

# FINANCIAL ACCOUNTING SERIES

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## **FASB** ACCOUNTING STANDARDS UPDATE

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No. 2017-07  
March 2017

### Compensation—Retirement Benefits (Topic 715)

Improving the Presentation of Net Periodic Pension  
Cost and Net Periodic Postretirement Benefit Cost

An Amendment of the *FASB Accounting Standards Codification*®

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Financial Accounting Standards Board

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# Accounting Standards Update 2017-07

## Compensation—Retirement Benefits (Topic 715)

### Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost

March 2017

## CONTENTS

	Page Numbers
Summary .....	1–3
Amendments to the <i>FASB Accounting Standards Codification</i> ® .....	5–41
Background Information and Basis for Conclusions .....	42–51
Amendments to the XBRL Taxonomy .....	52



# Summary

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## Why Is the FASB Issuing This Accounting Standards Update (Update)?

The Board is issuing this Update primarily to improve the presentation of net periodic pension cost and net periodic postretirement benefit cost, as discussed below. This Update also includes amendments to the Overview and Background Sections of the *FASB Accounting Standards Codification*<sup>®</sup> (as discussed in Part II of the amendments section) as part of the Board's initiative to unify and improve these sections across Topics and Subtopics.

Under generally accepted accounting principles (GAAP), defined benefit pension cost and postretirement benefit cost (net benefit cost) comprise several components that reflect different aspects of an employer's financial arrangements as well as the cost of benefits provided to employees. Those components are aggregated for reporting in the financial statements. Topic 715, Compensation—Retirement Benefits, does not prescribe where the amount of net benefit cost should be presented in an employer's income statement and does not require entities to disclose by line item the amount of net benefit cost that is included in the income statement or capitalized in assets.

Many stakeholders observed that the presentation of defined benefit cost on a net basis combines elements that are heterogeneous. As such, these stakeholders stated that the current presentation requirement is less transparent, reduces the decision usefulness of the financial information, and requires users to incur greater costs in analyzing financial statements.

To improve the reporting of net benefit cost in the financial statements, the Board added a standard-setting project to provide additional guidance on the presentation of net benefit cost in the income statement and on the components eligible for capitalization in assets.

## Who Is Affected by the Amendments in This Update?

The amendments in this Update apply to all employers, including not-for-profit entities, that offer to their employees defined benefit pension plans, other postretirement benefit plans, or other types of benefits accounted for under Topic 715.

## What Are the Main Provisions?

The amendments in this Update require that an employer report the service cost component in the same line item or items as other compensation costs arising from services rendered by the pertinent employees during the period. The other components of net benefit cost as defined in paragraphs 715-30-35-4 and 715-60-35-9 are required to be presented in the income statement separately from the service cost component and outside a subtotal of income from operations, if one is presented. If a separate line item or items are used to present the other components of net benefit cost, that line item or items must be appropriately described. If a separate line item or items are not used, the line item or items used in the income statement to present the other components of net benefit cost must be disclosed.

The amendments in this Update also allow only the service cost component to be eligible for capitalization when applicable (for example, as a cost of internally manufactured inventory or a self-constructed asset).

## How Do the Main Provisions Differ from Current Generally Accepted Accounting Principles (GAAP) and Why Are They an Improvement?

The amendments in this Update require that an employer disaggregate the service cost component from the other components of net benefit cost. The amendments also provide explicit guidance on how to present the service cost component and the other components of net benefit cost in the income statement and allow only the service cost component of net benefit cost to be eligible for capitalization.

The amendments in this Update improve the consistency, transparency, and usefulness of financial information to users that have communicated that the service cost component generally is analyzed differently from the other components of net benefit cost.

The amendments in this Update are considered an important part of the Board's continuing efforts to improve the accounting related to defined benefit pension or other postretirement benefit plans.

## What Are the Transition Requirements and When Will the Amendments Be Effective?

The amendments in this Update are effective for public business entities for annual periods beginning after December 15, 2017, including interim periods within those



annual periods. For other entities, the amendments in this Update are effective for annual periods beginning after December 15, 2018, and interim periods within annual periods beginning after December 15, 2019. Early adoption is permitted as of the beginning of an annual period for which financial statements (interim or annual) have not been issued or made available for issuance. That is, early adoption should be within the first interim period if an employer issues interim financial statements. Disclosures of the nature of and reason for the change in accounting principle are required in the first interim and annual periods of adoption.

The amendments in this Update should be applied retrospectively for the presentation of the service cost component and the other components of net periodic pension cost and net periodic postretirement benefit cost in the income statement and prospectively, on and after the effective date, for the capitalization of the service cost component of net periodic pension cost and net periodic postretirement benefit in assets. The amendments allow a practical expedient that permits an employer to use the amounts disclosed in its pension and other postretirement benefit plan note for the prior comparative periods as the estimation basis for applying the retrospective presentation requirements. Disclosure that the practical expedient was used is required.



# Amendments to the *FASB Accounting Standards Codification*<sup>®</sup>

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## Introduction

1. The Accounting Standards Codification is amended as described in paragraphs 2–19, which are related to the presentation of net periodic pension cost and net periodic postretirement benefit cost, and in paragraphs 20–24, which are related to the Overview and Background Sections of Topic 715. The amendments in this Update are separated into two parts to provide a clear view of each of the subjects on which the Board is focused. In some cases, to put the change in context, not only are the amended paragraphs shown but also the preceding and following paragraphs. Terms from the Master Glossary are in **bold** type. Added text is underlined, and deleted text is ~~struck out~~.

## Part I—Amendments Related to the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost

### Amendments to Master Glossary

2. Amend the Master Glossary term *Net Periodic Pension Cost*, with a link to transition paragraph 715-20-65-3, as follows:

#### **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 prior service cost or credit, and amortization of the transition asset or obligation existing at the date of initial application of Subtopic 715-30. The term net periodic pension cost is used instead of net pension expense because ~~part of the~~ service cost component recognized in a period may be capitalized ~~along with other costs as~~ part of an asset such as inventory.

### Amendments to Subtopic 715-20

3. Add paragraph 715-20-45-3A, with a link to transition paragraph 715-20-65-3, as follows:

## Compensation—Retirement Benefits—Defined Benefit Plans—General

### Other Presentation Matters

#### > Classification

**715-20-45-3A** An employer shall report in the income statement:

- a. The service cost component of net periodic pension cost and net periodic postretirement benefit cost in the same line item or items as other compensation costs arising from services rendered by the pertinent employees during the period (except for the amount being capitalized, if appropriate, in connection with the production or construction of an asset such as inventory or property, plant, and equipment)
- b. The other components as defined in paragraphs 715-30-35-4 and 715-60-35-9 separately from the service cost component and outside a subtotal of income from operations, if one is presented. If a separate line item or items are used to present the other components, that line item or items shall be described appropriately.

For the purpose of applying the guidance in this paragraph, a gain or loss from a settlement or curtailment or the cost of certain termination benefits accounted for under this Topic shall be reported in the same way as the other components in (b).

4. Amend paragraphs 715-20-50-1(h), 715-20-50-5(q), and 715-20-50-6(a), with a link to transition paragraph 715-20-65-3, as follows:

### Disclosure

#### > Disclosures by Public Entities

**715-20-50-1** An employer that sponsors one or more defined benefit pension plans or one or more defined benefit other 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 shall be disclosed for each period for which a statement of income is presented. Amounts related to the employer's statement of financial position shall be disclosed as of the date of each statement of financial position presented. All of the following shall be disclosed:

- h. The amount of net benefit cost recognized, showing separately all of the following:

1. The service cost component
2. The interest cost component
3. The expected return on plan assets for the period
4. The gain or loss component
5. The prior service cost or credit component
6. The transition asset or obligation component
7. The gain or loss recognized due to settlements or curtailments.

The line item(s) used in the income statement to present the components other than the service cost component shall be disclosed if the other components are not presented in a separate line item or items in the income statement.

### > Disclosures by Nonpublic Entities

**715-20-50-5** A **nonpublic entity** is not required to disclose the information required by paragraphs 715-20-50-1(a) through (c), 715-20-50-1(h), 715-20-50-1(m), and 715-20-50-1(o) through (r). A nonpublic entity that sponsors one or more defined benefit pension plans or one or more other defined benefit postretirement plans shall provide all of the following information, separately for pension plans and other postretirement benefit plans. Amounts related to the employer's results of operations shall be disclosed for each period for which a statement of income is presented. Amounts related to the employer's statement of financial position shall be disclosed as of the date of each statement of financial position presented.

- q. The amount of net periodic benefit cost recognized. In addition, if the components other than the service cost component are not presented in a separate line item or items in the income statement, the amount of the other components and the line item(s) used in the income statement to present them shall be disclosed.

### > Interim Disclosure Requirements for Publicly Traded Entities

**715-20-50-6** A **publicly traded entity** shall disclose the following information for its interim financial statements that include a statement of income:

- a. The amount of net benefit cost recognized, for each period for which a statement of income is presented, showing separately each of the following:
  1. The service cost component
  2. The interest cost component
  3. The expected return on plan assets for the period
  4. The gain or loss component
  5. The prior service cost or credit component
  6. The transition asset or obligation component
  7. The gain or loss recognized due to a settlement or curtailment.

The line item(s) used in the income statement to present the components other than the service cost component shall be disclosed if the other components are not presented in a separate line item or items in the income statement.

5. Amend paragraphs 715-20-55-13 and 715-20-55-17 through 55-18, with a link to transition paragraph 715-20-65-3, as follows:

## Implementation Guidance and Illustrations

### > Implementation Guidance

#### >> Application of the Recognition Provisions

**715-20-55-13** For the year ending December 31, 2007, Entity A makes the following journal entries in applying the recognition provisions of Section 715-30-25:

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

Net periodic pension cost— <u>transition obligation</u>	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 the preceding paragraph).

Net periodic pension cost— <u>prior service cost</u>	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 the preceding paragraph). The service cost should be recognized separately, and the interest cost and expected return on plan assets may be recognized together or separately.

Net periodic pension cost— <u>service cost</u>	135	<u>120</u>
<u>Net periodic pension cost—interest cost</u>	<u>95</u>	
Deferred tax asset	54	
<u>Net periodic pension cost—expected return on plan assets</u>		<u>80</u>
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 715-20-55-6).

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

## > Illustrations

### > > Example 1: Disclosures about Defined Benefit Pension and Other Postretirement Benefit Plans in the Annual Financial Statements of a Publicly Traded Entity

**715-20-55-17** During 20X3, Entity A acquired FV Industries and amended its plans. Entity A would make the following disclosure.

#### Notes to Financial Statements

##### Pension and Other Postretirement Benefit Plans

[Note: Only the portion of this paragraph that is relevant to the amendment is shown here.]

**Components of Net Periodic Benefit Cost and Other Amounts Recognized in Other Comprehensive Income**

Net Periodic Benefit Cost	Pension Benefits		Other Benefits	
	20X3	20X2	20X3	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	-	-	-	-
Net periodic benefit cost	<u>\$ 101</u>	<u>\$ 100</u>	<u>\$ 69</u>	<u>\$ 74</u>
<b>Other Changes in Plan Assets and Benefit Obligations Recognized in Other Comprehensive Income</b>				
Net loss (gain)	\$ 76	\$ (112)	\$ 37	\$ (16)
Prior service cost (credit)	70	-	(75)	-
Amortization of prior service cost	(20)	(16)	5	5
Total recognized in other comprehensive income	<u>126</u>	<u>(128)</u>	<u>(33)</u>	<u>(11)</u>
Total recognized in net periodic benefit cost and other comprehensive income	<u>\$ 227</u>	<u>\$ (28)</u>	<u>\$ 36</u>	<u>\$ 63</u>

The components of net periodic benefit cost other than the service cost component are included in the line item "other income/(expense)" in the income statement.

