

Statement of Financial Accounting Standards No. 59

Note: This Statement has been completely superseded

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Deferral of the Effective Date of Certain
Accounting Requirements for Pension Plans
of State and Local Governmental Units

(an amendment of FASB Statement No. 35)

April 1982



Financial Accounting Standards Board
of the Financial Accounting Foundation
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an amendment of FASB Statement No. 35

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FAS 59: Deferral of the Effective Date of Certain Accounting Requirements for Pension Plans of State and Local Governmental Units

an amendment of FASB Statement No. 35

FAS 59 Summary

This Statement amends FASB Statement No. 35, *Accounting and Reporting by Defined Benefit Pension Plans*. It defers the effective date of Statement 35 for 18 months for plans that are sponsored by state or local governments.

INTRODUCTION

1. FASB Statement No. 35, *Accounting and Reporting by Defined Benefit Pension Plans*, was issued in March 1980 and defines generally accepted accounting principles for general purpose external financial reports of defined benefit pension plans. It applies both to plans in the private sector and to plans sponsored by state and local governmental units. It is effective for plan years beginning after December 15, 1980.
2. In December 1981, the Board received a request from the National Council on Governmental Accounting (NCGA) to suspend Statement 35 as it applies to pension plans sponsored by state and local governmental units. For the reasons given in the appendix, the Board has concluded that it is appropriate to defer the effective date of Statement 35 for those plans.

STANDARDS OF FINANCIAL ACCOUNTING AND REPORTING

Amendment to FASB Statement 35

3. The first sentence of paragraph 30 of Statement 35 is superseded and replaced by the following sentence:

This Statement shall be effective for plan years beginning after December 15, 1980, except that it shall be effective for 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 governments.

Effective Date and Transition

4. This Statement shall be effective upon issuance retroactive to fiscal years beginning after December 15, 1980.

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

Donald J. Kirk, *Chairman*

Frank E. Block

John W. March

Robert A. Morgan

David Mosso

Robert T. Sprouse

Ralph E. Walters

Appendix: BACKGROUND AND BASIS FOR CONCLUSIONS

5. This appendix reviews considerations that were deemed significant by members of the Board in reaching the conclusions in this Statement. The Board members who assented to this Statement did so on the basis of the overall considerations. Individual members gave greater weight to some factors than to others.

Inclusion of Plans Sponsored by State and Local Governmental Units in Statement 35

6. The Board's reasons for including plans sponsored by state and local governments within the scope of Statement 35 are detailed in paragraphs 75-77 of that Statement. As noted in those paragraphs, the Board believes that the characteristics of the plans rather than those of their sponsors should affect accounting by the plans. The Board also believes, as stated in paragraph 76, that ". . . the primary objective of providing information useful in assessing the plan's ability to pay benefits when due is as appropriate for plans of state and local governmental units as it is for private plans." The Board reaffirmed that basic conclusion in FASB Concepts Statement No. 4, *Objectives of Financial Reporting by Nonbusiness Organizations*, issued in December 1980. That Statement notes, "based on its study, the Board believes that the objectives of general purpose external financial reporting for government-sponsored entities . . . engaged in activities that are not unique to government should be similar to those of business enterprises or other nonbusiness organizations engaged in similar activities" (paragraph 5).

NCGA Interpretation 4

7. In December 1981, the NCGA issued Interpretation 4, *Accounting and Financial Reporting for Public Employee Retirement Systems and Pension Trust Funds*. The Interpretation is effective for years ending after

December 15, 1981. The Interpretation generally requires disclosure of the information required by Statement 35 but differs from that Statement in certain respects.

8. The most significant difference between FASB Statement 35 and NCGA Interpretation 4 is the basis for valuing plan investments. Statement 35 requires presentation of investments at fair value. The Interpretation requires valuing debt securities at amortized cost and equity securities in accordance with FASB Statement No. 12, *Accounting for Certain Marketable Securities*. The Interpretation also requires footnote disclosure of the market value (that is, fair value as defined in Statement 35) of debt and equity securities. The difference in asset valuation also affects information about changes in net assets available for benefits.

Structure for Setting Accounting Standards for State and Local Governmental Units

9. During the period since Board deliberations on Statement 35, an ad hoc Governmental Accounting Standards Board Organization Committee (GASBOC), which included a representative of the Financial Accounting Foundation (FAF), studied the appropriate organizational structure for establishing accounting standards for state and local governments and related entities. On October 13, 1981, GASBOC issued its final report. In that report, GASBOC recommended that a Government Accounting Standards Board be established under the auspices of the FAF to issue pronouncements on governmental accounting standards following due process procedures that provide for broad public participation at all stages of the standard-setting process. Since the issuance of that report, the FAF has organized a committee to advise it regarding implementation of the recommendations of GASBOC. Among the questions that remain to be resolved in implementing those recommendations is how standards should be set for government-related entities (such as hospitals, municipal utilities, universities, and pension plans) that are similar to entities in the private sector.

10. The Board believes that the current efforts to establish a new structure for setting accounting standards for state and local governmental units bear on the request to amend Statement 35. The Board believes that those efforts would not be facilitated by imposition of new standards at this time or by the existence of differing standards issued by different bodies.

11. The FASB and its staff discussed with NCGA representatives the possibility of deferring the applicability of both FASB Statement 35 and NCGA Interpretation 4 for a specific period by changing the effective dates of both to a future date. The Board has concluded that such a mutual deferral would eliminate the potential conflict between those documents while discussions of the appropriate structure are in progress. In March 1982, the NCGA voted to change the effective date of its Interpretation.

12. The Board has concluded that it can reach an informed decision on the basis of existing information without a public hearing and that the effective date and transition specified in paragraph 4 are advisable in the circumstances.