Statement of Financial Accounting Standards No. 135

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FAS135 Summary

Rescission of FASB Statement No. 75 and Technical Corrections

February 1999

Financial Accounting Standards Board
of the Financial Accounting Foundation
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FAS 135: Rescission of FASB Statement No. 75 and Technical Corrections

FAS 135 Summary

This Statement rescinds FASB Statement No. 75, *Deferral of the Effective Date of Certain Accounting Requirements for Pension Plans of State and Local Governmental Units*. GASB Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans,* was issued November 1994, and establishes financial reporting standards for defined benefit pension plans and for the notes to the financial statements of defined contribution plans of state and local governmental entities. Statement 75 is, therefore, no longer needed. This Statement also amends FASB Statement No. 35, *Accounting and Reporting by Defined Benefit Pension Plans,* to exclude from its scope plans that are sponsored by and provide benefits for the employees of one or more state or local governmental units.

This Statement also amends other existing authoritative literature to make various technical corrections, clarify meanings, or describe applicability under changed conditions.

This Statement is effective for financial statements issued for fiscal years ending after February 15, 1999. Earlier application is encouraged.

INTRODUCTION

Rescission of Statement 75

1. FASB Statement No. 75, *Deferral of the Effective Date of Certain Accounting Requirements for Pension Plans of State and Local Governmental Units,* indefinitely deferred the effective date of FASB Statement No. 35, *Accounting and Reporting by Defined Benefit Pension Plans,* for plans that are sponsored by and provide benefits for the employees of one or more state or local governmental units. In November 1994, the Governmental Accounting Standards Board issued GASB Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans,* which establishes financial reporting standards for defined benefit pension plans and for the notes to the financial statements

of defined contribution plans of state and local governmental entities. With the issuance of GASB Statement 25, the provisions of Statement 35, as deferred indefinitely by Statement 75, are no longer applicable for plans that are sponsored by and provide benefits for the employees of one or more state or local governmental units.

Technical Corrections

2. When the Board issues a pronouncement that contains amendments to prior pronouncements, the proposed amendments are reviewed by the Board and exposed for comment as part of the due process procedures. Over the years, the FASB staff and various constituents have identified instances where additional amendments should have been made explicit in certain pronouncements. Although, in general, those "effective" amendments have been appropriately indicated in the various editions of the FASB's *Original Pronouncements* and *Current Text* publications, those effective amendments were not subjected to the Board's review and due process procedures. This Statement identifies those effective amendments and establishes them as Board-approved amendments. In addition, this Statement amends existing authoritative literature to (a) correct references to AICPA guidance that has been revised or superseded since the issuance of that literature, (b) extend certain provisions to reflect established practice, and (c) eliminate inconsistencies in existing pronouncements.

STANDARDS OF FINANCIAL ACCOUNTING AND REPORTING

Rescission of Statement 75

3. This Statement rescinds FASB Statement No. 75, *Deferral of the Effective Date of Certain Accounting Requirements for Pension Plans of State and Local Governmental Units.*

Technical Corrections

4. This Statement amends the following pronouncements to make technical corrections to existing authoritative literature:

a. Accounting Research Bulletin No. 43, *Restatement and Revision of Accounting Research Bulletins.*

    (1) Paragraph 4 of Chapter 1A, "Prior Opinions—Rules Adopted by Membership," is deleted (to reflect current established practice that it is no longer acceptable to show stock of a corporation held in its own treasury as an asset).

    (2) Paragraph 9 of Chapter 3A, "Working Capital—Current Assets and Current

Liabilities," is amended as follows (effectively amended by FASB Statement No. 115, *Accounting for Certain Investments in Debt and Equity Securities*):

(a) In the third sentence, *marketable securities and* is deleted.

(b) The fourth sentence is deleted.

(c) In the sixth sentence, *for temporary investments, their market value at the balance-sheet date, and* is deleted.

b. APB Opinion No. 6, *Status of Accounting Research Bulletins*. In the first sentence of paragraph 12(b), *,or in some circumstances may be shown as an asset in accordance with paragraph 4 of Chapter 1A of ARB 43* is deleted (to reflect current established practice that it is no longer acceptable to show stock of a corporation held in its own treasury as an asset).

c. APB Opinion No. 16, *Business Combinations*. In paragraph 88(a), *net realizable values* is replaced by *fair values* (effectively amended by Statement 115).

d. APB Opinion No. 17, *Intangible Assets.* In the third sentence of paragraph 31, *(APB Opinion No. 9, paragraph 21)* is deleted, and in the fourth and fifth sentences of paragraph 31, *extraordinary* is replaced by *unusual* (effectively amended by APB Opinion No. 30, *Reporting the Results of Operations—Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions*).

e. APB Opinion No. 28, *Interim Financial Reporting*. The following changes are made to clarify the requirements for interim reporting:

(1) In the first and fourth sentences of paragraph 30, *to their securityholders* is deleted.

