Interpretation of the Emerging Accounting Issues Working Group

INT 02-18: Accounting for the Intangible Asset as Described in SSAP No. 8 Paragraphs 9.d.v. and 9.f.

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INT 02-18 Dates Discussed

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INT 02-18 References

(SSAP No. 8)

INT 02-18 Issue

1. (SSAP No. 8) models many of its provisions after FASB Statement No. 87 (FAS 87) and FASB Statement No. 132 (FAS 132). Specifically, the minimum accrued benefit liability that is to be reflected on a reporting entity's financial statements under FAS guidance must be at least as large as the unfunded Accumulated Benefit Obligation (ABO). If the unfunded ABO is larger than the net amount recognized on the financial statements, then an additional amount must be reflected to bring the accrued benefit liability up to the level of the unfunded ABO. This additional amount may be offset by any existing intangible asset (based on the outstanding unrecognized prior service cost, which includes the unrecognized transition obligation). However, in paragraph 2 of SSAP No. 8, any intangible asset shall be considered a nonadmitted asset. Some interested parties believe this contradicts the concept of deferring or amortizing the incremental liability set up January 1, 2001 as described in paragraph 19 of SSAP No. 8 (see examples, particularly example III). Also, in paragraph 37 of FAS 87, only the amount of the additional minimum liability that is in excess of the intangible asset shall be a reduction of equity (or a liability on the balance sheet). The rules under SSAP No. 8 appear to require a company to recognize the entire additional minimum liability, regardless of the existence of any intangible asset.

2. See examples I, II and III attached which are generated in Disclosure under SSAP No. 8. Examples I and II show disclosure for a qualified plan, while example III shows disclosure for a non-qualified plan (SERP or EXCESS plan). Please note that these examples may occur for either a qualified plan or a non-qualified plan. In these examples, each plan generates an additional minimum liability and uses an intangible asset as an offset to the additional minimum liability. Since paragraph 2 of SSAP No. 8 states that any intangible asset shall be considered a nonadmitted asset, then the entire additional minimum liability would need to be recorded on the balance sheet of the reporting entity. In the view of some interested parties, this treatment contradicts the concept of deferring or amortizing the incremental liability set up January 1, 2001 as described in paragraph 19 of SSAP No. 8 (see examples, particularly example III).

liability plus the additional minimum liability. In this example, the (accrued) liability is ($23,000,000) and the additional minimum liability is ($7,000,000) (($30,000,000) – ($23,000,000)).

4. Under paragraph 37 of FAS 87, an intangible asset is allowed to offset the additional minimum liability of ($7,000,000), which is shown in our example in the “intangible asset” line of the “Amounts recognized in statements of financial position consist of” section. For a reporting entity that does not follow SSAP No. 8, the total (accrued) liability on the balance sheet is ($23,000,000), since the additional minimum liability is entirely offset by the intangible asset. This results in a zero amount in the “accumulated other comprehensive income” line of the “Amounts recognized in statements of financial position consist of” section. For a reporting entity that follows SSAP No. 8, the same ($23,000,000) (accrued) liability is on the balance sheet, but it also includes an additional ($7,000,000) since an intangible asset is categorized as a nonadmitted asset.

5. Example II shows a similar situation. However, here the intangible assets does not entirely offset the additional minimum liability an

XYZ Company Retirement Program
Example I
SSAP No. 8 Footnote Disclosure