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.]

**>> Example 2: Interim-Period Disclosures of a Publicly Traded Entity**

**715-20-55-18** This Example illustrates the disclosures of a publicly traded entity for the first fiscal quarter beginning after December 15, 20X3.

**Components of Net Periodic Benefit Cost**



**Three months ended March 31**

	<b>Pension Benefits</b>		<b>Other Benefits</b>	
	<b>20X4</b>	<b>20X3</b>	<b>20X4</b>	<b>20X3</b>
Service cost	\$ 35	\$ 19	\$ 16	\$ 9
Interest cost	38	23	23	14
Expected return on plan assets	(41)	(21)	(6)	(4)
Amortization of prior service cost	7	5	(3)	(1)
Amortization of net (gain) loss	2	-	-	-
Net periodic benefit cost	<u>\$ 41</u>	<u>\$ 26</u>	<u>\$ 30</u>	<u>\$ 18</u>

The components of net periodic benefit cost other than the service cost component are included in the line item "other income/(expense)" in the income statement.

**Employer Contributions**

Entity A previously disclosed in its financial statements for the year ended December 31, 20X3, that it expected to contribute \$125 million to its pension plan in 20X4. As of March 31, 20X4, \$20 million of contributions have been made. Entity A presently anticipates contributing an additional \$120 million to fund its pension plan in 20X4 for a total of \$140 million.

6. Add paragraph 715-20-65-3 and its related heading as follows:

**> Transition Related to Accounting Standards Update No. 2017-07, Compensation—Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost**

**715-20-65-3** The following represents the transition and effective date information related to Accounting Standards Update No. 2017-07, *Compensation—Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost*:

- a. The pending content that links to this paragraph shall be effective as follows:
  1. For public business entities, for annual periods beginning after December 15, 2017, including interim periods within those annual periods
  2. For all other entities, for annual periods beginning after December 15, 2018, and interim periods within annual periods beginning after December 15, 2019.
- b. An entity shall apply the pending content that links to this paragraph as follows:

1. Retrospectively for the presentation in the income statement of the service cost component and the other components of net periodic pension cost and net periodic postretirement benefit cost
2. Prospectively, on and after the effective date, for the capitalization in assets of the service cost component of net periodic pension cost and net periodic postretirement benefit cost.
- c. As a practical expedient, an entity may use the amounts disclosed in its pension and other postretirement benefit plan note for the prior comparative periods as the estimation basis for applying the retrospective presentation requirements. If an entity elects to use the practical expedient, the entity shall disclose that the practical expedient was used.
- d. Early adoption of the pending content that links to this paragraph is permitted as of the beginning of an annual period for which financial statements (interim or annual) have not been issued or have not been made available for issuance. That is, early adoption of the pending content that links to this paragraph shall be within the first interim period if an entity issues interim financial statements.
- e. An entity shall disclose the nature of and reason for the change in accounting principle in the first interim and annual periods in which the entity adopts the pending content that links to this paragraph.

## Amendments to Subtopic 715-30

7. Add paragraph 715-30-35-7A, with a link to transition paragraph 715-20-65-3, as follows:

### **Compensation—Retirement Benefits—Defined Benefit Plans—Pension**

#### **Subsequent Measurement**

##### **> > Service Cost**

**715-30-35-7A** The service cost component shall be the only component of net periodic pension cost eligible to be capitalized as part of the cost of inventory or other assets.

8. Amend paragraph 715-30-60-2, with a link to transition paragraph 715-20-65-3, as follows:

#### **Relationships**

##### **> Inventory**

**715-30-60-2** For guidance on the capitalization of the service cost component of net periodic pension cost or net periodic pension income as part of the cost of inventory or other assets, see Subtopic 330-10.

## Amendments to Subtopic 715-60

9. Add paragraph 715-60-35-10A, with a link to transition paragraph 715-20-65-3, as follows:

### **Compensation—Retirement Benefits—Defined Benefit Plans—Other Postretirement**

#### **Subsequent Measurement**

##### **>> Service Cost**

**715-60-35-10A** The service cost component shall be the only component of net periodic postretirement benefit cost eligible to be capitalized as part of the cost of inventory or other assets.

10. Amend paragraphs 715-60-55-86, 715-60-55-89, and 715-60-55-92, with a link to transition paragraph 715-20-65-3, as follows:

### **Implementation Guidance and Illustrations**

#### **> Illustrations**

##### **>> Example 3: Accounting for Gains and Losses and Timing of Measurements**

##### **>>> Case A: Loss on Obligation**

**715-60-55-86** In addition to disclosures regarding changes in plan assets and benefit obligations required by paragraph 715-20-50-1(a) through 1(b), the 20X3 financial statements include the following disclosure of the components of net periodic postretirement benefit cost (as required by paragraph 715-20-50-1(h)).

Service cost	\$ 300,000
Interest cost	570,000
Amortization of transition obligation	<u>300,000</u>
Net periodic postretirement benefit cost	<u><u>\$ 1,170,000</u></u>

The components of net periodic postretirement benefit cost other than the service cost component are included in the line item “other income/(expense)” in the income statement.

**> > > Case B: Gains on Assets**

**715-60-55-89** The 20X4 financial statements include the following disclosure of the components of net periodic postretirement benefit cost.

Service cost	\$ 320,000
Interest cost	630,000
Expected return on plan assets	(87,000)
Amortization of transition obligation	300,000
Amortization of net actuarial loss	5,000
Net periodic postretirement benefit cost	<u>\$ 1,168,000</u>

The components of net periodic postretirement benefit cost other than the service cost component are included in the line item “other income/(expense)” in the income statement.

**> > > Case C: Loss on Assets and Gain on Obligation**

**715-60-55-92** The 20X5 financial statements include the following disclosure of the components of net periodic postretirement benefit cost.

Service cost	\$ 360,000
Interest cost	652,500
Expected return on plan assets	(193,700)
Amortization of transition obligation	300,000
Net periodic postretirement benefit cost	<u>\$ 1,118,800</u>

The components of net periodic postretirement benefit cost other than the service cost component are included in the line item “other income/(expense)” in the income statement.

## Amendments to Subtopic 220-10

11. Amend paragraph 220-10-45-17A, with a link to transition paragraph 715-20-65-3, as follows:

## Comprehensive Income—Overall

### Other Presentation Matters

#### > Reclassification Adjustments

**220-10-45-17A** If an entity chooses to present information about the effects of significant amounts reclassified out of accumulated other comprehensive income on net income, on the face of the statement where net income is presented, the entity shall present parenthetically by component of other comprehensive income the effect of significant reclassification amounts on the respective line items of net income. An entity also shall present parenthetically the aggregate tax effect of all significant reclassifications on the line item for income tax benefit or expense in the statement where net income is presented. However, if an entity chooses to use a separate line item or items in the income statement to present significant pension cost components or other postretirement benefit cost components reclassified out of accumulated other comprehensive income, it shall no longer be required to present those pension cost components or other postretirement benefit cost components parenthetically. If an entity is unable to identify the line item of net income affected by any significant amount reclassified out of accumulated other comprehensive income in a reporting period (including when all reclassifications for the period are not to net income in their entirety), the entity must follow the guidance in ~~the following~~ paragraph 220-10-45-17B. Paragraph 220-10-55-17F provides an example of presentation of the effect of reclassification on the face of the statement where net income is presented.

12. Amend paragraphs 220-10-55-17B and 220-10-55-17E, with a link to transition paragraph 715-20-65-3, as follows:

### Implementation Guidance and Illustrations

#### > Illustrations

##### > > Example 2: Presenting Accumulated Other Comprehensive Income

##### > > > Disclosure of Amounts Reclassified Out of Accumulated Other Comprehensive Income

~~**220-10-55-17B** Topic 715 does not require an entity to reclassify the amortization of defined benefit pension and other employee benefit cost components from accumulated other comprehensive income directly to net income in their entirety. Rather, it requires an entity to reclassify those amortized costs in their entirety to net periodic pension cost. Some portion of net periodic pension cost is immediately reported in net income, but other portions may be capitalized to an asset balance such as fixed assets or inventory. An entity with significant defined benefit pension~~

costs reclassified out of accumulated other comprehensive income but not to net income in its entirety in the same reporting period should identify the amount of each pension cost component reclassified out of accumulated other comprehensive income and make reference to the relevant pension cost disclosure that provides greater detail about these reclassifications.

**220-10-55-17E** The following illustrates a disclosure in a tabular format of significant amounts reclassified out of each component of accumulated other comprehensive income, as required by paragraph 220-10-45-17B. The amounts used in this Example correspond to those in the Example in paragraph 220-10-55-15.

Entity XYZ Notes to Financial Statements		
Reclassifications Out of Accumulated Other Comprehensive Income <sup>(a)</sup> For the Period Ended December 31, 201X		
<u>Details about Accumulated Other Comprehensive Income Components</u>	<u>Amount Reclassified from Accumulated Other Comprehensive Income</u>	<u>Affected Line Item in the Statement Where Net Income Is Presented</u>
Gains and losses on cash flow hedges		
Interest rate contracts	\$ 1,000	Interest income/(expense)
Credit derivatives	(500)	Other income/(expense)
Foreign exchange contracts	2,500	Sales/revenue
Commodity contracts	<u>(2,000)</u>	Cost of sales
	1,000	Total before tax
	<u>(250)</u>	Tax (expense) or benefit
	<u>\$ 750</u>	Net of tax
Unrealized gains and losses on available-for-sale debt securities		
	\$ 2,300	Realized gain/(loss) on sale of securities
	(285)	Impairment expense
Insignificant items	<u>(15)</u>	
	2,000	Total before tax
	<u>(500)</u>	Tax (expense) or benefit
	<u>\$ 1,500</u>	Net of tax
Amortization of defined benefit pension items		
Prior-service costs	\$ (2,000) <sup>(b)</sup>	<u>Other income/(expense)</u>
Transition obligation	(2,500) <sup>(b)</sup>	<u>Other income/(expense)</u>
Actuarial gains/(losses)	<u>(1,500) <sup>(b)</sup></u>	<u>Other income/(expense)</u>
	(6,000)	Total before tax
	1,500	Tax (expense) or benefit
	<u>\$ (4,500)</u>	Net of tax
Total reclassifications for the period	<u>\$ (2,250)</u>	Net of tax

(a) Amounts in parentheses indicate debits to profit/loss.

(b) These accumulated other comprehensive income components are ~~included in the computation~~ components of net periodic pension cost (see pension note for additional details).

