount and volatility of assets and liabilities recognized in an employer's statement of financial position. However, the Board reasoned that sensitivity analysis focusing only on a plan's postretirement benefit obligation could be misleading because some changes in plan obligations and assets have the same cause. For example, a change in interest rates would affect the amounts of both plan assets and benefit obligations, particularly if the plan has a dedicated bond portfolio. In addition, the Board observed that disclosure of sensitivity information was considered during the deliberations that led to the issuance of Statement 132(R). Therefore, that disclosure would be better addressed in the second phase of the project.

Alternative Amortization Method

B73. The Board was asked to require disclosure of the method used to amortize gains or losses if that method differs from the minimum amortization required by Statements 87 and 106. The Board observed that paragraph 5(o) of Statement 132(R) requires disclosure of any alternative methods used to amortize gains or losses or prior service costs or credits.

Contributions to the Plan

B74. The Board considered whether it should require disclosure of an employer's significant plan contributions that might be triggered under certain circumstances by the Employee Retirement Income Security Act or other funding requirements. The Board concluded that existing disclosures (that is, those required by FASB Statements and, for public companies, SEC regulations) should provide sufficient information about contributions to the plans over the fiscal year that follows the most recent statement of financial position presented. In developing disclosures that focus solely on certain U.S. regulatory or other requirements that apply only in limited circumstances, the Board would have had to consider whether there are similar requirements elsewhere in the world applicable to plans of multinational companies. That effort was beyond the scope of the project and was not considered necessary to meet the objectives of this Statement. After the Board completed its redeliberations, the Pension Protection Act of 2006 was enacted and will affect future funding by U.S. employers. The Board concluded that consideration of any additional disclosures associated with that legislation would have delayed issuance of this Statement. Therefore, the Board decided that disclosure of an employer's significant plan contributions should be considered in a separate project.

Reporting by a Not-for-Profit Organization or Other Entity That Does Not Report Other Comprehensive Income

B75. The Board employs a differences-based approach in setting accounting standards for not-for-profit organizations. Under that approach, the standards applicable to a business entity apply to a not-for-profit organization unless substantive transactional or reporting considerations justify different accounting or reporting. In the deliberations that led to Statements 87 and 106, the Board concluded that the guidance developed for a business entity also should apply to a not-for-profit organization. In the deliberations that led to the issuance of the Exposure Draft, the Board similarly concluded that the changes to Statements 87 and 106 made by this Statement for a business entity should apply equally to a not-for-profit organization. The Board concluded that reporting the funded statuses of postretirement benefit plans in the statement of financial position of a not-for-profit employer would make it easier for creditors, donors, and others to assess the not-for-profit organization's financial position and liquidity. Virtually no respondents suggested that not-for-profit organizations be excluded from the scope of this Statement. Thus, in its redeliberations, the Board affirmed the applicability of the basic recognition, measurement date, and disclosure provisions of this Statement to not-for-profit organizations.

B76. In its initial deliberations, the Board acknowledged that its decision to require recognition by a business entity of gains or losses and prior service costs or credits in other comprehensive income in the periods in which they arise could not be applied by a not-for-profit organization and other entities that are not required to report other comprehensive income. A not-for-profit organization that prepares financial statements under the provisions of FASB Statement No. 117, *Financial Statements of Not-for-Profit Organizations,* is explicitly excluded from the scope of Statement 130. Thus, this Statement contains additional application guidance that focuses on the reporting by a not-for-profit organization. Appendix A of this Statement includes an illustrative example to help constituents better understand the guidance for a not-for-profit organization.

B77. The key not-for-profit issue addressed in this Statement is where the gains or losses and prior service costs or credits recognized by a business entity in other comprehensive income should be reported within a not-for-profit organization's statement of activities, particularly in relation to any performance indicator or other intermediate measure of operations. In its initial deliberations, the Board noted that

Statement 117 neither requires nor prohibits a not-for-profit organization from reporting an intermediate measure of operations (or performance indicator) within its statement of activities (statement of changes in net assets), nor does it prescribe the components of such a measure if it is presented. The Board also noted, however, that other authoritative accounting pronouncements (in particular, the AICPA's Statement of Position (SOP) 02-02, *Accounting for Derivative Instruments and Hedging Activities by Not-for-Profit Health Care Organizations, and Clarification of the Performance Indicator,* and its Audit and Accounting Guide, *Health Care Organizations*) require a not-for-profit health care provider to present a performance indicator that is the functional equivalent of income from continuing operations of a for-profit provider. Finally, the Board noted that other not-for-profit organizations may elect to present a performance indicator that is the functional equivalent of income from continuing operations. Although the Board was unaware of specific organizations outside the health care sector that were doing so, the Board decided that, for consistency, the Exposure Draft should provide similar guidance for both health care providers required to present a functionally equivalent performance indicator and other employers that voluntarily choose to present a similar operating measure. The Board decided that those employers should apply the provisions of the Exposure Draft in the same manner as a business entity, that is, by reporting gains or losses, prior service costs or credits, and the transition asset or obligation outside the performance indicator or other intermediate operating measure in the period in which they arise. Likewise, those employers should subsequently reclassify those amounts to net periodic benefit cost pursuant to the recognition and amortization provisions of Statements 87, 88, and 106.

B78. The Board also considered how this Statement would be applied by an organization that presents an intermediate measure of operations that is not the functional equivalent of income from continuing operations or by an organization that elects not to present an intermediate measure of operations. Consistent with the provisions of Statement 117, in the Exposure Draft the Board decided not to prescribe how those organizations should report gains or losses and prior service costs or credits in the periods in which they arise. However, the Board decided to require that those amounts be reported in the statement of activities apart from functional expenses. The Board noted that the gains or losses and the prior service costs or credits could be significant and, thus, decided that separate reporting would make it easier for users to compare the financial statements of different organizations.

B79. Respondents generally agreed with the separate reporting proposed by the Exposure Draft. A couple of respondents, however, noted that some not-for-profit organizations present expenses by natural classification in their statements of activities and disclose expenses by functional classification in the notes to financial statements or in a separate statement of functional expenses. All of those alternatives are permitted by Statement 117. Those respondents suggested that the requirement for separate reporting be extended to apply to all presentations of expenses, whether by functional or natural category. The Board agreed. This Statement requires that the items be separately reported apart from all expenses. If the items are reported in the aggregate in the basic financial statements, the components should be disclosed in the notes.

B80. Some respondents disagreed with the approach described in paragraphs B77 and B78 and suggested that the Board require reported amounts to be presented outside any intermediate measure of operations or performance indicator. Other respondents agreed with the approach but asked for clarification of when an intermediate measure of operations is "functionally equivalent" to income from continuing operations of a business entity. Those respondents expressed their view that, absent clarification, the proposed requirement might not be adequately understood or consistently applied by other not-for-profit organizations.

B81. In its redeliberations, the Board rejected the suggested approach of always presenting the reported amounts outside an operating measure, noting that not-for-profit organizations are diverse, have diverse aims for an operating measure, and, therefore, may choose different components to include in an operating measure. The Board concluded that the requirement for separate reporting would help ensure transparency whether presented within or outside such diverse operating measures. The Board concluded that there was no compelling reason to deviate from the spirit of Statement 117 by being more prescriptive on this matter. The Board also concluded that attempting to define a *functionally equivalent* operating measure was outside the scope of this Statement. The Board decided that this Statement should simply reference the existing guidance concerning operating measures and performance indicators and impose no new display requirements beyond presentation in a discrete line item or items apart from expenses.

B82. During its initial deliberations, the Board also addressed whether the amounts separately presented should be subsequently recognized as components of net periodic benefit cost. Because there are no equivalents to retained earnings or accumulated other comprehensive income in the financial statements of a not-for-profit organization, the Board considered amending Statements 87 and 106 to require that not-for-profit organizations report gains or losses and prior service costs or credits in net periodic benefit cost (and, therefore, expenses) in the period in which they arise. The Board decided that given the objective and scope of the project that led to this Statement (paragraphs B2–B28), it was preferable to include reconsideration of the measurement of net periodic benefit cost for this one sector in its broader reconsideration of the issue as part of the next phase of the project. Thus, the Exposure Draft changed neither the way in which a not-for-profit organization measures its net periodic benefit cost nor the way in which it reports that cost by expense category (functional or natural).

B83. Several respondents nevertheless asked the Board to reconsider its prior decision. In its redeliberations, the Board examined the possible consequences of amending Statements 87 and 106 either to allow immediate recognition in expenses (bypassing the separate line item recognition) or no recognition in expenses (retaining the separate line item recognition but eliminating the subsequent reclassification). In addition to not wanting to change the measure of net periodic benefit cost for not-for-profit organizations before a broad reconsideration, the Board also chose not to make those changes because of the possibility of unintended or undesirable consequences for not-for-profit organizations, including nontransparent volatility in expenses, circumvention of functional expense reporting for a portion of an organization's resources, and issues related to an organization's recoverability of such amounts under grants and contracts. Accordingly, the Board affirmed its prior decision on this matter.

B84. One respondent asked the Board to provide additional guidance concerning permissible display in the statement of financial position of the cumulative effect on unrestricted net assets of adopting the provisions of this Statement, in the absence of the separate component of equity (accumulated other comprehensive income) contained in a business entity's statement of financial position. The respondent was especially concerned about situations in which adoption of the Statement would largely or entirely eliminate a not-for-profit organization's reported unrestricted net assets. The Board, while understanding the concern, concluded that providing guidance beyond referring to Statement 117's flexibility of display within net asset classes was outside the scope of this Statement. The Board also noted that in such instances there also would generally be a certain degree of transparency from the presence in the statement of financial position of a large, noncurrent liability and other information provided by the notes to financial statements.

B85. The Board decided that for reasons similar to those described in paragraphs B75–B84, other entities that do not report other comprehensive income pursuant to Statement 130 should apply the guidance that is applicable to not-for-profit organizations in an analogous manner that is appropriate for how they report their results of operations and financial positions.

Guidance on Discount Rates

B86. The Board decided to amend Statements 87 and 106 to incorporate guidance on the selection of appropriate discount rates that previously resided in other literature (such as in paragraph 186 of Statement 106's basis for conclusions). The Board considered whether codifying only that guidance without considering completely other guidance on various aspects of Statements 87 and 106 was consistent with the Board's objectives for this Statement.

B87. The Board does not consider the codification to be a change to existing standards. Certain constituents advocated that the existing standards should provide all necessary guidance on the objective and method of selecting the discount rate assumptions and that codifying the guidance would improve consistency between Statements 87 and 106. They noted that the wording in paragraph 186 was specifically cited in a September 22, 1993 letter from the SEC to the Chairman of the Emerging Issues Task Force (EITF). In that letter, the SEC staff stated its belief "that the guidance that is provided in paragraph 186 of Statement 106 for selecting discount rates to measure the postretirement benefit obligation also is appropriate guidance for measuring the pension benefit obligation." Paragraph 186 of Statement 106 was incorporated into the *Current Text* and EITF Topic No. D-36, "Selection of Discount Rates Used for Measuring Defined Benefit Pension Obligations and Obligations of Postretirement Benefit Plans Other Than Pensions." The Board believes its decision to incorporate the paragraph into Statements 87 and 106 is consistent with the objectives of both this project and its broader project on codification. The Board further decided to emphasize that the determination of the assumed discount rates is separate from the determination of the expected return on plan assets whenever the actual portfolio of plan assets differs from the hypothetical portfolio of high-quality fixed-income investments described in paragraph 44 of Statement 87, as amended, and paragraph 31 of Statement 106, as amended.

Effective Date and Transition

Recognition of the Funded Status

B88. The Exposure Draft proposed requiring retrospective application of this Statement effective for fiscal years ending after December 15, 2006, for all changes except those that relate to the measurement date (paragraphs B51–B57). The Board selected that effective date because most of the information needed to apply this Statement already is required for notes to financial statements and the Board wanted to implement improvements in financial reporting for postretirement benefits as soon as possible. Retrospective application was proposed because it is the transition method for a change in accounting principle generally required by Statement 154. That Statement generally requires that method because it improves interperiod comparability.

B89. Many respondents to the Exposure Draft stated that the costs of retrospectively applying this Statement would outweigh the benefits. Some noted that there would be significant complexities in assessing the realizability of any incremental deferred tax assets recognized in prior periods. Multiple years of financial statements and financial summaries would have to be restated, and the effects on financial metrics referenced in contractual arrangements would have to be assessed. Additional complications would arise if prior-period financial statements were audited by different auditors. Other respondents stated that retrospective application would not increase comparability because of the impracticability exemption related to deferred income taxes included in the Exposure Draft.

B90. The Board decided that retrospective application of this Statement would not ensure comparable financial statements from year to year for a single employer or between employers and would be costly to implement. Therefore, the Board decided that this Statement should be implemented on a prospective basis. The Board decided not to permit retrospective application so that all employers would apply the same method of transition, thereby enhancing comparability.

B91. Because of the implementation issues raised by respondents about retrospective application, the Board also concluded that the effect of initially applying the recognition provisions of this Statement should be recognized as an adjustment of accumulated other comprehensive income as of the end rather than as of the beginning of the year for an employer that is subject to Statement 130. A not-for-profit organization should report the effect as a change in unrestricted net assets in its statement of activities, in a separate line item or items apart from expenses and outside any performance indicator or other intermediate measure of operations.

B92. The Exposure Draft proposed no special provisions for a nonpublic employer regarding recognition provisions in this Statement. The Board did not consider the implementation issues for a nonpublic employer to be sufficiently different from those of a public employer to justify a delayed effective date. The Board concluded that because the information necessary to recognize the funded status of a defined benefit postretirement plan already is determined and generally included in note disclosures, a nonpublic employer would be able to apply the provisions of this Statement related to recognition for fiscal years ending after December 15, 2006. The Board decided to gather additional information through the notice for recipients of the Exposure Draft to determine whether nonpublic employers with contractual arrangements, other than debt covenants, that reference certain financial metrics, including book value, return on equity, or debt to equity, should be given a delayed effective date.

B93. Respondents to the Exposure Draft noted that reductions in equity that could result from recognizing the funded status of benefit plans pursuant to the provisions of this Statement would have significant effects on employers with contractual arrangements that reference book value. During redeliberations, the Board noted that the majority of employers with those arrangements included cooperative businesses that transact with member-owners on a book value basis, and other nonpublic employers that have compensation arrangements referencing book value. Therefore, the Board decided to delay the effective date to fiscal years ending after June 15, 2007, for those employers to provide them with additional time to address the effects of this Statement on the contractual arrangements noted above. Because a significant number of cooperatives issue publicly traded debt, which would result in their meeting the definition of the term *public* that is used in Statement 132(R), the Board decided to use an approach that focuses on issuance of equity securities and is similar to the definition of a nonpublic entity, defined in FASB Statement No. 123 (revised 2004), *Share-Based Payment,* as follows:

> Any entity other than one (a) whose equity securities trade in a public market either on a stock exchange (domestic or foreign) or in the over-the-counter market, including securities quoted only locally or regionally, (b) that makes a filing with a regulatory agency in preparation for the sale of any class of equity securities in a public market, or (c) that is controlled by an entity covered by (a) or (b). An entity that has only debt securities trading in a public market (or that has made a filing with a regulatory agency in preparation to trade only debt securities) is a nonpublic entity for purposes of this Statement.

B94. The Board concluded that the recognition provisions of this Statement should be implemented as soon as possible by employers that have issued publicly traded equity securities because of the use of their financial statements by participants in the public marketplace, the more limited arrangements that may be affected, and the greater resources they have to address issues with contractual arrangements. Therefore, the Board affirmed the effective date for fiscal years ending after December 15, 2006, for those employers with publicly traded equity securities. The Board decided to encourage early application of this Statement's recognition provisions; however, the Board was concerned about the complexity and possible confusion for users if there were multiple accounting changes over different periods, which could result if it permitted early application on a plan-by-plan basis. Therefore, the Board decided that early application should be for all of an employer's benefit plans.

Measurement Date

B95. The Exposure Draft proposed that employers remeasure plan assets and benefit obligations as of the beginning of the fiscal year that the measurement date provisions are effective. In considering the implementation issues associated with performing a second measurement in the year the measurement date is changed, the Board noted that Statements 87 and 106 do not require that all measurement procedures related to postretirement obligations be performed as of the measurement date. In Statement 87, the Board stated that "as with other financial statement items requiring estimates, much of the information can be prepared as of an earlier date and projected forward to account for subsequent events . . ." (paragraph 52).

