FASB EXPOSURE DRAFT

*Proposed Accounting Standards Update*

Issued: June 10, 2026
Comments Due: August 10, 2026

# Compensation—Retirement Benefits—Defined Benefit Plans—Pension (Subtopic 715-30)

## Discount Rate Used to Measure the Benefit Obligation for Certain Market-Return Cash Balance Plans

The Board issued this Exposure Draft to solicit public comment on proposed changes to Topic 715 of the *FASB Accounting Standards Codification*®. Individuals can submit comments in one of three ways: using the electronic feedback form on the FASB website, emailing comments to director@fasb.org, or sending a letter to "Technical Director, File Reference No. 2026-ED100, FASB, 801 Main Avenue, PO Box 5116, Norwalk, CT 06856-5116."

Financial Accounting Standards Board

## Notice to Recipients of This Exposure Draft of a Proposed Accounting Standards Update

The Board invites comments on all matters in this Exposure Draft until August 10, 2026. Interested parties may submit comments in one of three ways:

- Using the electronic feedback form available on the FASB website at Exposure Documents Open for Comment
- Emailing comments to director@fasb.org, File Reference No. 2026-ED100
- Sending a letter to "Technical Director, File Reference No. 2026-ED100, FASB, 801 Main Avenue, PO Box 5116, Norwalk, CT 06856-5116."

All comments received are part of the FASB's public file and are available at www.fasb.org.

The *FASB Accounting Standards Codification*® is the source of authoritative generally accepted accounting principles (GAAP) recognized by the FASB to be applied by nongovernmental entities. An Accounting Standards Update is not authoritative; rather, it is a document that communicates how the Accounting Standards Codification is being amended. It also provides other information to help a user of GAAP understand how and why GAAP is changing and when the changes will be effective. A copy of this Exposure Draft is available at www.fasb.org.



FASB
FINANCIAL ACCOUNTING STANDARDS BOARD®

# Proposed Accounting Standards Update

# Compensation—Retirement Benefits—
# Defined Benefit Plans—Pension
# (Subtopic 715-30)

# Discount Rate Used to Measure the Benefit Obligation for Certain Market-Return Cash Balance Plans

June 10, 2026

Comment Deadline: August 10, 2026

## CONTENTS

# Summary and Questions for Respondents

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

The Board is issuing this proposed Update to clarify the discount rate that should be used to measure the benefit obligation under Subtopic 715-30, Compensation—Retirement Benefits—Defined Benefit Plans—Pension, for certain market-return cash balance plans.

Market-return cash balance plans are a type of cash balance plan with a variable interest crediting rate based on an investable market return. In a market-return cash balance plan, the promised benefit to the participant at retirement (or termination) is equal to the principal credits and interest credits, which could be the actual investment returns on the principal credits, subject to certain requirements. Stakeholders have noted that (1) there are different interpretations in practice about how the measurement guidance in Subtopic 715-30 should be applied to market-return cash balance plans and (2) the accounting may not reflect the economics of those plans. When an entity uses a discount rate other than the assumed interest crediting rate to measure the benefit obligation for those plans, the benefit obligation often is different from the plans' hypothetical account balances (which are made up of principal credits and future interest credits based on those principal credits).

To address stakeholders' concerns, the amendments in this proposed Update would specify the discount rate required to be used to measure the benefit obligation for certain market-return cash balance plans.

## Who Would Be Affected by the Amendments in This Proposed Update?

The amendments in this proposed Update would apply to all entities that have market-return cash balance plans that meet the specified conditions.

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

The amendments in this proposed Update would require that an entity use the assumed interest crediting rate as the discount rate to measure the benefit obligation under Subtopic 715-30 for market-return cash balance plans that meet the following conditions:

1. Pension benefits are communicated to employees in the form of an account balance that comprises principal credits and interest credits based on an investable market return in any of the following forms:
    a. The return on plan assets
    b. The return on a subset of plan assets that approximates the associated cash balance liabilities
    c. The return on a regulated investment company.
2. Participants have the option to elect lump-sum payments.

The amendments in this proposed Update would not change how market-return cash balance plans should be accounted for under current guidance in Subtopic 715-30, except for requiring that the assumed interest crediting rate be used as the discount rate when measuring the benefit obligation of qualifying plans. As a result of using the assumed interest crediting rate as the discount rate, the benefit obligation of those plans generally would be equal to their hypothetical account balance.

The amendments in this proposed Update would (1) better reflect the economics of market-return cash balance plans that meet the conditions listed above (in-scope market-return cash balance plans) and (2) reduce diversity in practice on how the measurement guidance in Subtopic 715-30 should be applied to those plans.

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

An entity would be required to apply the amendments in this proposed Update prospectively at its next pension measurement date as determined under Subtopic 715-30. Early adoption would be permitted.

The effective date will be determined after the Board considers stakeholder feedback on the amendments in this proposed Update.