## Amendments to Subtopic 330-10

13. Amend the heading preceding paragraph 330-10-55-5, supersede paragraphs 330-10-55-5 through 55-7 and their related headings, and add paragraph 330-10-55-6A, with a link to transition paragraph 715-20-65-3, as follows:

### Inventory—Overall

#### Implementation Guidance and Illustrations

##### > Implementation Guidance

>> **Capitalizing into Inventory the Service Cost Component of Pension and Other Postretirement Benefit Costs~~Cost into Inventory~~**

>>> **Interest Cost Component**

~~**330-10-55-5** Paragraph superseded by Accounting Standards Update No. 2017-07. A fundamental aspect of Sections 715-30-35 and 715-60-35 is to combine or aggregate the various pension and other postretirement cost components, including service cost, interest cost, expected return on plan assets, and amortization of all of the following items recognized in accumulated other comprehensive income:~~

- ~~a. Net transition asset or obligation~~
- ~~b. Prior service cost or credit~~
- ~~c. Net gain or loss.~~

~~**330-10-55-6** Paragraph superseded by Accounting Standards Update No. 2017-07. In the aggregate, net periodic pension and other postretirement cost is viewed as an element of employee compensation. Therefore, when it is appropriate to capitalize employee compensation in connection with the construction or production of an asset, the net periodic pension and other postretirement cost applicable to the pertinent employees for the period (including interest cost), not individual components of that amount, is the relevant amount.~~

**330-10-55-6A** The service cost component of net periodic pension cost and net periodic postretirement benefit cost is the only component directly arising from employees' services provided in the current period. Therefore, when it is appropriate to capitalize employee compensation in connection with the construction or production of an asset, the service cost component applicable to the pertinent employees for the period is the relevant amount to be considered for capitalization.

## >>> **Net Periodic Pension Income**

330-10-55-7 Paragraph superseded by Accounting Standards Update No. 2017-07. If an entity's cost allocation process capitalizes net periodic pension cost as part of the cost of inventory or other assets, net periodic pension income also shall be capitalized, thereby reducing the total employee compensation and other costs being capitalized.

## Amendments to Subtopic 958-225

14. Amend paragraph 958-225-45-11, with a link to transition paragraph 715-20-65-3, as follows:

### **Not-for-Profit Entities—Income Statement**

#### **Other Presentation Matters**

##### **> Measure of Operations**

**958-225-45-11** Some limitations on an NFP's use of an intermediate measure of operations are imposed by other Subtopics. If a subtotal such as income from operations is presented, it shall include the following amounts:

- a. An impairment loss recognized for a long-lived asset (asset group) to be held and used, pursuant to paragraph 360-10-45-4
- b. Costs associated with an exit or disposal activity that does not involve a discontinued operation, pursuant to paragraph 420-10-45-3
- c. A gain or loss recognized on the sale of a long-lived asset (**disposal group**) that is not a component of an entity that qualifies for discontinued operations treatment, as defined in Subtopic 205-20, and pursuant to paragraph 360-10-45-5.

In addition, the subtotal such as income from operations shall exclude the components of net periodic pension cost and net periodic postretirement benefit cost other than the service cost component, pursuant to paragraph 958-715-45-3.

## Amendments to Subtopic 958-715

15. Amend paragraphs 958-715-45-1 through 45-2 and add paragraph 958-715-45-3, with a link to transition paragraph 715-20-65-3, as follows:

### **Not-for-Profit Entities—Compensation—Retirement Benefits**



## Other Presentation Matters

**958-715-45-1** A **not-for-profit entity** (NFP) shall recognize as a separate line item or items, outside an intermediate measure of operations, if one is presented, or a performance indicator as required by paragraph 954-225-45-4 for NFP business-oriented health care entities, within changes in net assets without donor restrictions, apart from expenses, the ~~gains or losses and~~ net gain or loss, the prior service costs or credits, and the transition asset or obligation that would be recognized in other comprehensive income pursuant to the following Sections:

- a. Section 715-30-35
- b. Section 715-60-35.

~~Consistent with paragraphs 958-225-45-9 through 45-12, this Subtopic 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.~~

**958-715-45-2** An NFP shall reclassify a portion of the net gain or ~~loss and~~ loss, the prior service costs or credits, and the transition asset or obligation previously recognized in accordance with paragraph 958-715-45-1 in a separate line item or items and a portion of the transition asset or obligation remaining from the initial application of Topic 715 as follows:

- a. To net periodic pension cost, pursuant to the recognition and amortization provisions of paragraphs 715-30-35-3 through 35-28
- b. To net ~~period~~periodic postretirement benefit cost, pursuant to the recognition and amortization provisions of paragraphs 715-60-35-7 through 35-40.

The contra adjustment or adjustments to the initially recognized net gain or loss, the prior service costs or credits, and the transition asset or obligation shall be reported in the same line item or items, outside an intermediate measure of operations, if one is presented, or a performance indicator as required by paragraph 954-225-45-4 for NFP business-oriented health care entities, within changes in net assets without donor restrictions, apart from expenses, as the initially recognized amounts as identified in paragraph 958-715-45-1. ~~Net periodic postretirement benefit cost and net periodic pension cost shall be reported by functional expense classification pursuant to paragraph 958-720-45-2.~~

**958-715-45-3** An NFP shall report in the statement of activities:

- a. The service cost component of net periodic pension cost and net periodic postretirement benefit cost in the same line item(s) as other compensation costs arising from services rendered by the pertinent employees during the period (except for the amount being capitalized, if appropriate, in connection with production or construction of an asset)

- b. The other components as defined in paragraphs 715-30-35-4 and 715-60-35-9 separately from the service cost component and outside an intermediate measure of operations, if one is presented, within changes in net assets without donor restrictions. If a separate line item or items are used to present the other components, that line item or items shall be appropriately described and different from the separate line item or items used to present the net gain or loss, the prior service costs or credits, and the transition asset or obligation that would be recognized in other comprehensive income in accordance with Sections 715-30-35 and 715-60-35.

The service cost component and the other components of net periodic pension cost and net periodic postretirement benefit cost shall be reported by **functional expense classification** in accordance with paragraphs 958-720-45-2 and 958-720-45-15.

16. Amend paragraphs 958-715-55-4 and 958-715-55-6 through 55-7 and supersede paragraph 958-715-55-8, with a link to transition paragraph 715-20-65-3, as follows:

## Implementation Guidance and Illustrations

### > Illustrations

#### >> Example 1: Reporting Net Periodic Pension Cost and Changes in a Plan's Funded Status

**958-715-55-4** Not-for-Profit Entity A's (NFP A's) actuary prepares a 12-month projection of net periodic pension cost for July 1, 20X7, to June 30, 20X8. The funded status of NFP A's defined benefit pension plan as of June 30, 20X7, and June 30, 20X8, and amounts to be recognized as components of net periodic pension cost are shown in ~~the following~~ paragraph 958-715-55-5. 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, 20X7, to June 30, 20X8. Assumptions about benefit payments and **contributions** made by NFP A have not been included in this Example. During the fiscal year ending June 30, 20X8, NFP A does the following:

- a. Recognizes the additional net loss as a change in **net assets without donor restrictions** 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 within the appropriate functional expense categories for 20X8, with the service cost component reported within the appropriate functional expense categories as part of the intermediate measure of operations (for example, increase in net assets from operating activities) and the other components reported in a separate line item, outside the intermediate measure of operations presented by NFP A, within changes in net assets without donor restrictions.

**958-715-55-6** For the year ending June 30, 20X8, NFP A 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 as follows:

- a. Recognize the additional loss in net assets without donor restrictions.

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— <u>transition obligation</u> (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— <u>prior service cost</u> (functionalized)	100	
Prior service cost not yet recognized in net periodic pension cost		100

- d. Recognize service cost separately and, interest cost, recognize the interest cost and the expected return on plan assets together in net periodic pension cost.

Net periodic pension cost— <u>service cost</u> (functionalized)	405 <sup>(a)</sup> 110	
Net periodic pension cost— <u>interest cost and expected return on plan assets</u> (functionalized)		5 <sup>(b)</sup>
Liability for pension benefits		105

(a) ~~Footnote superseded. Equals \$110 service cost + \$120 interest cost – \$125 expected return on plan assets.~~

(b) Equals \$120 interest cost – \$125 expected return on plan assets.

~~In its statement of activities, NFP A chooses to present~~ presents the service cost component by appropriate functional expense categories within the intermediate measure of operations (for example, increase in net assets from operating activities), within changes in net assets without donor restrictions, and presents the other components (encompassing the interest cost, the expected return on plan assets, and the amortizations of the transition obligation and prior service cost) in a separate line item (different from the separate line item discussed below for the items not yet recognized as components of net periodic pension cost) outside the intermediate measure of operations, within changes in net assets without donor restrictions. NFP A presents in ~~a one combined~~ separate line item, outside the intermediate measure of operations, within changes in net assets without donor restrictions, ~~the items~~ (encompassing the net loss arising during the year and the ~~amortizations of~~ changes in the transition obligation and prior service cost) not yet recognized as components of net periodic pension cost ~~apart from expenses~~. NFP A would disclose the components of that combined line item in the notes to financial statements, pursuant to paragraph 958-715-50-1(i); in the notes to financial statements, the information required by paragraph 958-715-50-1. NFP A also would disclose, in the notes to financial statements, an analysis of all expenses (including the service cost component and the other components of net periodic pension cost) by their nature and function in accordance with paragraphs 958-720-45-2 and 958-720-45-15.

**958-715-55-7** The following statement of activities reflects how NFP A presents the service cost component and the other components of net periodic pension cost and the items not yet recognized as components of net periodic pension cost in its statement of activities, which presents ~~an~~ the presentation of the combined line item if NFP A chooses to present it outside its intermediate measure of operations.

**Not-for-Profit Entity A**  
**Statement of Activities**  
**Year Ended June 30, 20X8**  
**(in thousands)**

	Without Donor Restrictions	With Donor Restrictions	Total
<b>Operating:</b>			
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 return appropriated by the governing board for operations	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)	-
Total revenues, gains, and other support	<u>109,500</u>	<u>7,200</u>	<u>116,700</u>
<b>Expenses:</b>			
Program services:			
Research and medical support	<u>58,000</u>	<u>59,000</u>	<u>58,000</u>
Public education	<u>9,000</u>	<u>9,500</u>	<u>9,500</u>
Community service	<u>15,000</u>	<u>15,500</u>	<u>15,500</u>
Total program services	<u>82,000</u>	<u>84,000</u>	<u>84,000</u>
Supporting services:			
Fund raising	15,000		15,000
Management and general	9,000		9,000
Total supporting services	<u>24,000</u>		<u>24,000</u>
Total expenses	<u>106,000</u>	<u>108,000</u>	<u>108,000</u>
Increase in net assets from operating activities	<u>3,500</u>	<u>1,500</u>	<u>7,200</u>
<b>Nonoperating:</b>			
Investment return, net	13,000	1,100	14,100
Investment return appropriated by the governing board for operations	(11,500)	(1,000)	(12,500)
Contributions for endowment funds		15,000	15,000
Other components of net periodic pension cost	(135) <sup>(b)</sup>		(135)
Pension-related changes other than net periodic pension cost	90 <sup>(a)</sup>		90
Increase in net assets	<u>6,090</u>	<u>2,955</u>	<u>27,390</u>
Net assets, beginning of year	147,110	78,800	225,910
Net assets, end of year	<u>\$ 152,200</u>	<u>\$ 101,100</u>	<u>\$ 251,165</u>

(a) Equals \$40 amortization of transition obligation + \$100 amortization of prior service cost - \$50 net loss. Changes in the pension-related items not yet recognized in net periodic cost were due to \$40 amortization of transition obligation, \$100 amortization of prior service cost, and \$50 net loss.