B96. Due to the costs noted in paragraph B53, the Board decided to allow an alternative approach for the transition to a fiscal year-end measurement date. In lieu of remeasuring plan assets and benefit obligations as of the beginning of the fiscal year that the measurement date provisions are effective, an employer may use earlier measurements determined for year-end reporting as of the fiscal year immediately preceding the year the measurement date provisions are initially applied. The adjustment to retained earnings is approximated by prorating a portion of net periodic benefit cost determined for the period beginning with the last measurement date used for the immediately preceding fiscal year and ending with the last day of the fiscal year that the measurement provisions are applied. For example, a calendar-year employer that uses a September 30 measurement date would allocate three-fifteenths of net period benefit cost determined for the period from September 30, 2007, to December 31, 2008. It is not possible to quantify adjustments to beginning accumulated other comprehensive income without a measurement as of the beginning of the fiscal year. Therefore, the effect of the change in measurement date on accumulated other comprehensive income is recognized during the fiscal year in other comprehensive income, not distinguishing the effects of changing the measurement date from other changes during the period. Curtailment and settlement gains and losses are recognized in earnings as they arise. The Board concluded that alternative would simplify transition and reduce implementation costs because a second measurement of plan assets and benefit obligations would not be required during transition.

B97. The Board considered whether eliminating the earlier measurement date alternative should be applied retrospectively because that application necessitates conducting an additional measurement of plan assets and benefit obligations for each individual plan as of the financial reporting date for each prior year presented if an employer has been using an alternative measurement date. The Exposure Draft acknowledged that retrospective application could be impracticable because of the need to determine the fair value of certain plan assets. For that reason, and to reduce the costs of implementation, the Exposure Draft proposed not requiring or permitting retrospective application of the provision related to the change in measurement date. Respondents supported that approach and the Board affirmed that decision during its redeliberations.

B98. Before issuing the Exposure Draft, the Board considered two alternative effective dates for the change in measurement date for a public employer. Under the first alternative, the change would be effective for fiscal years beginning after December 15, 2006. Under the second alternative, the change would be effective for fiscal years ending after December 15, 2007. The Board preferred the first alternative because it required that net periodic benefit cost for that fiscal year be based on measurements as of the beginning of the year. Thus, results of operations for each interim period and the fiscal year would be more representationally faithful of the events occurring during those periods. The Board considered the costs that would be incurred to conduct the necessary measurements under both alternatives and concluded that the costs would likely be similar.

B99. Certain respondents expressed a concern about the short time frame expected between issuance of this Statement and the proposed effective date of fiscal years ending after December 15, 2006, for recognition of the funded status and the proposed effective date of years beginning after December 15, 2006, for the change in measurement date. Those respondents stated that it would be difficult and costly to implement both accounting changes simultaneously. The Board determined that recognition of the funded status is the most important provision in this Statement and decided to delay the effective date for the measurement date change to fiscal years ending after December 15, 2008, for all employers. That delay will provide sufficient time for preparers and resource providers to implement necessary system and process changes in an efficient manner. The Board decided to encourage early application of this Statement's measurement date provisions; however, the Board was concerned about the complexity and possible confusion for users if there were multiple accounting changes over different periods, which could result if it permitted early application on a plan-by-plan basis. Therefore, the Board decided that early application should be for all of an employer's benefit plans.

Amendments Considered but Not Made

Separate Line Item Presentation

B100. In developing the Exposure Draft, the Board considered whether to require that postretirement-benefit-related assets and liabilities be presented as separate line items in an employer's statement of financial position. That presentation would be consistent with this Statement's objective to increase the transparency of the funded statuses of the postretirement benefit plans in an employer's statement of financial position.

B101. The Board decided not to specify at this time the display of postretirement benefit assets or liabilities. The Board reasoned that required note disclosures provide adequate information about amounts recognized. In addition, SEC registrants already are subject to certain reporting requirements for significant assets and liabilities. Respondents did not comment on separate line-item presentation and the Board affirmed it prior decision.

Interim-Period Remeasurement

B102. Because the primary objective of the first phase of the project was recognition of the funded statuses of an employer's postretirement benefit plans, the Board considered whether the status of each plan should be measured each interim reporting period or whether interim-period recognition could be based on a limited remeasurement approach. Limited remeasurement might involve updating certain, but not all, assumptions and other valuation shortcuts. The Board decided not to require that plan assets and benefit obligations be remeasured for interim-period reporting because:

a. There would be additional costs to implement that change.
b. It would raise additional issues not addressed by Statement 87 or 106.
c. It would represent a fundamental change in the measurement of net periodic benefit cost, and measurement issues were beyond the scope and objectives of this Statement.

The Board observed that employers can establish a consistent policy for periodic measurements of plan assets and benefit obligation pursuant to Statements 87 and 106. The Board also decided not to allow a limited remeasurement approach because doing so would inevitably necessitate the need for the Board to address issues about measurement that were beyond the scope of this Statement. The Board noted that unless an employer remeasures both its plan assets and benefit obligations during the fiscal year, the amount it reports in interim-period financial statements should be the same asset or liability recognized in the previous year-end statement of financial position adjusted for (a) subsequent accruals of net periodic benefit cost, other than the amortization of amounts previously recognized in accumulated other comprehensive income (that is, those amounts are reclassified from accumulated other comprehensive income as components of net periodic benefit cost and do not affect the asset or liability recognized in the statement of financial position) and (b) contributions to a funded plan, or benefit payments. However, sometimes an employer remeasures both the benefit obligation and plan assets during the fiscal year. That is the case, for example, when a significant event, such as a plan amendment, settlement, or curtailment occurs that calls for a remeasurement. Upon remeasurement, the employer should adjust its statement of financial position (on a delayed basis until the measurement date provisions of this Statement have been implemented) to reflect the overfunded or underfunded status of the defined benefit plan as of that remeasurement date. Until the measurement date provisions of this Statement have been adopted, the employer should continue to recognize the overfunded or underfunded status of its plans on a delayed basis (for example, on a three-month lag for a calendar-year employer that measures plan assets and benefit obligations as of September 30). The Board will deliberate the accounting issues related to interim periods during the second phase of the project.

Implementation Guidance

B103. When they were issued, Statements 87, 88, and 106 represented fundamental changes in the accounting for defined benefit postretirement plans, changes in the depiction of those plans, and changes in their effects on an employer's financial statements. Those Statements include examples to illustrate the application of certain accounting and disclosure requirements.

B104. Many of the illustrations would have required extensive changes to implement the provisions of this Statement. The Board concluded that the changes that would be necessary included eliminating reconciliations of the funded status to amounts recognized in an employer's statement of financial position, eliminating references to the additional minimum pension liability, and eliminating references to unrecognized gains or losses, unrecognized prior service costs or credits, and the unrecognized transition asset or obligation to reflect that those items now would be recognized in accumulated other comprehensive income.

B105. The Board believes the original need for those illustrations, particularly those relating to the transition provisions of Statements 87 and 106, are not essential to understanding or applying the provisions of this Statement. The Board decided to consider further those illustrations included in Statements 87, 88, and 106 and to update those that have continuing relevance following the issuance of this Statement.

B106. The Board believes many of the staff Q&As contained in FASB Special Reports, *A Guide to Implementation of Statement 87 on Employers' Accounting for Pensions; A Guide to Implementation of Statement 88 on Employers' Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits;* and *A Guide to Implementation of Statement 106 on Employers' Accounting for Postretirement Benefits Other Than Pensions,* are not essential to understanding or applying the provisions of this Statement. Additionally, the Board believes the need for those Q&As has diminished over the many years since Statements 87, 88, and 106 were first issued. The Board decided to consider further those Q&As and to update those that have continuing relevance following the issuance of this Statement.

Benefit-Cost Considerations

B107. The objective of financial reporting is to provide information that is useful to present and potential investors, creditors, donors, and other capital market participants in making rational investment, credit, and similar resource allocation decisions. However, the benefits of providing information for that purpose should justify the related costs. Investors, creditors, donors, and other users of financial information benefit from improvements in financial reporting, while the costs to implement a new standard are borne primarily by the preparer. The Board's assessment of the costs and benefits of issuing an accounting standard is unavoidably more qualitative than quantitative because there is no method to objectively measure the costs to implement an accounting standard or to quantify the value of improved information in financial statements.

Benefits

B108. The benefits of this Statement are as follows:

a. Reporting of postretirement benefit obligations in statements of financial position will be more complete. Under the prior accounting standards, significant obligations were not recognized in the statement of financial position. Important information about the nature and amount of an employer's obligations for postretirement benefits, including those for retiree health care plans (which are not usually funded), was relegated to the notes to financial statements.
b. The understandability of financial statements will be improved. Users of financial statements will be better able to assess an employer's financial position and its ability to carry out the obligations of its pension and other postretirement benefit plans.
c. The timeliness of recognition in the financial statements will be improved, either as net periodic benefit cost or other comprehensive income. Also improved will be the timeliness of recognizing the effects of the events that affect the costs of providing postretirement benefits, including changes in plan assets and benefit obligations that occur during a period because of differences between experience and assumptions, or that occur as a result of changes in one or more actuarial assumptions.
d. The comparability of financial statements between employers will be improved, and the representational faithfulness of statements of financial position enhanced, by requiring that plan assets and benefit obligations be measured as of the date of an employer's year-end statement of financial position, not up to three months earlier as was previously permitted.

B109. This Statement requires the recognition of information about events that affect postretirement benefit obligations and plan assets that previously was included only in note disclosures. The Board believes that disclosure is not a substitute for recognition in financial reporting. The changes in accounting for postretirement benefits that are required by this Statement provide a benefit because of the increased credibility and representational faithfulness of financial reporting that results from requiring the recognition (and not merely the disclosure) of the funded statuses of an employer's postretirement benefit obligations. Furthermore, this Statement should reduce or eliminate the effort required by users that adjust financial statements to include unrecognized benefit obligations or plan assets on a pro forma basis in an employer's statement of financial position.

Costs

B110. Based on input from constituents, the Board believes that the incremental costs of implementing the principal provisions of this Statement will not be significant because the information needed to recognize a plan's funded status (that is, gains or losses, prior service costs or credits, and the transition asset or obligation) is already needed to determine net periodic benefit cost and is included in annual note disclosures.

B111. In addition, the Board took certain steps to reduce the costs of implementation. For example, this Statement requires prospective application rather than retrospective application. This Statement also provides an alternative transition for the requirement to measure plan assets and benefit obligations as of the date of an employer's year-end statement of financial position. An employer that previously used an earlier measurement date (that is, up to three months earlier pursuant to the prior provisions of Statements 87 and 106) would ordinarily need to perform an additional measurement in the year the new requirement is implemented to align the measurement date with the date of an employer's year-end statement of financial position. For example, to have beginning balances for the year that the change in measurement date provision is effective, an employer with a calendar year-end that used September 30 as its measurement date would need to perform an additional measurement at December 31. Time and other resources would be needed to collect, process, and validate information used in that measurement.

B112. Incremental one-time costs associated with measuring plan assets as of the financial reporting date (that is, if plan assets and benefit obligations are not already being measured as of that date) may include the following:

a. Costs to implement changes in systems and processes used to gather and roll forward demographic information and other data related to measurement assumptions
b. Fees paid to external consultants involved in the measurement of benefit obligations or the valuation of plan assets
c. Fees paid to external auditors to audit the results of a second measurement of plan assets, benefit obligations, and related effects on net periodic benefit cost.

In addition to the alternative approach (see paragraph B96), the Board delayed the effective date for the change in measurement date to alleviate those costs.

B113. The Board acknowledges there still will be incremental one-time costs. However, the Board believes the ongoing financial reporting benefits derived from measuring postretirement benefit assets and obligations included in an employer's year-end statement of financial position as of the same date as all other assets and liabilities included in that statement will exceed those one-time costs.

Potential Economic Consequences of Recognition of the Funded Status

B114. Some respondents to the Exposure Draft said that required recognition of the funded statuses of an employer's plans may have undesirable economic consequences. They suggested that such recognition is likely to cause some employers to reduce, eliminate, or otherwise revise their postretirement benefit plans. Some also contended that recognition will raise the cost of capital for employers whose plans are significantly underfunded.

B115. The Board is aware that changes in the behavior of lenders, employers, and others may occur as a result of this Statement. However, it is not the Board's intention to affect the likelihood of any changes in those behaviors. FASB Concepts Statement No. 2, *Qualitative Characteristics of Accounting Information,* explains neutrality. It states:

> Neutrality means that either in formulating or implementing standards, the primary concern should be the relevance and reliability of the information that results, not the effect that the new rule may have on a particular interest.

To be neutral, accounting information must report economic activity as faithfully as possible, without coloring the image it communicates for the purpose of influencing behavior in *some particular direction.* [paragraphs 98 and 100]

B116. Neutrality does not imply that improved financial reporting should have no economic consequences. To the contrary, a change in accounting standards that results in financial statements that are more relevant and representationally faithful, and thus more useful for decision making, presumably will have economic consequences. For example, required recognition of a plan's funded status and the events that affect that plan's status based on the provisions of this Statement results in recognizing to a greater degree the difference between a defined benefit plan and a defined contribution plan.

B117. The Board believes it is the economic nature of postretirement benefit arrangements that determines decisions made by employers, lenders, investors, donors, and others. That economic nature is not affected by the financial accounting treatment of those arrangements. However, the decision usefulness of information about those arrangements is affected by the reporting standards that govern how those arrangements are depicted in the financial statements. This Statement results in a more relevant, complete, representationally faithful, and comparable depiction of postretirement benefit plans in an employer's financial statements.

International Accounting Comparison

B118. The U.S. and international accounting standards for employers' accounting for defined benefit postretirement plans are similar regarding delayed recognition of certain events in measuring net periodic benefit cost, net periodic benefit cost reporting, and offsetting of liabilities and assets. Under those standards, returns on invested assets are recognized based on an expected long-term rate of return, the individual elements of net periodic benefit cost are combined and reported as a single amount in an employer's financial statements, and the values of assets contributed and liabilities recognized are shown net in an employer's statement of financial position. The U.S. and international accounting standards differ in some areas, including the following:

a. Statements 87 and 106 require, at a minimum, that gains and losses be amortized as a component of net periodic benefit cost if the accumulated amount exceeds 10 percent of the greater of the market-related value of plan assets or the benefit obligation. Under IAS 19 amortization requires using a similar formula except that in applying the threshold plan assets are measured at fair value, not at market-related value.

b. IAS 19 requires that prior service costs be recognized as a component of net periodic benefit cost over the vesting period. If the benefits vest immediately, the cost is recognized immediately. Statements 87 and 106 require that the cost (for vested and nonvested benefits) generally be recognized as a component of net periodic benefit cost over the active plan participants' future service periods.
c. IAS 19 requires that plan assets be measured at fair value for purposes of determining the expected return on plan assets; Statements 87 and 106 allow the use of fair values that are averaged over a period of up to five years (that is, market-related values).

B119. This Statement was issued as a result of a limited-scope phase of a comprehensive project conducted by the FASB. The IASB recently added to its agenda a project to review pension accounting standards. The IASB's project will be conducted in two phases. The first phase is aimed at making targeted improvements to pension accounting. The second phase is a fundamental review of accounting for postretirement benefits. The goal of the second phase is to converge with the FASB. The objective of phase two for both Boards is to develop a single, converged, and high-quality accounting standard that will cover all aspects of employers' accounting for defined benefit postretirement plans.

B120. The limited amendments adopted by this Statement that relate to recognition of the funded statuses of postretirement benefit plans differ from the provisions of IAS 19. This Statement requires that gains or losses and prior service costs or credits not recognized by a business entity as part of net periodic benefit cost be recognized as increases or decreases in an employer's assets or liabilities and as corresponding adjustments to other comprehensive income. IAS 19 does not require recognition of all gains or losses. However, it permits an employer to adopt a policy of recognizing all gains or losses, subject to certain limitations on the recognition of assets, in the period in which they occur—but outside profit or loss—"in a statement of changes in equity titled statement of recognized income and expense" (IAS 19, paragraphs 58, 93B, and 93C).

B121. This Statement's requirement to measure plan assets and benefit obligations as of the date of an employer's year-end statement of financial position is similar to IAS 19, which requires that measurements of plan assets and benefit obligations be determined with sufficient regularity to ensure that the amounts recognized in the financial statements do not differ materially from those that would be determined at the date of the year-end statement of financial position.