## Questions for Respondents

The Board invites individuals and organizations to comment on all matters in this proposed Update, particularly on the issues and questions below. Comments are requested from those who agree with the proposed guidance as well as from those who do not agree. Comments are most helpful if they identify and clearly explain the issue or question to which they relate. Those who disagree with the proposed guidance are asked to describe their suggested alternatives, supported by specific reasoning.

**Question 1:** Is the scope of the amendments in this proposed Update described in paragraph 715-30-35-43A clear and operable? Do you anticipate any auditing challenges? Please explain why or why not.

**Question 2:** Would the proposed amendments, which would require the assumed interest crediting rate to be used as the discount rate to measure the benefit obligation of in-scope market-return cash balance plans, provide decision-useful information and improve comparability? Are the proposed amendments clear and operable? Do you anticipate any auditing challenges? Please explain why or why not.

**Question 3:** Do you agree that the assumed interest crediting rate should be used as the discount rate in all circumstances for in-scope market-return cash balance plans? If not, under what circumstances would it be appropriate to use a different discount rate? Please explain your reasoning.

**Question 4:** Should the proposed amendments be applied to other defined benefit plans that are economically similar to in-scope market-return cash balance plans? If so, please describe the nature of those other defined benefit plans, how they would be defined, and how pervasive they are. If the proposed amendments are expanded to other defined benefit plans, are there any changes that would need to be made to the proposed amendments? If so, please explain why and describe the changes that you would recommend.

**Question 5:** Do you agree with the proposed consequential amendments to the guidance on cash balance plans in paragraph 715-20-25-3 and the guidance on the measurement of accumulated benefit obligations for plan reporting in paragraph 960-20-35-1B? Please explain why or why not.

**Question 6:** The proposed transition requirements require that entities apply the proposed amendments on a prospective basis and disclose the nature of and reason for the change in accounting principle. Are the proposed transition requirements operable? If not, why not, and what transition method would be more appropriate and why? Would the proposed transition disclosures provide decision-useful information? Please explain why or why not.

**Question 7:** How much time would be needed to implement the proposed amendments? Should the effective date for entities other than public business entities be different from the effective date for public business entities? Please explain why or why not. If so, how much additional time would you recommend for entities other than public business entities?

**Question 8:** The proposed amendments would permit early adoption. Do you agree that early adoption should be permitted at any time prior to the effective date? Please explain why or why not.

# Amendments to the *FASB Accounting Standards Codification®*

## Introduction

1. The Accounting Standards Codification is amended as described in paragraphs 2–5. 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 <u>underlined</u>, and deleted text is ~~struck out~~.

## Amendments to Subtopic 715-20

2. Amend paragraphs 715-20-25-2 through 25-3, with a link to transition paragraph 715-30-65-2, as follows:

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

### Recognition

#### > Cash Balance Plans

**715-20-25-1** A cash balance plan is a defined benefit plan.

**715-20-25-2** A cash balance plan communicates to employees a pension benefit in the form of ~~a current~~<u>an</u> account balance that is based on principal credits and ~~future~~ interest credits based on those principal credits.

**715-20-25-3** In a cash balance plan, individual account balances are determined by reference to a hypothetical account rather than specific assets, and the benefit is dependent on the employer's promised interest-crediting rate ~~not the actual return on plan assets~~. The employer's financial obligation to the plan is not satisfied by making prescribed principal and interest credit contributions—whether in cash or as a hypothetical contribution to participants' accounts—for the period; rather, the employer must fund, over time, amounts that can accumulate to the actuarial present value of the benefit due at the time of distribution to each participant pursuant to the plan's terms. The employer's contributions to a cash balance plan trust and the earnings on the invested plan assets may be unrelated to the principal and interest credits to participants' hypothetical accounts. However, for certain market-return cash balance plans described in paragraph 715-30-35-43A, the earnings on the invested plan assets could relate to the interest credits to participants' hypothetical accounts.

# Amendments to Subtopic 715-30

3. Amend paragraph 715-30-35-43 and add paragraph 715-30-35-43A, with a link to transition paragraph 715-30-65-2, as follows:

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

### Subsequent Measurement

#### > Assumptions

**715-30-35-42** This Subtopic requires an **explicit approach to assumptions**. That is, each significant assumption used shall reflect the best estimate solely with respect to that individual assumption. All assumptions shall presume that the plan will continue in effect in the absence of evidence that it will not continue. Actuarial assumptions reflect the time value of money (discount rate) and the probability of payment (assumptions as to mortality, turnover, early retirement, and so forth).