(b) Equals \$40 amortization of transition obligation + \$100 amortization of prior service cost + \$120 interest cost - \$125 expected return on plan assets.

**958-715-55-8 Paragraph superseded by Accounting Standards Update No. 2017-07. The following statement of activities reflects the presentation of the combined separate line item if, alternatively, NFP A chooses to present it within its intermediate measure of operations. This alternative would not be available to NFP A if it were within the scope of Topic 954, and presented a performance indicator pursuant to the provisions of paragraphs 954-225-45-4 through 45-7.**

**Not-for-Profit Entity A**  
**Statement of Activities**  
**Year Ended June 30, 20X8**  
(in thousands)

	Without- Donor- Restrictions	With Donor- Restrictions	Total
<b>Operating:</b>			
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 return appropriated by the governing board for operations	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)	—
Total revenues, gains, and other support	<u>109,500</u>	<u>7,200</u>	<u>116,700</u>
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	<u>82,000</u>	<u>—</u>	<u>82,000</u>
Supporting services:			
Fund raising	15,000	—	15,000
Management and general	9,000	—	9,000
Total supporting services	<u>24,000</u>	<u>—</u>	<u>24,000</u>
Total expenses	<u>106,000</u>	<u>—</u>	<u>106,000</u>
Pension-related changes other than net periodic pension cost	90 <sup>(a)</sup>	—	90
Increase in net assets from operating activities	<u>3,590</u>	<u>7,200</u>	<u>10,610</u>
Nonoperating:			
Investment return, net	13,000	1,100	14,100
Investment return appropriated by the governing board for operations	(11,500)	(1,000)	(12,500)
Contributions for endowment funds	—	15,000	15,000
Increase in net assets	<u>5,090</u>	<u>22,300</u>	<u>27,390</u>
Net assets, beginning of year	<u>147,110</u>	<u>78,800</u>	<u>225,910</u>
Net assets, end of year	<u>\$ 152,200</u>	<u>\$ 101,100</u>	<u>\$ 253,300</u>

(a) Equals \$40 amortization of transition obligation + \$100 amortization of prior service cost - \$50 net loss.

## Amendments to Subtopic 980-715

17. Amend paragraph 980-715-15-1, with a link to transition paragraph 715-20-65-3, as follows:

## Regulated Operations—Compensation—Retirement Benefits

### Scope and Scope Exceptions

#### > Overall Guidance

**980-715-15-1** This Subtopic follows the same Scope and Scope Exceptions as outlined in the Overall Subtopic, see Section 980-10-15. Accordingly, the guidance related to the accounting for regulatory assets related to other postretirement benefit costs (see Subtopic 715-60) is for rate-regulated entities that meet the criteria for applying this Topic. In addition, the provisions of paragraphs 715-30-35-7A and 715-60-35-10A shall not change the accounting for regulatory assets related to postretirement pension cost and other postretirement benefit cost for rate-regulated entities.

18. Add Section 980-715-45, with a link to transition paragraph 715-20-65-3, as follows:

### Other Presentation Matters

#### General

**980-715-45-1** A rate-regulated entity shall present the amount of net periodic pension cost and net periodic postretirement benefit cost in accordance with the provisions of paragraph 715-20-45-3A.

19. Amend paragraphs 980-715-55-10 and 980-715-55-25, with a link to transition paragraph 715-20-65-3, as follows:

### Implementation Guidance and Illustrations

#### > Illustrations

##### > > Example 1: Accounting for Pensions by an Employer with Regulated Operations

**980-715-55-10** An employer with regulated operations sponsors a defined benefit pension plan that is accounted for pursuant to Subtopic 715-30. To simplify the Example, it is assumed that there are no remaining differences between amounts previously recognized as net periodic pension cost and amounts allowable for rate-making purposes. The employer's determination of net periodic pension cost under that Subtopic, however, differs from that allowable for rate-making purposes in the timing of recognition of net periodic pension cost as an expense. The following schedule shows the amounts under both bases for the years 20X0–20X3.

Year	Net Periodic Pension Cost under Subtopic 715-30	Allowable for Rate- Making	Difference for the Period	Cumulative Difference
20X0	\$ 120	\$ 200	\$ (80)	\$ (80)
20X1	200	100	100	20
20X2	170	140	30	50
20X3	120	200	(80)	(30)

**980-715-55-25** The following illustrates the disclosure of the components of net periodic pension cost for 20X0–20X3. It is assumed that there is no transition asset or obligation remaining in accumulated other comprehensive income and there are no gains or losses for the four-year period.

	20X0	20X1	20X2	20X3
Service cost <sup>(a)</sup>	\$ XXX	\$ XXX	\$ XXX	\$ XXX
Interest cost <sup>(a) (b)</sup>	XXX	XXX	XXX	XXX
Expected return on plan assets <sup>(a) (b)</sup>	(XXX)	(XXX)	(XXX)	(XXX)
Net amortization and deferral <sup>(b)</sup>	-	-	-	-
Net periodic pension cost determined under Subtopic 715-20 <u>715-30</u>	120	200	170	120
Amount (capitalized) expensed due to actions of the regulator		(20)	(30)	50
Net periodic pension cost recognized	<u>\$ 120</u>	<u>\$ 180</u>	<u>\$ 140</u>	<u>\$ 170</u>

(a) Amounts are excluded for illustrative purposes only.

(b) The components of net periodic pension cost other than the service cost component are included in the line item "other income/(expense)" in the income statement.



## Part II—Amendments Related to the Overview and Background Sections of Topic 715

20. As part of the Board's ongoing initiative to unify and improve the Overview and Background Sections across Topics and Subtopics, the amendments in this Update include the amendments to the Overview and Background Sections of Subtopics 715-10, 715-20, 715-30, and 715-60, which are related to defined benefit plans. These amendments are considered to be nonsubstantial changes and are not expected to affect the related guidance in those Subtopics.

### Amendments to Subtopic 715-10

21. Amend paragraph 715-10-05-2 and supersede paragraphs 715-10-05-4, 715-10-05-8, and 715-10-05-10, with no link to a transition paragraph, as follows:

#### **Compensation—Retirement Benefits—Overall**

##### **Overview and Background**

**715-10-05-1** The Compensation—Retirement Benefits Topic establishes standards of financial accounting and reporting for an employer that offers pension, other postretirement, and certain special or contractual termination benefits to its employees.

**715-10-05-2** This Topic contains the following Subtopics:

- a. Overall (Subtopic 715-10)
- b. Defined Benefit Plans—General (Subtopic 715-20)
- c. Defined Benefit Plans—Pension (Subtopic 715-30)
- cc. Defined Benefit Plans—Other Postretirement (Subtopic 715-60)
- d. Defined Contribution Plans (Subtopic 715-70)
- e. Multiemployer Plans (Subtopic 715-80)
- f. Subparagraph superseded by Accounting Standards Update No. 2017-07, Defined Benefit Plans—Other Postretirement.

**715-10-05-3** Throughout the Codification, content is structured and authored using an asset and liability model as its underlying premise. However, the original content used to populate this Topic was based on an expense recognition model rather than an asset and liability model. Because the expense recognition model focuses primarily on remeasurement, the majority of the guidance throughout this Topic is contained in the Subsequent Measurement Sections of the applicable Subtopics.

**715-10-05-4** Paragraph superseded by Accounting Standards Update No. 2017-07, Subtopic 715-20 provides disclosure and other presentation guidance related

~~to defined benefit pension and other postretirement benefit plans. The disclosure requirements for multiemployer and defined contribution plans are contained within each of those respective Subtopics.~~

**715-10-05-5** Paragraph not used.

**715-10-05-6** The guidance in this Topic is derived from the basic idea that a benefit plan is an exchange between the employer and the employee. In exchange for services provided by the employee, the employer promises to provide, in addition to current wages and other benefits, an amount of retirement income or benefit. It follows from that basic view that benefits are not gratuities but instead are part of an employee's compensation, and because payment is deferred, the benefit plan is a type of deferred compensation. It also follows that the employer's obligation for that compensation is incurred when the services are rendered.

**715-10-05-7** A benefit plan is an arrangement that is mutually understood by an employer and its employees, whereby an employer undertakes to provide its current and former employees with benefits after they retire in exchange for the employees' services over a specified period of time, upon attaining a specified age while in service, or both. Benefits may commence immediately upon termination of service or may be deferred until retired employees attain a specified age.

~~**715-10-05-8** Paragraph superseded by Accounting Standards Update No. 2017-07. As discussed in Subtopic 715-30, pension benefits are ordinarily in the form of periodic payments to retired employees or their survivors, but they may also include benefits payable as a single lump sum and other types of benefits such as death benefits provided through a pension plan. As discussed in Subtopic 715-60, other postretirement benefits are ordinarily in the form of a reimbursement to plan participants or direct payment to providers for the cost of specified services, but they may also include benefits payable as a lump sum, such as death benefits.~~

**715-10-05-9** Because the obligation to provide benefits arises as employees render the services necessary to earn the benefits pursuant to the terms of the plan, this Topic provides guidance regarding when the cost of providing the benefits should be recognized over those employee service periods.

~~**715-10-05-10** Paragraph superseded by Accounting Standards Update No. 2017-07. This Topic uses the term *net periodic pension cost* rather than *net periodic pension expense* and *net periodic postretirement benefit cost* rather than *net periodic postretirement benefit 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.~~

## Amendments to Subtopic 715-20

22. Amend paragraphs 715-20-05-1 through 05-3, with no link to a transition paragraph, as follows:

## Compensation—Retirement Benefits—Defined Benefit Plans—General

### Overview and Background

**715-20-05-1** This Subtopic provides guidance on the disclosure and other accounting and reporting requirements related to single-employer defined benefit pension and other postretirement benefit plans. ~~The following Subtopics provide additional accounting and reporting guidance:~~

- a. ~~Subparagraph superseded by Accounting Standards Update No. 2017-07. Subtopic 715-30 provides guidance related to single-employer defined benefit pension plans.~~
- b. ~~Subparagraph superseded by Accounting Standards Update No. 2017-07. Subtopic 715-60 provides guidance related to single-employer defined benefit other postretirement benefit plans.~~

**715-20-05-2** This Subtopic addresses:

- a. The content and organization of annual disclosures about defined benefit pension plans and other postretirement benefits
- b. Disclosures required for interim-period financial reports.
- c. Presentation matters about defined benefit pension and other postretirement benefit plans.

**715-20-05-3** An employer that sponsors one or more defined benefit pension or other postretirement benefit plans ~~shall~~ is required to provide the information called for in Section 715-20-50 separately for pension plans and other postretirement benefit plans.

### Amendments to Subtopic 715-30

23. Amend paragraphs 715-30-05-2, 715-30-05-4 (and supersede its related heading), 715-30-05-6, and 715-30-05-9 and supersede paragraphs 715-30-05-5, 715-30-05-7 through 05-8, and 715-30-05-10 through 05-11, with no link to a transition paragraph, as follows:

## Compensation—Retirement Benefits—Defined Benefit Plans—Pension

### Overview and Background

#### General

**715-30-05-1** This Subtopic provides guidance on defined benefit pension accounting for an employer that offers **pension benefits** to its employees. This Subtopic focuses on an employer's accounting for a single-employer **defined benefit pension plan**.