(2) In the second sentence of paragraph 30, *securityholders with* is deleted.

(3) In the first sentence of paragraph 31, *securityholders* is replaced by *users of the interim financial information.*

(4) In the first sentence of paragraph 33, *securityholders* is replaced by *users of the interim financial information.*

f. AICPA Accounting Interpretation 1, "Illustration of the Application of APB Opinion No. 30." Example (12) is deleted (effectively superseded by Statement 115).

g. FASB Statement No. 3, *Reporting Accounting Changes in Interim Financial Statements.* In paragraph 14, *to its securityholders* is deleted (to clarify the requirements for interim reporting).

h. FASB Statement No. 13, *Accounting for Leases*. Paragraph 20, as amended by FASB Statement No. 77, *Reporting by Transferors for Transfers of Receivables with Recourse,* and FASB Statement No. 125, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities,* is replaced by the following (to revise the amendment made by Statement 125):

> The sale or assignment of a lease or of property subject to a lease that was accounted for as a sales-type lease or direct financing lease shall not negate the original accounting treatment accorded the lease. Any transfer of minimum lease payments or guaranteed residual values subject to a sales-type lease or direct financing lease shall be accounted for in accordance with FASB Statement No. 125, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities*. However, transfers of unguaranteed residual values are not subject to the provisions of Statement 125.

i. FASB Statement No. 15, *Accounting by Debtors and Creditors for Troubled Debt Restructurings.* In the second sentence of paragraph 4, *investing in debt securities that were previously issued,* is deleted (effectively amended by Statement 115).

j. FASB Statement No. 35, *Accounting and Reporting by Defined Benefit Pension Plans.* In the first sentence of paragraph 2, *,including state and local governments,* is deleted (to amend the scope of Statement 35 to reflect the issuance of GASB Statement 25).

k. FASB Statement No. 43, *Accounting for Compensated Absences,* as amended by FASB Statement No. 112, *Employers' Accounting for Postemployment Benefits*. In the last sentence of paragraph 2, *or a portion of a line of business* is deleted (effectively amended by FASB Statement No. 121, *Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of*).

l. FASB Statement No. 52, *Foreign Currency Translation*.

(1) In paragraph 24, *a separate component of equity* in the second sentence and *that separate component of equity* in the last sentence are replaced by *other comprehensive income* (effectively amended by FASB Statement No. 130, *Reporting Comprehensive Income*).

(2) In the last sentence of paragraph 26, *(ARB 43, Chapter 12, paragraph 8)* is deleted (effectively amended by paragraph 16 of FASB Statement No. 94, *Consolidation of All Majority-Owned Subsidiaries,* which deleted ARB 43, Chapter 12, paragraph 8).

(3) In the first sentence of paragraph 31, *separate component of equity for cumulative* is

replaced by *accumulated amount of* and *reported in equity* is inserted after *translation adjustments* (effectively amended by Statement 130).

(4) In the first sentence of paragraph 34, *as the opening balance of the cumulative translation adjustments component of equity* is replaced by *in other comprehensive income* (effectively amended by Statement 130).

(5) In the last sentence of paragraph 46, *the cumulative translation adjustments component of equity* is replaced by *other comprehensive income* (effectively amended by Statement 130).

m. FASB Statement No. 60, *Accounting and Reporting by Insurance Enterprises*. In the second sentence of paragraph 46, as amended by Statement 115 and FASB Statement No. 124, *Accounting for Certain Investments Held by Not-for-Profit Organizations,* the phrase *a separate component of equity* is replaced by *other comprehensive income* (effectively amended by Statement 130).

n. FASB Statement No. 66, *Accounting for Sales of Real Estate*. In footnote 34 to paragraph 101, letter *(a)* and *or (b) a right-to-use time-sharing interest that is a sales-type lease as defined in Statement 13, as amended and interpreted* are deleted (to reflect amendments made to Statement 13 by FASB Statement No. 98, *Accounting for Leases;* Statement 98 amends Statement 13 to prohibit a lease involving real estate from being classified as a sales-type lease unless the lease transfers ownership of the property to the lessee by the end of the lease term; therefore, a right-to-use time-sharing interest would not meet this requirement).

