

FINANCIAL ACCOUNTING SERIES



No. 2013-09
July 2013

Fair Value Measurement (Topic 820)

Deferral of the Effective Date of Certain Disclosures for
Nonpublic Employee Benefit Plans in Update No. 2011-04

An Amendment of the *FASB Accounting Standards Codification*®

Financial Accounting Standards Board

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Summary

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

Stakeholders raised concerns that certain disclosure requirements in paragraph 820-10-50-2 of the *FASB Accounting Standards Codification*[®], which was effective for nonpublic entities for annual periods beginning after December 15, 2011, potentially provide proprietary information about nonpublic entities through the dissemination of their employee benefit plans' financial statements on the regulator's website. The amendments in this Update address those concerns.

Who Is Affected by the Amendments in This Update?

The amendments in this Update apply to certain quantitative disclosure requirements for an employee benefit plan, other than those plans that are subject to the Securities and Exchange Commission's filing requirements (hereafter "nonpublic employee benefit plan"), that holds investments in its plan sponsor's own nonpublic entity equity securities, including equity securities of its plan sponsor's nonpublic affiliated entities and that are within the scope of the disclosure requirements contained in FASB Accounting Standards Update No. 2011-04, *Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs*.

What Are the Main Provisions?

The amendments in this Update defer indefinitely the effective date of certain required disclosures in Update 2011-04 (Topic 820) of quantitative information about the significant unobservable inputs used in Level 3 fair value measurements for investments held by a nonpublic employee benefit plan in its plan sponsor's own nonpublic entity equity securities, including equity securities of its plan sponsor's nonpublic affiliated entities. The amendments in this Update do not defer the effective date for those certain quantitative disclosures for other nonpublic entity equity securities held in the nonpublic employee benefit plan or any qualitative disclosures.

When Will the Amendments Be Effective?

The deferral in this amendment is effective upon issuance for financial statements that have not been issued.

How Do the Provisions Compare with International Financial Reporting Standards (IFRS)?

Currently, there are no differences between U.S. GAAP and IFRS as they relate to the content of the required fair value measurement disclosures. IFRS 13, *Fair Value Measurement*, should be applied for annual periods beginning on or after January 1, 2013, with earlier application permitted. The amendments in Update 2011-04 were effective for public entities during interim and annual periods beginning after December 15, 2011, and effective for nonpublic entities for annual periods beginning after December 15, 2011. The U.S. GAAP amendments indefinitely defer certain quantitative disclosures for nonpublic employee benefit plans.

Amendments to the *FASB Accounting Standards Codification*[®]

Introduction

1. The Accounting Standards Codification is amended as described in paragraphs 2–4. 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~~.

Amendments to Subtopic 820-10

2. Amend paragraph 820-10-50-2(bbb), with a link to transition paragraph 820-10-65-9, as follows:

Fair Value Measurement—Overall

Disclosure

820-10-50-2 To meet the objectives in paragraph 820-10-50-1, a reporting entity shall disclose, at a minimum, the following information for each class of assets and liabilities (see paragraph 820-10-50-2B for information on determining appropriate classes of assets and liabilities) measured at fair value (including measurements based on fair value within the scope of this Topic) in the statement of financial position after initial recognition:

bbb. The information shall include:

1. For recurring and nonrecurring fair value measurements categorized within Level 2 and Level 3 of the fair value hierarchy, a description of the valuation technique(s) and the inputs used in the fair value measurement. If there has been a change in valuation technique (for example, changing from a **market approach** to an **income approach** or the use of an additional valuation technique), the reporting entity shall disclose that change and the reason(s) for making it.
2. For fair value measurements categorized within Level 3 of the fair value hierarchy, a reporting entity shall provide quantitative information about the significant unobservable inputs used in the fair value measurement. A reporting entity is not required to create quantitative information to comply with this disclosure

requirement if quantitative unobservable inputs are not developed by the reporting entity when measuring fair value (for example, when a reporting entity uses prices from prior transactions or third-party pricing information without adjustment). However, when providing this disclosure, a reporting entity cannot ignore quantitative unobservable inputs that are significant to the fair value measurement and are reasonably available to the reporting entity.