**715-30-05-2** Many of the provisions in this Subtopic are the same as or are similar to the provisions of Subtopic 715-60. Consequently, the guidance provided in that Subtopic may be useful in understanding and implementing many of the provisions of this Subtopic. However, there are differences between the specific requirements of the two Subtopics, and therefore the specific guidance in one Subtopic shall not be used to override guidance of the other.

**715-30-05-3** The guidance in this Subtopic is presented in the following two Subsections:

- a. General
- b. Settlements, Curtailments, and Certain Termination **Benefits**.

#### **> ~~Defined Benefit Pension Plans~~**

**715-30-05-4** The General Subsections address the fundamentals of defined benefit pension accounting. A pension benefit is part of the compensation paid to an employee for services. ~~In a defined benefit pension plan, the employer promises to provide, in addition to current wages, retirement income payments in future years after the employee retires or terminates service.~~ Generally, the amount of benefit to be paid depends on a number of future events that are incorporated in the **plan's benefit formula**, often including how long the employee and any survivors live, how many years of **service** the employee renders, and the employee's compensation in the years immediately before retirement or termination. Conceptually, compensation cost should be recognized in the period in which the employee renders services. Although the complexity and uncertainty of the pension arrangement may preclude complete achievement of that goal, a fundamental objective of this Subtopic is to approximate more closely the recognition of the compensation cost of an employee's pension benefits over that employee's service period. **[Content moved from paragraph 715-30-05-7]**

**715-30-05-5** Paragraph superseded by Accounting Standards Update No. 2017-07. ~~In most cases, services are rendered over a number of years before an employee retires and collects or begins collecting the pension. Even though the services rendered by an employee are complete and the employee has retired, the total amount of benefit that the employer has promised and the cost to the employer of the services rendered are not precisely determinable but can only be estimated using the **benefit formula** and estimates of the relevant future events, many of which the employer cannot control.~~

**715-30-05-6** The basic core elements of pension accounting are ~~described in paragraphs 715-30-35-1A through 35-5; they are the foundation of the accounting~~

~~and reporting requirements set forth in this Subtopic include measurement of net periodic pension cost and benefit obligations (see paragraphs 715-30-35-1A through 35-41), assumptions (see paragraphs 715-30-35-42 through 35-49), and measurement of plan assets (see paragraphs 715-30-35-50 through 35-52).~~

~~**715-30-05-7** Paragraph superseded by Accounting Standards Update No. 2017-07. Conceptually, compensation cost should be recognized in the period in which the employee renders services. Although the complexity and uncertainty of the pension arrangement may preclude complete achievement of that goal, a fundamental objective of this Subtopic is to approximate more closely the recognition of the compensation cost of an employee's pension benefits over that employee's service period. **[Content moved to paragraph 715-30-05-4]**~~

~~**715-30-05-8** Paragraph superseded by Accounting Standards Update No. 2017-07. The following terms are widely used when addressing pensions, yet are not included in the text of the standards: **Actuarial Funding Method, Actuarial Gain or Loss, Allocated Contract, Benefit Approach, Cost Compensation Approach, Contributory Plan, Funding Method, Funding Policy, Implicit Approach to Assumptions, Plan Assets Available for Benefits, Sponsor, and Unallocated Contract.**~~

## **Settlements, Curtailments, and Certain Termination Benefits**

~~**715-30-05-9** The Settlements, Curtailments, and Certain Termination Benefits Subsections establish standards for an employer's accounting for **settlement** of defined benefit pension obligations, for **curtailment** of a **defined benefit pension plan**, and for certain termination benefits, and define the events that require adjustments to assets and liabilities and that require certain amounts previously recognized in accumulated other comprehensive income to be recognized in earnings. The Settlements, Curtailments, and Certain Termination Benefits Subsections provide guidance that results in the net **gain or loss** and **prior service cost**, which were previously recognized in accumulated other comprehensive income, being recognized in income in the period when ~~all of the following specific conditions are met:~~~~

- ~~a. Subparagraph superseded by Accounting Standards Update No. 2017-07. All pension obligations are settled.~~
- ~~b. Subparagraph superseded by Accounting Standards Update No. 2017-07. Defined benefits are no longer accrued under the plan.~~
- ~~c. Subparagraph superseded by Accounting Standards Update No. 2017-07. The plan is not replaced by another defined benefit plan.~~
- ~~d. Subparagraph superseded by Accounting Standards Update No. 2017-07. No **plan assets** remain.~~
- ~~e. Subparagraph superseded by Accounting Standards Update No. 2017-07. The employees are terminated.~~
- ~~f. Subparagraph superseded by Accounting Standards Update No. 2017-07. The plan ceases to exist as an entity.~~

~~715-30-05-10 Paragraph superseded by Accounting Standards Update No. 2017-07. It is not uncommon for some, but not all, of these conditions to exist in a particular situation. For example, the present obligation for benefits may be settled without terminating the plan, or a plan may be suspended so that no further benefits will accrue for future services but its obligations are not settled. In other situations one or more of the conditions may apply to only part of a plan. For example, one plan may be divided into two plans, one of which is then terminated, or one-half of the employees in a plan may terminate employment and the obligation for their benefits may be settled. The Settlements, Curtailments, and Certain Termination Benefits Subsections provide guidance in accounting for those situations.~~

~~715-30-05-11 Paragraph superseded by Accounting Standards Update No. 2017-07. An individual Subsection will not necessarily present guidance on all three subject matters (settlements, curtailments, and certain termination benefits).~~

## Amendments to Subtopic 715-60

24. Amend paragraphs 715-60-05-2, 715-60-05-7, and 715-60-05-11 and supersede paragraphs 715-60-05-3 through 05-5 and 715-60-05-9 through 05-10, with no link to a transition paragraph, as follows:

### **Compensation—Retirement Benefits—Defined Benefit Plans—Other Postretirement**

#### **Overview and Background**

##### **General**

**715-60-05-1** This Subtopic provides accounting and reporting guidance for other **postretirement benefits**. The guidance in this Subtopic is presented in the following four Subsections:

- a. General
- b. Medicare Prescription Drug, Improvement, and Modernization Act
- c. Settlements, Curtailments, and Certain Termination Benefits
- d. Split-Dollar Life Insurance Arrangements.

**715-60-05-2** The General Subsections provide guidance on an employer's accounting and reporting for a **defined benefit postretirement benefit plan**, that is, a **single-employer plan** that defines the nonpension **postretirement benefits** to be provided to **retirees**. This Subtopic refers to these **benefits** as postretirement benefits and to these **plans** as postretirement plans. ~~For purposes of this Subtopic, a postretirement benefit plan is an arrangement that is mutually understood by an employer and its employees whereby an employer undertakes~~

~~to provide its current and former employees with benefits after they retire in exchange for the employees' services over a specified period of time, upon attaining a specified age while in service, or both. Benefits may commence immediately upon termination of service or may be deferred until retired employees attain a specified age. Generally, the amount of those benefits depends on the **benefit formula** (which may include factors such as the number of years of service rendered or the employee's compensation before retirement or termination), the longevity of the retiree and any beneficiaries and covered dependents, and the incidence of events requiring benefit payments (for example, illnesses affecting the amount of health care required). [Content moved from paragraph 715-60-05-4]~~

~~**715-60-05-3** Paragraph superseded by Accounting Standards Update No. 2017-07. A postretirement benefit is part of the compensation paid to an employee for services rendered. In a defined benefit other postretirement plan, the employer promises to provide, in addition to current wages and benefits, future benefits during retirement.~~

~~**715-60-05-4** Paragraph superseded by Accounting Standards Update No. 2017-07. Generally, the amount of those benefits depends on the **benefit formula** (which may include factors such as the number of years of service rendered or the employee's compensation before retirement or termination), the longevity of the retiree and any beneficiaries and covered dependents, and the incidence of events requiring benefit payments (for example, illnesses affecting the amount of health care required). [Content moved to paragraph 715-60-05-2]~~

~~**715-60-05-5** Paragraph superseded by Accounting Standards Update No. 2017-07. In most cases, services are rendered over a number of years before an employee retires and begins to receive benefits or is entitled to receive benefits as a need arises. Even though the services rendered by the employee are complete and the employee has retired, the total amount of benefits the employer has promised and the cost to the employer of the services rendered are not precisely determinable but can be estimated using the plan's benefit formula and estimates of the effects of relevant future events.~~

~~**715-60-05-6** Although this Subtopic applies to all defined benefit postretirement plans other than pensions, **postretirement health care benefits** are likely to be the most significant in terms of cost and prevalence, and certain of the issues that arise in measuring those benefits are unique.~~

~~**715-60-05-7** Many of the provisions in this Subtopic are the same as or similar to the provisions of Subtopic 715-30. Consequently, the guidance provided in that Subtopic may be useful in understanding and implementing many of the provisions of this Subtopic. However, there are differences between the specific requirements of this Subtopic and that Subtopic, and therefore the specific guidance in one Subtopic ~~shall~~should not be used to override guidance of the other.~~

## **Medicare Prescription Drug, Improvement, and Modernization Act**

**715-60-05-8** The Medicare Prescription Drug, Improvement, and Modernization Act Subsections provide guidance on the accounting for the effects of the Medicare Prescription Drug, Improvement, and Modernization Act of 2003 for employers that sponsor postretirement health care plans that provide prescription drug **benefits**.

~~**715-60-05-9** Paragraph superseded by Accounting Standards Update No. 2017-07. On December 8, 2003, the president signed the Act into law. The Act introduces a prescription drug benefit under Medicare (Medicare Part D) as well as a federal subsidy to sponsors of retiree health care benefit plans that provide a benefit that is at least actuarially equivalent to Medicare Part D.~~

~~**715-60-05-10** Paragraph superseded by Accounting Standards Update No. 2017-07. An employer's eligibility for the 28 percent federal subsidy depends on whether the prescription drug benefit available under its **plan** is at least actuarially equivalent (as defined by the Act) to the Medicare Part D benefit. In addition, the magnitude of the subsidy for an employer depends on how many of the employer's Medicare-eligible retired plan participants choose not to enroll in the voluntary Medicare Part D plan.~~

**715-60-05-11** The Medicare Prescription Drug, Improvement, and Modernization Act Subsections make reference to various provisions of the Act and, in many cases, ~~paraphrases~~paraphrase those provisions. However, nothing in these Subsections ~~shall~~should be considered a definitive interpretation of any provision of the Act for any purpose.

## **Settlements, Curtailments, and Certain Termination Benefits**

**715-60-05-12** The Settlements, Curtailments, and Certain Termination Benefits Subsections provide guidance on an employer's accounting for **settlement** of defined benefit postretirement obligations, for **curtailment of a defined benefit postretirement plan**, and for **termination benefits**.

## **Split-Dollar Life Insurance Arrangements**

**715-60-05-13** The Split-Dollar Life Insurance Arrangements Subsections provide guidance on accounting and reporting for split-dollar life insurance arrangements.

**715-60-05-14** Entities purchase life insurance for various reasons that may include protecting against the loss of key employees, funding deferred compensation and postretirement benefit obligations, and providing an investment return. One form of this insurance is split-dollar life insurance. The structure of split-dollar life insurance arrangements can be complex and varied.