o. FASB Statement No. 71, *Accounting for the Effects of Certain Types of Regulation*. Footnote 3 to paragraph 5(a) is replaced by the following (to update the scope of Statement 71 to reflect both the existence of the GASB as well as the appropriate literature to be followed):

> GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting,* paragraph 9, provides that state and local proprietary activities that meet the criteria of paragraph 5 may apply this FASB Statement and related pronouncements (including FASB Statements No. 90, *Regulated Enterprises—Accounting for Abandonments and Disallowances of Plant Costs,* No. 92, *Regulated Enterprises—Accounting for Phase-in Plans,* and No. 101, *Regulated Enterprises—Accounting for the Discontinuation of Application of FASB Statement No. 71*) that were issued on or before November 30, 1989. Amendments of FASB pronouncements related to regulated operations issued after that date are subject to the provisions of GASB Statement 20, paragraph 7.

p. FASB Statement No. 87, *Employers' Accounting for Pensions*. The following changes are made to revise the amendments made by FASB Statement No. 132, *Employers' Disclosures about Pensions and Other Postretirement Benefits:*

(1) In paragraph 34, *(a) the difference between the actual return on plan assets and the expected return on plan assets and (b)* is deleted.

(2) In the first sentence of paragraph 49, *paragraph 54* is replaced by *paragraphs 5 and 8 of FASB Statement No. 132, Employers' Disclosures about Pensions and Other Postretirement Benefits.*

(3) Footnote 13 to paragraph 54(b) is deleted.

(4) Paragraph 55, deleted by Statement 132, is reinstated.

(5) Paragraph 66, deleted by Statement 132, is reinstated. In the last sentence of that paragraph, *and disclosure requirements shall be determined in accordance with the provisions of this Statement applicable to a defined benefit plan* is replaced by *requirements shall be determined in accordance with the provisions of this Statement applicable to a defined benefit plan and the disclosure requirements shall be determined in accordance with the provisions of paragraphs 5 and 8 of Statement 132.*

(6) In Illustration 4 in paragraph 261, the disclosures for the years 1987, 1988, and 1989 and the related footnotes are deleted. (Appendix B of Statement 132 provides examples that illustrate the revised required disclosures.)

(7) In the first sentence of the definition of *Gain or loss component (of net periodic pension cost)* in paragraph 264 (the glossary), *The sum of (a) the difference between the actual return on plan assets and the expected return on plan assets and (b)* is deleted.

q. FASB Statement No. 89, *Financial Reporting and Changing Prices*. In paragraph 8(b), *(currently 1967)* is replaced by *(currently 1982–1984)* (to bring the measurement guidance up to date).

r. FASB Statement No. 106, *Employers' Accounting for Postretirement Benefits Other Than Pensions*.

(1) In the first sentence of paragraph 103, *or a portion of a line of business* is deleted (effectively amended by Statement 121).

(2) The following changes are made to revise the amendments made by Statement 132:

(a) In paragraph 62, *the difference between the actual return on plan assets and the expected return on plan assets, (b) any gain or loss immediately recognized or the amortization of the unrecognized net gain or loss from previous periods, and (c)* is replaced by *any gain or loss immediately recognized or the amortization of the unrecognized net gain or loss from previous periods and (b)*.

(b) In the first sentence of paragraph 65, *paragraph 74* is replaced by *paragraphs 5 and 8 of FASB Statement No. 132, Employers' Disclosures about Pensions and Other Postretirement Benefits.*

(c) Footnote 23 to paragraph 74(b) is deleted.

(d) Paragraph 107, deleted by Statement 132, is reinstated. In the last sentence of that paragraph *and disclosure requirements shall be determined in accordance with the provisions of this Statement applicable to a defined benefit plan* is replaced by *requirements shall be determined in accordance with the provisions of this Statement applicable to a defined benefit plan and the disclosure requirements shall be determined in accordance with the provisions of paragraphs 5 and 8 of Statement 132*.

(e) The fourth sentence of paragraph 392 is deleted.