3. Add paragraph 820-10-65-9 as follows:

> Transition Related to Accounting Standards Update No. 2013-09, *Fair Value Measurement (Topic 820): Deferral of the Effective Date of Certain Disclosures for Nonpublic Employee Benefit Plans in Update No. 2011-04*

820-10-65-9 The following represents the transition and effective date information related to Accounting Standards Update No. 2013-09, *Fair Value Measurement (Topic 820): Deferral of the Effective Date of Certain Disclosures for Nonpublic Employee Benefit Plans in Update No. 2011-04*:

- a. The pending content that links to this paragraph shall be applied prospectively and is effective upon issuance except for the following.
- b. For employee benefit plans other than those plans that are subject to the Securities and Exchange Commission's filing requirements:
 1. Paragraph 820-10-50-2(bbb)(2) shall be deferred indefinitely for investments held by the employee benefit plan in its plan sponsor's own nonpublic equity securities, including equity securities of its plan sponsor's nonpublic affiliated entities.

4. Amend paragraph 820-10-00-1 as follows:

820-10-00-1 The following table identifies the changes made to this Subtopic.

Paragraph Number	Action	Accounting Standards Update	Date
820-10-50-2	Amended	2013-09	07/08/13
820-10-65-9	Added	2013-09	07/08/13

The amendments in this Update were adopted by the unanimous vote of the seven members of the Financial Accounting Standards Board:

Leslie F. Seidman, *Chairman*

Daryl E. Buck

Russell G. Golden

Thomas J. Linsmeier

R. Harold Schroeder

Marc A. Siegel

Lawrence W. Smith

Background Information and Basis for Conclusions

Introduction

BC1. The following summarizes the Board's considerations in reaching the conclusions in this Update. It includes reasons for accepting certain approaches and rejecting others. Individual Board members gave greater weight to some factors than to others.

BC2. The amendments in this Update defer indefinitely the effective date of certain quantitative disclosures in Update 2011-04 only for investments held by an employee benefit plan, other than those plans that are subject to the Securities and Exchange Commission's filing requirements (hereafter "nonpublic employee benefit plan"), in its plan sponsor's own nonpublic entity equity securities, including equity securities of its plan sponsor's nonpublic affiliated entities. The amendments in this Update do not defer the effective date of certain quantitative disclosures for other nonpublic entity equity securities held by a nonpublic employee benefit plan.

BC3. The amendments in this Update do not defer the effective date of the other disclosure requirements in Update 2011-04.

Background Information and Basis for Conclusions

BC4. Update 2011-04 was issued in May 2011. The amendments in that Update require new disclosures and enhance existing disclosures for all reporting entities that are required or permitted to measure or disclose the fair value of an asset, a liability, or an instrument classified in a reporting entity's shareholders' equity in the financial statements. For public entities, the amendments were effective during interim and annual periods beginning after December 15, 2011. For nonpublic entities, the amendments were effective for annual periods beginning after December 15, 2011.

BC5. Stakeholders raised concerns that the introduction of those disclosure requirements could result in the release of proprietary information of nonpublic entities through the dissemination of its employee benefit plan financial statements on the regulator's website. The new disclosure requirements include, but are not limited to, the disclosure of quantitative information about the significant unobservable inputs used in the Level 3 fair value measurements. Although the disclosures are required for each class of assets or liabilities, there are certain nonpublic employee benefit plans that hold their plan sponsor's own nonpublic entity equity securities. If those equity securities are the only asset

within the nonpublic equity securities class, they cannot be aggregated for disclosure purposes.

BC6. Because the regulator makes available to the public via its website the Form 5500 and an employee benefit plan's audited financial statements filed by the plan sponsor, the required quantitative information on inputs to the Level 3 fair value measurement could provide proprietary information about the financial performance of the nonpublic entity plan sponsor and its financial condition. The availability of the financial statements on the regulator's website, therefore, could provide information about the nonpublic entities that otherwise would not be available publicly.

