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Employee Benefit Plan (EBP) Financial Statement Simplification

Accounting Standards Update (ASU) 2015-12

The Financial Accounting Standards Board issued ASU 2015-12 as part of its simplification initiative. The ASU will affect your 401(k) or pension plan financial reporting in one of two ways, if not both of the following: fully benefit-responsive investment contracts are required to be measured, presented, and disclosed only at contract value, not fair value; and the investment disclosure requirements have been simplified.

These simplifications are only applicable to plans with financial statement reporting and audit requirements resulting from meeting certain plan participant levels. In a time of burdensome regulatory requirements, these simplifications should provide some level of relief to Plan Administrators.

Fully Benefit-Responsive Investment Contracts - The guidance in Part I of the ASU applies to reporting entities within the scope of Topics 962 (Defined Contribution Pension Plans) and 965 (Health and Welfare Benefit Plans) that classify investments as fully benefit-responsive investment contracts (e.g. guaranteed investment contracts or GICS). The ASU designates contract value as the required measure for fully benefit-responsive investment contracts. Contract value is considered relevant because that is the amount at which plan participants would transact. The ASU requires entities to disclose the contract value of each type of fully benefit-responsive investment contracts and eliminates the following reporting requirements for fully benefit-responsive investment contracts: (a) measurement and presentation at fair value (b) related disclosures required by Topics 820 and 825 and (c) certain disclosures under Topic 962 and 965 requiring fair value calculation (e.g. average yield disclosures). The ASU also clarifies that indirect investments in fully benefit-responsive investment contracts (e.g. stable value common or collective trusts) should not be reflected as fully benefit-responsive investment contracts and therefore those indirect investments should be reported at fair value. Generally, those investments calculate net asset value (NAV) per share or its equivalent in a manner consistent with the measurement principles of Topic 946. Therefore they may qualify for the NAV practical expedient.

Plan Investment Disclosures - The guidance in Part II of the ASU applies to reporting entities that follow the requirements of Topics 960 (Defined Benefit Pension Plans), 962 (Defined Contribution Pension Plans), and 965 (Health and Welfare Benefit Plans). Prior to the ASU, U.S. GAAP required an entity to disclose: (a) individual investments that represent 5% or more of net assets available for benefits; (b) the net appreciation or depreciation for investments by general type; and (c) investment information disaggregated based on nature, characteristics and risks under Topic 820. Item (c) was disclosed in addition to investment information disaggregated based on general type under Topics 960, 962, and 965. To simplify the investment disclosures for employee benefit plans, the ASU:

- Eliminates (a), (b), and (c) above. Note, however, that net appreciation or depreciation in fair value of investments for the period is now required to be presented only in the aggregate. In addition, investments (both participant-directed and nonparticipant-directed) are now required to disaggregate only by general type (e.g. government securities, common collective trusts, pooled separate accounts, corporate bonds, common stocks, etc.) either on the face of the financial statements or in the notes.
- Removes the requirement to disaggregate the investments within a self-directed brokerage account. Self-directed brokerage accounts should be reported as a single type of investment.
- Removes the requirement to include investment strategy disclosures for funds that file Form 5500 as direct filing entities when the employee benefit plan measures those investments using NAV as a practical expedient.

The amendments are effective for fiscal years beginning after December 15, 2015 so plans with a fiscal year end of December 31, 2016 or later are required to adopt this ASU. The two Parts of the ASU should be applied retrospectively and only the nature and reason for the change in accounting principle is required to be disclosed in the period of adoption. Plan administrators should act now to take full advantage of these financial reporting simplifications.

Adam is an Audit Partner at Fust Charles Chambers LLP and is the Firm's EBP Industry Leader. Fust Charles Chambers LLP audits over 75 employee benefit plans and Adam can be reached at 315-446-3600 or astanard@fcc-cpa.com to further discuss this ASU or your employee benefit plan.