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Appendix C

AMENDMENTS TO STATEMENTS 87 AND 88

C1. This appendix contains the amendments to FASB Statements No. 87, *Employers' Accounting for Pensions,* and No. 88, *Employers' Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits,* as a result of this Statement. The following principal topics are addressed:

a. Amendments related to the recognition of the funded status of a defined benefit plan in an employer's statement of financial position, that is, recognition of gains or losses, prior service costs or credits, and the transition asset or obligation remaining from the initial adoption of Statement 87 that were previously unrecognized as of the date this Statement is initially applied.
b. Amendments to codify into Statement 87 the guidance from the basis for conclusions of FASB Statement No. 106, *Employers' Accounting for Postretirement Benefits Other Than Pensions,* that describes the objective of selecting assumed discount rates from a portfolio of high-quality debt instruments.
c. Amendments related to measuring plan assets and benefit obligations as of the date of an employer's year-end statement of financial position, eliminating the alternative of selecting a measurement date not more than three months prior to the date of an employer's year-end statement of financial position.
d. Amendments to conform the terms in the glossary of Statement 87 to this Statement.
e. Amendments needed to provide additional guidance for applying the amendments noted in (a) above to a not-for-profit organization or other entity that does not report other comprehensive income pursuant to FASB Statement No. 130, *Reporting Comprehensive Income.*

C2. Statement 87 is amended as follows: [Added text is <u>underlined</u> and deleted text is ~~struck out~~.]

a. Paragraph 16:

> Net periodic pension cost has often been viewed as a single homogeneous amount, but in fact it is made up of several *components* that reflect different aspects of the employer's financial arrangements as well as the cost of benefits earned by employees. The cost of a benefit can be determined without regard to how the employer decides to finance the plan. The **service cost component** of net periodic pension cost is the **actuarial present value**

of benefits attributed by the plan's benefit formula to services rendered by employees during the period. The service cost component is conceptually the same for an unfunded plan, a plan with minimal funding, and a well-funded plan. The other components of net periodic pension cost are **interest cost**[4] (interest on the **projected benefit obligation,** which is a discounted amount), **actual return on plan assets, amortization** of any~~**unrecognized**~~ **prior service cost** or credit included in accumulated other comprehensive income, and **gain or loss,** which includes, to the extent recognized, amortization of the net gain or loss included in accumulated other comprehensive income. Both the return on plan assets and interest cost components are in substance financial items rather than employee compensation costs.

b. Paragraph 20:

The following components shall be included in the net pension cost recognized for a period by an employer **sponsoring** a defined benefit pension plan:

a. Service cost
b. Interest cost
c. Actual return on plan assets, if any
d. Amortization of any prior service cost or credit included in accumulated other comprehensive income~~Amortization of unrecognized prior service cost, if any~~
e. Gain or loss (including the effects of changes in assumptions) to the extent recognized (paragraph 34)
f. Amortization of any net transition asset or obligation existing at the date of initial application of this Statement and remaining in accumulated other comprehensive income (paragraph 77).~~Amortization of the unrecognized net obligation (and loss or cost) or unrecognized net asset (and gain) existing at the date of initial application of this Statement (paragraph 77).~~

c. Paragraph 25:

~~The cost of retroactive benefits (including benefits that are granted to retirees) is the increase in the projected benefit obligation at the date of the amendment.~~A plan amendment that retroactively increases benefits (including benefits that are granted to retirees) increases the projected benefit obligation. The cost of the benefit improvement shall be recognized as a charge to other comprehensive income at the date of the amendment. Except as specified in paragraphs 26 and 27, that prior service cost shall be amortized as a component of net periodic pension cost by assigning an equal amount to each future period of service of each employee active at the date of the amendment who is expected to receive benefits under the plan. If all or almost all of a plan's **participants** are inactive, the cost of retroactive plan amendments affecting benefits of inactive participants shall be amortized based on the remaining life expectancy of those participants instead of based on the remaining service period. Other comprehensive income is adjusted each period as prior service cost is amortized.

d. Paragraph 26:

To reduce the complexity and detail of the computations required, consistent use of an alternative ~~amortization~~ approach that more rapidly ~~reduces~~ amortizes the ~~unrecognized~~ cost of retroactive amendments is acceptable. For example, a straight-line amortization of the cost over the average remaining service period of employees expected to receive benefits under the plan is acceptable. The alternative method used shall be disclosed.

e. Paragraph 28:

A plan amendment that retroactively reduces, rather than increases, benefits decreases the projected benefit obligation. The reduction in benefits shall be recognized as a credit (prior service credit) to other comprehensive income that shall be used first to reduce any remaining prior service cost included in accumulated other comprehensive income. Any remaining prior service credit shall be amortized as a component of net periodic pension cost on the same basis as the cost of a benefit increase.~~A plan amendment can reduce, rather than increase, the projected benefit obligation. Such a reduction shall be used to reduce any existing unrecognized prior service cost, and the excess, if any, shall be amortized on the same basis as the cost of benefit increases.~~

f. Paragraph 29 and its related footnote 5:

Gains and losses are changes in the amount of either the projected benefit obligation or plan assets resulting from experience different from that assumed and from changes in assumptions. This Statement does not distinguish between those sources of gains and losses. Gains and losses include amounts that have been realized, for example by sale of a security, as well as amounts that are unrealized. Because gains and losses may reflect refinements in estimates as well as real changes in economic values and because some gains in one period may be offset by losses in another or vice versa, this

Statement does not require recognition of gains and losses as components of net pension cost of the period in which they arise.[5] Gains and losses that are not recognized immediately as a component of net periodic pension cost shall be recognized as increases or decreases in other comprehensive income as they arise.

[5]Accounting for **plan terminations** and **curtailments** and other circumstances in which recognition of gains and losses as a component of net periodic pension cost might not be delayed is addressed in FASB Statement No. 88, *Employers' Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits.*

g. Paragraph 32 and its related footnote 6:

As a minimum, amortization of ~~an **unrecognized net gain or loss**~~a net gain or loss included in accumulated other comprehensive income (excluding asset gains and losses not yet reflected in market-related value) shall be included as a component of net pension cost for a year if, as of the beginning of the year, that ~~unrecognized~~ net gain or loss exceeds 10 percent of the greater of the projected benefit obligation or the market-related value of plan assets. If amortization is required, the minimum amortization[6] shall be that excess divided by the average remaining service period of active employees expected to receive benefits under the plan. If all or almost all of a plan's participants are inactive, the average remaining life expectancy of the inactive participants shall be used instead of average remaining service.

[6]The amortization must always reduce the beginning-of-the-year balance. Amortization of a net ~~unrecognized~~ gain results in a decrease in net periodic pension cost; amortization of a net ~~unrecognized~~ loss results in an increase in net periodic pension cost.

h. Paragraph 33:

Any systematic method of amortizing~~amortization of unrecognized~~ gains or losses may be used in lieu of the minimum specified in the previous paragraph provided that (a) the minimum is used in any period in which the minimum amortization is greater (reduces the net balance included in accumulated other comprehensive income by more), (b) the method is applied consistently, (c) the method is applied similarly to both gains and losses, and (d) the method used is disclosed.

i. Paragraph 34:

The gain or loss component of net periodic pension cost shall consist of (a) the difference between the actual return on plan assets and the expected return on plan assets and (b) amortization of the ~~unrecognized~~ net gain or loss included in accumulated other comprehensive income~~from previous periods~~.

j. Paragraph 35:

If the projected benefit obligation exceeds the fair value of plan assets, the employer shall recognize in its statement of financial position a liability that equals the **unfunded projected benefit obligation.** If the fair value of plan assets exceeds the projected benefit obligation, the employer shall recognize in its statement of financial position an asset that equals the overfunded projected benefit obligation.~~A liability (**unfunded accrued pension cost**) is recognized if net periodic pension cost recognized pursuant to this Statement exceeds amounts the employer has contributed to the plan. An asset (**prepaid pension cost**) is recognized if net periodic pension cost is less than amounts the employer has contributed to the plan.~~

k. Paragraph 36:

The employer shall aggregate the statuses of all overfunded plans and recognize that amount as an asset in its statement of financial position. It also shall aggregate the statuses of all underfunded plans and recognize that amount as a liability in its statement of financial position. An employer that presents a classified statement of financial position shall classify the liability for an underfunded plan as a current liability, a noncurrent liability, or a combination of both. The current portion (determined on a plan-by-plan basis) is the amount by which the actuarial present value of benefits included in the benefit obligation payable in the next 12 months, or operating cycle if longer, exceeds the fair value of plan assets. The asset for an overfunded plan shall be classified as a noncurrent asset in a classified statement of financial position.~~If the accumulated benefit obligation exceeds the fair value of plan assets, the employer shall recognize in the statement of financial position a liability (including unfunded accrued pension cost) that is at least equal to the **unfunded accumulated benefit obligation.** Recognition of an additional minimum liability is required if an unfunded accumulated benefit obligation exists and (a) an asset has been recognized as prepaid pension cost, (b) the~~

~~liability already recognized as unfunded accrued pension cost is less than the unfunded accumulated benefit obligation, or (c) no accrued or prepaid pension cost has been recognized.~~

l. Paragraph 37, as amended, and its related footnote 7:

The asset or liability that is recognized pursuant to paragraph 35 may result in a temporary difference, as defined in FASB Statement No. 109, *Accounting for Income Taxes*. The deferred tax effects of any temporary differences shall be recognized in income tax expense or benefit for the year and shall be allocated to various financial statement components, including other comprehensive income, pursuant to paragraphs 35–39 of Statement 109.~~If an additional minimum liability is recognized pursuant to paragraph 36, an equal amount shall be recognized as an intangible asset, provided that the asset recognized shall not exceed the amount of unrecognized prior service cost.~~[7] ~~If an additional liability required to be recognized exceeds unrecognized prior service cost, the excess (which would represent a net loss not yet recognized as net periodic pension cost) shall be reported in other comprehensive income, net of any tax benefits that result from considering such losses as temporary differences for purposes of applying the provisions of FASB Statement No. 109,~~ ~~*Accounting for Income Taxes.*~~

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[7]~~For purposes of this paragraph, an unrecognized net obligation existing at the date of initial application of this Statement (paragraph 77) shall be treated as unrecognized prior service cost.~~

m. Paragraph 38, as amended:

If a new determination of the funded status of a plan to be recognized as an asset or a liability in the employer's statement of financial position is made (paragraph 52), or when net gains or losses, prior service costs or credits, or the net transition asset or obligation existing at the date of initial application of this Statement are amortized as components of net periodic pension cost, the related balances for those net gains or losses, prior service costs or credits, and transition asset or obligation in accumulated other comprehensive income shall be adjusted as necessary and reported in other comprehensive income.~~When a new determination of the amount of additional liability is made to prepare a statement of financial position, the related intangible asset and the balance accumulated in a separate component of equity shall be eliminated or adjusted as necessary. Eliminations of or adjustments to that balance shall be reported in other comprehensive income.~~

n. Paragraph 44A is added as follows:

> Pursuant to paragraph 44, an employer may look to rates of return on high-quality fixed-income investments in determining assumed discount rates. The objective of selecting assumed discount rates using that method is to measure the single amount that, if invested at the measurement date in a portfolio of high-quality debt instruments, would provide the necessary future cash flows to pay the pension benefits when due. Notionally, that single amount, the projected benefit obligation, would equal the current market value of a portfolio of high-quality zero coupon bonds whose maturity dates and amounts would be the same as the timing and amount of the expected future benefit payments. Because cash inflows would equal cash outflows in timing and amount, there would be no reinvestment risk in the yields to maturity of the portfolio. However, in other than a zero coupon portfolio, such as a portfolio of long-term debt instruments that pay semiannual interest payments or whose maturities do not extend far enough into the future to meet expected benefit payments, the assumed discount rates (the yield to maturity) need to incorporate expected reinvestment rates available in the future. Those rates shall be extrapolated from the existing yield curve at the measurement date. The determination of the assumed discount rate is separate from the determination of the expected rate of return on plan assets whenever the actual portfolio differs from the hypothetical portfolio above. Assumed discount rates shall be reevaluated at each measurement date. If the general level of interest rates rises or declines, the assumed discount rates shall change in a similar manner.

o. Paragraph 49, as amended:

> For purposes of ~~measuring the minimum liability required by~~applying the provisions of paragraph 35~~36~~ and for purposes of the disclosures required by paragraphs 5 and 8 of FASB Statement No. 132 (revised 2003), *Employers' Disclosures about Pensions and Other Postretirement Benefits,* plan investments, whether equity or debt securities, real estate, or other, shall be measured at their fair value as of the measurement date.[12]

Note: FASB Statement No. 157, *Fair Value Measurements,* amended paragraph 49 prior to the issuance of this Statement, eliminating additional guidance about the measurement of plan assets at fair value. The preexisting guidance is effective for an employer until it adopts Statement 157. The changes to paragraph 49, as previously amended, and its related footnotes 11a, as previously added, and 12 made by Statement 157 and this Statement are shown below:

> For purposes of ~~measuring the minimum liability required by~~applying the provisions of paragraph 35~~36~~ and for purposes of the disclosures required by paragraphs 5 and 8 of FASB Statement No. 132 (revised 2003), *Employers' Disclosures about Pensions and Other Postretirement Benefits,* plan investments, whether equity or debt securities, real estate, or other, shall be measured at their fair value as of the measurement date.~~ The fair value of an investment is the amount that the plan could reasonably expect to receive for it in a current sale between a willing buyer and a willing seller, that is, other than in a forced or liquidation sale. Fair value shall be measured by the market price if an active market exists for the investment. If no active market exists for an investment but such a market exists for similar investments, selling prices in that market may be helpful in estimating fair value. If a market price is not available, a forecast of expected cash flows~~[11a] may aid in estimating fair value, provided the expected cash flows are discounted at a current rate commensurate with the risk involved.~~[12]
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>
> ~~[11a]This pronouncement was issued prior to FASB Concepts Statement No. 7, *Using Cash Flow Information and Present Value in Accounting Measurements,* and therefore the term *expected cash flows* does not necessarily have the same meaning as that term in Concepts Statement 7.~~
>
> [12]~~For an indication of factors to be considered in determining the discount rate, refer to paragraphs 13 and 14 of APB Opinion No. 21, *Interest on Receivables and Payables.* If significant, t~~The fair value of an investment shall be reduced by ~~reflect the~~ brokerage commissions and other costs normally incurred in a sale if those costs are significant (similar to fair value less cost to sell).

p. Paragraph 52:

> The measurements of plan assets and benefit obligations required by this Statement shall be as of the date of the employer's fiscal year-end statement of financial position unless (a) the plan is sponsored by a subsidiary that is consolidated using a fiscal period that differs from its parent's, as permitted by ARB No. 51, *Consolidated Financial Statements,* or (b) the plan is sponsored by an investee that is accounted for using the equity method of accounting under APB Opinion No. 18, *The Equity Method of Accounting for Investments in Common Stock,* using financial statements of the investee for a fiscal period that is different from the investor's, as permitted by Opinion 18. In those cases, the employer shall measure the subsidiary's plan assets and benefit obligations as of the date used to consolidate the subsidiary's statement of

financial position and shall measure the investee's plan assets and benefit obligations as of the date of the investee's financial statements used to apply the equity method.~~financial statements or, if used consistently from year to year, as of a date not more than three months prior to that date.~~ Requiring that the pension measurements be as of a particular date is not intended to require that all procedures be performed after that date. As with other financial statement items requiring estimates, much of the information can be prepared as of an earlier date and projected forward to account for subsequent events (for example, employee service). Unless a business entity remeasures both its plan assets and benefit obligations during the fiscal year, the funded status it reports in its interim-period statement of financial position shall be the same asset or liability recognized in the previous year-end statement of financial position adjusted for (1) subsequent accruals of net periodic pension cost that exclude the amortization of amounts previously recognized in other comprehensive income (for example, subsequent accruals of service cost, interest cost, and return on plan assets) and (2) contributions to a funded plan, or benefit payments. Sometimes, a business entity remeasures both plan assets and benefit obligations during the fiscal year. That is the case, for example, when a significant event such as a plan amendment, settlement, or curtailment occurs that calls for a remeasurement. Upon remeasurement, a business entity shall adjust its statement of financial position in a subsequent interim period (on a delayed basis if the measurement date provisions of FASB Statement No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans,* have not yet been implemented) to reflect the overfunded or underfunded status of the plan consistent with that measurement date.~~The additional minimum liability reported in interim financial statements shall be the same additional minimum liability (paragraph 36) recognized in the previous year-end statement of financial position, adjusted for subsequent accruals and contributions, unless measures of both the obligation and plan assets are available as of a more current date or a significant event occurs, such as a plan amendment, that would ordinarily call for such measurements.~~

q. Paragraph 55:

An employer that sponsors two or more separate defined benefit pension plans shall determine net periodic pension cost, liabilities, and assets by separately applying the provisions of this Statement to each plan. In particular, unless an employer clearly has a right to use the assets of one plan to pay benefits of another, a liability required to be recognized pursuant to paragraph 35 ~~or 36~~ for one plan shall not be reduced or eliminated because ~~another plan has~~the employer has recognized an asset for another plan that has assets in excess of its ~~accumulated~~projected benefit obligation~~ or because the employer has prepaid pension cost related to another plan~~.

r. Paragraph 74, as amended:

When an employer is acquired in a business combination and that employer sponsors a single-employer defined benefit pension plan, the assignment of the purchase price to individual assets acquired and liabilities assumed shall include a liability for the projected benefit obligation in excess of plan assets or an asset for plan assets in excess of the projected benefit obligation, thereby eliminating any previously existing ~~unrecognized~~ net gain or loss, ~~unrecognized~~ prior service cost or credit, or transition asset or obligation recognized in accumulated other comprehensive income. ~~or unrecognized net obligation or net asset existing at the date of initial application of this Statement. Subsequently, to the extent that those amounts are considered in determining the amounts of contributions, differences between the purchaser's net pension cost and amounts contributed will reduce the liability or asset recognized at the date of the combination.~~If it is expected that the plan will be terminated or curtailed, the effects of those actions shall be considered in measuring the projected benefit obligation.

s. Paragraphs 74A–74D and the related heading are added as follows:

Not-for-Profit Organizations and Other Entities That Do Not Report Other Comprehensive Income

74A. A not-for-profit employer shall recognize as a separate line item or items within changes in unrestricted net assets, apart from expenses, the gains or losses and the prior service costs or credits that would be recognized in other comprehensive income pursuant to paragraphs 25, 28, and 29 of this Statement. Consistent with the provisions of FASB Statement No. 117, *Financial Statements of Not-for-Profit Organizations,* this Statement does not prescribe whether the separate line item or items shall be included within or outside an intermediate measure of operations or performance indicator, if one is presented. The AICPA Audit and Accounting Guide, *Health Care Organizations,* requires a not-for-profit organization within its scope to report items of other comprehensive income outside the performance indicator.

