



FASB Statement No. 157, *Fair Value Measurements* Plan Sponsor Frequently Asked Questions

Introduction

For fiscal years beginning after November 15, 2007, employee benefit plans are required to measure and report investments in their financial statements at “fair value” in accordance with the framework established by Statement of Financial Accounting Standards (FAS) No. 157, *Fair Value Measurements* (FAS 157). This document includes answers to frequently asked questions plan sponsors may have about the implementation of FAS 157.

Read the entire text of FAS 157 at <http://www.fasb.org/pdf/fas157.pdf>.

Questions and Answers

1. Do the valuation and disclosure provisions of FAS 157 apply to financial statements at both the plan sponsor and plan level?

The framework for measuring fair value under generally accepted accounting principles (GAAP) and the definition of fair value within that framework were established by FAS 157 and are applicable in instances where the measurement objective for the asset or liability is fair value, with limited exceptions (for example, share-based payments and leases). FAS No. 158, *Employers' Accounting for Defined Pension and Other Postretirement Plans, an amendment of FASB Statements No. 87, 88, 106 and 132(R)* (FAS 158), requires measurement by plan sponsors of plan assets and benefit obligations as of the date of an employer's fiscal year-end. FAS No. 35, *Accounting and Reporting by Defined Benefit Pension Plans* (FAS 35), and the AICPA Audit and Accounting Guide, *Employee Benefit Plans*, establish the standards of accounting and reporting for the annual financial statements at the plan level. Since both the plan sponsor and the plan are required to measure and report investments held by an employee benefit plan at fair value, FAS 157 applies to both sets of financial statements.

The disclosure provisions of FAS 157 apply to plan financial statements; they do not apply to postretirement assets in the financial statements of the plan sponsor. Instead, FAS 132 (revised 2003), *Employers' Disclosures about Pensions and Other Postretirement Benefits* (FAS 132(R)), as amended by FSP 132(R)-1, *Employers' Disclosures about Pensions and Other Postretirement Benefits* (FSP 132(R)-1), establishes disclosure requirements for plan sponsors. The disclosure requirements of FAS 132(R)-1 for the financial statements of plan sponsors include disclosures that are similar to the requirements in paragraph 32 of FAS157.



2. Are the values provided by the trustee/custodian determined in accordance with FAS 157?

The type of services a plan sponsor has engaged the trustee or custodian to perform will dictate what information they receive. The typical custodial service provided by custodians and trustees includes providing values that are based on the best information available to them at the time the statements are produced. If the plan is invested solely in assets with readily determinable fair values, such as exchange traded mutual funds or securities, the trustee or custodian typically obtains fair values from nationally recognized pricing services, and those values will be relatively easy to verify. However, in cases where the plan invests in assets without readily determinable fair values, and where the trustee or custodian may have been engaged only to provide custodial services, the values in the trust statement typically will be a pass-through of the values provided by the fund issuer or general partner, or by a boutique vendor or broker for nonmarketable securities.

In those cases, the reported values are based on the best information available to the trustee and custodian at the time the trustee or custodial report is prepared, which may or may not be fair value as of the plan's year end.

The plan sponsor should look to the Trust Agreement or Custodial Agreement to determine what services the plan sponsor has engaged the trustee or custodian to perform.

3. Can plan management rely on the amounts and disclosure information included in the trustee report for purposes of preparing the plan's financial statements?

Management is responsible for determining the fair value measurements and disclosures included in the financial statements. As part of fulfilling its responsibility, management needs to establish an accounting and financial reporting process for determining the fair value measurements and disclosures, select appropriate valuation methodologies, identify and adequately support any significant assumptions used, and determine that the fair value measurements and disclosures are in accordance with FAS 157. *This responsibility cannot, under any circumstances, be outsourced or assigned to a party outside of the plan's management.* Although plan management may look to the service provider to assist in the mechanics of the valuation—and some trustees and custodians may also provide preliminary FAS 157 level designations for plan management to use as a starting point for disclosure purposes—management must have sufficient information to evaluate and independently challenge the valuation and FAS 157 level designations. Plan management needs to understand the inputs used by the trustee or custodian to value the investments and then determine whether these inputs are appropriate for measuring and reporting the fair value under FAS 157.

4. Now that FAS 157 is effective, can a plan administrator still engage an auditor to perform a limited-scope audit?

The limited-scope audit exemption is still available to plan administrators, assuming the qualifying institution holding the assets certifies to the accuracy and completeness of the investment information (as detailed in 29 CFR 2520.103-8 of the DOL's Rules and Regulations under ERISA). However, because plan management is responsible for properly reporting the fair value of the plan's investments in the plan's financial statements—a responsibility that cannot be



outsourced or assigned to another party—management will need to have a sufficient understanding of the nature of the plan’s investments and the valuation methodologies, key assumptions and inputs used to determine fair value. This responsibility does not change even in situations in which the plan’s trustee or custodian certifies the completeness and accuracy of the plan’s investments for a limited-scope audit. As such, it is important that the plan administrator consider whether a limited-scope audit is appropriate given the nature of the plan’s investment portfolio and their knowledge of how the values, as certified by the trustee or custodian, have been measured.

If the plan administrator determines that the certified values are incomplete, inaccurate or otherwise unsatisfactory (for example, they do not reflect the fair value of plan assets within the framework established by FAS 157), the plan administrator may request the trustee or custodian to recertify or amend the certification for such investments using the appropriate fair value or recertify or amend the certification to exclude such investments from the certification. If the trustee or custodian amends the certification to exclude such investments from the certification, the plan administrator is responsible for valuing such investments as of the plan’s year-end and engaging the auditor to perform full scope audit procedures on the investments excluded from the certification.

5. *What are the auditor’s responsibilities for testing the FAS 157 fair value measurements and related disclosures when engaged to perform a limited-scope audit?*

When a plan administrator elects to have a limited-scope audit performed, the auditor is instructed by the plan administrator to limit the scope of testing of investment information prepared and certified as complete and accurate by a qualified trustee or custodian. The requirement that the fair value of plan investments be measured using the framework established by FAS 157—including those certified by a trustee or custodian—does not change the auditor’s responsibility. Typically, the trustee or custodian certifies to the completeness and accuracy of the plan’s investment assets and investment activity as contained in its ordinary books and records, which may or may not be fair value (as previously discussed in question #2). Although the DOL’s rules and regulations allow the qualified trustee or custodian to report in this manner, it is the plan management’s responsibility to prepare the financial statements and disclosures in accordance with GAAP (that is, at fair value as of the plan’s year-end).

The auditor’s responsibilities for investments covered by the limited-scope audit exemption are to (1) obtain from the plan administrator and read a copy of the certification; (2) determine whether the entity issuing the certification is a qualifying institution under DOL regulations; (3) compare the certified investment information to the financial information in the financial statements and related disclosures; (4) perform the necessary procedures to become satisfied that any received or disbursed amounts reported by the trustee or custodian were determined in accordance with the plan provisions; and (5) determine whether the form and content of the financial statement disclosures related to the investment information prepared and certified by the plan’s trustee or custodian are in conformity with GAAP and are in compliance with DOL’s rules and regulations.