

FASB Modifies Proposed Multiemployer Plan Participation Disclosures

June 13, 2011

At its meeting on May 31, the Financial Accounting Standards Board (FASB) tentatively agreed that it will *not* require employers to disclose an estimate of withdrawal liability for each material multiemployer defined benefit plan in which they participate, as it had previously proposed. According to the FASB, certain types of enhanced disclosures will still be required. However, these requirements will not be applicable until a final decision is made by the board.

Background

As a general matter, financial statement disclosures regarding an employer's participation in a multiemployer defined benefit plan are limited to contributions required to be made to each plan for the year. However, in the event that a withdrawal becomes either "probable" or "reasonably possible," then the employer must report its withdrawal liability.

In September 2010, FASB issued the Exposure Draft of Proposed Accounting Standards Update, *Compensation—Retirement Benefits—Multiemployer Plans (Subtopic 715-80): Disclosure About an Employer's Participation in a Multiemployer Plan* (Exposure Draft), which would have required employers contributing to multiemployer defined benefit plans to disclose additional information about their participation in such plans, including the employer's potential withdrawal liability, in the notes to their financial statements reported on Form 10-K. The reporting change would have required employers to report potential withdrawal liability even if an employer considered the likelihood of incurring that liability to be "remote."

According to FASB, its intent was to use the withdrawal liability estimates as a proxy for an employer's proportional share of a plan's underfunding. After receiving more than 300 comments on its Exposure Draft, FASB announced on November 10, 2010 that the new disclosures would not be required for the 2010 calendar year-end reporting period, and that it expected to issue a final standard early in the second quarter of 2011. FASB summarized the comments that it received regarding the disclosure of withdrawal liability estimates as follows: "Respondents were largely opposed to requiring disclosure of withdrawal liability because of concerns about its appropriateness as a proxy, the cost to compute this amount, the timeliness of the information, and the potential confusion it could cause users."

Decisions from the May 31 FASB Meeting

After considering several alternatives to using withdrawal liability estimates as a proxy for an employer's share of a plan's underfunding, FASB members tentatively decided at their May 31 meeting that rather than using such estimates, employers should disclose the following regarding each plan on their annual report reported on Form 10-K:

- Plan identifying information—this would help users access plan information themselves
- Pension Protection Act zone status—endangered (yellow), seriously endangered (orange), critical (red), or none of the three (green)—and whether a funding improvement plan or rehabilitation plan has been implemented or is pending
- Contributions for the current period for each income statement presented (for public companies, three years of contributions)
- Whether the plan has imposed a surcharge (for plans in critical status)
- The expiration date of the collective bargaining arrangement for each individual material plan in which the employer participates (only for the end of the most recent year)
- Whether the employer's contributions represent more than 5% of total contributions to the plan

In its meeting handout,¹ FASB included an illustration of how these disclosures might be displayed.

At its meeting, FASB also tentatively decided that an employer would *not* be required to provide the following disclosures proposed in the Exposure Draft:

- The number of multiemployer plans in which the employer participates
- The total assets and the accumulated benefit obligation of the multiemployer plans in which the employer participates
- The employer's contributions to a plan as a percentage of total plan contributions
- The percentage of an employer's employees that are covered by multiemployer plans

All of FASB's decisions reported from this meeting are tentative and may be changed at future board meetings. FASB decisions become final only after a formal written ballot to issue an Accounting Standards Update.

In addition, in April 2010, the International Accounting Standards Board (IASB) issued a proposal that would require increased disclosures regarding an employer's multiemployer plan participation. In addition to FASB's new standards, employers with international operations may be subject to these requirements, which are more extensive than the changes that FASB is proposing. There has also been an ongoing effort by the IASB and FASB to reach a shared goal of globally converged accounting standards. As a result, it could become the case that the more extensive IASB requirements would become applicable.

1. Available online at http://www.fasb.org/cs/ContentServer?site=FASB&c=Document_C&pagename=FASB%2FDocument_C%2FDocumentPage&cid=1176158577598.

We will continue to monitor potential disclosure obligations as IASB and FASB finalize their requirements.

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