BC7. At the April 10, 2013 Board meeting, the Board noted that disclosure of quantitative information about the significant unobservable inputs used in the fair value measurement is relevant information to the primary users of the financial statements (the regulators(s) and the plan participants). However, the Board decided that the quantitative information, if made available to the general public, may contain certain proprietary information that could result in unintended consequences. Thus, the Board wanted to take additional time before concluding that the benefits of the quantitative information being publicly disclosed justify the costs. The Board decided to defer indefinitely the effective date of certain quantitative disclosures in Update 2011-04 for certain employee benefit plans to allow time for other solutions to be pursued.

BC8. On April 30, 2013, the Board issued proposed Accounting Standards Update, *Fair Value Measurement (Topic 820): Deferral of the Effective Date of Certain Disclosures for Nonpublic Employee Benefit Plans in Update No. 2011-04*. The comment period ended on May 31, 2013, and the Board received 72 responses. The majority of the respondents were preparers and auditors. Some industry organizations, a state society, an individual, and a regulator also responded.

BC9. Most respondents supported the proposed deferral of the certain quantitative disclosure requirements for investments held by a nonpublic employee benefit plan of its plan sponsor's own nonpublic entity equity securities. However, the regulator strongly opposed the deferral of those certain disclosure requirements required by Update 2011-04. The regulator indicated that those disclosures are highly relevant to the plan participants and regulators who are the primary users of the employee benefit plan financial statements and that the regulator is not allowed to withhold such information from the public. However, the regulator always had and will continue to have the ability to interact directly with management to ask questions and obtain additional material financial information and analysis.

Scope

BC10. In the proposed Update, the Board decided to limit the scope of the indefinite deferral to investments held by nonpublic employee benefit plans in their plan sponsor's own nonpublic entity equity securities, regardless of what other nonpublic entity equity securities are held by the nonpublic employee benefit plan. Some respondents suggested expanding the scope of investments in the proposed Update also to include equity securities of the plan sponsor's nonpublic affiliated entities. Those respondents stated that certain quantitative disclosures about equity securities of their plan sponsor's nonpublic affiliated entities also would release proprietary information through dissemination of their employee benefit plan financial statements on the regulator's website.

BC11. During redeliberations, the Board decided to expand the scope of the indefinite deferral to investments held by nonpublic employee benefit plans in their plan sponsor's own nonpublic entity equity securities, including equity securities of their plan sponsor's nonpublic affiliated entities. The Board favored this scope because it will prevent the disclosure of proprietary information for the nonpublic employee benefit plans own plan sponsor's and affiliated entities nonpublic entity equity securities. Disclosure requirements of other nonpublic entity equity securities held by the nonpublic employee benefit plan would not be considered proprietary to the plan, its own plan sponsor, or its plan sponsor's affiliated entities. Therefore, those disclosures are not included in the scope of the indefinite deferral.

BC12. The Board considered whether the indefinite deferral should be limited to a situation in which a nonpublic employee benefit plan holds an investment in its plan sponsor's own nonpublic entity equity securities, but only if that investment is the only nonpublic entity equity investment of the nonpublic employee benefit plan. Some Board members indicated that the aggregation of other nonpublic entity equity securities with its plan sponsor's own nonpublic entity equity securities would reasonably prevent specific identification of the proprietary information. Other Board members were concerned that the nonpublic employee benefit plan could hold an inadequate amount of other nonpublic entity equity securities in the same class within the fair value hierarchy in which to aggregate with its plan sponsor's own nonpublic entity equity securities. The inability to aggregate could result in the distribution of proprietary information of nonpublic entities through the release of nonpublic employee benefit plan financial statements on the regulator's website.

BC13. The Board decided to limit the indefinite deferral to quantitative information about the significant unobservable inputs used in Level 3 fair value measurement. The quantitative information represents proprietary information about key assumptions used by a nonpublic plan sponsor and the plan sponsor's nonpublic affiliated entities to value its stock.

