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Disclosing Your Slice of the Pie

FASB Proposes Disclosures About an Employer's Participation in Multiemployer Plans

by Tiffany Prudhomme and Robin Kramer, Deloitte & Touche LLP

Yesterday, the FASB issued a proposed Accounting Standards Update (ASU), *Disclosure About an Employer's Participation in a Multiemployer Plan*.[1] The proposed ASU's objective is to improve transparency by amending ASC 715-80[2] to significantly increase the level of quantitative and qualitative disclosures an employer would be required to make about its participation in multiemployer plans, including the effect on its cash flows.[3] The proposed disclosures would not apply to an employer's participation in multiple-employer plans (e.g., plans that are single-employer plans aggregated to pool plan assets for investment purposes or to reduce the costs of plan administration). Comments on the proposal are due by November 1, 2010.

The Codification's Master Glossary defines a multiemployer plan as follows:

> A pension or postretirement benefit plan to which two or more unrelated employers contribute, usually pursuant to one or more collective-bargaining agreements. A characteristic of multiemployer plans is that assets contributed by one participating employer may be used to provide benefits to employees of other participating employers since assets contributed by an employer are not segregated in a separate account or restricted to provide benefits only to employees of that employer. A multiemployer plan is usually administered by a board of trustees composed of management and labor representatives and may also be referred to as a joint trust or union plan. Generally, many employers participate in a multiemployer plan, and an employer may participate in more than one plan. The employers participating in multiemployer plans usually have a common industry bond, but for some plans the employers are in different industries and the labor union may be their only common bond. Some multiemployer plans do not involve a union. For example, local chapters of a not-for-profit entity (NFP) may participate in a plan established by the related national organization.

Disaggregation of Multiemployer Plans

The proposed ASU requires separate disclosures for pension plans and other postretirement plans because the nature of the benefits, risks, and regulatory requirements associated with these two types of plans is different. Narrative information for these two categories of defined benefit plans would be further disaggregated "for plans or groups of plans with significantly different risk characteristics or contractual commitments [and the] basis for disaggregation shall be disclosed."

[1] The IASB has also proposed enhanced disclosure requirements for multiemployer plans in its exposure draft ED/2010/3, *Defined Benefit Plans — Amendments to IAS 19*, issued for comment in April 2010. The FASB's proposed disclosures are similar to those proposed by the IASB.

[2] FASB Accounting Standards Codification (ASC or "Codification") Subtopic 715-80, *Compensation Plans — Retirement Benefits: Multiemployer Plans*.

[3] The proposal does not amend the measurement guidance in ASC 715-80 on multiemployer plans.

Whether quantitative information for plans should be disclosed individually or in the aggregate with other plans depends on the materiality of the plans. The proposed ASU requires separate quantitative disclosure for plans that are individually material. For plans that are not individually material but are material in the aggregate, quantitative information can be provided in the form of a range that covers the population aggregated. The proposed ASU requires that quantitative information be "provided for each annual period for which a statement of income or statement of financial position is presented."

Nature of the New Disclosure Requirements

Current disclosure requirements primarily focus on an employer's annual contributions to multiemployer plans; however, they do not give users of financial statements the information they need to assess an employer's risks and commitments associated with its participation in a multiemployer plan. To address this, the proposed ASU requires employers to disclose:

a. Information about the multiemployer plan

b. Information about the employer's participation in the plan

c. Information about cash flow implications arising from the employer's participation in a multiemployer plan.

If an employer is not able to provide the required disclosures, the employer must disclose why it could not obtain the information. The appendix of this *Heads Up* contains details about the proposed disclosure requirements.

Editor's Note: Entities that do not currently provide the level of disclosure required by the proposed ASU, or do not have such information readily available, may need to plan and coordinate preparation of the proposed disclosures with the trustees and administrators of the plan. Entities should also consider the effect that the increased disclosure requirements will have on their internal controls over financial reporting.

Effective Date and Transition

The disclosure requirements would be effective for reporting entities with fiscal years ending after December 15, 2010, except for nonpublic entities, which would apply the provisions for fiscal periods ending after December 15, 2011. Comparative disclosures would be required prospectively only.

Editor's Note: The proposal contemplates that companies with fiscal years ending after December 15 would include the additional disclosures in this year's financial statements. We recommend that financial statement preparers (1) assess what information will be available for this year-end from trustees and administrators for the multiemployer plans they are associated with and (2) consider responding to the FASB's request for comment if they believe they will have difficulty complying with the proposed disclosure requirements this year-end.

We recommend that financial statement preparers (1) assess what information will be available for this year-end from trustees and administrators for the multiemployer plans they are associated with and (2) consider responding to the FASB's request for comment if they believe they will have difficulty complying with the proposed disclosure requirements this year-end.

Appendix — Summary of Proposed New Disclosure Requirements

The proposed ASU would amend the disclosure requirements in ASC 715-80-50-1B for employers that participate in a multiemployer plans to include:

a. The number of plans in which the employer participates.

b. For individually material plans, the name of the plan(s).

c. Narrative descriptions of all of the following:

    1. The employer's exposure to significant risks and uncertainties arising from its participation in the plan(s). That narrative description shall include the extent to which, under the terms and conditions of the plan(s), the employer can be liable to the plan(s) for other participating employer's obligations.

    2. How benefit levels for plan participants are determined.

    3. Whether the employer is or is not represented on the board of trustees of the plan(s) or a similar body.

    4. The consequences the employer may face if it ceases contributing to the plan(s).

    5. Any funding improvement plan(s) or rehabilitation plan(s), including the expected effects on the employer. For plans in regulatory warning zones, the warning status and remedies being considered by the plan(s) should be described, if known.

d. A description of the nature and effect of any changes affecting comparability from period to period, including both of the following:

    1. A business combination or a divestiture.

    2. The rate of employer contributions for each period for which a statement of income is presented.

e. Total assets and the accumulated benefit obligation of the plan(s), if obtainable, as of the most recent financial statement plan year-end and, for comparability, those amounts for the corresponding prior periods.

f. Employer's contributions as a percentage of total contribution to the plan(s), if obtainable, for the year ended as of the employer's latest statement of financial position date or most recent date available before the statement of financial position date and, for comparability, that percentage for the corresponding prior periods.

g. A description of the contractual arrangement(s), including all of the following:

    1. The term of the current arrangement(s).

    2. For each future year covered by a contract, the agreed-upon basis for determining contribution(s).

    3. Any minimum contribution(s) required by the agreement(s).

h. Percentage of the employer's employees covered by such plan(s).

i. Quantitative information about the employer's participation in the plan(s), for example, the number of its employee participants as a percentage of total plan participants disaggregated between active and retired participants, if obtainable, as of the most recent date available.

j. Amount of contributions for the current reporting period.

k. Expected contributions for the next annual period.

l. Known trends in contributions, including the extent to which a surplus or deficit in the plan may affect future contributions.

m. For plans for which an amount is required to be paid on withdrawal from the plan or windup of the plan:

    1. Details of any agreed deficit or surplus allocation to participating employers on windup.

    2. The amount that is required to be paid on withdrawal from the plan as of the most recent date available, if that information is obtainable.

    3. If the amount required to be paid on withdrawal is not obtainable, information about the employer's relative participation in those plans (such as percentage of total contributions to such plans or percentage of participants covered by such plan(s)).

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