

AN ALERT FROM THE BDO NATIONAL ASSURANCE PRACTICE

BDO FLASH REPORT

FASB

SUBJECT

FASB IMPLEMENTS PRACTICAL EXPEDIENT FOR MEASURING DEFINED BENEFIT PLAN OBLIGATIONS AND ASSETS

SUMMARY

The FASB recently issued an ASU providing an optional practical expedient for measuring an employer's defined benefit obligation and plan assets when the company's fiscal year-end does not coincide with a month-end. In this situation, an entity may elect to measure defined benefit plan assets and obligations using the month-end that is closest to the entity's fiscal year-end. The new standard takes effect in 2016 for public companies and is available [here](#).

DETAILS:

Main Provisions:

ASU 2015-04¹ introduces a practical expedient within Topic 715² for measuring defined benefit plan assets and benefit obligations. Under the expedient, if an employer's fiscal year-end does not coincide with a month-end, the employer may measure plan assets and benefit obligations using the month-end that is closest to the employer's fiscal year-end. This is intended to allow for the use of third party reports, such as those issued by a plan's trustee. An employer making the election will be required to apply it consistently from year to year, and to all of its benefit plans, if it has more than one.

Additionally, an employer making the election will be required to adjust the fair value of the plan assets and obligations for any contribution or other significant event caused by the employer³ (e.g., amendment, settlement, or curtailment that calls for a remeasurement in accordance with existing requirements) that occurs between the measurement date and the employer's fiscal year-end.

However, an employer does not need to adjust the fair value of individual classes of assets for a contribution occurring between the measurement date and the employer's fiscal year-end; the employer should simply disclose the amount of the contribution to permit reconciliation of the total fair value of all the classes of plan assets in the fair value hierarchy to the ending balance of

¹ *Practical Expedient for the Measurement Date of an Employer's Defined Benefit Obligation and Plan Assets*

² *Compensation—Retirement Benefits*

³ No adjustment should be made for events the employer did not cause, such as changes in market prices or interest rates.



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the fair value of plan assets. The ASU includes the following example of such a reconciliation:⁴

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

Similarly, the amendments create a practical expedient for interim events. If a significant event occurs during an interim period which calls for a remeasurement of defined benefit plan assets and obligations (e.g., partial settlement), the employer may remeasure defined benefit plan assets and obligations using the month-end that is closest to the date of the significant event. In this situation, the month-end remeasurement should be adjusted for any effects of the significant event that may or may not be captured in the month-end measurement. For example, if the closest month-end is before the date of a partial settlement, then the measurement of plan assets must be adjusted to exclude assets that are no longer part of the plan.

An employer electing to apply the expedient must disclose this fact and the date used to measure defined benefit plan assets and obligations.

Effective Date and Transition:

The amendments are effective for public business entities for fiscal years beginning after December 15, 2015, and interim periods within those fiscal years. The amendments are effective for all other entities for fiscal years beginning after December 15, 2016, and interim periods within fiscal years beginning after December 15, 2017. The amendments must be applied prospectively. Early adoption is permitted.

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