Defining Issues®

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FASB Issues Practical Expedient for Measurement Date of an Employer's Defined Benefit Plan

The FASB recently issued guidance to provide a practical expedient for the measurement date of defined benefit plan assets and obligations. Employers with fiscal year-end dates that do not fall on a calendar month-end would be allowed to measure pension and postretirement benefit plan assets and obligations as of the calendar month-end date closest to the fiscal year-end.[1]

The FASB also provided a similar practical expedient that would allow all employers performing interim remeasurements in response to significant events (such as a plan amendment, settlement, or curtailment) that do not fall on a calendar month-end to use the closest month-end date as the measurement date.

The financial statements of employee benefit plans are outside of the scope of the amendments.

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Key Facts

Entities that choose to apply the practical expedient are required to:

- Apply the policy to all pension and postretirement benefit plans;
- Adjust the measurement of defined benefit plan assets and obligations for any contributions or significant events that occur between the month-end measurement and the balance sheet date (the intervening period); and
- Disclose the amount of contribution or effects of the significant event not captured in the month-end measurement to permit reconciliation of the total fair value of all classes of plan assets in the fair value hierarchy to the ending balance of the fair value of plan assets.

Key Impact

- The guidance will reduce the cost and complexity of measuring the fair value of defined benefit plan assets for entities with fiscal year-ends or significant events that do not fall on a calendar month-end.

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

Why Is the FASB Issuing This Guidance?

The Board issued this guidance as part of its initiative to reduce complexity in accounting standards.[2] Currently, a reporting entity with a fiscal year-end that does not coincide with a month-end may incur more costs than other entities when measuring the fair value of plan assets of a defined benefit pension or other postretirement benefit plan. This occurs because the information about the fair value of plan assets obtained from a third-party service provider is typically reported as of month-end. That information must be adjusted to reflect the fair value of plan assets as of the entity's fiscal year-end.

What Are the Main Provisions?

For an entity with a fiscal year-end that does not coincide with a month-end, the guidance provides a practical expedient that permits measurement of defined benefit plan assets and obligations using the month-end that is closest to the entity's fiscal year-end. If adopted, the entity must consistently apply the practical expedient each year to all plans. The guidance also provides a similar practical expedient for all employers remeasuring plan assets and obligations in interim periods for significant events – such as plan amendments, settlements, and curtailments – that do not fall on a calendar month-end.

If a contribution or significant event occurs during the intervening period, the entity should adjust the measurement of defined benefit plan assets and obligations to reflect the effects of those events in the accounting period in which they occur. The adjustment is measured using assumptions as of the month-end date. An entity should not incorporate the effects of other events that are not caused by the entity (e.g., changes in market prices or interest rates that occurred during the intervening period).

The effects of a contribution or a significant event occurring during the intervening period are added to or subtracted from the measurement of the elements of the funded status of the plan as of the month-end date, depending on their nature and whether the month-end date is before or after the balance sheet date.

For example, assume Entity A, which has a December 28 fiscal year-end, applies the practical expedient, and measures its defined benefit plan assets and obligations as of December 31. If the entity made a significant contribution on December 29 and a significant lump-sum settlement on December 30 (both after the fiscal year-end but before the measurement date), the entity should adjust the funded status of the defined benefit plan by *subtracting* the effect of the contribution from plan assets and *adding* the effect of the lump-sum settlement to the month-end measurement of benefit obligations and plan assets. The accounting for any gain or loss for the lump-sum settlement would be recorded in the period that includes December 30.

[2] For information on the FASB's Simplification Initiative, see www.fasb.org.

Assume Entity B, which has a January 4 fiscal year-end, applies the practical expedient, and measures its defined benefit plan assets and obligations as of December 31. If the entity made a significant contribution on January 2 and a significant lump-sum settlement on January 3 (both after the measurement date but before the fiscal year-end), the entity should adjust the funded status by *adding t*he effect of the contribution to plan assets and *deducting* the effect of the lump-sum settlement from the month-end measurement of benefit obligations and plan assets. The accounting for any gain or loss for the lump-sum settlement would be recorded in the period that includes January 3.

	Measurement Date after Year-end		Measurement Date before Year-end	
Event	**Effect on Obligation**	**Effect on Plan Assets**	**Effect on Obligation**	**Effect on Plan Assets**
Contribution	—	Subtract	—	Add
Settlement	Add	Add	Subtract	Subtract
Positive Amendment	Subtract	—	Add	—
Negative Amendment	Add	—	Subtract	—
Curtailment Decrease	Add	—	Subtract	—
Curtailment Increase	Subtract	—	Add	—

If an entity applies the practical expedient and a contribution or significant event occurs during the intervening period that affects the carrying amount of plan assets, the entity should not adjust the fair value of each class of plan assets. Instead, the entity should disclose the amount of the contribution or effect of the significant event to permit reconciliation of the total fair value of all the classes of plan assets to the ending balance of the fair value of plan assets.

An entity must disclose the accounting policy election and the date used to measure defined benefit plan assets and obligations.

Transition and Effective Date. For public business entities, the standard is effective for annual reporting periods beginning after December 15, 2015, and interim periods within those fiscal years. For all other entities, the standard is effective for annual reporting periods beginning after December 15, 2016, and interim periods within fiscal years beginning after December 15, 2017. Earlier application is permitted. The amendments should be applied prospectively.

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