

Employee Benefit Plans

(Note: These numbers reflect a reorganization of section 6930 in the *Technical Practice Aids* that will occur shortly.)

TPA 6931.08 Types of Investments Subject to SOP 94-4, as Amended by FSP AAG INV-1 and SOP 94-4-1

Inquiry—What types of investments are subject to the financial statement presentation and disclosure requirements of SOP 94-4, *Reporting of Investment Contracts Held by Health and Welfare Benefit Plans and Defined-Contribution Pension Plans*, as amended by FASB staff position (FSP) AAG INV-1 and SOP 94-4-1, *Reporting of Fully Benefit-Responsive Investment Contracts Held by Certain Investment Companies Subject to the AICPA Investment Company Guide and Defined-Contribution Health and Welfare and Pension Plans*?

Reply—FSP AAG INV-1 and SOP 94-4-1 defines investment contracts as (a) a traditional or separate account guaranteed investment contract (GIC) contract, (b) a bank investment contract (BIC) contract, (c) a synthetic GIC contract composed of a wrapper contract and the underlying wrapped portfolio of individual investments, or (d) a contract with similar characteristics.

Plans may hold stable value investments through direct contracts with issuers or through a specifically plan-managed account. Plans may also hold stable value investments through beneficial ownership of bank collective funds (which own investment contracts). Insurance company pooled separate accounts that hold investment contracts also have similar characteristics.

It is important for the auditor to gain an understanding of the types of investments being held by the plan; this can be achieved by obtaining the underlying documents for the investments. Typically, investments have some form of underlying documentation to help determine the type of investment. For example, if a plan is invested in common collective trust funds (CCTs), then there should be a trust declaration for that CCT, which would generally have audited financial statements.

TPA 6931.09 Financial Statement Presentation When a Plan Invests in a Common Collective Trust Fund or in a Master Trust That Holds Fully Benefit-Responsive Investment Contracts

Inquiry—Do the financial statement presentation requirements in paragraph 15 of SOP 94-4, as amended by FSP AAG INV-1 and SOP 94-4-1, apply to a plan's investment in a common collective trust fund (CCT), or master trust that holds fully benefit-responsive investment contracts?

Reply—Yes. Paragraph 15 of SOP 94-4, as amended by FSP AAG INV-1 and SOP 94-4-1, requires the following presentation for fully benefit-responsive investment contracts:

The statement of net assets available for benefits of the plan shall present amounts for (1) total assets, (2) total liabilities, (3) net assets reflecting all investments at fair value, and (4) net assets available for benefits. The amount representing the difference between (3) and (4) shall be presented on the face of the statement of net assets available for benefits as a single amount, calculated as the sum of the amounts necessary to adjust the portion of net assets attributable to each fully benefit-responsive investment contract from fair value to contract value.

When the plan invests in a CCT (or similar vehicle), or a master trust that holds fully benefit-responsive investment contracts, the fair value of the investment in the CCT or master trust should be reported in investments on the face of the statement of net assets available for benefits. The amount representing the difference between the fair value and the contract value of the fully benefit-responsive investment contracts held by the CCT or master trust should be presented on the face of the statement of net assets available for benefits, and calculated as the sum of the amounts necessary to adjust the portion of net assets attributable to the plan's investment in the CCT or master trust from fair value to contract value. For the master trust, the adjustment only relates to the plan's portion of the master trust invested in the fully benefit-responsive investment contracts.

A CCT is a trust for a collective investment and reinvestment of assets contributed from employee benefit plans maintained by more than one employer or a controlled group of corporations that is maintained by a bank, trust company, or similar institution that is regulated, supervised, and subject to periodic examination by a state or federal agency. Such CCTs allow several smaller unaffiliated plans to gain the economies of scale necessary to participate in the stable value marketplace. These CCTs generally issue separate, stand-alone financial statements, and are considered investment companies subject to the *AICPA Investment Companies Guide*.

TPA 6931.10 Financial Statement Disclosure Requirements When a Plan Invests in a Common Collective Trust Fund or in a Master Trust That Holds Fully Benefit-Responsive Investment Contracts

Inquiry—Do plans that directly invest in common collective trust funds (CCTs), or in master trusts that hold fully benefit-responsive investment contracts, need to include in the plan's financial statements, the disclosures in paragraph 15 of SOP 94-4, as amended by FSP AAG INV-1 and SOP 94-4-1?

Reply— Plans that directly invest in CCTs, or similar vehicles that hold fully benefit-responsive investment contracts, do not need to include the disclosures detailed in the FSP in the plan's financial statements. Such disclosures would be included in the financial statements of the CCT, in accordance with paragraph 11 of the FSP.

For plans that invest in a master trust that holds fully benefit-responsive investment contracts, the notes to the financial statements should include the disclosures required in paragraph 15 of SOP 94-4, as amended by FSP AAG INV-1 and SOP 94-4-1 related to the fully benefit-responsive investment contracts held by the master trust. These disclosures are necessary because, unlike a CCT (as discussed in TPA 6931.09), master trust financial statements are not required, and the related disclosure information would not be readily available.