(f) In the third sentence of paragraph 417, *paragraph 74(c)* is replaced by *paragraph 5(c) of Statement 132.*

(g) In the first sentence of paragraph 461, *paragraph 74(b)* is replaced by *paragraph 5(d) of Statement 132.*

(h) Paragraph 464 and the related footnotes are replaced by the following:

The 1994 financial statements include the following disclosure of the components of net periodic postretirement benefit cost:

Service Cost	$ 320,000
Interest cost	630,000
Expected return on plan assets	(87,000)
Amortization of transition obligation	300,000
Recognized net actuarial loss	5,000
Net periodic postretirement benefit cost	$1,168,000

(i) Paragraph 467 and the related footnotes are replaced by the following:

> The 1995 financial statements include the following disclosure of the components of net periodic postretirement benefit cost:
>
> | | |
> |---|---|
> | Service Cost | $ 360,000 |
> | Interest cost | 652,500 |
> | Expected return on plan assets | (193,700) |
> | Amortization of transition obligation | 300,000 |
> | Net periodic postretirement benefit cost | $1,118,800 |

(j) Paragraph 471, its heading, and the related footnotes are deleted.

s. FASB Statement No. 109, *Accounting for Income Taxes*. Paragraph 276 is amended as follows (effectively amended by Statement 130):

(1) In the first sentence, *or to other comprehensive income* is inserted after *equity*.

(2) In the second sentence, *directly to shareholders' equity* is replaced by *to other comprehensive income.*

(3) In subparagraph (c), *charged to the cumulative translation adjustment account* is replaced by *reported in other comprehensive income and accumulated.*

(4) In subparagraph (f), *credited directly to the cumulative translation adjustment account* is replaced by *reported in other comprehensive income and accumulated.*

t. FASB Statement No. 115, *Accounting for Certain Investments in Debt and Equity Securities.*

(1) The following sentence is added to the end of paragraph 7, as amended by FASB Statement 125 (effectively amended by FASB Statement No. 133, *Accounting for Derivative Instruments and Hedging Activities*):

> A debt security with those characteristics should be evaluated in accordance with paragraphs 12–16 of Statement 133 to determine whether it contains an embedded derivative that must be accounted for separately.

(2) Paragraph 17 is replaced by the following (to supersede the requirement that all trading securities be classified as current assets):

> An enterprise that presents a classified statement of financial position shall report individual held-to-maturity securities, individual available-for-sale securities, and

individual trading securities as either current or noncurrent, as appropriate, under the provisions of ARB No. 43, Chapter 3A, "Working Capital—Current Assets and Current Liabilities."[5]

u. FASB Statement No. 123, *Accounting for Stock-Based Compensation*. The following changes are made to clarify the amendments made by FASB Statement No. 128, *Earnings per Share:*

(1) In the last sentence of paragraph 49, as amended by Statement 128, *or forfeited* is inserted after *granted*.

(2) The following is inserted at the beginning of paragraph 358, as amended by Statement 128:

> Under paragraph 28 of this Statement, an entity has the choice of estimating forfeitures in advance or recognizing forfeitures as they occur. However, the weighted-average number of options outstanding, rather than the number of options expected to vest, would be used in computing diluted EPS. In addition, the average net unrecognized compensation cost would include the options not expected to vest.

(3) In paragraph 359, as amended by Statement 128, *all* is replaced by *the weighted-average number of.*

v. FASB Statement No. 128, *Earnings per Share*. In paragraph 28, the first sentence is replaced by the following (to clarify the effect of dilutive securities):

> Dilutive securities that are issued during a period and dilutive convertible securities for which conversion options lapse, for which preferred stock is redeemed, or for which related debt is extinguished during a period shall be included in the denominator of diluted EPS for the period that they were outstanding.

w. FASB Statement No. 130, *Reporting Comprehensive Income*. In the last sentence of paragraph 27, *issued to shareholders* is deleted (to clarify the requirements for interim reporting).

x. FASB Statement No. 131, *Disclosures about Segments of an Enterprise and Related Information*.

(1) In paragraph 18:

(a) In subparagraph (a), *reported* preceding *operating segments* is deleted (to clarify that the test is applied to the total revenues of all operating segments).

(b) The last sentence is replaced with the following (to clarify the requirements for reporting operating segments):

> Operating segments that do not meet any of the quantitative thresholds may be considered reportable, and separately disclosed, if management believes that information about the segment would be useful to readers of the financial statements.

(2) In paragraph 25 (to clarify the requirements for periods for which segment information is required):

(a) In the first sentence, *for each period for which an income statement is presented* is inserted after *following*.

(b) The penultimate sentence of that paragraph is replaced with the following:

> However, reconciliations of balance sheet amounts for reportable segments to consolidated balance sheet amounts are required only for each year for which a balance sheet is presented.