#### • > Discount Rates

**715-30-35-43** Assumed discount rates shall reflect the rates at which the pension benefits could be effectively settled (see paragraph 715-30-35-43A for guidance on determining the assumed discount rate for certain market-return cash balance plans). It is appropriate in estimating those rates to look to available information about rates implicit in current prices of **annuity contracts** that could be used to effect **settlement** of the obligation (including information about available annuity rates published by the Pension Benefit Guaranty Corporation). In making those estimates, employers may also look to rates of return on high-quality fixed-income investments currently available and expected to be available during the period to maturity of the pension benefits. Assumed discount rates are used in measurements of the projected, accumulated, and vested benefit obligations and the service and interest cost components of net periodic pension cost.

**715-30-35-43A** For a market-return cash balance plan that meets both of the following conditions, the plan's assumed interest crediting rate shall be used as the assumed discount rate:

a. Pension benefits are communicated to employees in the form of an account balance that comprises principal credits and interest credits based on an investable market return in any of the following forms:
    1. The return on plan assets
    2. The return on a subset of plan assets that approximates the associated cash balance liabilities
    3. The return on a regulated investment company.
b. Participants have the option to elect lump-sum payments.

4. Add paragraph 715-30-65-2 and its related heading as follows:

## Transition and Open Effective Date Information

**> Transition Related to Accounting Standards Update No. 2026-XX, *Compensation—Retirement Benefits—Defined Benefit Plans—Pension (Subtopic 715-30): Discount Rate Used to Measure the Benefit Obligation for Certain Market-Return Cash Balance Plans***

**715-30-65-2** The following represents the transition and effective date information related to Accounting Standards Update No. 2026-XX, *Compensation—Retirement Benefits—Defined Benefit Plans—Pension (Subtopic 715-30): Discount Rate Used to Measure the Benefit Obligation for Certain Market-Return Cash Balance Plans*:

**Effective date and early adoption**

a. All entities shall apply the pending content that links to this paragraph for annual reporting periods beginning after [date to be inserted after exposure] and interim reporting periods [within or beginning after] those annual reporting periods.
b. Early adoption of the pending content that links to this paragraph is permitted at any time prior to the effective date.

**Transition method**

c. An entity shall apply the pending content that links to this paragraph on a prospective basis at its next pension measurement date under the guidance in this Subtopic.

**Transition disclosure**

d. An entity shall disclose the nature of and reason for the change in accounting principle in both the interim reporting period (if applicable) and the annual reporting period in which the entity adopts the pending content that links to this paragraph.

# Amendments to Subtopic 960-20

5. Amend paragraph 960-20-35-1A and add paragraph 960-20-35-1B, with a link to transition paragraph 715-30-65-2, as follows:

## Plan Accounting—Defined Benefit Pension Plans—Accumulated Plan Benefits

## Subsequent Measurement

### > Assumptions Used in Determining Benefit Information

**960-20-35-1** An assumption of an ongoing plan shall underlie the other assumptions used in determining the **actuarial present value of accumulated plan benefits**. Every other significant assumption used in that determination and disclosed pursuant to paragraph 960-20-50-8 shall reflect the best estimate of the plan's future experience solely with respect to that individual assumption. As to certain assumptions, all of the following shall apply:

a. Assumed rates of return shall reflect the expected rates of return during the periods for which payment of benefits is deferred and shall be consistent with returns realistically achievable on the types of assets held by the plan and the plan's investment policy. To the extent that assumed rates of return are based on values of existing plan assets, the values used in determining assumed rates of return shall be the values presented in the plan's financial statements pursuant to the requirements of the Plan Accounting—Defined Benefit Pension

Plans Topic.

b. Expected rates of inflation assumed in estimating automatic cost-of-living adjustments shall be consistent with the assumed rates of return.
c. Administrative expenses expected to be paid by the plan (not those paid by the **sponsor**) that are associated with providing accumulated plan benefits shall be reflected either by appropriately adjusting the assumed rates of return or by assigning those expenses to future periods and discounting them to the benefit information date.

**960-20-35-1A** In selecting certain assumptions to be used in determining the actuarial present value of accumulated plan benefits, an acceptable alternative to that discussed in ~~the preceding~~ paragraph 960-20-35-1 is to use those assumptions that are inherent in the estimated cost at the **benefit information date** to obtain a contract with an insurance entity to provide participants with their **accumulated plan benefits**. Those other assumptions that are necessary but are not inherent in that estimated cost shall be selected pursuant to the requirements of ~~the preceding~~ paragraph 960-20-35-1.

**960-20-35-1B** For certain market-return cash balance plans described in paragraph 715-30-35-43A, the plans' assumed interest crediting rates shall be used in determining the actuarial present value of accumulated plan benefits. Other assumptions that are necessary but are not inherent in that estimated cost shall be selected pursuant to the requirements in paragraph 960-20-35-1.