BC14. The Board decided to exclude the qualitative disclosures in paragraph 820-10-50-2(bbb)(1) and (f) from the indefinite deferral because the qualitative disclosures will be relevant to the primary users of the financial statements but will not reveal a plan sponsor's or a plan sponsor's affiliated entities proprietary information.

BC15. In the proposed Update, the proposed definition of *nonpublic employee benefit plan* was described as an employee benefit plan other than those that are subject to the Securities and Exchange Commission's Form 11-K filing requirements. A few respondents noted that some employee benefit plans file a Form 10-K/A rather than a Form 11-K and suggested defining *nonpublic employee benefit plan* as "any employee benefit plan that is not subject to the Securities and Exchange Commission's filing requirements" rather than the proposed definition of "an employee benefit plan other than those that are subject to the Securities and Exchange Commission's Form 11-K filing requirements."

BC16. During redeliberations, the Board decided to revise the description of the nonpublic employee benefit plan to an employee benefit plan other than those plans that are subject to the Securities and Exchange Commission's filing requirements. Because some plans file Form 10-K/A rather than Form 11-K, the Board revised the description to be less specific in nature.

BC17. A few respondents asked the Board to clarify the applicability of the proposed definition of *nonpublic employee benefit plan* throughout U.S. GAAP. That is, those respondents questioned whether this definition would only apply to the proposed Update or whether it would be applied in future Accounting Standards Updates.

BC18. A respondent suggested replacing the proposed term *nonpublic employee benefit plan* with the description of the employee benefit plans included in the scope of the proposed Update. The respondent stated that stakeholders may be confused about how to classify the employee benefit plan of a public entity (for example, a public entity versus a nonpublic employee benefit plan).

BC19. Given the confusion that respondents indicated may arise about the applicability of the proposed definition in either Topic 820 or all Topics in the Codification, the Board decided during redeliberations not to include this proposed definition in the Master Glossary to clarify that it does not apply to all Topics in the Codification. Instead, the Board decided to simply describe these employee benefit plans in the amendments to the Codification relating to this deferral without using the term *nonpublic employee benefit plan*. The description of such employee benefit plans is included in paragraph 820-10-65-9.

BC20. In the proposed Update, the Board amended paragraph 820-10-65-8 by adding subparagraph (a)(3)(i). Because the pending content in Update 2011-04 is now final, the transition paragraph 820-10-65-8 was removed before this final Update was issued. Therefore, the amendment to paragraph 820-10-65-8 was moved to new paragraph 820-10-65-9.

Effective Date and Transition

BC21. The Board decided that the amendments in this Update should be effective upon issuance for financial statements that have not been issued. The Board concluded that the effective date will minimize the distribution of nonpublic entity proprietary information to the public. If a nonpublic employee benefit plan has not yet adopted the amendments in Update 2011-04, then the amendments in this Update will result in no changes to the existing disclosures of quantitative information on the investment in its plan sponsor's own nonpublic entity equity securities, including equity securities of its plan sponsor's nonpublic affiliated entities.

Benefits and Costs

BC22. The objective of financial reporting 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.

BC23. The amendments in this Update do not create new accounting guidance. Thus, the Board does not anticipate that entities will incur significant costs as a result of the amendments in this Update. The Board determined that the deferral provided by this Update may lower costs of complying with the disclosure requirements in Update 2011-04 by avoiding the costs of potentially broadly disseminating proprietary information about the key inputs used by a nonpublic entity to value its own stock, by virtue of the nonpublic employee benefit plan financial statements being posted to the Internet by the regulator.

Amendments to the XBRL Taxonomy

The amendments to the *FASB Accounting Standards Codification*® in this Accounting Standards Update do not require changes to the U.S. GAAP Financial Reporting Taxonomy (UGT). Any stakeholders who believe that changes to the UGT are required should provide their comments and suggested changes at www.fasb.org.