74B. A not-for-profit employer shall reclassify to net periodic pension cost a portion of the net gain or loss and prior service costs or credits previously recognized in a separate line item or items and a portion of the transition asset or obligation remaining from the initial application of this Statement, pursuant to the recognition and amortization provisions of paragraphs 24–34 and 77. The contra adjustment or adjustments shall be reported in the same line item or items within changes in unrestricted net assets, apart from expenses, as the initially recognized amounts. Net periodic pension cost shall be reported by functional classification pursuant to paragraph 26 of Statement 117.

74C. In applying the provisions of this Statement to a not-for-profit employer, the references to accumulated other comprehensive income or a separate component of equity in paragraphs 20(d), 20(f), 28, 32–34, 38, 74, and 264, and the references to amounts previously recognized in other comprehensive income in paragraphs 52 and 264, shall instead be to the gains or losses, the prior service costs or credits, and the transition asset or obligation that have been recognized as changes in unrestricted net assets arising from a defined benefit plan but not yet reclassified as components of net periodic pension cost.

74D. An employer other than a not-for-profit employer that does not report other comprehensive income pursuant to FASB Statement No. 130, *Reporting Comprehensive Income,* shall apply the provisions of paragraphs 74A–74C in an analogous manner that is appropriate for its method of reporting financial performance and financial position.

t. Paragraph 261A and its related footnote 17 are added as follows:

The illustrations included in this appendix demonstrate the application of the requirements of this Statement prior to the amendments required by FASB Statement No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans.* Many of those illustrations would require changes to implement the provisions of Statement 158. Those changes include eliminating reconciliations of the funded status to amounts recognized in an employer's statement of financial position, eliminating references to the additional minimum pension liability, and eliminating references to unrecognized gains and losses, unrecognized prior service costs and credits, and unrecognized transition assets and obligations to reflect that those items would be recognized in accumulated other comprehensive income pursuant to Statement 158.[17] Those illustrations remain applicable until the provisions of

Statement 158 are applied. The provisions of Statement 158 are illustrated in Appendix A of that Statement.

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[17]The Board has a project on its technical agenda to consider further the illustrations included in this appendix and to supersede those that become irrelevant after the provisions of Statement 158 are applied and to amend those that have continuing relevance.

u. Paragraph 264 (glossary):

Amortization

Usually refers to the process of reducing a recognized liability systematically by recognizing revenues or reducing a recognized asset systematically by recognizing expenses or costs. In pension accounting, amortization is also used to refer to the systematic recognition in net pension cost over several periods of amounts previously recognized in other comprehensive income, that is, prior service costs or credits, gains or losses,~~previously *unrecognized* amounts, including unrecognized prior service cost and unrecognized net gain or loss~~ and the transition asset or obligation existing at the date of initial application of this Statement.

Gain or loss

A change in the value of either the projected benefit obligation or the plan assets resulting from experience different from that assumed or from a change in an actuarial assumption. Gains and losses that are not recognized in net periodic pension cost when they arise are recognized in other comprehensive income. Those gains or losses are subsequently recognized as a component of net periodic pension cost based on the amortization provisions of this Statement.~~See also **Unrecognized net gain or loss.**~~

Gain or loss component (of net periodic pension cost)

The sum of (a) the difference between the actual return on plan assets and the expected return on plan assets and (b) the amortization of the ~~unrecognized~~ net gain or loss recognized in accumulated other comprehensive income~~from previous periods~~. The gain or loss component is the net effect of delayed recognition of gains and losses in determining net periodic pension cost (the net change in the gain or loss) in accumulated other comprehensive income~~(the net change in the unrecognized net gain or loss)~~ except that it does not include changes in the projected benefit obligation occurring during the period and deferred for later recognition in net periodic pension cost.

~~**Measurement date**~~

~~The date as of which plan assets and obligations are measured.~~

Net periodic pension cost

The amount recognized in an employer's financial statements as the cost of a pension plan for a period. Components of net periodic pension cost are service cost, interest cost, actual return on plan assets, gain or loss, amortization of ~~unrecognized~~ prior service cost or credit, and amortization of the ~~unrecognized net~~transition asset or obligation ~~or asset~~ existing at the date of initial application of this Statement. This Statement uses the term *net periodic pension cost* instead of *net pension expense* because part of the cost recognized in a period may be capitalized along with other costs as part of an asset such as inventory.

Prior service cost

The cost of retroactive benefits granted in a plan amendment. ~~See also **Unrecognized prior service cost.**~~

~~**Unfunded accumulated benefit obligation**~~

~~The excess of the accumulated benefit obligation over plan assets.~~

~~**Unrecognized net gain or loss**~~

~~The cumulative net gain or loss that has not been recognized as a part of net periodic pension cost. See **Gain or loss.**~~

~~**Unrecognized prior service cost**~~

~~That portion of prior service cost that has not been recognized as a part of net periodic pension cost.~~

C3. Statement 87 represented fundamental changes in how defined benefit postretirement pension plans were measured and recognized in an employer's financial statements. Appendix B of Statement 87 includes various illustrations that described how certain aspects of the accounting requirements were to be applied.

C4. Many of the illustrations would have required extensive changes to implement the provisions of this Statement. The Board concluded that necessary changes included eliminating the following:

a. Reconciliations of the funded status to amounts recognized in the employer's statement of financial position
b. References to the additional minimum pension liability

c. References to unrecognized gains and losses and unrecognized prior service costs and credits to reflect that those items should be recognized in accumulated other comprehensive income.

C5. The Board believes that many of those illustrations are not essential to understanding or applying the provisions of this Statement. Additionally, the Board believes the need for examples of how to apply Statement 87 has diminished over the many years since Statement 87 was first issued. The Board decided to consider further those illustrations in Statement 87 and in related guidance and to update those that have continuing relevance following the issuance of this Statement.

C6. Statement 88 is amended as follows:

a. Paragraph 9 and its related footnote 2:

> For purposes of this Statement, the maximum gain or loss subject to recognition in earnings when a pension obligation is settled is the ~~unrecognized~~ net gain or loss remaining in accumulated other comprehensive income defined in paragraph 29 of Statement 87[2] plus any ~~remaining unrecognized net asset existing at the date of~~transition asset remaining in accumulated other comprehensive income from initial application of Statement 87 ~~(as discussed in paragraph 21 of this Statement)~~. That maximum amount includes any gain or loss first measured at the time of settlement. The maximum amount shall be recognized in earnings if the entire projected benefit obligation is settled. If only part of the projected benefit obligation is settled, the employer shall recognize in earnings a pro rata portion of the maximum amount equal to the percentage reduction in the projected benefit obligation.

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[2]Paragraph 29 of Statement 87 states:

> *Gains and losses* are changes in the amount of either the projected benefit obligation or plan assets resulting from experience different from that assumed and from changes in assumptions. This Statement does not distinguish between those sources of gains and losses. Gains and losses include amounts that have been realized, for example by sale of a security, as well as amounts that are unrealized. Because gains and losses may reflect refinements in estimates as well as real changes in economic values and because some gains in one period may be offset by losses in another or vice versa, this Statement does not require recognition of gains and losses as components of net pension cost of the period in which they arise. Gains and losses that are not recognized immediately as a component of net periodic pension cost shall be recognized as increases or decreases in other comprehensive income as they arise. [Footnote reference omitted.]

b. Paragraph 12:

The ~~unrecognized~~ prior service cost included in accumulated other comprehensive income associated with years of service no longer expected to be rendered as the result of a curtailment is a loss. For example, if a curtailment eliminates half of the estimated remaining future years of service of those who were employed at the date of a prior plan amendment and were expected to receive benefits under the plan, then the loss associated with the curtailment is half of the ~~remaining unrecognized~~ prior service cost included in accumulated other comprehensive income related to that amendment that has not been amortized as a component of net periodic pension cost~~related to that plan amendment~~. For purposes of applying the provisions of this paragraph, ~~unrecognized~~ prior service cost includes the cost of retroactive plan amendments (refer to paragraphs 24–25 of Statement 87) and any ~~remaining unrecognized net obligation existing at the date of~~ transition obligation remaining in accumulated other comprehensive income from initial application of Statement 87.~~initial application of Statement 87 (as discussed in paragraph 21 of this Statement).~~

c. Paragraph 13:

The projected benefit obligation may be decreased (a gain) or increased (a loss) by a curtailment.[4]

a. To the extent that such a gain exceeds any ~~unrecognized~~ net loss included in accumulated other comprehensive income (or the entire gain, if ~~an unrecognized net gain~~a net gain exists), it is a *curtailment gain*
b. To the extent that such a loss exceeds any ~~unrecognized~~ net gain included in accumulated other comprehensive income (or the entire loss, if ~~an unrecognized net loss~~a net loss exists), it is a *curtailment loss.*

For purposes of applying the provisions of this paragraph, any transition asset remaining in accumulated other comprehensive income from initial application of Statement 87 ~~remaining unrecognized net asset existing at the date of initial application of Statement 87 (as discussed in paragraph 21 of this Statement)~~ shall be treated as ~~an unrecognized net gain~~ a net gain and shall be combined with the ~~unrecognized~~ net gain or loss arising subsequent to transition to Statement 87.

d. Paragraphs 17A and 17B and the related heading are added as follows:

Not-for-Profit Organizations and Other Entities That Do Not Report Other Comprehensive Income

17A. Not-for-profit employers and other employers that do not report other comprehensive income in accordance with the provisions of FASB Statement No. 130, *Reporting Comprehensive Income,* shall apply the provisions of paragraphs 9, 10, and 14 of this Statement in an analogous manner that is appropriate for their method of reporting financial performance and financial position.

17B. For such employers, the references to accumulated other comprehensive income in paragraphs 9, 12, and 13 of this Statement shall instead be to the gains or losses, the prior service costs or credits, and the transition asset or obligation that have been recognized as changes in unrestricted net assets arising from a defined benefit plan but not yet reclassified as components of net periodic pension cost. In footnote 2 to paragraph 9, the reference to paragraph 29 of Statement 87 shall also be to paragraph 74A of that Statement.

e. Paragraph 57A and its related footnote 6a are added as follows:

The illustrations included in this appendix demonstrate the application of the requirements of this Statement prior to the amendments required by FASB Statement No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans.* Many of those illustrations would require changes to implement the provisions of Statement 158. Those changes include eliminating reconciliations of the funded status to amounts recognized in an employer's statement of financial position, eliminating references to the additional minimum pension liability, and eliminating references to unrecognized gains and losses, unrecognized prior service costs and credits, and unrecognized transition assets and obligations to reflect that those items would be recognized in accumulated other comprehensive income pursuant to Statement 158.[6a] Those illustrations remain applicable until the provisions of Statement 158 are applied. The provisions of Statement 158 are illustrated in Appendix A of that Statement.

[6a]The Board has a project on its technical agenda to consider further the illustrations included in this appendix and to supersede those that become irrelevant after the provisions of Statement 158 are applied and to amend those that have continuing relevance.

C7. Statement 88 represented fundamental changes in how defined benefit postretirement plans were measured and recognized in an employer's financial statements when settled or curtailed or when employers offered benefits to employees in connection with their termination of employment. Appendix B of Statement 88 includes various illustrations that described how certain aspects of the accounting requirements were to be applied.

C8. Many of the illustrations would have required extensive changes to implement the provisions of this Statement. The Board concluded that necessary changes included eliminating the following:

a. Reconciliations of the funded status to amounts recognized in the employer's statement of financial position
b. References to additional minimum pension liability
c. References to unrecognized gains and losses and unrecognized prior service costs and credits to reflect that those items should be recognized in accumulated other comprehensive income.

C9. The Board believes that many of those illustrations are not essential to understanding or applying the provisions of this Statement. Additionally, the Board believes the need for examples of how to apply Statement 88 has diminished over the many years since Statement 88 was first issued. The Board decided to consider further those illustrations included in Statement 88 and in related guidance and to update those that have continuing relevance following the issuance of this Statement.

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Appendix D

AMENDMENTS TO STATEMENT 106

D1. This appendix contains the amendments to FASB Statement No. 106, *Employers' Accounting for Postretirement Benefits Other Than Pensions,* as a result of this Statement. The following principal topics are addressed:

a. Amendments related to the recognition of the funded status of a defined benefit plan in an employer's statement of financial position, that is, recognition of gains or losses, prior service costs or credits, and the transition asset or obligation remaining from the initial adoption of Statement 106 that were previously unrecognized as of the date this Statement is initially applied.
b. Amendments to codify into the standards section the guidance from the basis for conclusions of Statement 106 that describes the objective of selecting the assumed discount rates from a portfolio of high-quality debt instruments.
c. Amendments related to measuring plan assets and benefit obligations as of the date of an employer's year-end statement of financial position, eliminating the alternative of selecting a measurement date not more than three months prior to the date of an employer's year-end statement of financial position.
d. Amendments to conform the terms in the glossary of Statement 106 to this Statement.
e. Amendments needed to provide additional guidance for applying the amendments noted in (a) above to a not-for-profit organization or other entity that does not report other comprehensive income pursuant to FASB Statement No. 130, *Reporting Comprehensive Income.*

D2. Statement 106 is amended as follows: [Added text is underlined and deleted text is ~~struck out~~.]

a. Paragraph 22:

> Net periodic postretirement benefit cost comprises several components that reflect different aspects of the employer's financial arrangements. The **service cost** component of net periodic postretirement benefit cost is the actuarial present value of benefits attributed to services rendered by employees during the period (the portion of the expected postretirement benefit obligation attributed to service in the period). The service cost component is the same for an unfunded plan, a plan with minimal funding, and a well-funded plan. The other components of net periodic postretirement benefit cost are **interest**

cost[8] (interest on the accumulated postretirement benefit obligation, which is a discounted amount), **actual return on plan assets, amortization** of ~~**unrecognized**~~any **prior service cost** or credit included in accumulated other comprehensive income, amortization of the **transition obligation** or **transition asset,** and the **gain or loss component,** which includes, to the extent recognized, amortization of the net gain or loss included in accumulated other comprehensive income.

b. Paragraph 31:

Assumed discount rates shall reflect the time value of money as of the ~~**measurement date**~~measurement date in determining the present value of future cash outflows currently expected to be required to satisfy the postretirement benefit obligation. In making that assumption, employers shall look to rates of return on high-quality fixed-income investments currently available whose cash flows match the timing and amount of expected benefit payments. If settlement of the obligation with third-party insurers is possible (for example, the purchase of nonparticipating life insurance contracts to provide death benefits), the interest rates inherent in the amount at which the postretirement benefit obligation could be settled are relevant in determining the assumed discount rates. Assumed discount rates are used in measurements of the expected and accumulated postretirement benefit obligations and the service cost and interest cost components of net periodic postretirement benefit cost.

c. Paragraph 31A is added as follows:

Pursuant to paragraph 31, an employer shall look to rates of return on high-quality fixed-income investments in determining assumed discount rates. The objective of selecting assumed discount rates using that method is to measure the single amount that, if invested at the measurement date in a portfolio of high-quality debt instruments, would provide the necessary future cash flows to pay the postretirement benefits when due. Notionally, that single amount, the accumulated postretirement benefit obligation, would equal the current market value of a portfolio of high-quality zero coupon bonds whose maturity dates and amounts would be the same as the timing and amount of the expected future benefit payments. Because cash inflows would equal cash outflows in timing and amount, there would be no reinvestment risk in the yields to maturity of the portfolio. However, in other than a zero coupon portfolio, such as a portfolio of long-term debt instruments that pay semiannual interest payments or whose maturities do not extend far enough into the future to meet expected benefit payments, the assumed discount rates (the yield to maturity) need to incorporate expected reinvestment rates available in the future. Those rates shall be extrapolated from the existing yield curve at the measurement date. The determination of the assumed discount rate is separate from the determination of the expected rate of return on plan assets whenever the actual portfolio differs from the hypothetical portfolio described above. Assumed discount rates shall be reevaluated at each measurement date. If the general level of interest rates rises or declines, the assumed discount rates shall change in a similar manner.

d. Paragraphs 44A and 44B and the related heading are added as follows:

Recognition of Liabilities and Assets

44A. An employer that sponsors one or more single-employer defined benefit postretirement plans other than pensions shall recognize in its statement of financial position the funded statuses of those plans. The status for each plan shall be measured as the difference between the fair value of plan assets and the accumulated postretirement benefit obligation as it is defined in this Statement.