*The amendments in this proposed Update were approved for publication by the unanimous vote of the seven members of the Financial Accounting Standards Board:*

Richard R. Jones, *Chair*
Hillary H. Salo, *Vice Chair*
Christine A. Botosan
Frederick L. Cannon
Susan M. Cosper
Marsha L. Hunt
Dr. Joyce T. Joseph

# Background Information and Basis for Conclusions

## Introduction

BC1. The Emerging Issues Task Force (EITF) Agenda Committee added a project to the EITF's agenda to address the application of Topic 715, Compensation—Retirement Benefits, to market-return cash balance plans. Stakeholders have noted that (a) there are different interpretations of how the measurement guidance in Subtopic 715-30, Compensation—Retirement Benefits—Defined Benefit Plans—Pension, is applied to market-return cash balance plans and (b) the resulting accounting may not reflect the economics of those plans.

BC2. The EITF discussed the issue, developed a proposed solution, and recommended that the Board add a project to its technical agenda to address the discount rate used to measure the benefit obligation under Topic 715 for certain market-return cash balance plans. Specifically, the EITF recommended setting the discount rate equal to the assumed interest crediting rate in measuring the benefit obligation under Subtopic 715-30 for market-return cash balance plans that meet specified conditions.

BC3. The following summarizes the EITF's considerations in reaching its recommendation and the Board's basis for supporting the amendments in this proposed Update. It also includes reasons for accepting certain approaches and rejecting others. Individual Board members gave greater weight to some factors than to others.

## Background Information

BC4. A cash balance plan provides employees with a pension benefit that includes a hypothetical account balance that comprises principal credits and interest credits. Principal credits are defined by the terms of the cash balance plan and determined on the basis of various factors such as the participant's age or years of service. Interest credits are accrued at fixed or variable interest crediting rates on those principal credits. Stakeholders have observed that cash balance plans have been increasing in prevalence because of a more mobile workforce and regulatory developments. Market-return cash balance plans are a type of cash balance plan with variable interest crediting rates based on investable market returns. In a market-return cash balance plan, the promised benefit to the participant at retirement (or termination) is equal to the principal credits and the actual investment returns on the principal credits, subject to certain governmental requirements and provisions (such as the preservation of capital feature requirement and the requirement to provide an annuity option to plan participants).

BC5. While Topic 715 does not have specific guidance on market-return cash balance plans, Subtopic 715-20, Compensation—Retirement Benefits—Defined Benefit Plans—General, specifies that a cash balance plan is a defined benefit plan. Subtopic 715-30 provides guidance on an entity's accounting for defined benefit plans, including guidance on the discount rate to be used in measuring the benefit obligation of a defined benefit plan. Specifically, paragraph 715-30-35-43 states that assumed discount rates should reflect the rates at which the pension benefits could be effectively settled. That paragraph further states that, in making those estimates, it is appropriate to look to available information about rates implicit in current prices of annuity contracts that could be used to effect settlement of the obligation. An entity also may look to rates of return on high-quality fixed-income investments currently available and expected to be available during the period to maturity of pension benefits.

BC6. Stakeholders have observed different interpretations in practice of how paragraph 715-30-35-43 should be applied in measuring the benefit obligation for market-return cash balance plans. Some stakeholders indicated that only one of the rates described in that paragraph can be used as the discount rate to measure the benefit obligation, while other stakeholders suggested that other rates can be used as the discount rate if they reflect the rate at which the pension benefits could be effectively settled. Some stakeholders observed that the plan's hypothetical account balances (which are based on principal credits and interest credits based on those principal credits) reflect an entity's benefit obligation for a market-return cash balance plan. Therefore, they noted that the assumed interest crediting rate should be used as the discount rate to measure the plan's benefit obligation because when an entity uses a discount rate other than the assumed interest crediting rate to measure the benefit obligation for a market-return cash balance plan, the benefit obligation often is different from the plan's hypothetical account balance. Stakeholders asserted that this accounting outcome may not reflect the economics of the plan.

## Benefits and Costs

BC7. 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 benefits and costs 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.

BC8. On the basis of the EITF discussions, the Board expects that the amendments in this proposed Update would improve the decision usefulness of financial reporting information provided to investors by (a) more faithfully reflecting the economics of market-return cash balance plans that meet the scope criteria in proposed paragraph 715-30-35-43A (in-scope market-return cash balance plans) and (b) reducing diversity in practice on how the measurement guidance in Subtopic 715-30 should be applied to those plans.

BC9. The Board does not anticipate that entities would incur significant costs to implement the amendments in this proposed Update because information about the assumed interest crediting rates is readily available to entities with in-scope market-return cash balance plans. Therefore, the adoption of the proposed amendments would not require significant resources or processes beyond those used in an entity's routine actuarial pension calculation and related financial reporting.

BC10. For these reasons, the Board concluded that the expected benefits of the amendments in this proposed Update would justify the expected costs.

# Basis for Conclusions

## Why the EITF Added the Project to Its Agenda

BC11. Stakeholders observed that (a) there are different interpretations of how the measurement guidance in Subtopic 715-30 should be applied to market-return cash balance plans and (b) applying the guidance to these types of plans can lead to accounting that is not consistent with the economics of those plans.