**715-60-05-15** The two most common types of arrangements are **endorsement split-dollar life insurance** arrangements and **collateral assignment split-dollar life insurance** arrangements. Generally, the difference between these arrangements is dependent on the ownership and control of the life insurance policy.



## Amendments to Status Sections

25. Amend paragraph 220-10-00-1, by adding the following items to the table, as follows:

**220-10-00-1** The following table identifies the changes made to this Subtopic.

Paragraph	Action	Accounting Standards Update	Date
220-10-45-17A	Amended	2017-07	03/10/2017
220-10-55-17B	Amended	2017-07	03/10/2017
220-10-55-17E	Amended	2017-07	03/10/2017

26. Amend paragraph 330-10-00-1, by adding the following items to the table, as follows:

**330-10-00-1** The following table identifies the changes made to this Subtopic.

Paragraph	Action	Accounting Standards Update	Date
330-10-55-5 through 55-7	Superseded	2017-07	03/10/2017
330-10-55-6A	Added	2017-07	03/10/2017

27. Amend paragraph 715-10-00-1, by adding the following items to the table, as follows:

**715-10-00-1** The following table identifies the changes made to this Subtopic.

Paragraph	Action	Accounting Standards Update	Date
715-10-05-2	Amended	2017-07	03/10/2017
715-10-05-4	Superseded	2017-07	03/10/2017
715-10-05-8	Superseded	2017-07	03/10/2017
715-10-05-10	Superseded	2017-07	03/10/2017

28. Amend paragraph 715-20-00-1, by adding the following items to the table, as follows:

**715-20-00-1** The following table identifies the changes made to this Subtopic.

<b>Paragraph</b>	<b>Action</b>	<b>Accounting Standards Update</b>	<b>Date</b>
<b>Net Periodic Pension Cost</b>	Amended	2017-07	03/10/2017
<b>Public Business Entity</b>	Added	2017-07	03/10/2017
715-20-05-1 through 05-3	Amended	2017-07	03/10/2017
715-20-45-3A	Added	2017-07	03/10/2017
715-20-50-1	Amended	2017-07	03/10/2017
715-20-50-5	Amended	2017-07	03/10/2017
715-20-50-6	Amended	2017-07	03/10/2017
715-20-55-13	Amended	2017-07	03/10/2017
715-20-55-17	Amended	2017-07	03/10/2017
715-20-55-18	Amended	2017-07	03/10/2017
715-20-65-3	Added	2017-07	03/10/2017

29. Amend paragraph 715-30-00-1, by adding the following items to the table, as follows:

**715-30-00-1** The following table identifies the changes made to this Subtopic.

<b>Paragraph</b>	<b>Action</b>	<b>Accounting Standards Update</b>	<b>Date</b>
<b>Actuarial Funding Method</b>	Superseded	2017-07	03/10/2017
<b>Actuarial Gain or Loss</b>	Superseded	2017-07	03/10/2017
<b>Allocated Contract</b>	Superseded	2017-07	03/10/2017
<b>Benefit Approach</b>	Superseded	2017-07	03/10/2017
<b>Contributory Plan</b>	Superseded	2017-07	03/10/2017
<b>Cost-Compensation Approach</b>	Superseded	2017-07	03/10/2017
<b>Funding Method</b>	Superseded	2017-07	03/10/2017
<b>Funding Policy</b>	Superseded	2017-07	03/10/2017
<b>Implicit Approach to Assumptions</b>	Superseded	2017-07	03/10/2017
<b>Net Periodic Pension Cost</b>	Amended	2017-07	03/10/2017

<b>Paragraph</b>	<b>Action</b>	<b>Accounting Standards Update</b>	<b>Date</b>
<b>Plan Assets Available for Benefits</b>	Superseded	2017-07	03/10/2017
<b>Sponsor (2nd def.)</b>	Superseded	2017-07	03/10/2017
<b>Unallocated Contract</b>	Superseded	2017-07	03/10/2017
715-30-05-2	Amended	2017-07	03/10/2017
715-30-05-4	Amended	2017-07	03/10/2017
715-30-05-5	Superseded	2017-07	03/10/2017
715-30-05-6	Amended	2017-07	03/10/2017
715-30-05-7	Superseded	2017-07	03/10/2017
715-30-05-8	Superseded	2017-07	03/10/2017
715-30-05-9	Amended	2017-07	03/10/2017
715-30-05-10	Superseded	2017-07	03/10/2017
715-30-05-11	Superseded	2017-07	03/10/2017
715-30-35-7A	Added	2017-07	03/10/2017
715-30-60-2	Amended	2017-07	03/10/2017

30. Amend paragraph 715-60-00-1, by adding the following items to the table, as follows:

**715-60-00-1** The following table identifies the changes made to this Subtopic.

<b>Paragraph</b>	<b>Action</b>	<b>Accounting Standards Update</b>	<b>Date</b>
715-60-05-2	Amended	2017-07	03/10/2017
715-60-05-3 through 05-5	Superseded	2017-07	03/10/2017
715-60-05-7	Amended	2017-07	03/10/2017
715-60-05-9	Superseded	2017-07	03/10/2017
715-60-05-10	Superseded	2017-07	03/10/2017
715-60-05-11	Amended	2017-07	03/10/2017
715-60-35-10A	Added	2017-07	03/10/2017
715-60-55-86	Amended	2017-07	03/10/2017
715-60-55-89	Amended	2017-07	03/10/2017
715-60-55-92	Amended	2017-07	03/10/2017

31. Amend paragraph 958-225-00-1, by adding the following item to the table, as follows:

**958-225-00-1** The following table identifies the changes made to this Subtopic.

<b>Paragraph</b>	<b>Action</b>	<b>Accounting Standards Update</b>	<b>Date</b>
958-225-45-11	Amended	2017-07	03/10/2017

32. Amend paragraph 958-715-00-1, by adding the following items to the table, as follows:

**958-715-00-1** The following table identifies the changes made to this Subtopic.

<b>Paragraph</b>	<b>Action</b>	<b>Accounting Standards Update</b>	<b>Date</b>
958-715-45-1	Amended	2017-07	03/10/2017
958-715-45-2	Amended	2017-07	03/10/2017
958-715-45-3	Added	2017-07	03/10/2017
958-715-55-4	Amended	2017-07	03/10/2017
958-715-55-6	Amended	2017-07	03/10/2017
958-715-55-7	Amended	2017-07	03/10/2017
958-715-55-8	Superseded	2017-07	03/10/2017

33. Amend paragraph 980-715-00-1, by adding the following items to the table, as follows:

**980-715-00-1** The following table identifies the changes made to this Subtopic.

<b>Paragraph</b>	<b>Action</b>	<b>Accounting Standards Update</b>	<b>Date</b>
980-715-15-1	Amended	2017-07	03/10/2017
980-715-45-1	Added	2017-07	03/10/2017
980-715-55-10	Amended	2017-07	03/10/2017
980-715-55-25	Amended	2017-07	03/10/2017

*The amendments in this Update were adopted by the affirmative vote of five members of the Financial Accounting Standards Board. Messrs. Kroeker and Smith dissented.*

Mr. Kroeker dissents from the issuance of this Accounting Standards Update because the amendments, in his view, are focused on establishing mandatory distinctions related to financial performance reporting, albeit for a limited

population of transactions, rather than providing any meaningful increase in transparency related to postemployment benefit cost.

In Mr. Kroeker's view, the Board should defer finalizing the decisions in this project that mandate fundamental changes in performance reporting until the Board completes work on its broader research project on financial performance reporting—a part of the Board's current, active research agenda. In mandating fundamental performance reporting changes in this piecemeal approach to establishing performance reporting requirements, the Board is creating inconsistencies with other accounting standards and appears to be taking an approach at the standards level that conflicts with certain of the alternatives that the Board is exploring in its Invitation to Comment, *Agenda Consultation*, which was issued in August 2016.

### **Reporting Financial Performance (Operating versus Nonoperating Performance)**

The shortcomings and inconsistencies created by the approach in this Update are numerous and, in Mr. Kroeker's view, should be considered in a more holistic manner. Furthermore, Mr. Kroeker does not see a compelling reason to immediately mandate the fundamental performance reporting aspects of the amendments in this Update given that current reporting requirements already provide for a disaggregation of the various components of net benefit cost. In doing so, Mr. Kroeker believes that the Board may be creating impediments to addressing more fundamental issues in any future performance reporting project. This is particularly the case when the Board finalizes conclusions in this project that may be inconsistent with conclusions that might be reached in the event a broader project is undertaken; thus, resulting in the need for a reconsideration of the conclusions in this Update.

Comment letter respondents to the proposed Update noted a number of apparent contradictions, inconsistencies, and questions—most focused on the distinction that the Board is creating between operating performance and nonoperating performance. Some of the inconsistencies seem difficult to address or reconcile more broadly and, thus, in Mr. Kroeker's view, call into question the conclusions in this Update.

For example, many comment letter respondents questioned why amortization of prior service cost or credits should be reported outside of operating performance in a manner that is inconsistent with current service cost. Amortization of prior service cost or credit arises from plan amendments, and these increases or decreases in benefits are granted as part of an exchange with employees for their services. Therefore, the Board is creating an inconsistency in mandating reporting economic consequences of granting benefits in one case as operating and in the other as nonoperating. Likewise, many components of pension and other postemployment benefit gains and losses are related to actual or expected changes in the cost of the benefits that have been or will be provided to employees, such as gains or losses that result from changes to salary assumptions, mortality

rates, and health care cost trends. Although those amounts reflect changes from estimates made in prior periods, mandating (as required by this Update) that such changes be accounted for outside of operating income seems inconsistent with virtually every other area of existing financial reporting.

In addition, the Board is creating inconsistencies between this standard and other existing standards. For example, costs associated with exit or disposal activities that do not involve a discontinued operation are required, pursuant to existing standards, to be included within income for operations. Likewise, gains and losses on sales of long-lived assets and accretion expense on asset retirement obligations also are required to be included within operating income. The amendments in this Update mandate that the accretion component of net benefit cost and the effects of certain settlements or curtailments other than those accounted for as one-time involuntary termination benefits be reported outside of income from operations. This inconsistency seems further amplified because settlements and curtailments of defined benefit obligations are often incurred in connection with impairments and other exit and disposal activities.

Furthermore, the amendments in this Update create an inconsistency in the way that pension cost is classified in the statement of financial performance when compared with the way pension funding is classified in the statement of cash flows. While Mr. Kroeker is not convinced that the classification between the two statements should in all cases be cohesive, he notes that this notion is being explored in the Board's research on financial performance reporting and, thus, questions whether mandating such classification differences is warranted at this time.

More fundamentally, Mr. Kroeker believes that most of these issues arise because of the absence of a definition or clear concept articulating the basis for mandating distinctions between operating performance and nonoperating performance. Thus, he believes the Board should have deferred the project or limited the scope to only addressing the capitalization of benefit cost. Given these shortcomings, both conceptual and when compared with other existing requirements, Mr. Kroeker believes that the amendments in this Update have the potential to result in more confusing income statement presentation requirements by isolating certain components of net benefit cost and introducing one or more additional line items for other components of net benefit cost. In this respect, the amendments establish a distinction between operating expenses and nonoperating expenses that both differs from and exceeds the guidance required by other accounting standards.