44B. The employer shall aggregate the statuses of all overfunded plans and recognize that amount as an asset in its statement of financial position. It also shall aggregate the statuses of all underfunded plans and recognize that amount as a liability in its statement of financial position. An employer that presents a classified statement of financial position shall classify the liability for an underfunded plan as a current liability, a noncurrent liability, or a combination of both. The current portion (determined on a plan-by-plan basis) is the amount by which the actuarial present value of benefits included in the benefit obligation payable in the next 12 months, or operating cycle if longer, exceeds the fair value of plan assets. The asset for an overfunded plan shall be classified as a noncurrent asset in a classified statement of financial position.

e. Paragraph 46 and its related footnote 18:

The following components shall be included in the net postretirement benefit cost recognized for a period by an employer sponsoring a defined benefit postretirement plan:

a. Service cost (paragraph 47)
b. Interest cost (paragraph 48)
c. Actual return on plan assets, if any (paragraph 49)
d. Amortization of any prior service cost or credit included in accumulated other comprehensive income to the extent required by paragraphs 50–55 ~~Amortization of unrecognized prior service cost, if any (paragraphs 50–55)~~
e. **Gain or loss** (including the effects of changes in assumptions) to the extent recognized (paragraphs 56–62)
f. Amortization of any obligation or asset existing at the date of initial application of this Statement, hereinafter referred to as the transition obligation[18] or transition asset remaining in accumulated other comprehensive income (paragraphs 110 and 112).~~Amortization of the unrecognized obligation or asset existing at the date of initial application of this Statement, hereinafter referred to as the **unrecognized transition obligation**[18] or **unrecognized transition asset** (paragraphs 110 and 112).~~

[18]Amortization of the ~~unrecognized~~ transition obligation or asset will be adjusted prospectively to recognize the effects of (a) a negative plan amendment pursuant to paragraph 55, (b) a constraint on immediate recognition of a net gain or loss pursuant to paragraph 60, (c) settlement accounting pursuant to paragraphs 92 and 93, (d) plan curtailment accounting pursuant to paragraphs 97–99, and (e) a constraint on delayed ~~recognition~~amortization of the ~~unrecognized~~ transition obligation pursuant to paragraph 112.

f. Paragraph 52:

~~The cost of benefit improvements (including improved benefits that are granted to **fully eligible plan participants**) is the increase in the accumulated postretirement benefit obligation as a result of the plan amendment, measured at the date of the amendment.~~A plan amendment that retroactively increases benefits (including benefits that are granted to **fully eligible plan participants**) increases the accumulated postretirement benefit obligation. The cost of the benefit improvement shall be recognized as a charge to other comprehensive income at the date of the amendment. Except as specified in the next sentence and in paragraphs 53 and 54, that prior service cost shall be amortized as a component of net periodic postretirement benefit cost by assigning an equal amount to each remaining year of service to the full eligibility date of each plan participant active at the date of the amendment who was not yet fully eligible for benefits at that date. If all or almost all of a plan's participants are fully eligible for benefits, the prior service cost shall be amortized based on the remaining life expectancy of those plan participants rather than on the remaining years of service to the full eligibility dates of the active plan participants. Other comprehensive income is adjusted as a result of amortizing prior service cost.

g. Paragraph 53:

To reduce the complexity and detail of the computations required, consistent use of an alternative ~~amortization~~ approach that more rapidly ~~reduces~~ amortizes the~~unrecognized~~ prior service cost recognized in accumulated other comprehensive income is permitted. For example, a straight-line amortization of the cost over the average remaining years of service to full eligibility for benefits of the active plan participants is acceptable.

h. Paragraph 55:

A plan amendment ~~can reduce, rather than increase,~~that retroactively reduces, rather than increases, benefits decreases the accumulated postretirement benefit obligation. The reduction in benefits shall be recognized as a corresponding credit (prior service credit) to other comprehensive income that ~~A reduction in that obligation~~ shall be used first to reduce any remaining~~existing unrecognized~~ prior service cost included in accumulated other comprehensive income, then to reduce any ~~remaining unrecognized~~ transition obligation remaining in accumulated other comprehensive income. The excess, if any, shall be amortized as a component of net periodic postretirement benefit cost on the same basis as specified in paragraph 52 for prior service cost. Immediate recognition of the excess is not permitted.

i. Paragraph 56:

Gains and losses are changes in the amount of either the accumulated postretirement benefit obligation or plan assets resulting from experience different from that assumed or from changes in assumptions. This Statement generally does not distinguish between those sources of gains and losses. Gains and losses include amounts that have been realized, for example, by the sale of a security, as well as amounts that are unrealized. Because gains and losses may reflect refinements in estimates as well as real changes in economic values and because some gains in one period may be offset by losses in another or vice versa, this Statement does not require recognition of gains and losses as components of net postretirement benefit cost in the period in which they arise, except as described in paragraph 61. Gains and losses that are not recognized immediately as a component of net periodic postretirement benefit cost shall be recognized as increases or decreases in other comprehensive income as they arise. (Gain and loss recognition in accounting for settlements and curtailments is addressed in paragraphs 90–99.)

j. Paragraph 59 and its related footnote 19:

As a minimum, amortization of ~~an~~ ~~**unrecognized net gain or loss**~~a net gain or loss included in accumulated other comprehensive income (excluding plan asset gains and losses not yet reflected in market-related value) shall be included as a component of net periodic postretirement benefit cost for a year if, as of the beginning of the year, that ~~unrecognized~~ net gain or loss exceeds 10 percent of the greater of the accumulated postretirement benefit obligation or the market-related value of plan assets. If amortization is required, the minimum amortization[19] shall be that excess divided by the average remaining service period of active plan participants. If all or almost all of a plan's participants are inactive, the average remaining life expectancy of the inactive participants shall be used instead of the average remaining service period.

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[19]The amortization must always reduce the beginning-of-the-year balance included in accumulated other comprehensive income. Amortization of ~~an unrecognized net gain~~a net gain included in accumulated other comprehensive income results in a decrease in net periodic postretirement benefit cost; amortization of ~~an unrecognized net loss~~a net loss included in accumulated other comprehensive income results in an increase in net periodic postretirement benefit cost.

k. Paragraph 60:

Any systematic method of ~~amortization of unrecognized~~amortizing gains and losses included in accumulated other comprehensive income may be used in place of the minimum amortization specified in paragraph 59 provided that (a) the minimum amortization is recognized in any period in which it is greater (reduces the ~~unrecognized amount~~net gain or loss balance by more) than the amount that would be recognized under the method used, (b) the method is applied consistently, (c) the method is applied similarly to both gains and losses, and (d) the method used is disclosed. If an enterprise uses a method of consistently recognizing gains and losses immediately, any gain that does not offset a loss previously recognized in income pursuant to this paragraph shall first offset any ~~unrecognized~~ transition obligation remaining in accumulated other comprehensive income; any loss that does not offset a gain previously recognized in income pursuant to this paragraph shall first offset any ~~unrecognized~~ transition asset remaining in accumulated other comprehensive income.

l. Paragraph 62:

The gain or loss component of net periodic postretirement benefit cost shall consist of (a) the difference between the actual return on plan assets and the expected return on plan assets, (b) any gain or loss immediately recognized or the amortization of the ~~unrecognized~~ net gain or loss ~~from previous periods~~ included in accumulated other comprehensive income, and (c) any amount immediately recognized as a gain or loss pursuant to paragraph 61.

m. Paragraph 65:

Note: FASB Statement No. 157, *Fair Value Measurements,* amended paragraph 65 prior to the issuance of this Statement, eliminating additional guidance about the measurement of plan assets at fair value. The preexisting guidance is effective for an employer until it adopts Statement 157. The changes to paragraph 65, as previously amended, and its related footnotes 20a, as previously added, and 21 made by Statement 157 are shown below:

For purposes of the disclosures required by paragraphs 5 and 8 of FASB Statement No. 132 (revised 2003), *Employers' Disclosures about Pensions and Other Postretirement Benefits,* plan investments, whether equity or debt securities, real estate, or other, shall be measured at their fair value as of the measurement date. ~~The fair value of an investment is the amount that the plan could reasonably expect to receive for it in a current sale between a willing buyer and a willing seller, that is, other than in a forced or liquidation sale. Fair value shall be measured by the market price if an active market exists for the investment. If no active market exists for an investment but an active market exists for similar investments, selling prices in that market may be helpful in estimating fair value. If a market price is not available, a forecast of expected cash flows[20a] may aid in estimating fair value, provided the expected cash flows are discounted at a current rate commensurate with the risk involved.~~[21] (Refer to paragraph 71.)

[20a]~~This pronouncement was issued prior to FASB Concepts Statement No. 7, *Using Cash Flow Information and Present Value in Accounting Measurements,* and therefore the term *expected cash flows* does not necessarily have the same meaning as that term in Concepts Statement 7.~~

[21]~~For an indication of factors to be considered in determining the discount rate, refer to paragraphs 13 and 14 of APB Opinion No. 21, *Interest on Receivables and Payables.* If significant, t~~The fair value of an investment shall be reduced by ~~reflect the~~ brokerage commissions and other costs normally incurred in a sale if those costs are significant (similar to fair value less cost to sell).

n. Paragraph 72:

The measurements of *plan assets and benefit obligations* required by this Statement shall be as of the date of the employer's fiscal year-end statement of financial position, unless (a) the plan is sponsored by a subsidiary that is consolidated using a fiscal period that differs from its parent's, as permitted by ARB No. 51, *Consolidated Financial Statements,* or (b) the plan is sponsored by an investee that is accounted for using the equity method of accounting under APB Opinion No. 18, *The Equity Method of Accounting for Investments in Common Stock,* using financial statements of the investee for a fiscal period that is different from the investor's, as permitted by Opinion 18. In those cases, the employer shall measure the subsidiary's plan assets and benefit obligations as of the date used to consolidate the subsidiary's statement of financial position and shall measure the investee's plan assets and benefit obligations as of the date of the investee's financial statements used to apply the equity method.~~financial statements or, if used consistently from year to year, as of a date not more than three months prior to that date.~~ Even though the postretirement benefit measurements are required as of a particular date, all procedures are not required to be performed after that date. As with other financial statement items requiring estimates, much of the information can be prepared as of an earlier date and projected forward to account for subsequent events (for example, employee service).

o. Paragraph 73:

Measurements of *net periodic postretirement benefit cost* for both interim and annual financial statements generally shall be based on the assumptions at the beginning of the year (assumptions used for the previous year-end measurements of plan assets and obligations) unless more recent measurements of both plan assets and the accumulated postretirement benefit obligation are available. For example, if a significant event occurs, such as a plan amendment, settlement, or curtailment, that ordinarily would call for remeasurement, the assumptions used for those later measurements shall be used to remeasure net periodic postretirement benefit cost from the date of the event to the year-end measurement date. Unless an employer remeasures both its plan assets and benefit obligations during the fiscal year, the funded status it reports in its interim-period statement of financial position shall be the same asset or liability recognized in the previous year-end statement of financial position adjusted for (a) subsequent accruals of net periodic postretirement benefit cost that exclude the amortization of amounts previously recognized in other comprehensive income (for example, subsequent accruals of service cost, interest cost, and return on plan assets) and (b) contributions to a funded plan, or benefit payments. Upon remeasurement, a business entity shall adjust its statement of financial position in a subsequent interim period (on a delayed basis if the measurement date provisions of FASB Statement No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans,* have not yet been implemented) to reflect the overfunded or underfunded status of the plan consistent with that measurement date.

p. Paragraph 88:

As a result of applying the provisions of paragraphs 86 and 87, any previously existing ~~unrecognized~~ net gain or loss, ~~unrecognized~~ prior service cost or credit, or ~~unrecognized~~ transition obligation or transition asset remaining in accumulated other comprehensive income is eliminated for the acquired employer's plan. ~~Subsequently, to the extent that the net obligation assumed or net assets acquired are considered in determining the amounts of contributions to the plan, differences between the purchaser's net periodic postretirement benefit cost and amounts it contributes will reduce the liability or asset recognized at the date of the combination.~~

q. Paragraph 92:

For purposes of this Statement, the maximum gain or loss subject to recognition in income when a postretirement benefit obligation is settled is the ~~unrecognized~~ net gain or loss included in accumulated other comprehensive income defined in paragraphs 56–60 plus any ~~remaining unrecognized~~ transition asset remaining in accumulated other comprehensive income. That maximum gain or loss includes any gain or loss resulting from remeasurements of plan assets and the accumulated postretirement benefit obligation at the time of settlement.

r. Paragraph 93 and its related footnotes 25 and 26:

> If the entire accumulated postretirement benefit obligation is settled and the maximum amount subject to recognition is a gain, the settlement gain shall first reduce any ~~remaining unrecognized~~ transition obligation remaining in accumulated other comprehensive income;[25] any excess gain shall be recognized in income.[26] If the entire accumulated postretirement benefit obligation is settled and the maximum amount subject to recognition is a loss, the maximum settlement loss shall be recognized in income. If only part of the accumulated postretirement benefit obligation is settled, the employer shall recognize in income the excess of the pro rata portion (equal to the percentage reduction in the accumulated postretirement benefit obligation) of the maximum settlement gain over any remaining ~~unrecognized~~ transition obligation or a pro rata portion of the maximum settlement loss.
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>
> [25]As discussed in paragraph 112, in measuring the gain or loss subject to recognition in income when a postretirement benefit obligation is settled, it shall first be determined whether amortization~~recognition~~ of an additional amount of any ~~unrecognized~~ transition obligation is required.
>
> [26]Because the plan is the unit of accounting, the determination of the effects of a settlement considers only the ~~unrecognized~~ net gain or loss and transition obligation or asset included in accumulated other comprehensive income~~and unrecognized transition obligation or asset~~ related to the plan for which all or a portion of the accumulated postretirement benefit obligation is being settled.

s. Paragraph 97 and its related footnote 28:

> The ~~unrecognized~~ prior service cost included in accumulated other comprehensive income associated with the portion of the future years of service that had been expected to be rendered, but as a result of a curtailment are no longer expected to be rendered, is a loss. For purposes of measuring the effect of a curtailment, ~~unrecognized~~ prior service cost includes the cost of plan amendments and any remaining ~~unrecognized~~ transition obligation. For example, a curtailment may result from the termination of a significant number of employees who were plan participants at the date of a prior plan amendment.[28] The loss associated with that curtailment is measured as ~~(a)~~ the portion of the remaining ~~unrecognized~~ prior service cost included in accumulated other comprehensive income related to that (and any prior) plan amendment attributable to the previously expected remaining future years of service of the employees who were terminated and ~~(b)~~ the portion of the remaining ~~unrecognized~~ transition obligation attributable to the previously

expected remaining future years of service of the terminated employees who were plan participants at the date of transition.

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[28]A curtailment also may result from terminating the accrual of additional benefits for the future services of a significant number of employees. The loss in that situation is (a) a proportionate amount of the remaining ~~unrecognized~~ prior service cost included in accumulated other comprehensive income based on the portion of the remaining expected years of service in the amortization period that originally was attributable to those employees who were plan participants at the date of the plan amendment and whose future accrual of benefits has been terminated and (b) a proportionate amount of the ~~remaining unrecognized~~ transition obligation remaining in accumulated other comprehensive income based on the portion of the remaining years of service of all participants active at the date of transition that originally was attributable to the remaining expected future years of service of the employees whose future accrual of benefits has been terminated.

t. Paragraph 98:

The accumulated postretirement benefit obligation may be decreased (a gain) or increased (a loss) by a curtailment.[29] That (gain) loss shall reduce any ~~unrecognized~~ net loss (gain) included in accumulated other comprehensive income.

a. To the extent that such a gain exceeds any ~~unrecognized~~ net loss included in accumulated other comprehensive income (or the entire gain, if ~~an unrecognized net gain~~a net gain exists), it is a curtailment gain.
b. To the extent that such a loss exceeds any ~~unrecognized~~ net gain included in accumulated other comprehensive income (or the entire loss, if ~~an unrecognized net loss~~a net loss exists), it is a curtailment loss.