BC12. EITF members acknowledged this diversity and agreed that there are feasible solutions for narrowly addressing the measurement of the benefit obligation for market-return cash balance plans. In addition, they observed that cash balance plans, including market-return cash balance plans, have been increasing in prevalence and noted that they expect that those plans will be more commonly provided in the future. Therefore, EITF members concluded that the issue is sufficiently pervasive. As a result, the EITF added a project to its agenda to address the application of Topic 715 to market-return cash balance plans.

## Scope

BC13. The EITF recommended and the Board agreed that the amendments in this proposed Update would apply to all entities with market-return cash balance plans that meet both of the following conditions:

a. Pension benefits are communicated to employees in the form of an account balance that comprises principal credits and interest credits based on an investable market return in any of the following forms:
   1. The return on plan assets
   2. The return on a subset of plan assets that approximates the associated cash balance liabilities
   3. The return on a regulated investment company.
b. Participants have the option to elect lump-sum payments.

BC14. EITF members noted that the proposed scope is appropriately defined and provides clear parameters for the types of plans that are intended to be addressed in the amendments in this proposed Update. EITF members further discussed the three forms of investable market returns that are referenced in the scope criteria and did not identify any potential application issues with those requirements. In addition, EITF members observed that while certain cash balance plans are required to offer an annuity option, most also provide a lump-sum option. The lump-sum option is included as a condition in the proposed scope because it further identifies market-return cash balance plans for which the benefit obligation should approximate the hypothetical account balance. EITF members further noted that defining the scope so that the proposed amendments would apply only to a limited and clearly specified population of market-return cash balance plans would mitigate the risk of unintended consequences that could arise from applying the proposed amendments to other types of new or emerging plans. Noting that public business entities and entities other than public business entities have market-return cash balance plans that would meet the scope criteria in proposed paragraph 715-30-35-43A (in-scope market-return cash balance plans), EITF members agreed that the proposed amendments should apply to all entities.

BC15. The Board generally agreed with the EITF members' views and noted that the proposed scope is sufficiently narrow to address the specific issues identified by the EITF. The Board observed that the specified forms of investable market return included in the scope criteria are a subset of market rates of return defined by current regulations issued by the Employee Retirement Income Security Act and the Internal Revenue Service. Those regulatory requirements include specific criteria to assess each of those three forms of investable market return, and entities already apply that guidance to assess whether the design of a plan complies with the regulations. Therefore, the Board concluded that the scope of the amendments in this proposed Update is clear and operable.

BC16. The Board further noted that the third form of an investable market return, which is based on the return on a regulated investment company, is different from the first two forms (which are based on a return on plan assets or a subset of plan assets approximating the associated cash balance liabilities). Although the third form is not directly tied to a plan's own investment return, it represents an investment return available in the market. Therefore, it is reasonable to include it in the proposed scope. Overall, the Board concluded that the proposed scope captures the appropriate population of market-return cash balance plans for which improvements to the measurement of the benefit obligation under Subtopic 715-30 would better reflect the economics of those plans.

## *Other Alternative Considered but Not Recommended*

BC17. The EITF considered but did not recommend an alternative that would have applied the amendments in this proposed Update to a broader scope of defined benefit plans that promise benefits based on the expected returns on investable assets, such as certain variable annuity plans and certain foreign plans that meet the definition of a defined benefit plan under GAAP but are accounted for as a defined contribution plan under International Financial Reporting Standards.

BC18. Some EITF members expressed a preference for this broader scope alternative, noting that the defined scope under the amendments in this proposed Update could be overly restrictive. In their view, the primary issue identified in this project, which is that the accounting outcome does not appropriately reflect a plan's economics, is not limited to market-return cash balance plans that meet the scope criteria in proposed paragraph 715-30-35-43A. Those EITF members noted that other types of plans that are economically similar to in-scope market-return cash balance plans also might benefit from the improvements made to the accounting under this project. One EITF member further noted that the benefits of aligning the accounting outcome with the economics for a broader scope of plans would outweigh the concerns about potential unintended consequences.

BC19. The Board generally agreed with the EITF members' views that economically similar plans should be accounted for similarly. However, the Board also agreed with the EITF members' views that the broader scope could potentially cause certain plans (for example, certain foreign plans) that are not currently identified and, thus, have not been fully evaluated to be included in the scope of the amendments in this proposed Update. Furthermore, consistent with the EITF members' views, the Board questioned whether there is a pervasive need to address a broader scope of plans. In addition, because the proposed amendments would establish different accounting for in-scope market-return cash balance plans compared with other defined benefit plans, the Board was more comfortable with a narrower scope at this time. For those reasons, the Board decided not to consider this alternative further but to include a question in the proposed Update to solicit feedback from stakeholders.