(3) In the second sentence of paragraph 27, *(a)* is inserted after *specified amounts* and *or (b) are otherwise regularly provided to the chief operating decision maker, even if not included in that measure of segment profit or loss* is inserted before the colon (to clarify the circumstances under which the items identified by that paragraph are required to be disclosed).

(4) In the first sentence of paragraph 28, *(a)* is inserted after *specified amounts* and *or (b) are otherwise regularly provided to the chief operating decision maker, even if not included in the determination of segment assets* is inserted before the colon (to clarify the circumstances under which the items identified by that paragraph are required to be disclosed).

(5) In the first sentence of paragraph 33, *issued to shareholders* is deleted (to clarify the requirements for interim reporting).

(6) In the second sentence of paragraph 123, *a complete set of financial statements* is replaced by *an income statement* (to clarify the requirements for periods for which segment information is required).

y. FASB Statement No. 132, *Employers' Disclosures about Pensions and Other Postretirement Benefits*. The following changes are made to revise the amendments made by Statement 132:

(1) In paragraph 12(b), *Paragraphs 55 and 56 are* is replaced by *Paragraph 56 is*.

(2) Paragraphs 12(d) and 14(e) are deleted.

(3) In the third bullet of paragraph 63, *transition obligation* is replaced by *prior service cost.*

z. FASB Interpretation No. 18, *Accounting for Income Taxes in Interim Periods*. In footnote 8 to paragraph 9, *realization of the tax benefit is not assured* is replaced by *it is more likely than not that the tax benefit will not be realized* (effectively amended by Statement 109).

aa. FASB Interpretation No. 27, *Accounting for a Loss on a Sublease*. Footnote 3 to paragraph 3 is deleted (effectively superseded by Statement 121).

bb. FASB Interpretation No. 40, *Applicability of Generally Accepted Accounting Principles to Mutual Life Insurance and Other Enterprises*. The last sentence of paragraph 5 is deleted (effectively amended by paragraph 4 of FASB Statement No. 120, *Accounting and Reporting by Mutual Life Insurance Enterprises and by Insurance Enterprises for Certain Long-Duration Participating Contracts*).

cc. FASB Technical Bulletin No. 79-5, *Meaning of the Term "Customer" as It Applies to Health Care Facilities under FASB Statement No. 14*. In the first sentence of paragraph 3, *Statement 14* is replaced by *Statement 131* (effectively amended by Statement 131, which supersedes FASB Statement No. 14, *Financial Reporting for Segments of a Business Enterprise*).

5. This Statement amends the following pronouncements to delete or amend references to AICPA pronouncements that have been revised or superseded:

a. FASB Statement No. 93, *Recognition of Depreciation by Not-for-Profit Organizations*. In footnote 1 to paragraph 1, *Hospital Audit Guide (1972), Audits of Colleges and Universities (1973), Audits of Voluntary Health and Welfare Organizations (1974), and Statement of Position 78-10, Accounting Principles and Reporting Practices for Certain Nonprofit Organizations (1978)* is replaced by *Health Care Organizations and Not-for-Profit Organizations*.

b. FASB Statement No. 102, *Statement of Cash Flows—Exemption of Certain Enterprises and Classification of Cash Flows from Certain Securities Acquired for Resale.* In footnote 3 to paragraph 8, *Industry Audit Guide, Audits of Banks* is replaced by *Audit and Accounting Guide, Banks and Savings Institutions.*

c. FASB Statement No. 115, *Accounting for Certain Investments in Debt and Equity*

Securities. In footnote 4 to paragraph 16, *AICPA Auditing Interpretation, Evidential Matter for the Carrying Amount of Marketable Securities, which was issued in 1975 and incorporated in Statement on Auditing Standards No. 1, Codification of Auditing Standards and Procedures, as Interpretation 20* is replaced by *AICPA Statement on Auditing Standards No. 81, Auditing Investments.*

d. FASB Interpretation No. 39, *Offsetting of Amounts Related to Certain Contracts.* In paragraph 7, *Industry Audit Guide, Audits of Banks* is replaced by *Audit and Accounting Guide, Banks and Savings Institutions.*

Effective Date and Transition

6. This Statement is effective for financial statements issued for fiscal years ending after February 15, 1999. Earlier application is encouraged.

The provisions of this Statement need not be applied to immaterial items.