For purposes of applying the provisions of this paragraph, any ~~remaining unrecognized~~ transition asset remaining in accumulated other comprehensive income shall be treated as ~~an unrecognized net gain~~a net gain and shall be combined with the ~~unrecognized~~ net gain or loss arising subsequent to transition to this Statement.

u. Paragraphs 103A–103D and the related heading are added as follows:

Not-for-Profit Organizations and Other Entities That Do Not Report Other Comprehensive Income

103A. A not-for-profit employer shall recognize as a separate line item or items within changes in unrestricted net assets, apart from expenses, the gains or losses and the prior service costs or credits that would be recognized in other comprehensive income pursuant to paragraphs 52, 55, and 56 of this Statement. Consistent with the provisions of FASB Statement No. 117, *Financial Statements of Not-for-Profit Organizations,* this Statement does not prescribe whether the separate line item or items shall be included within or outside an intermediate measure of operations or performance indicator, if one is presented. The AICPA Audit and Accounting Guide, *Health Care Organizations,* requires a not-for-profit organization within its scope to report items of other comprehensive income outside the performance indicator.

103B. A not-for-profit employer shall reclassify to net period postretirement benefit cost a portion of the net gain or loss and prior service costs or credits previously recognized in a separate line item or items and a portion of the transition asset or obligation remaining from the initial application of this Statement, pursuant to the recognition and amortization provisions of paragraphs 50–62, 112, and 113. The contra adjustment or adjustments shall be reported in the same line item or items within changes in unrestricted net assets, apart from expenses, as the initially recognized amounts. Net periodic postretirement benefit cost shall be reported by functional classification pursuant to paragraph 26 of Statement 117.

103C. In applying the provisions of this Statement to not-for-profit employers, the references to accumulated other comprehensive income in paragraphs 22, 46(d), 46(f), 53, 55, 59 (and its related footnote 19), 60, 62, 88, 92, 93 (and its related footnote 26), 97 (and its related footnote 28), 98, and 518, and the references to amounts previously recognized in other comprehensive income in paragraphs 73 and 518, shall instead be to the gains or losses, prior service costs or credits, and transition obligation or asset that have been recognized as changes in unrestricted net assets arising from a postretirement benefit plan but not yet reclassified as components of net periodic postretirement benefit cost.

103D. An employer other than a not-for-profit employer that does not report other comprehensive income pursuant to FASB Statement No. 130, *Reporting Comprehensive Income,* shall apply the provisions of paragraphs 103A–103C in an analogous manner that is appropriate for its method of reporting financial performance and financial position.

v. Paragraph 391A and its related footnote 38 are added as follows:

The illustrations included in this appendix demonstrate the application of the requirements of this Statement prior to the amendments required by FASB Statement No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans.* Many of those illustrations would require changes to implement the provisions of Statement 158. Those changes include eliminating reconciliations of the funded status to amounts recognized in an employer's statement of financial position, eliminating references to the additional minimum pension liability, and eliminating references to unrecognized gains and losses, unrecognized prior service costs and credits, and unrecognized transition assets and obligations to reflect that those items would be recognized in accumulated other comprehensive income pursuant to Statement 158.[38] Those illustrations remain applicable until the provisions of Statement 158 are applied. The provisions of Statement 158 are illustrated in Appendix A of that Statement.

[38]The Board has a project on its technical agenda to consider further the illustrations included in this appendix and to supersede those that become irrelevant after the provisions of Statement 158 are applied and to amend those that have continuing relevance.

w. Paragraph 518 (glossary):

Amortization

Usually refers to the process of reducing a recognized liability systematically by recognizing revenues or of reducing a recognized asset systematically by recognizing expenses or costs. In accounting for postretirement benefits, amortization is also used to refer to the systematic recognition in net periodic postretirement benefit cost over several periods of amounts previously recognized in other comprehensive income~~previously *unrecognized* amounts, including unrecognized prior service cost, unrecognized net gain or loss~~, that is, gains or losses, prior service cost or credits, and any ~~unrecognized~~ transition obligation or asset.

Gain or loss

A change in the value of either the accumulated postretirement benefit obligation or the plan assets resulting from experience different from that assumed or from a change in an actuarial assumption, or the consequence of a decision to temporarily deviate from the substantive plan. Gains or losses that are not recognized in net periodic postretirement benefit cost when they arise are recognized in other comprehensive income. Those gains or losses are subsequently recognized as a component of net periodic postretirement benefit cost based on the recognition and amortization provisions of this Statement.~~Also refer to **Unrecognized net gain or loss.**~~

Gain or loss component (of net periodic postretirement benefit cost)

The sum of (a) the difference between the actual return on plan assets and the expected return on plan assets, (b) any gain or loss immediately recognized or the amortization of the~~ unrecognized~~ net gain or loss recognized in accumulated other comprehensive income~~from previous periods~~, and (c) any amount immediately recognized as a gain or loss pursuant to a decision to temporarily deviate from the substantive plan. The gain or loss component is generally the net effect of delayed recognition in determining net periodic postretirement benefit cost of gains and losses (the net change in the~~ unrecognized~~ net gain or loss recognized in accumulated other comprehensive income) except that it does not include changes in the accumulated postretirement benefit obligation occurring during the period and deferred for later recognition in net periodic postretirement benefit cost.

~~**Measurement date**~~

~~The date of the financial statements or, if used consistently from year to year, a date not more than three months prior to that date, as of which plan assets and obligations are measured.~~

Net periodic postretirement benefit cost

The amount recognized in an employer's financial statements as the cost of a postretirement benefit plan for a period. Components of net periodic postretirement benefit cost include service cost, interest cost, actual return on plan assets, gain or loss, amortization of ~~unrecognized ~~prior service cost or credit, and amortization of the ~~unrecognized ~~transition obligation or asset.

Prior service cost

The cost of benefit improvements attributable to plan participants' prior service pursuant to a plan amendment or a plan initiation that provides benefits in exchange for plan participants' prior service.~~ Also refer to **Unrecognized prior service cost.**~~

Transition asset

The ~~unrecognized ~~amount, as of the date of this Statement is initially applied, of (a) the fair value of plan assets plus any recognized accrued postretirement benefit cost or less any recognized prepaid postretirement benefit cost in excess of (b) the accumulated postretirement benefit obligation.

Transition obligation

The ~~unrecognized~~ amount, as of the date this Statement is initially applied, of (a) the accumulated postretirement benefit obligation in excess of (b) the fair value of plan assets plus any recognized accrued postretirement benefit cost or less any recognized prepaid postretirement benefit cost.

~~**Unrecognized net gain or loss**~~

~~The cumulative net gain or loss that has not been recognized as a part of net periodic postretirement benefit cost or as a part of the accounting for the effects of a settlement or a curtailment. Also refer to **Gain or loss.**~~

~~**Unrecognized prior service cost**~~

~~The portion of prior service cost that has not been recognized as a part of net periodic postretirement benefit cost, as a reduction of the effects of a negative plan amendment, or as a part of the accounting for the effects of a curtailment.~~

~~**Unrecognized transition asset**~~

~~The portion of the transition asset that has not been recognized either immediately as the effect of a change in accounting or on a delayed basis as a part of net periodic postretirement benefit cost, as an offset to certain losses, or as a part of accounting for the effects of a settlement or a curtailment.~~

~~**Unrecognized transition obligation**~~

~~The portion of the transition obligation that has not been recognized either immediately as the effect of a change in accounting or on a delayed basis as a part of net periodic postretirement benefit cost, as an offset to certain gains, or as a part of accounting for the effects of a settlement or a curtailment.~~

D3. Statement 106 represented fundamental changes in how defined benefit postretirement plans other than pensions were measured and recognized in an employer's financial statements. Appendix C of Statement 106 includes various illustrations that described how certain aspects of the accounting requirements were to be applied.

D4. Many of the illustrations would have required extensive changes to implement the provisions of this Statement. The Board concluded that necessary changes included eliminating the following:

a. Reconciliations of the funded status to amounts recognized in the employer's statement of financial position
b. References to unrecognized gains and losses and unrecognized prior service costs and credits to reflect that those items should be recognized in accumulated other comprehensive income.

D5. The Board believes that many of those illustrations are not essential to understanding or applying the provisions of this Statement. Additionally, the Board believes the need for examples of how to apply Statement 106 has diminished over the many years since Statement 106 was first issued. The Board decided to consider further those illustrations included in Statement 106 and in related guidance and to update those that have continuing relevance following the issuance of this Statement.

Appendix E

AMENDMENTS TO STATEMENT 132(R)

E1. FASB Statement No. 132 (revised 2003), *Employers' Disclosures about Pensions and Other Postretirement Benefits,* is amended as follows: [Added text is underlined and deleted text is ~~struck out~~.]

a. Paragraph 3:

> This Statement incorporates all of the disclosure requirements of FASB Statement No. 132, *Employers' Disclosures about Pensions and Other Postretirement Benefits.* This Statement amends APB Opinion No. 28, *Interim Financial Reporting,* to require interim-period disclosure of the components of net periodic benefit cost and, if significantly different from previously disclosed amounts, the amounts of contributions and projected contributions to fund pension plans and other postretirement benefit plans. Information required to be disclosed about pension plans should not be combined with information required to be disclosed about other postretirement benefit plans except as permitted by paragraph 12 of this Statement. Public and nonpublic entities shall provide the disclosures required in paragraphs 5–9, as applicable. Paragraphs 10A–10D describe how those requirements shall be applied to not-for-profit organizations and other entities that do not report other comprehensive income.~~***The disclosures that are new or have been changed are identified with an asterisk (*).***~~ Appendix A provides background information and the basis for the Board's conclusions in this Statement. Appendix B provides background information and the basis for the Board's conclusions as originally contained in Statement 132. Appendix C provides illustrations of the required disclosures. Appendix D provides information about the impact of this Statement on the consensuses reached on EITF Issues relating to disclosures about pension plans and other postretirement benefit plans. Appendix E provides a glossary of terms that are used in this Statement.

b. Paragraph 5:

> Certain terms used in this Statement, such as **projected benefit obligation,**[3] **accumulated benefit obligation, accumulated postretirement benefit obligation,** and *net pension cost,* are defined in Statements 87 and 106. An employer that sponsors one or more defined benefit pension plans or one or

more other defined benefit postretirement plans shall provide the following information, separately for pension plans and other postretirement benefit plans. Amounts related to the employer's results of operations (including items of other comprehensive income) shall be disclosed for each period for which a statement of income is presented. Amounts related to the employer's statement of financial position~~, unless otherwise stated,~~ shall be disclosed as of the ~~measurement~~ date of~~used for~~ each statement of financial position presented.

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[3]Terms defined in Appendix E are set in **boldface type** the first time they appear.

c. Paragraph 5(c):

The funded status of the plans~~, the amounts not recognized in the statement of financial position,~~ and the amounts recognized in the statement of financial position, ~~including:~~showing separately the assets and current and noncurrent liabilities recognized.

~~(1) The amount of any unamortized prior service cost.~~
~~(2) The amount of any unrecognized net gain or loss (including asset gains and losses not yet reflected in market-related value).~~
~~(3) The amount of any remaining unamortized, unrecognized net obligation or net asset existing at the initial date of application of Statement 87 or Statement 106.~~
~~(4) The net pension or other postretirement benefit prepaid assets or accrued liabilities.~~
~~(5) Any intangible asset and the amount of accumulated other comprehensive income recognized pursuant to paragraph 37 of Statement 87, as amended.~~

d. Paragraph 5(h):

The amount of net periodic benefit cost recognized, showing separately the service cost component, the interest cost component, the expected return on plan assets for the period, the gain or loss component, the prior service cost or credit component, the transition asset or obligation component, and the gain or loss recognized due to settlements or curtailments.~~the amortization of the unrecognized transition obligation or transition asset, the amount of recognized gains or losses, the amount of prior service cost recognized, and the amount of gains or losses recognized due to a settlement or curtailment.~~

e. Paragraph 5(i):

~~The amount included within other comprehensive income for the period arising from a change in the additional minimum pension liability recognized pursuant to paragraph 37 of Statement 87, as amended.~~Separately the net gain or loss and net prior service cost or credit recognized in other comprehensive income for the period pursuant to paragraphs 25 and 29 of Statement 87 and paragraphs 52 and 56 of Statement 106, as amended, and reclassification adjustments of other comprehensive income for the period, as those amounts, including amortization of the net transition asset or obligation, are recognized as components of net periodic benefit cost.

f. Paragraph 5(ii) is added as follows:

The amounts in accumulated other comprehensive income that have not yet been recognized as components of net periodic benefit cost, showing separately the net gain or loss, net prior service cost or credit, and net transition asset or obligation.

g. Paragraph 5(k):

~~The measurement date(s) used to determine pension and other postretirement benefit measurements for the pension plans and other postretirement benefit plans that make up at least the majority of plan assets and benefit obligations.*~~

h. Paragraph 5(o):

If applicable, any alternative method used to amortize prior service amounts or ~~unrecognized~~ net gains and losses pursuant to paragraphs 26 and 33 of Statement 87 or paragraphs 53 and 60 of Statement 106.

i. Paragraph 5(s) is added as follows:

The amounts in accumulated other comprehensive income expected to be recognized as components of net periodic benefit cost over the fiscal year that follows the most recent annual statement of financial position presented, showing separately the net gain or loss, net prior service cost or credit, and net transition asset or obligation.

j. Paragraph 5(t) is added as follows:

> The amount and timing of any plan assets expected to be returned to the employer during the 12-month period, or operating cycle if longer, that follows the most recent annual statement of financial position presented.

k. Paragraph 6:

> The disclosures required by this Statement shall be aggregated for all of an employer's defined benefit pension plans and for all of an employer's other defined benefit postretirement plans unless disaggregating in groups is considered to provide useful information or is otherwise required by this paragraph and paragraph 7 of this Statement. ~~Unless otherwise stated, d~~Disclosures shall be as of the ~~measurement~~ date ~~for~~of each statement of financial position presented. ~~Disclosure of amounts recognized in the statement of financial position shall present prepaid benefit costs and accrued benefit liabilities separately.~~ Disclosures about pension plans with assets in excess of the accumulated benefit obligation generally may be aggregated with disclosures about pension plans with accumulated benefit obligations in excess of assets. The same aggregation is permitted for other postretirement benefit plans. If aggregate disclosures are presented, an employer shall disclose:
>
> a. The aggregate benefit obligation and aggregate fair value of plan assets for plans with benefit obligations in excess of plan assets as of the measurement date of each statement of financial position presented
> b. The aggregate pension accumulated benefit obligation and aggregate fair value of plan assets for pension plans with accumulated benefit obligations in excess of plan assets.

l. Paragraph 8:

> A **nonpublic entity** is not required to disclose the information required by paragraphs 5(a)–(c), 5(h), 5(m), and 5(o)–(r) of this Statement. A nonpublic entity that sponsors one or more defined benefit pension plans or one or more other defined benefit postretirement plans shall provide the following information, separately for pension plans and other postretirement benefit plans. Amounts related to the employer's results of operations (including items of other comprehensive income) shall be disclosed for each period for which a statement of income is presented. Amounts related to the employer's state-

ment of financial position shall be disclosed as of the ~~measurement date used for~~date of each statement of financial position presented.

m. Paragraph 8(g):

The amounts recognized in the statements of financial position, showing separately the postretirement benefit assets and current and noncurrent postretirement benefit liabilities.~~including net pension and other postretirement benefit prepaid assets or accrued liabilities and any intangible asset and the amount of accumulated other comprehensive income recognized pursuant to paragraph 37 of Statement 87, as amended.~~

n. Paragraph 8(h):

~~The amount of net periodic benefit cost recognized and the amount included within other comprehensive income arising from a change in the minimum pension liability recognized pursuant to paragraph 37 of Statement 87, as amended.~~Separately, the net gain or loss and net prior service cost or credit recognized in other comprehensive income for the period pursuant to paragraphs 25 and 29 of Statement 87 and paragraphs 52 and 56 of Statement 106, as amended, and reclassification adjustments of other comprehensive income for the period, as those amounts, including amortization of the net transition asset or obligation, are recognized as components of net periodic benefit cost.

o. Paragraph 8(hh) is added as follows:

The amounts in accumulated other comprehensive income that have not yet been recognized as components of net periodic benefit cost, showing separately the net gain or loss, net prior service cost or credit, and net transition asset or obligation.

p. Paragraph 8(j):

~~The measurement date(s) used to determine pension and other postretirement benefit measurements for the pension plans and other postretirement benefit plans that make up at least the majority of plan assets and benefit obligations.*~~

q. Paragraph 8(n) is added as follows:

The amounts in accumulated other comprehensive income expected to be recognized as components of net periodic benefit cost over the fiscal year that follows the most recent annual statement of financial position presented, showing separately the net gain or loss, net prior service cost or credit, and net transition asset or obligation.

r. Paragraph 8(o) is added as follows:

The amount and timing of any plan assets expected to be returned to the employer during the 12-month period, or operating cycle if longer, that follows the most recent annual statement of financial position presented.

s. Paragraph 9:

A **publicly traded entity** shall disclose the following information in its interim financial statements that include a statement of income:

a. The amount of net periodic benefit cost recognized, for each period for which a statement of income is presented, showing separately the service cost component, the interest cost component, the expected return on plan assets for the period, ~~the amortization of the unrecognized transition obligation or transition asset, the amount of recognized gains or losses~~the gain or loss component, the ~~amount of~~ prior service cost or credit component~~recognized~~, the transition asset or obligation component, and the~~ amount of~~ gain or loss recognized due to a settlement or curtailment~~*~~
b. The total amount of the employer's contributions paid, and expected to be paid, during the current fiscal year, if significantly different from amounts previously disclosed pursuant to paragraph 5(g) of this Statement. Estimated contributions may be presented in the aggregate combining (1) contributions required by funding regulations or laws, (2) discretionary contributions, and (3) noncash contributions.~~*~~

t. Paragraphs 10A–10D and the related heading are added as follows:

Not-for-Profit Organizations and Other Entities That Do Not Report Other Comprehensive Income

10A. For not-for-profit employers and other employers that do not report other comprehensive income in accordance with FASB Statement No. 130, *Reporting Comprehensive Income,* the references to the net gain or loss, net prior service cost or credit, and net transition asset or obligation recognized in other comprehensive income in paragraphs 5(i) and 8(h) of this Statement shall instead be to such amounts recognized as changes in unrestricted net assets arising from a defined benefit plan but not yet included in net periodic benefit cost.