## Measurement

BC20. The amendments in this proposed Update would require that an entity use the assumed interest crediting rate as the discount rate to measure the benefit obligation for in-scope market-return cash balance plans. That is, an entity would continue to measure its benefit obligation for in-scope market-return cash balance plans under the existing accounting model for defined benefit pension plans in Subtopic 715-30 except that it would use the assumed interest crediting rate, rather than the settlement rates currently referenced in paragraph 715-30-35-43, as the discount rate to measure the benefit obligation.

BC21. EITF members noted that under the amendments in this proposed Update, the benefit obligation of an in-scope market-return cash balance plan would generally be equal to the plan's hypothetical account balances, absent the effect of other actuarial assumptions (such as the effect of the preservation of capital feature or the annuity option feature). For example, if an entity implements the plan as designed (that is, the entity fully funds the principal credits and the interest crediting rate is exactly tied to the return on plan assets), the following accounting effect would generally result:

a. The fair value of plan assets would approximate the hypothetical account balances, resulting in a funded status of zero.
b. The net periodic pension cost would equal the principal credits.
c. Within the net periodic pension cost:
    1. The service cost component would equal the principal credits.
    2. The interest cost component would offset the expected return on plan assets component, resulting in no effect on the net periodic pension cost.
    3. Any true-up for the difference between the assumed interest crediting rate and the actual interest crediting rate (recorded as a gain or loss related to the benefit obligation) would offset the true-up for the difference between the assumed interest crediting rate (that is, the expected return on plan assets) and the actual return on plan assets (recorded as a gain or loss related to the plan assets).

BC22. EITF members noted that the amendments in this proposed Update would better reflect the economics of in-scope market-return cash balance plans by making targeted improvements to current pension accounting in Subtopic 715-30.

BC23. The Board agreed with the EITF members' view and supported making targeted improvements to address the narrow issue specifically identified by the EITF. The Board noted that the amendments in this proposed Update would eliminate the measurement inconsistency in calculating the benefit obligation (that is, using different rates to project the hypothetical account balances to the retirement date and to discount the future benefit obligation). In addition, the Board observed that the proposed amendments would represent a limited change to current pension accounting because they retain the actuarial calculation of the benefit obligation, unlike another alternative discussed by the EITF (see paragraph BC26).

BC24. The Board decided to clarify that an entity would be required to use the assumed interest crediting rate as the discount rate to measure the benefit obligation for in-scope market-return cash balance plans in all circumstances. The Board expects that this requirement would result in more comparable and consistent information reported for those plans and would align with the EITF's objectives for this project, which are to better reflect the economics of those plans and reduce diversity in practice.

BC25. To improve the clarity and consistency of GAAP, the Board decided to make consequential amendments to the guidance on cash balance plans in paragraph 715-20-25-3 and the guidance on the measurement of accumulated benefit obligations for plan accounting in paragraph 960-20-35-1B. The Board concluded that these consequential amendments are necessary to align with the current guidance on cash balance plans and ensure the consistency between plan sponsor accounting under Subtopic 715-30 and plan accounting under Subtopic 960-20, Plan Accounting—Defined Benefit Pension Plans—Accumulated Plan Benefits, for in-scope market-return cash balance plans.

## *Other Alternatives Considered but Not Recommended*

BC26. The EITF considered but did not recommend an alternative that would have specified that the benefit obligation for an in-scope market-return cash balance plan be reported at the amount of promised benefits that would be paid to settle the plan on the measurement date. Under that approach, the benefit obligation would be measured equal to the total hypothetical account balances of the plan as of the measurement date (referred to as the walkaway amount) and would not reflect actuarial estimates or assumptions about future events that may affect the actual amount or timing of benefit payments upon retirement. The EITF did not recommend this alternative for plans within the scope of this proposed Update because measuring the obligation solely as the walkaway amount would omit plan features that would be reflected in measuring the present value of the benefit obligation for those in-scope plans (such as the effect of the preservation of capital feature or the annuity option feature).

BC27. EITF members noted that this alternative would have a similar effect on the financial statements as the measurement amendments in this proposed Update with two exceptions. First, the effect of the preservation of capital feature or the annuity option feature would not be accounted for under this alternative unless those features are triggered at the measurement date. This is in contrast to the proposed amendments, under which those features would be accounted for on the basis of actuarial assumptions. Second, under this alternative, the net periodic pension cost would equal the principal credits (the service cost component) with the gain or loss related to other changes in the benefit obligation offset by the gain or loss related to the changes in the fair value of plan assets if the in-scope market-return cash balance plan was fully self-funded.