This Statement was adopted by the unanimous vote of the seven members of the Financial Accounting Standards Board:

Edmund L. Jenkins, *Chairman*
Joseph V. Anania
Anthony T. Cope
John M. Foster
Gaylen N. Larson
James J. Leisenring
Gerhard G. Mueller

Appendix: BACKGROUND INFORMATION AND BASIS FOR CONCLUSIONS

Rescission of Statement 75

7. Statement 35 was issued in March 1980 and defines generally accepted accounting principles for general-purpose external financial reports of defined benefit pension plans. It was intended to apply both to plans in the private sector and to plans sponsored by state and local governmental units. As originally issued, Statement 35 was to be effective for plan years beginning after December 15, 1980.

8. In April 1982, the Board issued FASB Statement No. 59, *Deferral of the Effective Date of Certain Accounting Requirements for Pension Plans of State and Local Governmental Units*. That Statement amended Statement 35 by deferring its applicability until plan years beginning after June 15, 1982, for plans that are sponsored by and provide benefits for the employees of one or more state or local governmental units.

9. In November 1982, the Financial Accounting Foundation (FAF) reached agreement with the Municipal Finance Officers Association, the National Association of State Auditors, Comptrollers and Treasurers, and the American Institute of Certified Public Accountants regarding the establishment of a Governmental Accounting Standards Board (GASB).

10. In November 1983, the Board issued Statement 75. Statement 75 indefinitely deferred the effective date of Statement 35 for plans that are sponsored by and provide benefits for the employees of one or more state or local governmental units. The Board believed that while discussions relating to the formation and operation of the GASB were in progress, those efforts should not be impaired by the imposition of a new standard (that is, Statement 35) or by the existence of differing standards issued by different bodies.

11. The GASB was organized in 1984 by the FAF to establish standards of financial accounting and reporting for state and local governmental entities. Its standards guide the preparation of external financial reports of those entities.

12. In June 1984, the GASB placed on its agenda a project on pension accounting and financial reporting for plans and participating employers. In July 1984, the GASB issued GASB Statement No. 1, *Authoritative Status of NCGA Pronouncements and AICPA Industry Audit Guide*. In that Statement, the GASB identified three pronouncements (one of which was Statement 35) as sources of acceptable accounting and reporting principles for pension plans and employers, pending issuance of a GASB Statement or Statements on pensions.

13. In November 1986, the GASB issued GASB Statement No. 5, *Disclosure of Pension Information by Public Employee Retirement Systems and State and Local Governmental Employers*. GASB Statement 5 superseded all previous authoritative guidance on pension note disclosures but continued to recognize the pronouncements, as amended, previously identified (including Statement 35) as sources of guidance for pension recognition, measurement, and display, pending issuance of a future GASB Statement or Statements.

14. In July 1990, the GASB began deliberations on pension plan reporting issues. An Exposure Draft, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans,* was released for comment in 1994, and the final Statement (GASB Statement 25) was issued in November 1994.

15. GASB Statement 25 establishes financial reporting standards for defined benefit pension plans and for the notes to the financial statements of defined contribution plans of state and local

governmental entities. Financial reporting standards for postemployment healthcare plans administered by defined benefit pension plans and for the pension expenditure/expense of employers are included, respectively, in GASB Statements No. 26, *Financial Reporting for Postemployment Healthcare Plans Administered by Defined Benefit Pension Plans,* and No. 27, *Accounting for Pensions by State and Local Governmental Employers*. The requirements of GASB Statement 25 are effective for periods beginning after June 15, 1996. Accordingly, Statement 75 is no longer necessary.

Technical Corrections

16. At the time a pronouncement is developed by the Board, part of the process requires that a determination be made of the effect this new guidance will have on existing authoritative accounting pronouncements. If there is an effect, then the new pronouncement should amend or supersede the existing authoritative literature in detail so that there is (a) no doubt about what the amendment changes and (b) no conflict between the requirements of prior pronouncements and the requirements of the new pronouncement.

17. However, sometimes certain detailed amendments that could have been explicitly made to the authoritative literature were omitted because, for example, they were overlooked when the new pronouncement was prepared. As those omissions were discovered by the FASB staff or members of the accounting profession, corrections were made to the various editions of the FASB's *Current Text* through effective amendments, and the locations of those amendments were appropriately indicated in the *Original Pronouncements*. However, those effective technical amendments have not been subjected to the Board's usual due process procedures. The Board decided to take this opportunity to identify those effective amendments and issue them as Board-approved amendments.