10B. For those employers, the references to reclassification adjustments of other comprehensive income in paragraphs 5(i) and 8(h) of this Statement shall instead be to reclassifications to net periodic benefit cost of amounts previously recognized as changes in unrestricted net assets arising from a defined benefit plan but not included in net periodic benefit cost when they arose.

10C. For those employers, the references to the net gain or loss, net prior service cost or credit, and net transition asset or obligation recognized in accumulated other comprehensive income in paragraphs 5(ii), 5(s), 8(hh), and 8(n) of this Statement shall instead be to such amounts that have been recognized as changes in unrestricted net assets arising from a defined benefit plan but not yet reclassified as components of net periodic benefit cost.

10D. For those employers, the references to results of operations (including items of other comprehensive income) in paragraphs 5 and 8 shall instead be to changes in unrestricted net assets and the references to a statement of income in those paragraphs shall instead be to a statement of activities.

u. Paragraph C3:

During 20X3, Company A acquired FV Industries and amended its plans. ~~For one of the defined benefit pension plans, the accumulated benefit obligation exceeds the fair value of plan assets, and Company A recognized an additional minimum liability in accordance with the provisions of paragraphs 36 and 37 of Statement 87.~~

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.

~~Company A uses a December 31 measurement date for the majority of its plans.~~

Obligations and Funded Status

At December 31	Pension Benefits 20X3	Pension Benefits 20X2	Other Benefits 20X3	Other Benefits 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)	$(536)
~~Unrecognized net actuarial loss (gain)~~	~~94~~	~~18~~	~~(11)~~	~~(48)~~
~~Unrecognized prior service cost (benefit)~~	~~210~~	~~160~~	~~(92)~~	~~(22)~~
~~Net amount recognized~~	~~$ 74~~	~~$ 0~~	~~$(1,113)~~	~~$(606)~~

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~~, and the net amount recognized~~.

Amounts recognized in the statement of financial position consist of:

	Pension Benefits		Other Benefits	
	20X3	**20X2**	**20X3**	**20X2**
~~Prepaid benefit cost~~Noncurrent assets	$ 227	$ 127	$ 0	$ 0
~~Accrued benefit cost~~	~~(236)~~	~~(180)~~	~~(1,113)~~	~~(606)~~
Current liabilities	(125)	(125)	(150)	(150)
Noncurrent liabilities	(332)	(180)	(860)	(386)
~~Intangible assets~~	~~50~~	~~53~~	~~0~~	~~0~~
~~Accumulated other comprehensive income~~	~~33~~	~~0~~	~~0~~	~~0~~
~~Net amounts recognized~~	~~$ 74~~	~~$ 0~~	~~$(1,113)~~	~~$(606)~~
	$(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

Net Periodic Benefit Cost	**Pension Benefits 20X3**	**Pension Benefits 20X2**	**Other Benefits 20X3**	**Other Benefits 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.

~~**Additional Information**~~

	~~**Pension Benefits**~~		~~**Other Benefits**~~	
	~~**20X3**~~	~~**20X2**~~	~~**20X3**~~	~~**20X2**~~
~~Increase in minimum liability included in other comprehensive income~~	~~$33~~	~~$0~~	~~N/A~~	~~N/A~~

[Note: The remaining sections of Illustration 1 are omitted because they are unaffected by this Statement.]

Appendix F

AMENDMENTS TO OTHER EXISTING PRONOUNCEMENTS

F1. This appendix includes substantive amendments to existing pronouncements other than those contained in Appendixes C–E of this Statement that have been altered as a direct result of the guidance contained in this Statement. [Added text is underlined and deleted text is ~~struck out~~.]

F2. ARB No. 43, Chapter 3, "Working Capital," is amended as follows:

a. Paragraph 4, as amended:

> For accounting purposes, the term *current assets* is used to designate cash and other assets or resources commonly identified as those which are reasonably expected to be realized in cash or sold or consumed during the normal operating cycle of the business. Thus the term comprehends in general such resources as (a) cash available for current operations and items which are the equivalent of cash; (b) inventories of merchandise, raw materials, goods in process, finished goods, operating supplies, and ordinary maintenance material and parts; (c) trade accounts, notes, and acceptances receivable; (d) receivables from officers, employees, affiliates, and others, if collectible in the ordinary course of business within a year; (e) instalment or deferred accounts and notes receivable if they conform generally to normal trade practices and terms within the business; (f) marketable securities representing the investment of cash available for current operations, including investments in debt and equity securities classified as trading securities under FASB Statement No. 115, *Accounting for Certain Investments in Debt and Equity Securities;* and (g) prepaid expenses such as insurance, interest, rents, taxes, unused royalties, current paid advertising service not yet received, and operating supplies. Prepaid expenses are not current assets in the sense that they will be converted into cash but in the sense that, if not paid in advance, they would require the use of current assets during the operating cycle. An asset representing the overfunded status of a single-employer defined benefit postretirement plan shall be classified pursuant to FASB Statement No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans.*

b. Paragraph 7, as amended:

The term *current liabilities* is used principally to designate obligations whose liquidation is reasonably expected to require the use of existing resources properly classifiable as current assets, or the creation of other current liabilities. As a balance-sheet category, the classification is intended to include obligations for items which have entered into the operating cycle, such as payables incurred in the acquisition of materials and supplies to be used in the production of goods or in providing services to be offered for sale; collections received in advance of the delivery of goods or performance of services[2]; and debts which arise from operations directly related to the operating cycle, such as accruals for wages, salaries, commissions, rentals, royalties, and income and other taxes. Other liabilities whose regular and ordinary liquidation is expected to occur within a relatively short period of time, usually twelve months, are also intended for inclusion, such as short-term debts arising from the acquisition of capital assets, serial maturities of long-term obligations, amounts required to be expended within one year under sinking fund provisions, and agency obligations arising from the collection or acceptance of cash or other assets for the account of third persons.[3] The current liability classification is also intended to include obligations that, by their terms, are due on demand or will be due on demand within one year (or operating cycle, if longer) from the balance sheet date, even though liquidation may not be expected within that period. It is also intended to include long-term obligations that are or will be callable by the creditor either because the debtor's violation of a provision of the debt agreement at the balance sheet date makes the obligation callable or because the violation, if not cured within a specified grace period, will make the obligation callable. Accordingly, such callable obligations shall be classified as current liabilities unless one of the following conditions is met:

a. The creditor has waived[3a] or subsequently lost[3b] the right to demand repayment for more than one year (or operating cycle, if longer) from the balance sheet date.
b. For long-term obligations containing a grace period within which the debtor may cure the violation, it is probable[3c] that the violation will be cured within that period, thus preventing the obligation from becoming callable.

If an obligation under (b) above is classified as a long-term liability (or, in the case of an unclassified balance sheet, is included as a long-term liability in the disclosure of debt maturities), the circumstances shall be disclosed. Short-term obligations that are expected to be refinanced on a long-term basis, including those callable obligations discussed herein, shall be classified in accordance with FASB Statement No. 6, *Classification of Short-Term Obligations Expected to Be Refinanced.* A liability representing the underfunded status of a single-employer defined benefit postretirement plan shall be classified pursuant to Statement 158.

F3. APB Opinion No. 28, *Interim Financial Reporting,* is amended as follows:

a. Paragraph 30(k), as amended:

The following information about defined benefit pension plans and other defined benefit postretirement benefit plans, disclosed for all periods presented pursuant to the provisions of FASB Statement No. 132 (revised 2003), *Employers' Disclosures about Pensions and Other Postretirement Benefits:*

(1) The amount of net periodic benefit cost recognized, for each period for which a statement of income is presented, showing separately the service cost component, the interest cost component, the expected return on plan assets for the period, the gain or loss component, the prior service cost or credit component, the transition asset or obligation component, and the gain or loss recognized due to a settlement or curtailment.~~the amortization of the unrecognized transition obligation or transition asset, the amount of recognized gains or losses, the amount of prior service cost recognized, and the amount of gain or loss recognized due to a settlement or curtailment.*~~

(2) The total amount of the employer's contributions paid, and expected to be paid, during the current fiscal year, if significantly different from amounts previously disclosed pursuant to paragraph 5(g) of Statement 132(R). Estimated contributions may be presented in the aggregate combining (a) contributions required by funding regulations or laws, (b) discretionary contributions, and (c) noncash contributions.~~*~~

F4. FASB Statement No. 130, *Reporting Comprehensive Income,* is amended as follows:

a. Paragraph 17:

Items included in other comprehensive income shall be classified based on their nature. For example, under existing accounting standards, other comprehensive income shall be classified separately into foreign currency items, gains or losses associated with pension or other postretirement benefits, prior service costs or credits associated with pension or other postretirement benefits, transition assets or obligations associated with pension or other postretirement benefits,~~minimum pension liability adjustments,~~ and unrealized gains and losses on certain investments in debt and equity securities. Additional classifications or additional items within current classifications may result from future accounting standards.

b. Paragraph 19:

An enterprise shall determine reclassification adjustments for each classification of other comprehensive income~~, except minimum pension liability adjustments~~. The requirement for a reclassification adjustment for Statement 52 foreign currency translation adjustments is limited to translation gains and losses realized upon sale or upon complete or substantially complete liquidation of an investment in a foreign entity.

c. Paragraph 20:

An enterprise may display reclassification adjustments on the face of the financial statement in which comprehensive income is reported, or it may disclose reclassification adjustments in the notes to the financial statements. Therefore, for all classifications of other comprehensive income~~ other than minimum pension liability adjustments~~, an enterprise may use either (a) a gross display on the face of the financial statement or (b) a net display on the face of the financial statement and disclose the gross change in the notes to the financial statements.[6] Gross and net displays are illustrated in Appendix B. An example of the calculation of reclassification adjustments for Statement 115 available-for-sale securities is included in Appendix C.

d. Paragraph 21:

~~An enterprise shall not determine a reclassification adjustment for minimum pension liability adjustments. Therefore, an enterprise shall use a net display for that classification.~~

e. Paragraph 130:

Brackets are used to highlight certain basic totals that must be displayed in financial statements to comply with the provisions of this Statement. This Statement requires not only displaying those certain basic totals but also reporting components of those aggregates. For example, it requires reporting information about unrealized gains and losses on available-for-sale securities, foreign currency items, gains or losses associated with pension or other postretirement benefits, prior service costs or credits associated with pension or other postretirement benefits, and transition assets or obligations associated with pension or other postretirement benefits~~and minimum pension liability adjustments~~.

f. Paragraph 131, as amended:

Note: Only the illustrations in paragraph 131 have been affected by this Statement. Therefore, they are the only part of paragraph 131 that has been reproduced here.

Format A: One-Statement Approach

Enterprise
Statement of Income and Comprehensive Income
Year Ended December 31, ~~19X9~~20X9

Revenues		$140,000
Expenses		(25,000)
Other gains and losses		8,000
Gain on sale of securities		2,000
Income from operations before tax		125,000
Income tax expense		(31,250)
Income before extraordinary item ~~and cumulative effect of accounting change*~~		93,750
Extraordinary item, net of tax		~~(28,000)~~ (30,500)
~~Income before cumulative effect of accounting change*~~		~~65,750~~
~~Cumulative effect of accounting change,*net of tax~~		~~(2,500)~~
Net income		63,250
Other comprehensive income, net of tax:		
Foreign currency translation adjustments[a]		8,000
Unrealized gains on securities:[b]		
Unrealized holding gains arising during period	$13,000	
Less: reclassification adjustment for gains included in net income	(1,500)	11,500
Defined benefit pension plans:[c]		
~~Minimum pension liability adjustment~~[e]		~~(2,500)~~
Prior service cost arising during period	(1,600)	
Net loss arising during period	(1,000)	
Less: amortization of prior service cost included in net periodic pension cost	100	(2,500)
Other comprehensive income		17,000
Comprehensive income		$ 80,250

Alternatively, components of other comprehensive income could be displayed before tax with one amount shown for the aggregate income tax expense or benefit:

Other comprehensive income, before tax:		
Foreign currency translation adjustments[a]		$10,666
Unrealized gains on securities:[b]		
Unrealized holding gains arising during period	$17,333	
Less: reclassification adjustment for gains included in net income	(2,000)	15,333
Defined benefit pension plans:[c]		
~~Minimum pension liability adjustment~~[e]		~~(3,333)~~
Prior service cost arising during period	(2,133)	
Net loss arising during period	(1,333)	
Less: amortization of prior service cost included in net periodic pension cost	133	(3,333)
Other comprehensive income, before tax		22,666
[Income tax expense related to items of other comprehensive income		(5,666)]
Other comprehensive income, net of tax		$17,000

~~*After the effective date of FASB Statement No. 154, *Accounting Changes and Error Corrections,* voluntary changes in accounting principle will no longer be reported via a cumulative-effect adjustment through the income statement of the period of change.~~

[a]It is assumed that there was no sale or liquidation of an investment in a foreign entity. Therefore, there is no reclassification adjustment for this period.

[b]This illustrates the gross display. Alternatively, a net display can be used, with disclosure of the gross amounts (current-period gain and reclassification adjustment) in the notes to the financial statements.

[c]This illustrates the gross display~~required net display for this classification~~. Alternatively, a net display can be used, with disclosure of the gross amounts (prior service cost and net loss for the defined benefit pension plans less amortization of prior service cost) in the notes to financial statements.

Format B: Two-Statement Approach

Enterprise
Statement of Income
Year Ended December 31, ~~19X9~~20X9

Revenues	$140,000
Expenses	(25,000)
Other gains and losses	8,000
Gain on sale of securities	2,000
Income from operations before tax	125,000
Income tax expense	(31,250)
Income before extraordinary item ~~and cumulative effect of accounting change*~~	93,750
Extraordinary item, net of tax	~~(28,000)~~ (30,500)
~~Income before cumulative effect of accounting change*~~	~~65,750~~
~~Cumulative effect of accounting change,*net of tax~~	~~(2,500)~~
Net income	$ 63,250

Enterprise
Statement of Comprehensive Income
Year Ended December 31, ~~19X9~~20X9

Net income		$63,250
Other comprehensive income, net of tax:		
Foreign currency translation adjustments[a]		8,000
Unrealized gains on securities:[b]		
Unrealized holding gains arising during period	$13,000	
Less: reclassification adjustment for gains included in net income	(1,500)	11,500
Defined benefit pension plans:[c]		
~~Minimum pension liability adjustment~~[e]		~~(2,500)~~
Prior service cost arising during period	(1,600)	
Net loss arising during period	(1,000)	
Less: amortization of prior service cost included in net periodic pension cost	100	(2,500)
Other comprehensive income		17,000
Comprehensive income		$80,250

Alternatively, components of other comprehensive income could be displayed before tax with one amount shown for the aggregate income tax expense or benefit as illustrated in Format A.

~~*After the effective date of Statement 154, voluntary changes in accounting principle will no longer be reported via a cumulative-effect adjustment through the income statement of the period of change.~~

[a]It is assumed that there was no sale or liquidation of an investment in a foreign entity. Therefore, there is no reclassification adjustment for this period.

