



Illustrative FAS 157 Note Disclosures

XYZ Company 401(k) Plan

This document provides an illustration of the disclosures required by FAS 157 related to a hypothetical defined contribution plan's investments. These illustrative disclosures are excerpted from Appendix E of the AICPA Audit and Accounting Guide *Employee Benefit Plans* (the Guide). The formats presented and the wording of the notes are only illustrative and are not necessarily the only possible presentations. Note that these illustrative disclosures are limited to the financial instruments contained within the specific examples included in the illustrative financial statements contained in Appendix E of the Guide. It is recommended that users consult all the illustrative financial statements within Appendices D, E and F of the Guide for FAS 157 examples for differing types of financial instruments.

Illustrative FAS 157 Note Disclosures (Excerpts)

X. Fair Value Measurements

Financial Accounting Standards Board Statement No. 157, *Fair Value Measurements* (FASB Statement No. 157), establishes a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy under FASB Statement No. 157 are described below:

- Level 1 Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Plan has the ability to access.
- Level 2 Inputs to the valuation methodology include:
- Quoted prices for similar assets or liabilities in active markets;
 - Quoted prices for identical or similar assets or liabilities in inactive markets;
 - Inputs other than quoted prices that are observable for the asset or liability;
 - Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

- Level 3 Inputs to the valuation methodology are unobservable and significant to the fair value measurement.



The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at December 31, 20X1 and 20X0.

USERS' NOTE: Note that information contained herein for fair value disclosures is based upon information for the financial statements included in Appendix E of the Guide. This illustrative disclosure is not representative of all types of investment securities and does not represent the classification for every instance of such investment securities. It should not be assumed that these methodologies are the only appropriate methodologies for these types of assets. As stated in FAS 157, "The principle (or most advantageous) market (and thus, market participants) should be considered from the perspective of the reporting entity, thereby allowing for differences between and among entities with different activities." Plan sponsors will have to evaluate the appropriate classification for each type of investment securities based upon the plan's portfolio and actual fair valuation techniques used.

Common stocks, corporate bonds and U.S. government securities: Valued at the closing price reported on the active market on which the individual securities are traded.

Mutual funds: Valued at the net asset value ("NAV") of shares held by the plan at year end.

Participant loans: Valued at amortized cost, which approximates fair value.

Guaranteed investment contract: Valued at fair value by discounting the related cash flows based on current yields of similar instruments with comparable durations considering the credit-worthiness of the issuer (See Note F).

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Plan believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.



The following table sets forth by level, within the fair value hierarchy, the Plan's assets at fair value as of December 31, 20X1 and 20X0:

PRACTICE TIP: The following illustrations assume that FAS 157 was in effect for both periods presented, December 31, 20X1 and 20X0. In the first year of adoption, the tables below are not required to be comparative. Disclosures in accordance with FASB Statement No. 35 would be considered sufficient for the prior year.

Assets at Fair Value as of December 31, 20X1

	Level 1	Level 2	Level 3	Total
Mutual funds	\$5,884,500			\$5,884,500
Common stocks	960,000			960,000
Corporate bonds	307,500			307,500
U.S. government securities	225,000			225,000
Guaranteed investment contract	0		\$1,515,000	1,515,000
Participant loans	<u>0</u>		<u>300,000</u>	<u>300,000</u>
Total assets at fair value	<u>\$7,377,000</u>		<u>\$1,815,000</u>	<u>\$9,192,000</u>



Assets at Fair Value as of December 31, 20X0

	Level 1	Level 2	Level 3	Total
Mutual funds	\$5,750,000			\$5,750,000
Common stocks	870,000			870,000
Corporate bonds	255,000			255,000
U.S. government securities	120,000			120,000
Guaranteed investment contract	0		\$660,000	660,000
Participant loans	<u>0</u>		<u>350,000</u>	<u>350,000</u>
Total assets at fair value	<u>\$6,995,000</u>		<u>\$1,010,000</u>	<u>\$8,005,000</u>

Level 3 Gains and Losses

The table below sets forth a summary of changes in the fair value of the Plan's level 3 assets for the year ended December 31, 20X1.

Level 3 Assets

Year Ended December 31, 20X1

	<u>Guaranteed investment contract</u>	<u>Participant loans</u>
Balance, beginning of year	\$660,000	\$350,000
Realized gains/(losses)	-	-
Unrealized gains/(losses) relating to instruments still held at the reporting date	40,000	-
Purchases, sales, issuances and settlements (net)	<u>815,000</u>	<u>(50,000)</u>
Balance, end of year	<u>\$1,515,000</u>	<u>\$300,000</u>