BC28. Although EITF members generally agreed that this alternative would be straightforward and would not be costly to apply, they observed that this alternative would omit certain plan features that EITF members generally stated should be incorporated in measuring the benefit obligation for in-scope plans, such as the effect of the preservation of capital feature or the annuity option feature. EITF members did not identify a compelling need to make such a significant change to the current accounting for in-scope market-return cash balance plans. In addition, EITF members noted that this alternative (using the walkaway amount to measure the benefit obligation) is predicated on the idea that all plan participants could terminate employment at the measurement date and receive the walkaway amount. Some EITF members indicated that this alternative would be less preferable because it is unlikely (and unrealistic) that all participants would terminate their employment and that all benefit obligations would be settled at the measurement date. In addition, EITF members observed that in practice market-based cash balance plans generally do not experience a high volume of participant terminations or frequent turnovers.

BC29. EITF members specifically discussed how the preservation of capital feature would be accounted for under this alternative, which uses the walkaway amount to measure the benefit obligation, compared with the accounting under the amendments in this proposed Update. A preservation of capital feature results from the regulation requiring that the balance of a market-return cash balance plan be at least as large as the sum of the principal credits upon a plan participant's retirement. EITF members noted that:

a. Under the proposed amendments, the accounting for the preservation of capital feature is based on an entity's expectation of market returns and whether the preservation of capital feature would affect the payments to participants upon retirement. This expectation is then included as an actuarial assumption in determining the benefit obligation and is assessed on an ongoing basis at each measurement date.
b. Unlike the proposed amendments, the walkaway amount alternative would account for the preservation of capital feature if there was a shortfall between the participants' hypothetical account balances and the amount of principal credits at the measurement date.

BC30. Although one EITF member noted that this alternative would reflect the benefit obligation more conservatively during market disruption, other EITF members expected that this alternative would result in more volatility in the financial statements and would frontload the effect of the preservation of capital feature on the benefit obligation, which may not be relevant to a cash flow analysis for the period. Another EITF member further observed that, in general, the preservation of capital feature is not a significant aspect in plan design.

BC31. The Board generally agreed with the EITF members' observations. In the Board's view, the walkaway amount alternative does not appropriately reflect (a) a comprehensive present value of the benefit obligation because it does not take into account contractual terms (such as caps, floors, or annuity features) and the plan's benefit payment timing and (b) the settlement costs that an entity would theoretically pay to a third party to assume the obligation. Furthermore, the Board questioned whether the financial statement volatility resulting from recognizing and reversing the costs related to the preservation of capital feature under this alternative would be relevant and meaningful to investors. The Board also concluded that using the walkaway amount to measure the benefit obligation would not align with the project's objective. Therefore, the Board decided not to consider this alternative further. Nonetheless, one Board member supported this alternative because in that

Board member’s view, this alternative would be more straightforward and less costly to apply and would better reflect the amount owed to plan participants at the balance sheet date.

BC32. The Board considered but dismissed another alternative that would have used the effective settlement rate required in paragraph 715-30-35-43 (such as an implicit rate of annuity contract or a high-quality fixed-income investments rate) to both project the future benefit obligation and discount that obligation to calculate the benefit obligation at the measurement date. Similar to the amendments in this proposed Update, this alternative would have resulted in the benefit obligation being generally equal to the hypothetical account balances and the net periodic pension cost being equal to the principal credits. One Board member noted that a potential benefit of this alternative would be that it may avoid future requests for the Board to reconsider allowing an entity to use an asset return rate to calculate the present value of a related liability in other areas of GAAP.

BC33. Because the effective settlement rate used to measure the benefit obligation under this alternative would generally not be the rate at which the participants’ benefits grow and, therefore, would not match the cost of settling the obligation, the Board concluded that this alternative is not an appropriate reflection of the economics of in-scope market-return cash balance plans.

BC34. Some EITF members suggested adding an example to illustrate the accounting effect of the preservation of capital feature under the amendments in this proposed Update. The Board discussed this suggestion but concluded that adding an example was not necessary and that it was not directly relevant to the EITF issue. As noted by EITF members, it is complex to separate the effect of the preservation of capital feature from other actuarial assumptions in determining the benefit obligation and this feature is often insignificant in plan designs in practice today. In addition, the Board noted that this request is broader than the narrow issue specifically identified by the EITF.

## Disclosure

BC35. After considering the EITF’s recommendation and the current disclosure requirements in Topic 715, the Board decided not to require additional disclosures for in-scope market-return cash balance plans.

BC36. The EITF recommended not requiring any additional disclosures beyond the current disclosure requirements for defined benefit plans. The EITF concluded that it is not necessary to add a new disclosure about the discount rates used to determine the benefit obligation for in-scope market-return cash balance plans. EITF members noted that paragraph 715-30-35-45 already provides guidance on disclosing discount rates individually if the rates are significantly different. In addition, EITF members observed that in-scope market-return cash balance plans are different from other defined benefit plans in terms of design and underlying methodology. As a result, in accordance with the current disclosure requirements in Subtopic 715-20, those plans would generally be disclosed separately.