### **Capitalization of Service Cost**

Mr. Kroeker generally agrees with the requirement in this Update that allowing only the service cost component of net periodic benefit cost to be eligible for capitalization could result in an improvement to financial reporting. However, he also is supportive of providing entities with an accounting policy election to capitalize only the service cost component of net benefit cost that would not preclude capitalization of the other components of net benefit cost. This would

allow entities flexibility to adapt the capitalization of such postretirement costs to the manner of conducting business with their customers. For example, when the entire amount of net benefit cost is passed on directly to customers (as may be the case because of rate regulation or contract pricing provisions), Mr. Kroeker believes that classifying the components of net benefit cost consistently with the recovery directly from customers results in more decision-useful financial reporting. Another alternative would have been for the Board to provide an exception (rather than a broad accounting policy election) allowing entities in certain industries to continue to capitalize the components of net benefit cost consistently with their recovery of those costs directly from customers.

Mr. Smith dissents from the issuance of this Update because the benefits of the amendments fail to justify the costs for rate-regulated entities. Mr. Smith acknowledges the objections of Mr. Kroeker and agrees with many of his points; however, Mr. Smith also notes that the benefits of the amendments to financial statement users of most companies justify the costs because he does not believe that the costs for most companies will be significant.

Mr. Smith also understands that the costs to implement systems changes for most rate-regulated entities will be significant. The amendments in this Update allow entities to capitalize only the service component of net benefit cost, and, therefore, for most entities that capitalize employee costs, net income will change when the amendments are implemented. However, while the other components of net benefit cost are precluded from being capitalized in property, plant, and equipment for rate-regulated entities, they will be capitalized in regulatory assets because they are an allowable cost. Consequently, net income will change only for the difference (if any) between the amortization period of regulatory assets and the amortization period of property, plant, and equipment and any consequential changes in the allowance for funds used during construction.

Mr. Smith believes that the costs to entities to create this reclassification of the balance sheet (and components of the income statement) do not justify the benefits of the changes of financial information to users. The information about the components of net benefit cost are provided in the notes to the financial statements, which financial statement users can evaluate. For this reason, Mr. Smith would exclude operations subject to Topic 980, Regulated Operations, from the application of the amendments in this Update.

*Members of the Financial Accounting Standards Board:*

Russell G. Golden, *Chairman*  
James L. Kroeker, *Vice Chairman*  
Christine A. Botosan  
Daryl E. Buck  
R. Harold Schroeder  
Marc A. Siegel  
Lawrence W. Smith

# Background Information and Basis for Conclusions

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## Introduction

BC1. The following summarizes the Board's considerations in reaching the conclusions in this Update on Part I of the amendments to the Codification on the presentation of net periodic pension cost and net periodic postretirement benefit cost. It includes reasons for accepting certain approaches and rejecting others. Individual Board members gave greater weight to some factors than to others. The amendments in Part II, which are related to the Overview and Background Sections of Topic 715, are part of the Board's ongoing initiative to unify and improve the Overview and Background Sections across Topics and Subtopics.

BC2. On June 29, 2015, the Board added a project to its technical agenda to improve the presentation of net periodic pension cost and net periodic postretirement benefit cost. On January 26, 2016, the Board issued proposed Accounting Standards Update, *Compensation—Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost* (the proposed Update), for public comment with the comment period ending on April 25, 2016. The Board received 37 comment letters in response to the questions in the proposed Update. All but one of the financial statement users that provided comment letters or responded to the staff's outreach supported the amendments in the proposed Update, while feedback was mixed from the comment letter respondents from other groups.

## Benefits and Costs

BC3. The objectives of the amendments in this Update are to increase transparency of the presentation of net periodic pension cost and net periodic postretirement benefit cost (net benefit cost) and provide financial statement users with additional disaggregated information to facilitate their analyses. Those objectives align with the objective of financial reporting, which 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. Present and potential investors, creditors, donors, and other users of financial information benefit from improvements in financial reporting, while the costs to implement new guidance are borne primarily by present investors. The Board's assessment of the costs and benefits of issuing new guidance is unavoidably more qualitative than quantitative because there is no method to objectively measure the costs to implement new guidance or to quantify the value of improved information in financial statements.



BC4. The Board developed the amendments in this Update to provide financial statement users with more relevant information. In the Board's view, the amendments provide the benefit of improving consistent application of GAAP by providing explicit guidance on the presentation of the service cost component and the other components of net benefit cost in the income statement and changing the requirement on the capitalization of net benefit cost as assets in the statement of financial position. The amendments have an appropriate conceptual basis and acknowledge that the components of net benefit cost have different decision usefulness for financial statement users. The Board does not anticipate that entities will incur significant costs as a result of the amendments, although it understands that implementation efforts might be relatively higher for certain entities (such as rate-regulated entities). The Board concluded that the benefits of applying the amendments justify the costs.

## Background Information

BC5. According to the guidance in paragraphs 715-30-35-4 and 715-60-35-9, net benefit cost is made up of the following components that reflect different aspects of an employer's financial arrangements as well as the cost of benefits earned by employees:

- 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
- e. Gain or loss (including the effects of changes in assumptions), which includes, to the extent recognized, amortization of the net gain or loss included in accumulated other comprehensive income
- f. Amortization of any net transition asset or obligation existing at the date of initial application of Topic 715 and remaining in accumulated other comprehensive income.

BC6. Topic 715 requires an entity to present defined benefit cost as a net amount that may be capitalized as part of an asset where appropriate (for example, as a part of the cost of inventory produced during a period). However, that Topic does not prescribe where net benefit cost should be presented in the income statement and does not require an entity to disclose by line item the amount of net benefit cost that is presented in the income statement or capitalized in assets.

BC7. Stakeholders raised concerns that the presentation of defined benefit cost on a net basis combines elements that are distinctly different in their predictive value, resulting in a presentation that has more limited value for financial statement users. The reduced transparency in the presentation of net benefit cost also makes financial statement users' analyses potentially less robust and more costly. Stakeholders also highlighted the growing significance of this issue in the current

environment in which some entities have elected to recognize all gains and losses from the remeasurements of plan assets and defined benefit obligations immediately in the income statement. This may result in significantly more volatility in the line items that typically include net benefit cost—for example, cost of sales or selling, general, and administrative expenses. As a result, interim measures of performance such as gross profit and operating income (loss) can be significantly affected with reduced predictive value to users.

## Presentation of Net Benefit Cost in the Income Statement

BC8. The Board noted that disaggregation of material and economically different components of net benefit cost will improve consistency with the reporting practice for many other parts of an employer's operations. The Board expects that the amendments in this Update will better meet the needs of financial statement users.

BC9. The Board decided to require separation of the service cost component from the other components of net benefit cost, considering that service cost is the component that exclusively originates from employee services during the current period and potentially has a significantly different effect in terms of information usefulness to financial statement users. Excluding the other components of net benefit cost from the line item or items reporting current employee compensation costs makes that line item or items more relevant for assessing an entity's continuing operating costs.

BC10. Some respondents that disagreed with the amendments in the proposed Update stated that all components of net benefit cost arise from retirement arrangements, adding that the other components of net benefit cost are integral components of the ongoing cost of providing retirement benefits to employees and must be recovered from operations. Some respondents commented that the proposed amendments contained no discussion of, or support for, a change in one of the fundamental aspects of the pension accounting model under GAAP—reporting net cost.

BC11. The Board noted that the service cost component is conceptually different from the other components of net benefit cost based on a comprehensive consideration on the following factors:

- a. The event that caused an item
- b. The activity with which an item is associated
- c. Similarities and differences in the frequency with which similar components of comprehensive income are expected to result in similar amounts to be recognized in the future
- d. The types of changes in economic conditions that can affect the cash flows related either to an existing asset or an existing liability or to similar revenues, expenses, and gains or losses in the future
- e. Similarities and differences in measurement method.

BC12. The Board also noted that separation of the service cost component from the other components is highly supported by financial statement users and is consistent with the adjustment often made by some users in their analyses.

BC13. Some respondents stated that sufficient information on the components of net benefit cost is already disclosed in the note to financial statements and that the amendments in the proposed Update would not enhance the transparency of the financial information to users. Other respondents suggested that the Board consider an alternative of requiring entities to disclose by line item(s) the amount of net benefit cost presented in the income statement or capitalized in assets instead of changing the presentation of net benefit cost in the income statement.

BC14. In the Board's view, there is a disconnect between the amount of net benefit cost disclosed in the note and the amount presented in the income statement because there is a lack of transparency about amounts capitalized and the effect of net benefit cost on an individual line item or items in the income statement. The Board also noted that the alternative proposed by some respondents would be costly and complex for reporting entities, especially those that could not separately identify a specific cost following the allocation of a pool of costs to multiple departments or cost centers. Some Board members disagreed with those respondents who indicated that disclosure is just as useful as presentation.

BC15. Some respondents commented that there is no underlying difference in principle between current service cost and prior service cost. The two components both reflect the compensation cost of pension benefits granted to employees in exchange for services provided and, therefore, should be treated in the same way.

BC16. The Board considered pursuing, but decided not to pursue, an alternative to include the prior service cost or credit component in the line item(s) reporting current employee compensation because this component is not exclusively related to the current period's employee services and may add complexity to financial statement users' analyses of an entity's core operating performance. The Board also noted that users generally view (a) the service cost component as most clearly representing an operating component included in net benefit cost and (b) exclude the prior service cost or credit component from their analyses.

BC17. The Board noted that the prior service cost or credit component is conceptually different from the service cost component based on a comprehensive consideration of the factors indicated in paragraph BC11. The Board acknowledges that the decision of treating the prior service cost or credit component differently from the service component also reflects a consideration from a practical perspective that is driven by user needs.

BC18. The Board further considered various alternatives to disaggregate the other components of net benefit cost. For example:

- a. An alternative to present the net amount of the interest cost component and expected return on plan assets separately from the other

components. Considering the same factors discussed in paragraph BC11, the Board noted that those two components are conceptually different from the remaining components and have sufficiently different usefulness to financial statement users when compared with the other components. In addition, this alternative would improve convergence with International Financial Reporting Standards (IFRS) that require recognizing net interest cost/income separately from the other components of defined benefit cost. However, the Board noted that expected return on plan assets includes both an amount that arises from the passage of time and amounts that arise from other changes. Aggregating interest cost with expected return on plan assets could result in potentially misleading information about a plan's net financing cost or income. The Board also noted that financial statement users usually calculate a plan's net financing cost or income differently from the net amount of the interest cost component and expected return on plan assets.

- b. An alternative to present the gain or loss component separately from any other components. This alternative is based on the view that the gain or loss component has completely different characteristics and represents the effects of changes in estimates, rather than the result of operating or financing decisions. The amendments in the January 26, 2016 proposed Accounting Standards Update, *Compensation—Retirement Benefits—Defined Benefit Plans—General (Subtopic 715-20): Changes to the Disclosure Requirements for Defined Benefit Plans*, would require an entity to disclose reasons for significant gains and losses affecting the benefit obligation or plan assets that were recognized during the period. The Board decided that disaggregated presentation of the gain or loss component should not be required because the amendments in this Update along with the current and proposed disclosure requirements relating to the separate components of net benefit cost would provide sufficient information to financial statement users. Furthermore, the Board understands that the gain or loss component combines gains and losses of various types and therefore includes both compensation and financial items that are not readily separable. The Board discussed an alternative to allow an entity to present compensation-related gains or losses separately from the financial-related gains or losses in the income statement to address some respondents' concerns that a portion of the gain or loss component should be included in the operating results. The Board noted that this alternative does not address the needs of financial statement users and might result in more diversity and implementation issues in practice.

