MFA Perspective

Employee Benefit Plan Sponsors and Service Providers

*Are you ready for **FAS 157**?*

MFA

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Certified Public Accountants & Consultants

Employee Benefit Plan Sponsors and Service Providers – Are You Ready for FAS 157?

Did you know that employee benefit plans are now required to implement accounting rules for valuing and reporting the fair value of their investments in the plan's financial statements?

FAS 157 Framework for Measuring for Fair Value May Change Current Valuation Practices

Statement of Financial Accounting Standards No. 157, *Fair Value Measurements* (FAS 157), establishes a framework for measuring fair value under generally accepted accounting principles (GAAP), clarifies the definition of fair value within that framework, and expands financial statement disclosures about the use of fair value measurements.

While employee benefit plans currently report plan investments at fair value in their financial statements, the FAS 157 framework for measuring fair value may change current valuation practices for certain investments and requires additional disclosures about the use of fair value measurements.

FAS 157 must be implemented for all plans that prepare GAAP financial statements, regardless of whether the plan administrator engages an independent auditor to perform a full scope or limited scope audit of those financial statements. FAS 157 applies for fiscal years beginning after November 15, 2007 (i.e., all 2008 calendar year plans).

The Responsibility for Implementing FAS 157 Falls to the Plan Sponsor

Ultimately, Plan Sponsors bear the responsibility for implementing FAS 157 and the related valuation process. To prepare for implementation, Plan Sponsors should pro-actively contact the plan's service providers (trustees, custodians, or other investment service providers) immediately in order to understand how assets priced based on unobservable inputs[1] are valued, and what information the service providers will provide in reports and certifications to support the assertions of fair value.

Plan Sponsors need to have a sufficient understanding of the nature of the plan's investments and valuation methodologies, key assumptions, and inputs used to determine fair value. In addition, Plan Sponsors must ensure that the methods used appropriately follow the FAS 157 fair value definition, whether the values are stated as of the plan's year-end, and obtain additional information about the valuation inputs in order to craft appropriate footnote disclosures required by FAS 157.

- **FAS 157 must be implemented for all plans that prepare year-end GAAP financial statements**
- **FAS 157 applies for fiscal years beginning after November 15, 2007 (applies for all 2008 calendar year plans)**
- **Ultimately, Plan Sponsors bear the responsibility for implementing FAS 157 and the related valuation process**
- **FAS 157 requires additional financial statement disclosures regarding the use of fair value to measure plan investments subsequent to initial recognition**

The Challenges in Implementing FAS 157

There are several challenges that Plan Sponsors may face in implementing FAS 157, including the recent liquidity crisis which has led to a lack of observable inputs and difficulty in measuring certain fair values in the absence of market transactions. Also, many plans outsource investment management activities to third party service providers, whereby information relating to the pricing and valuation of the plan's investments may not be completely transparent to the Plan Sponsor. For certain investments, the Plan Sponsor may even need to hire an outside valuation firm to assist in valuing investments, if the related fair value information is not available.

Preparing for Implementation of FAS 157

As Plan Sponsor or Administrator, you should consider the following steps to take now, in order to prepare for implementation of FAS 157.

1. Understand how FAS 157 affects your plan's financial statements.
2. Learn what additional financial statement disclosures are required, and what information you will need in order to prepare those disclosures.
3. Establish responsibility at the plan level for implementing FAS 157, and actively participate in the audit process with your auditors.

[1] *Unobservable inputs should be used to measure fair value in situations where observable inputs are not available – i.e., when there is little, if any, market activity for an asset or liability.*

4. Communicate with your plan trustee, custodian, or other investment service provider about information they can provide to help you determine the fair value of your plan's investments.

5. Discuss with your plan's auditor how FAS 157 will affect the upcoming audit, and what information will be needed for that audit.

6. Pay special attention to "alternative" and/or hard-to-value investments, including common/collective trust funds, stable value investments, and pooled separate accounts, as these investments entail more comprehensive disclosure requirements and require a more robust valuation process.

7. If necessary, consider hiring a third party to perform valuation services to obtain fair values for plan investments.

8. Determine whether 2007 comparative financial information for the plan will need to be disclosed within the financial statements.

9. Establish and monitor proper internal controls over the plan's financial reporting process related to the valuation of plan investments.

10. Ask the right questions and obtain appropriate information in order to address valuation considerations related to your plan's investments.

For more information, please contact

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