[b]This illustrates the gross display. Alternatively, a net display can be used, with disclosure of the gross amounts (current-period gain and reclassification adjustment) in the notes to the financial statements.

[c]This illustrates the gross display.~~required net display for this classification.~~ Alternatively, a net display can be used, with disclosure of the gross amounts (prior service cost and net loss for defined benefit pension plans less amortization of prior service cost) in the notes to financial statements.

Format C: Statement-of-Changes-in-Equity Approach (Alternative 1)

Enterprise
Statement of Changes in Equity
Year Ended December 31, ~~19X9~~20X9

	Total	Comprehensive Income[a]	Retained Earnings	Accumulated Other Comprehensive Income	Common Stock	Paid-in Capital
Beginning balance	$~~563,500~~ 561,500		$ 88,500	$~~25,000~~ 23,000	$150,000	$300,000
Comprehensive income						
Net income	63,250	$63,250	63,250			
Other comprehensive income, net of tax						
Unrealized gains on securities, net of reclassification adjustment (see disclosure)	11,500	11,500				
Foreign currency translation adjustments	8,000	8,000				
Defined benefit pension plans:						
Net prior service cost (see disclosure)	(1,500)	(1,500)				
Net loss	(1,000)	(1,000)				
~~Minimum pension liability adjustment~~	~~(2,500)~~	~~(2,500)~~				
Other comprehensive income		17,000		17,000		
Comprehensive income		$80,250				
Common stock issued	150,000				50,000	100,000
Dividends declared on common stock	(10,000)		(10,000)			
Ending balance	$~~783,750~~ 781,750		$141,750	$~~42,000~~ 40,000	$200,000	$400,000

Disclosure of reclassification amount:[b]

Unrealized holding gains arising during period	$13,000
Less: reclassification adjustment for gains included in net income	(1,500)
Net unrealized gains on securities	$11,500
Prior service cost from plan amendment during period	$ (1,600)
Less: amortization of prior service cost included in net periodic pension cost	100
Net prior service cost arising during period	(1,500)
Net loss arising during period	(1,000)
Defined benefit pension plans, net	$ (2,500)

[a]Alternatively, an enterprise can omit the separate column labeled "Comprehensive Income" by displaying an aggregate amount for comprehensive income ($80,250) in the "Total" column.

[b]It is assumed that there was no sale or liquidation of an investment in a foreign entity. Therefore, there is no reclassification adjustment for this period.

Format D: Statement-of-Changes-in-Equity Approach (Alternative 2)

Enterprise
Statement of Changes in Equity
Year Ended December 31, ~~19X9~~20X9

Retained earnings		
Balance at January 1	$ 88,500	
Net income	63,250	$63,250
Dividends declared on common stock	(10,000)	
Balance at December 31	141,750	
Accumulated other comprehensive income[a]		
Balance at January 1	~~25,000~~	
	23,000	
Unrealized gains on securities, net of reclassification adjustment (see disclosure)		11,500
Foreign currency translation adjustments		8,000
Defined benefit pension plans:		
Net prior service cost (see disclosure)		(1,500)
Net loss		(1,000)
~~Minimum pension liability adjustment~~		~~(2,500)~~
Other comprehensive income	17,000	17,000
Comprehensive income		$80,250
Balance at December 31	~~42,000~~	
	40,000	
Common stock		
Balance at January 1	150,000	
Shares issued	50,000	
Balance at December 31	200,000	
Paid-in capital		
Balance at January 1	300,000	
Common stock issued	100,000	
Balance at December 31	400,000	
Total equity	$~~783,750~~	
	781,750	

Disclosure of reclassification amount:[b]

Unrealized holding gains arising during period	$ 13,000
Less: reclassification adjustment for gains included in net income	(1,500)
Net unrealized gains on securities	$ 11,500
Prior service cost from plan amendment during period	$ (1,600)
Less: amortization of prior service cost included in net periodic pension cost	100
Net prior service cost arising during period	(1,500)
Net loss arising during period	(1,000)
Defined benefit pension plans, net	$ (2,500)

[a]All items of other comprehensive income are displayed net of tax.
[b]It is assumed that there was no sale or liquidation of an investment in a foreign entity. Therefore, there is no reclassification adjustment for this period.

All Formats: Required Disclosure of Related Tax Effects Allocated to Each Component of Other Comprehensive Income

Enterprise
Notes to Financial Statements
Year Ended December 31, ~~19X9~~20X9

	Before-Tax Amount	Tax (Expense) or Benefit	Net-of-Tax Amount
Foreign currency translation adjustments	$10,666	$(2,666)	$ 8,000
Unrealized gains on securities:			
Unrealized holding gains arising during period	17,333	(4,333)	13,000
Less: reclassification adjustment for gains realized in net income	(2,000)	500	(1,500)
Net unrealized gains	15,333	(3,833)	11,500
Defined benefit pension plans:			
~~Minimum pension liability adjustment~~	~~(3,333)~~	~~833~~	~~(2,500)~~
Prior service cost from plan amendment during period	(2,133)	533	(1,600)
Less: amortization of prior service cost included in net periodic pension cost	133	(33)	100
Net prior service cost arising during period	(2,000)	500	(1,500)
Net loss arising during period	(1,333)	333	(1,000)
Defined benefit pension plans, net	(3,333)	833	(2,500)
Other comprehensive income	$22,666	$(5,666)	$17,000

Alternatively, the tax amounts for each component can be displayed parenthetically on the face of the financial statement in which comprehensive income is reported.

All Formats: Disclosure of Accumulated Other Comprehensive Income Balances

Enterprise
Notes to Financial Statements
Year Ended December 31, ~~19X9~~20X9

	Foreign Currency Items	Unrealized Gains on Securities	Defined Benefit Pension Plans	~~Minimum Pension Liability Adjustment~~	Accumulated Other Comprehensive Income
Beginning balance	$ (500)	$25,500	$(2,000)	~~$ 0~~	$~~25,000~~ 23,000
Current-period change	8,000	11,500	(2,500)	~~(2,500)~~	17,000
Ending balance	$7,500	$37,000	$(4,500)	~~$(2,500)~~	$~~42,000~~ 40,000

Alternatively, the balances of each classification within accumulated other comprehensive income can be displayed in a statement of changes in equity or in a statement of financial position.

All Formats: Accompanying Statement of Financial Position

Enterprise
Statement of Financial Position
December 31, ~~19X9~~20X9

Assets:	
Cash	$ 150,000
Accounts receivable	175,000
Available-for-sale securities	112,000
Plant and equipment	985,000
Total assets	$1,422,000
Liabilities:	
Accounts payable	$ 112,500
Accrued liabilities	~~79,250~~
	78,583
~~Pension l~~Liability for pension benefits	~~128,000~~
	130,667
Notes payable	318,500
Total liabilities	$ ~~638,250~~
	640,250
Equity:	
Common stock	$ 200,000
Paid-in capital	400,000
Retained earnings	141,750
Accumulated other comprehensive income	~~42,000~~
	40,000
Total equity	~~783,750~~
	781,750
Total liabilities and equity	$1,422,000

Appendix G

IMPACT ON RELATED LITERATURE

G1. This appendix addresses the impact of this Statement on authoritative accounting literature included in categories *(b), (c),* and *(d)* in the GAAP hierarchy discussed in AICPA Statement on Auditing Standards No. 69, *The Meaning of* Present Fairly in Conformity With Generally Accepted Accounting Principles.

G2. The Board believes many of the staff Q&As contained in FASB Special Reports, *A Guide to Implementation of Statement 87 on Employers' Accounting for Pensions; A Guide to Implementation of Statement 88 on Employers' Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits;* and *A Guide to Implementation of Statement 106 on Employers' Accounting for Postretirement Benefits Other Than Pensions,* are not essential to understanding or applying the provisions of this Statement. Additionally, the Board believes the need for those Q&As has diminished over the many years since Statements 87, 88, and 106 were first issued. The Board decided to consider further those Q&As and to update those that have continuing relevance following the issuance of this Statement.

G3. The following tables list Emerging Issues Task Force (EITF) Issues and Topics, FASB Staff Positions (FSPs), guidance issued by the American Institute of Certified Public Accountants (AICPA) or its staff, and guidance issued by the SEC or its staff relating to postretirement benefit obligations, including pensions, and indicate (a) the status of that literature after issuance of this Statement and (b) the impact of this Statement on that literature (if any). (**Note:** The *EITF Abstracts* will be updated accordingly following issuance of this Statement.)

G4. Decisions about whether to amend AICPA guidance are made by the FASB in conjunction with the AICPA. (**Note:** The AICPA will make the changes until there is an FASB codification.)

G5. Decisions about whether to amend SEC or SEC staff guidance are made by the SEC and its staff.

G6. The following guidance is related to the accounting for pensions or other postretirement benefits but is either outside the scope of this Statement or unaffected by this Statement:

Literature	**Title**
Issue 84-35	Business Combinations: Sale of Duplicate Facilities and Accrual of Liabilities
Issue 86-27	Measurement of Excess Contributions to a Defined Contribution Plan or Employee Stock Ownership Plan
Issue 88-1	Determination of Vested Benefit Obligation for a Defined Benefit Pension Plan
Issue 88-5	Recognition of Insurance Death Benefits
Issue 88-23	Lump-Sum Payments under Union Contracts
Issue 90-3	Accounting for Employers' Obligations for Future Contributions to a Multiemployer Pension Plan
Issue 91-7	Accounting for Pension Benefits Paid by Employers after Insurance Companies Fail to Provide Annuity Benefits
Issue 92-12	Accounting for OPEB Costs by Rate-Regulated Enterprises
Issue 92-13	Accounting for Estimated Payments in Connection with the Coal Industry Retiree Health Benefit Act of 1992
Issue 93-3	Plan Assets under FASB Statement No. 106
Issue 93-4	Accounting for Regulatory Assets

Literature	Title
Issue 96-5	Recognition of Liabilities for Contractual Termination Benefits or Changing Benefit Plan Assumptions in Anticipation of a Business Combination
Issue 97-14	Accounting for Deferred Compensation Arrangements Where Amounts Earned Are Held in a Rabbi Trust and Invested
Issue 03-4	Determining the Classification and Benefit Attribution Method for a "Cash Balance" Pension Plan
Issue 05-5	Accounting for Early Retirement or Postemployment Programs with Specific Features (Such As Terms Specified in Altersteilzeit Early Retirement Arrangements)
Topic D-27	Accounting for the Transfer of Excess Pension Assets to a Retiree Health Care Benefits Account
FSP FAS 146-1	Determining Whether a One-Time Termination Benefit Offered in Connection with an Exit or Disposal Activity Is, in Substance, an Enhancement to an Ongoing Benefit Arrangement

G7. The following guidance is affected by the issuance of this Statement:

Status Legend	
Nullified	Guidance is deemed unnecessary upon adoption of this Statement.
Modified	Guidance is partially nullified and replaced upon adoption of this Statement.

Literature	Title	Status	Description
EITF Issues and Topics			
Issue 03-2	Accounting for the Transfer to the Japanese Government of the Substitutional Portion of Employee Pension Fund Liabilities	Modified	Issue 03-2 clarifies how an employer should account for the separation of the government-required portion (similar to social security) of the benefit obligation of a Japanese Employee Pension Fund from the employer's discretionary portion. It also clarifies how to account for the transfer of the government-required portion and related assets to the Japanese government as authorized under the June 2001 amendment to the Japanese Welfare Pension Insurance Law. It states that subsequent to this separation, accounting should continue to be in accordance with Statements 87 and 88. This Statement eliminates minimum pension liability adjustments and requires the recognition of gains or losses, prior service costs or credits, and transition assets and obligations in other comprehensive income to the extent not yet recognized as components of net periodic benefit cost.

Literature	Title	Status	Description
Topic D-36	Selection of Discount Rates Used for Measuring Defined Benefit Pension Obligations and Obligations of Postretirement Benefit Plans Other Than Pensions	Modified	Topic D-36 presents the SEC staff position on the selection of discount rates for Statements 87 and 106, including the guidance in paragraph 186 of Statement 106. This Statement incorporates paragraph 186 of Statement 106 into the standards section of both Statements 87 and 106. Therefore, the duplicate guidance is eliminated.
Topic D-106	Clarification of Q&A No. 37 of FASB Special Report, *A Guide to Implementation of Statement 87 on Employers' Accounting for Pensions*	Nullified	Topic D-106 clarifies the guidance in Q&A No. 37 on how to determine an additional minimum liability when the report date is December 31 and the measurement date is September 30. This Statement eliminates the provisions related to an additional minimum liability. Therefore, Topic D-106 is nullified.

Literature	Title	Status	Description
FASB FSPs and Statement 133 Implementation Issues			
FSP APB 18-1	Accounting by an Investor for Its Proportionate Share of Accumulated Other Comprehensive Income of an Investee Accounted for under the Equity Method in Accordance with APB Opinion No. 18 upon a Loss of Significant Influence	Modified	FSP APB 18-1 provides guidance on how an investor should account for its proportionate share of an investee's equity adjustments for other comprehensive income upon a loss of significant influence. FSP APB 18-1 includes minimum pension liability adjustments as an example of one of the investee's equity adjustments related to other comprehensive income. This Statement eliminates minimum pension liability adjustments and requires the recognition of gains or losses, prior service costs or credits, and transition assets or obligations in other comprehensive income to the extent not yet recognized as components of net periodic benefit cost. The background and issue section in FSP APB 18-1 is amended by eliminating the reference to minimum pension liability adjustments and adding the recognition of gains or losses, prior service costs or credits, and transition assets or obligations as some of the investee's equity adjustments related to other comprehensive income.

Literature	Title	Status	Description
AICPA Literature			
AICPA Audit and Accounting Guide	*Health Care Organizations,* 2005	Modified	The Guide on health care organizations assists preparers of financial statements in preparing financial statements in conformity with GAAP and assists auditors in auditing and reporting on such financial statements in accordance with generally accepted auditing standards. The Guide requires health care organizations to report an earnings measure (performance indicator) that is the functional equivalent of income from continuing operations of a for-profit enterprise. Paragraph 10.21(e) requires health care organizations to report separately from the performance indicator "items that are required to be reported in or reclassified from other comprehensive income. . . ." Minimum pension liabilities are included as an example of those items. This Statement eliminates minimum pension liability adjustments and requires the recognition of gains or losses, prior service costs or credits, and transition assets or obligations in other comprehensive income to the extent not yet recognized as components of net periodic benefit cost. Paragraph 10.21(e) of the Guide is amended to eliminate the references to minimum pension liabilities and to add references to gains or losses, prior service costs or credits, and transition assets or obligations recognized in accordance with Statements 87, as amended, and 106, as amended.

Literature	Title	Status	Description
AICPA Audit and Accounting Guide	*Life and Health Insurance Entities,* 2005	Modified	The Guide on life and health insurance entities assists preparers of financial statements in preparing financial statements in conformity with GAAP and assists auditors in auditing and reporting on such financial statements in accordance with generally accepted auditing standards. The Guide is directed primarily to the aspects of the preparation and audit of life and health insurance entities' financial statements that are unique to those organizations and are considered significant to them. Paragraph 14.70(f) states that a reporting entity that uses an actuarial valuation as of a date prior to the financial statement date to measure plan assets and obligations, and determines that an additional minimum liability is required to be established in accordance with paragraph 37 of Statement 87, and if the reporting entity contributes amounts to the plan to fund that additional minimum liability prior to the financial statement date, such amount funded may be used to reduce the additional minimum liability recognized in the reporting entity's financial statements. This Statement eliminates the provisions in Statements 87 and 106 that permit plan assets and benefit obligations to be measured as of a date that is not more than three months prior to the date of the employer's statement of financial position. Therefore, paragraph 14.70(f) is eliminated.

Literature	Title	Status	Description
SOP 02-2	*Accounting for Derivative Instruments and Hedging Activities by Not-for-Profit Health Care Organizations, and Clarification of the Performance Indicator*	Modified	Among other matters, SOP 02-2 amended the Guide on health care organizations to clarify that the performance indicator reported by not-for-profit health care organizations excludes items required by Statement 130 to be reported as items of other comprehensive income, and to clarify that any changes to guidance on other comprehensive income would trigger conforming changes to the definition of *performance indicator* in the Guide. This Statement eliminates minimum pension liability adjustments and requires the recognition of gains or losses, prior service costs or credits, and transition assets or obligations in other comprehensive income to the extent not yet recognized as components of net periodic benefit cost. Paragraphs 9 and 19 of SOP 02-2 are amended to eliminate the references to minimum pension liability adjustments and to add references to gains or losses, prior service costs or credits, and transition assets or obligations recognized in other comprehensive income. Additionally, footnote 5 is amended to state that the Statement 87 guidance referred to in that note has been amended by this Statement.