18. When the Board first issued a standard to make technical corrections (FASB Statement No. 111, *Rescission of FASB Statement No. 32 and Technical Corrections,* in November 1992) the Board considered what parts of previously issued pronouncements to amend and decided that only the official guidance sections should be amended. The Board continues to believe that only the official guidance sections should be amended. In other words, the Board believes that the introduction, background information, and basis for conclusions paragraphs provide historical information that should not be amended or superseded unless the entire pronouncement is superseded. Those paragraphs are considered historical because they document the circumstances surrounding the development of a pronouncement. For example, they record (a) the reasons why the accounting requirements were considered to be necessary at that time, (b) what alternative guidance was considered, and (c) what the public comments were regarding the proposed requirements and how those comments were resolved.

19. In addition to the accounting guidance and historical paragraphs, a pronouncement sometimes contains other paragraphs or appendixes. Those paragraphs or appendixes are ones that (a) state the scope of the pronouncement, (b) indicate substantive amendments to other

existing pronouncements, (c) present examples or illustrations of application of the requirements of the pronouncement, and (d) present a glossary of the terms used in the pronouncement. The Board believes that the content of those various paragraphs and appendixes does provide part of the accounting guidance of the pronouncement and should be amended if the pronouncement is amended by a subsequent pronouncement. The Board has further decided that when a pronouncement is superseded, the amendments made by that superseded pronouncement remain in effect unless they are explicitly amended. Thus, if a paragraph (or part of one) is deleted without any replacement text, the deletion would still stand. If the Board decides to undo the deletion, then the new (superseding) Statement must explicitly add back the deleted text. However, if a superseded document either (a) has superseded text in a previous standard by replacing it with new text or (b) has added text to a previous standard, the new (superseding) Statement must either (1) explicitly repeat the amendment from the superseded document that added text or replaced text (for example, refer to paragraph 238 of Statement 125 and paragraph 532 of Statement 133) or (2) explicitly delete text that was added or replaced by the superseded document (for example, refer to paragraph 237(h) of Statement 125 and paragraph 531(b) of Statement 133).

20. Some of the technical corrections in this Statement are not the direct result of effective amendments by new standards. That is, some amendments have been made to extend certain provisions to reflect established practice or clarify inconsistencies in existing pronouncements. For example:

a. Prior to being superseded by the Accounting Principles Board, the Committee on Accounting Procedure and the Committee on Terminology of the AICPA issued a series of Accounting Research Bulletins between 1939 and 1953. In 1953, the Committee on Accounting Procedure restated and revised the first 42 Bulletins. The purpose of the restatement (codified into ARB 43) was to eliminate what was no longer applicable, to condense and clarify required revisions, and to arrange the retained material by subjects rather than in the order of issuance. In 1953, practice permitted the accounting, in some circumstances, for stock of a corporation held in its own treasury as an asset. In EITF Issue No. 97-14, "Accounting for Deferred Compensation Arrangements Where Amounts Earned Are Held in a Rabbi Trust and Invested," the Emerging Issues Task Force reached a consensus that company shares held by a rabbi trust should be treated as treasury stock in the employer's financial statements. In connection with that Issue, the staff of the Securities and Exchange Commission (SEC) nullified its previously stated position that asset classification may be appropriate if the shares repurchased are expected to be reissued promptly (within one year) under existing stock plans. The Board also believes that it is no longer acceptable to show stock of a corporation held in its own treasury as an asset. One constituent notified the Board that that position may conflict with a provision in paragraph 13 of Opinion 6, which states:

> Laws of some states govern the circumstances under which a corporation may acquire its own stock and prescribe the accounting treatment therefor. Where

such requirements are at variance with paragraph 12, the accounting should conform to the applicable law.

The Board considered the point and observed that that reference is not specific to classifying treasury stock as an asset. Furthermore, several Board members expressed concern about that sentence being applied too broadly.