BC19. The Board decided not to require further disaggregation of the other components of net benefit cost. However, the amendments in this Update do not prohibit an entity from providing disaggregated information if the entity decides that such information is sufficiently important to financial statement users to merit

separate presentation, as long as the nature of each line item presenting the disaggregated components is appropriately described.

BC20. The Board decided to require an entity to present the other components of net benefit cost outside a subtotal of income from operations, if one is presented. In general, the Board stated that these components either are related to an entity's financing or investing activities or are driven by the effects of recycling prior-period changes and results in subsequent periods. Therefore, the majority of the effect in those components will not be directly relevant for assessing an entity's continuing operating costs and should not be included in the operating metric, if one is presented. However, the Board understands the varieties of presentations and subtotals used in an entity's income statement. If a subtotal of income from operations is not presented, the entity will have discretion to present the other components of net benefit cost wherever it is appropriate in the income statement. Such presentation should convey the underlying nature of these components, be separated from the presentation of the service cost component, and not conflict with the Board's intent. The Board considered but decided not to require an entity to present the other components of net benefit cost in a separate line item or items in the income statement because the Board noted that such presentation might be required under other regulations and rules. However, if a separate line item or items are used, that line item or items must be appropriately described.

BC21. Some respondents did not support a prescriptive approach to the presentation of the other components. They stated that because current GAAP has no definition of operating income or lacks guidelines on what should be included in operating income, the amendments in this Update might be implicitly defining operating income. They suggested that the Board defer changes to the presentation of net benefit cost until it defines operating income or decides on performance statement presentation.

BC22. The Board clarified that it is not attempting to define operating income or express its view on a broader or narrower definition of operating income in this Update. In the Board's view, the service cost component is an operating item and the other components are a combination of other items that reflect both operating aspects and nonoperating aspects. The Board's decision that the other components should be presented outside a subtotal of income from operations, if one is presented, is primarily driven by the objectives to promote comparability of the financial statements and to avoid unnecessary implementation difficulties and costs in practice.

BC23. The Board acknowledges some respondents' views that the amendments in the proposed Update would be inconsistent with other areas in current GAAP, such as accretion expense of asset retirement obligations and embedded interest cost of operating leases that are required to be included in operating income. However, the Board noted that such inconsistency should be assessed in the context of the particular situation in which it occurs. For example, differences between the presentation of accretion expense of asset retirement obligations and

the other components of net benefit cost could be driven by various factors, such as differences in the timing and scope of the project, user feedback, and availability of valid alternatives, which might not necessarily warrant alignment.

## Capitalization of Net Benefit Cost in Assets

BC24. The Board noted that disaggregated presentation of net benefit cost in the income statement provides an opportunity to reassess the components that are eligible to be capitalized. Capitalizing net benefit cost at the aggregate level includes costs related to financing or investing activities and effects recycled from prior periods in the capitalized amounts of assets. Designating the service cost component as the only component eligible for capitalization will limit capitalized amounts to the component that exclusively originates from employee services during the current period, improve comparability between entities, and reduce the need for a potential requirement to disclose the capitalized amount of net benefit cost in assets. The Board noted that these benefits outweigh the additional costs that certain entities may incur to reform or reallocate the net benefit cost in their costing systems. The Board decided that the amount of net benefit cost capitalized in an asset will not be subject to further disaggregation for presentation or disclosure purposes when the cost of the asset is subsequently reported in net income as cost of products sold, depreciation and amortization expense, and so forth.

BC25. The Board considered requiring capitalization of the interest cost component of net benefit cost in assets. However, the Board noted that there is a conceptual difference between the interest cost component of net benefit cost and the interest cost required to be capitalized under Subtopic 835-20, Interest—Capitalization of Interest. The interest cost component of net benefit cost only reflects the effects of the passage of time on the employee benefit obligation, while the interest cost under Subtopic 835-20 reflects the borrowing cost of accumulated expenditures incurred for the qualifying asset. The Board therefore decided not to allow capitalization of the interest cost component of net benefit cost.

## Different Accounting for Certain Types of Entities

BC26. Some respondents commented that the amendments in the proposed Update should not be applied to entities that are subject to certain types of regulation (rate-regulated entities) or to entities that have certain types of government contracts for which reimbursement is a function of costs incurred. In both of those circumstances, it was noted that those proposed amendments might have a potential effect on the revenues of the entities or result in a mismatch of operating revenue and amounts included in operating expense if the entities would continue to report the amount of net benefit cost directly recovered from their customers in revenue but present a portion of the related expense below operating income. The Board understands the practical concerns of those respondents but

affirmed its previous conclusion that the cost of a pension or other postretirement benefit is not changed by the circumstances described. The Board understands that such entities might be subject to other regulations and rules. However, in the Board's view, those specific regulations and rules, which serve different purposes and reflect different aspects of economics to the targeted users, as compared with GAAP, should not always warrant a special provision in GAAP. Furthermore, the Board considered the potential alternatives to define the exemption scope (such as by contract type or by entity type) and noted that the alternatives either would not necessarily reduce the implementation cost as compared with the amendments in this Update or would reduce the comparability among entities. The Board concluded that the amendments should include no special provisions relating to such entities. For rate-regulated entities, Topic 980, Regulated Operations, may require that the difference in the timing of recognition of net benefit cost as an expense under the amendments and under rate-making regulations and rules be recognized as an asset or a liability created by the actions of the regulator.

BC27. Some respondents stated that the amendments in the proposed Update should not be applied to nonpublic entities because those entities are not required to disclose the components of net benefit cost. The Board acknowledged that users of nonpublic entity financial statements might not require the same level of detail about benefit costs and net income as is provided in the disclosure note by public entities. The Board also looked at the decision criteria in paragraph 3.2 of the *Private Company Decision-Making Framework: A Guide for Evaluating Financial Accounting and Reporting for Private Companies* for consideration of either an exemption or an alternative. Those decision criteria include whether private companies already are permitted an exception from providing related or similar types of information, whether there is a basis to support alternative recognition and measurement or alternative disclosure requirements of the related financial statement components, and whether the information affects amounts and metrics on which typical users of private company financial statements focus. In the Board's view, exemption from disclosing the components of net benefit cost does not automatically warrant an exemption from the changes in presentation of net benefit cost. The cost of a pension or other postretirement benefit is not changed by whether an entity is public. The Board further noted that the amendments in this Update will affect amounts and metrics on which users of nonpublic entities focus. The Board decided not to allow exemption for nonpublic entities.

## Convergence with IFRS

BC28. Under IFRS, defined benefit costs are separated into three categories: service cost, net interest on the net defined benefit liability (asset), and remeasurement. Service cost and net interest are recognized in an employer's income statement, and remeasurements of the net defined benefit liability (asset) are recognized in other comprehensive income (without recycling). However, IAS

19, *Employee Benefits*, does not specify how an entity should present service cost and net interest but requires that the entity present those components in accordance with IAS 1, *Presentation of Financial Statements*.

BC29. The amendments in this Update more closely align with IFRS by requiring disaggregation of the service cost component from the other components of net benefit cost.

BC30. Although limiting the capitalization of net benefit cost to the service cost component results in differences between GAAP and IFRS, the amendments in this Update increase the relevance of the resulting expenses as measures of the current period's operating activities and improve consistency and comparability of financial information.

## Effective Date and Transition

BC31. The Board decided that the amendments in this Update should be effective for public business entities for annual periods beginning after December 15, 2017, including interim periods within those annual periods. For other entities, the amendments are effective for annual periods beginning after December 15, 2018, and interim periods within annual periods beginning after December 15, 2019. The Board decided that those effective dates will allow adequate time for entities to apply the amendments. The Board noted that the effective date for public business entities also aligns with the effective date of Topic 606, Revenue from Contracts with Customers, to address some respondents' concerns about the burden that certain entities (such as entities that have certain types of government contracts) might have as a result of the amendment on the capitalization of the service cost component of net benefit cost in assets.

BC32. The Board decided to permit early adoption as of the beginning of an annual period for which financial statements (interim or annual) have not been issued or made available for issuance. That is, early adoption should be within the first interim period if an employer issues interim financial statements. An employer that elects early adoption must adopt all of the amendments in this Update in the same period. Disclosures of the nature of and reason for the change in accounting principle are required in the first interim and annual periods of adoption. The Board expects that requiring early adoption within the first interim period meets user needs in a timelier manner. In addition, the Board does not expect an entity's decision process on early adoption to be complex or to require significant time and effort.

BC33. The Board decided to require retrospective application of the amendments in this Update for the presentation of the service cost component and the other components of net benefit cost in the income statement to improve comparability of financial information across current and comparative periods. The Board does not anticipate that an entity will incur significant costs in applying the amendments



retrospectively and decided that the benefits of retrospective application justify the costs.

BC34. The Board decided to require prospective application of the amendments in this Update for the capitalization of the service cost component of net benefit cost in assets because retrospective application would be costly and complicated. In the Board's view, the benefits of providing a comparable benefit cost element in assets do not justify the costs.

BC35. The Board decided not to require an entity that adopts the amendments in this Update to disclose certain information required by Topic 250, Accounting Changes and Error Corrections. Specifically, the Board decided that the transition disclosures about (a) the method of applying the change and (b) a description of the indirect effects of a change in accounting principle are not applicable.

BC36. Some respondents expressed concerns that retrospective presentation of the service cost component and the other components of net benefit cost for the prior comparative periods might be challenging for entities that have capitalized a portion of net benefit cost in prior periods or for entities unable to track and identify individual components of net benefit cost after allocating costs to operating units and cost centers. The Board understands those concerns and decided to provide a practical expedient to permit those entities to use the amounts disclosed in their pension and other postretirement benefit plan notes as the estimation basis for the disaggregated presentation for the prior comparative periods to provide a certain level of comparability to financial statement users and to avoid complexities in practice. This practical expedient is based on the assumption that the capitalized amount of net benefit cost in one specific period could be offset by the cost capitalized in earlier periods but rolled over to that period's income statement because of an even flow in the asset movement. The Board notes that there might be various ways in which the practical expedient can be applied. However, the Board does not prescribe how the practical expedient should be applied. The Board expects an entity to use judgement, based on its relevant facts and circumstances, in determining if the practical expedient reasonably reflects the effect of the capitalized amount of net benefit cost for the prior comparative periods. If an entity elects to use the practical expedient, it should disclose that the practical expedient was used.

## Amendments to the XBRL Taxonomy

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The amendments to the *FASB Accounting Standards Codification*<sup>®</sup> in this Accounting Standards Update require changes to the U.S. GAAP Financial Reporting Taxonomy (Taxonomy). Those changes, which will be incorporated into the proposed 2018 Taxonomy, are available for public comment through ASU Taxonomy Changes provided at [www.fasb.org](http://www.fasb.org), and finalized as part of the annual release process.