BC37. The Board agreed with the EITF recommendation. The Board noted that the current guidance in Topic 715 includes disclosure requirements on various aspects of defined benefit plans, such as (a) the key assumptions used to determine the benefit obligation and net benefit cost, (b) reconciliations of the beginning and ending balances for the benefit obligation and the fair value of plan assets, (c) the expected benefit payments in future years and the best estimate of contributions to be made in the next year, and (d) an explanation of the reasons for significant gains and losses related to changes in the defined benefit obligation for the period and any other significant change in the benefit obligation or plan assets not otherwise apparent in the other disclosures required by Subtopic 715-20. In the Board's view, the current disclosure requirements are sufficient to provide investors with transparent and relevant information on in-scope market-return cash balance plans. The Board also observed that there is a lack of broader requests for additional disclosures about defined benefit plans.

BC38. In addition, the Board decided not to include a question in this proposed Update, as suggested by some EITF members, about whether additional disclosure should be required about the effect of a preservation of capital feature on in-scope market-return cash balance plans. The Board noted that a preservation of capital feature is not unique to in-scope market-return cash balance plans. Therefore, consideration of additional disclosure about this type of feature would be beyond the scope of this project.

## Transition, Early Adoption, and Effective Date

BC39. The amendments in this proposed Update would require that an entity apply the proposed amendments prospectively at its next pension measurement date under Subtopic 715-30 during the annual reporting period of adoption. Early adoption would be permitted.

BC40. EITF members discussed the application of different transition methods. EITF members generally supported retrospective transition, which would require that the amendments in this proposed Update be applied to all prior reporting periods presented in the financial statements with a cumulative-effect adjustment to equity as of the beginning of the earliest reporting period presented. However, while this approach could provide useful information, EITF members acknowledged that the expected benefits may not justify its expected costs and complexity.

BC41. EITF members supported a prospective transition method, which would require that the change in the discount rate under the proposed amendments be recognized in the same way as other changes in actuarial assumptions at the next pension measurement date, without the need to recast the most recent actuarial calculation in the prior reporting period. In addition, EITF members had mixed views on using the modified retrospective transition method. Under this method, the amendments in this proposed Update would be applied at the most recent pension measurement date in the prior annual reporting period with a cumulative-effect adjustment to equity as of the beginning of the annual reporting period of adoption. While certain EITF members viewed this method as an acceptable balance between retrospective transition and prospective transition, other EITF members noted that this transition method may be complex to apply and may provide limited information to investors.

BC42. The EITF recommended that the amendments in this proposed Update be applied on either a prospective basis or a retrospective basis. The EITF also recommended permitting early adoption at any point that an entity performs its next pension actuarial calculation.

BC43. After considering the EITF discussion, the Board decided to require that an entity apply the amendments in this proposed Update prospectively at its next pension measurement date under Subtopic 715-30 during the annual reporting period of adoption. Although the Board appreciates the EITF's intent to give entities flexibility in choosing a transition method, it agrees with EITF members' observations about the anticipated cost and complexity of the retrospective transition method and the limited usefulness of the information it would provide. In addition, given the inherent complexity of defined benefit plans and the related accounting under Topic 715, the Board questioned whether entities would elect the retrospective transition method and, if they did, whether applying the proposed amendments retrospectively would result in information that is relevant, comparable, and meaningful. Overall, the Board concluded that the prospective transition method is a more reasonable, practical, and cost-effective approach for adopting the proposed amendments. Some Board members observed that because the proposed amendments would result in a change in discount rates, the prospective transition method is consistent with how changes in discount rates are reflected under current pension accounting.

BC44. Under the prospective transition method, an entity would use the assumed interest crediting rate as the discount rate to measure its benefit obligation at its next pension measurement date during the annual reporting period of adoption. That measurement date would be an entity's next annual measurement date or, if earlier, any intervening measurement (such as a measurement date triggered by the occurrence of a significant event that requires remeasurement). The Board decided to require that entities disclose the nature of and reason for the change in accounting principle consistent with paragraph 250-10-50-1(a).

BC45. The Board agreed with the EITF recommendation to permit early adoption at any time that an entity performs its next pension measurement, without regard to whether such measurement is required. The Board did not identify any reason to prohibit entities from performing a remeasurement sooner than otherwise planned to adopt the amendments in this proposed Update. The Board also noted that Subtopic 715-30 provides guidance on timing, frequency, and related disclosure of remeasurement, which would be applied if an entity performs an additional remeasurement.

BC46. The Board will determine the effective date after it considers stakeholder feedback on the amendments in this proposed Update.

# Amendments to the GAAP Taxonomy

The provisions of this Exposure Draft, if finalized as proposed, would require improvements to the GAAP Financial Reporting Taxonomy and SEC Reporting Taxonomy (collectively referred to as the “GAAP Taxonomy”). We welcome comments on these proposed improvements to the GAAP Taxonomy at xbrled@fasb.org. After the FASB has completed its deliberations and issued a final Accounting Standards Update, the proposed improvements to the GAAP Taxonomy will be finalized as part of the annual release process.