b. Paragraph 21 of APB Opinion No. 9, *Reporting the Results of Operations,* provided criteria for the determination of extraordinary items. Examples of extraordinary items included "the write-off of goodwill due to unusual events or developments within the period." Paragraph 31 of Opinion 17 provides that a loss resulting from a reduction in the unamortized cost of intangible assets does "not necessarily justify an extraordinary charge to income" and that "the reason for an extraordinary deduction should be disclosed." In June 1973 (three years after Opinion 17 was issued), Opinion 30 was issued which supersedes the criteria in Opinion 9 for the determination of extraordinary items. Paragraph 23 of Opinion 30 states that "certain gains and losses should not be reported as extraordinary items because they are usual in nature or may be expected to recur as a consequence of customary and continuing business activities. Examples include: (a) write-down or write-off of . . . other intangible assets." Paragraph 26 of Opinion 30, however, provides the following guidance on disclosure of unusual or infrequently occurring items: "A material event or transaction that is unusual in nature or occurs infrequently but not both, and therefore does not meet both criteria for classification as an extraordinary item, should be reported as a separate component of income from continuing operations." The Board observes that Opinion 17 was never amended to reflect the provisions of Opinion 9 that were superseded by Opinion 30 in that the write-down or write-off of intangibles may be an unusual item but may not be an extraordinary item. Accordingly, that change is being made at this time.
c. Paragraph 1 of Opinion 28 states that "the purpose of this Opinion is to clarify the application of accounting principles and reporting practices to interim financial information, including interim financial statements and summarized interim financial data of publicly traded companies issued for external reporting purposes." The specific requirements for interim disclosures found in Opinion 28 and various other pronouncements refer to the applicability of such requirements to financial information *issued to an enterprise's shareholders or securityholders*. Some have suggested that the interim disclosure requirements of those standards are not applicable to quarterly financial information reported pursuant to the Securities Exchange Act of 1934 on Forms 10-Q or 10-QSB, which generally are not issued to shareholders or securityholders. The interim disclosure requirements have been amended to clarify that the requirements are intended to be applied to interim financial reporting, including interim financial statements and summarized interim financial data of publicly traded companies issued for external reporting purposes.
d. Example (12) of the Accounting Interpretation of Opinion 30, provides as an example of a transaction that would meet both criteria of being unusual in nature and infrequent of occurrence a situation in which a company sells a block of common stock of a publicly traded company. The block of shares, which represents less than 10 percent of the publicly

held company, is the only security investment the company has ever owned. The Board acknowledges that it would be a very rare situation for an entity to ever own (and intend to ever own) just one security investment. However, were that situation to arise, the Board believes that in accordance with Statement 115, it would no longer be acceptable to report the realized gain or loss on the sale of such a security as an extraordinary item when the unrealized gains or losses are reported in other comprehensive income or income from operations, as applicable.

e. The SEC, in Regulation S-X, requires that for public companies segment information required by Statement 14 must be provided for each year for which an audited statement of income is presented. As originally issued, Statement 131 requires segment information to be provided for each year for which a complete set of financial statements is presented. Because Statement 131 is applicable to only public companies, and the SEC will continue to require that segment information be presented for each year for which an audited statement of income is presented, the Board believes that amending Statement 131 to conform the reporting requirements is appropriate.

f. Paragraphs 27 and 28 of Statement 131 require disclosure of certain specified amounts relating to segment profit or loss and assets. The introductory language of those paragraphs states that disclosure of the specified amounts is required if the specified amounts are included in the measure of segment profit or loss (or in the determination of segment assets) reviewed by the chief operating decision maker. The first sentence of paragraph 29 further states that "the amount of each segment item reported shall be the measure reported to the chief operating decision maker for purposes of making decisions about allocating resources to the segment and assessing its performance." In May 1998, the FASB staff made an announcement at an EITF meeting (refer to EITF Topic No. D-70, "Questions Related to the Implementation of FASB Statement No. 131") that indicates the staff response to a technical inquiry relating to the requirements of paragraph 27. Specifically, the staff responded that if the items specified in paragraph 27 (and in paragraph 28) are provided to the chief operating decision maker for purposes of evaluating segment performance, then disclosure of such items is required even if such items are not included in the measure of segment profit or loss (or in the determination of segment assets) that is reviewed by the chief operating decision maker. The Board agreed with the staff's conclusion that the introductory language of paragraphs 27 and 28 should be considered together with the measurement guidance provided in paragraphs 29–31 and that as part of this project to make technical corrections, the introductory language of paragraphs 27 and 28 should be amended.

Comments on Exposure Draft

21. The Board issued an Exposure Draft, *Amendment to FASB Statement No. 66, Rescission of FASB Statement No. 75, and Technical Corrections,* for comment on October 13, 1998, and received nine letters of comment. Many of the respondents expressed concern about an amendment to Statement 66 that was proposed in the Exposure Draft. Subsequent to the issuance of the Exposure Draft, the Board decided to exclude that proposed amendment from this project because of the complexity of some of the issues that were raised in the comment letters.

That issue will be addressed separately by the Board.

22. A majority of respondents agreed with the technical corrections proposed in the Exposure Draft. Several respondents indicated support for the practice of making needed technical corrections when they are identified and then formally issuing those corrections as Board-approved amendments after due process. A few respondents had suggestions for additional amendments and technical corrections. Some of those suggested amendments are included in this Statement.