Valuing & Reporting of Retirement Plan Assets
ASC 820

This document serves as communication to plan sponsors about the requirements of ASC 820 (formerly FAS 157) and the fiduciary role of plan sponsors as it relates to valuing plan assets. The intent of this documentation is to inform these parties what is generally required by ASC 820 and what information is being made available by Principal® to aid the plan sponsor in meeting the requirements. ASC 820 is generally not rules based and will require certain interpretations by the plan sponsor. The information provided by Principal, as discussed below, can be used as a basis for supporting various interpretations. Ultimately, conclusions as it relates to applying ASC 820, are the responsibility of the plan sponsor, not Principal.

What is ASC 820?

In September of 2006, the Financial Accounting Standards Board (FASB) issued Financial Accounting Statement No. 157, *Fair Value Measurements*, (FAS 157) addressing fair value measurement standards in financial statements prepared according to Generally Accepted Accounting Principles (GAAP). The guidance was subsequently codified within Accounting Standards Codification (ASC) 820, "*Fair Value Measurements and Disclosures*" which has been amended with further clarifications and additional disclosure requirements over the last several years.

Employee benefit plan financial statements prepared according to GAAP and attached to Form 5500 filed with the Department of Labor (DOL) must include plan invested assets disclosed at fair value. ASC 820:

- defines how fair value should be determined for these invested plan assets,
- establishes a framework for measuring fair value, and
- requires statement preparers to disclose information about their fair value determinations in their financial statements.

ASC 820 only applies to those investments currently reflected at fair value within the financial statements. It does not expand the scope of what is required to be reported at fair value.

Why is ASC 820 important to plan sponsors? How does this correspond to the DOL requirements around fair value?

As a plan fiduciary, the plan sponsor is responsible for investment valuations and financial statement disclosures. Even if an outside investment custodians, investment managers or other service providers, like Principal is used, the DOL holds those responsible for the plan's management accountable for the proper valuation and reporting of plan assets. While the plan sponsor may look to others for the mechanics of the valuation, it is important the plan sponsor gains sufficient understanding of the methods and assumptions used in the valuations to independently evaluate and challenge those valuations.

To fulfill the plan sponsor's responsibility to ensure plan assets are valued properly and related controls are in place, processes and procedures should be established to:

1. Determine the fair value measurements for each investment
2. Confirm appropriate valuation methods
3. Identify and adequately support significant assumptions used in the valuation
4. Ensure the fair value measurements are presented and disclosed in the employee benefit plan financial statements in accordance with GAAP.

Suggested procedures for monitoring and valuing plan investments are on our website at principal.com.

What are the main concepts of ASC 820?

- Establishes a principles-based framework for measuring fair value of both assets and liabilities.
- Provides a ***fair value hierarchy*** based on the nature of data ***inputs*** for fair value determinations using assumptions that market participants would use.
- Requires ***financial statement disclosures*** that are mainly focused on data ***inputs*** used to measure the fair value to allow the users to better assess reliability of fair value measurement.
- Includes additional disclosure requirements about the assumptions used and the effect of these measurements on earnings or changes in net assets for the period when significant unobservable inputs are used to value an asset or liability.

Fair Value Framework

- ASC 820 establishes a principle-based framework for measuring fair value of both assets and liabilities. It clarifies the definition of fair value within that framework and expands disclosures about the use of fair value measurement. Much of the disclosures are focused on inputs used to measure the fair value to allow the users to better assess reliability of fair value measurement.
- Fair value is a market-based measurement, not entity specific, and as such, is determined based on the assumptions that market participants would use in pricing the asset or liability.
- Fair value is the price to sell an asset or transfer a liability and, therefore represents an exit price not an entry price. Exit price is the price in the principal or most advantageous market in which the reporting entity would transact.
- Because the statement is primarily principles based it generally does not provide specific rules or detailed "how to" guidance on calculating fair value measurement. It does, however give priority to market observable data, when available. As such, the application of ASC 820 will require significant judgment on the part of the plan sponsor.

NAV as a practical expedient for fair value

It was determined that as a practical expedient, net asset value ("NAV") per share is permitted by ASC 820 to estimate the fair value of an investment as long as the investment does not already have a readily determinable fair value (i.e. it's available on a domestic stock exchange or is a mutual fund with a published price), it's calculated in a manner consistent with the measurement principles of investment company reporting as of the reporting entity's measurement date and there are no plans to redeem the investments at amounts different from NAV.

The measurement principal of investment company reporting means the NAV of the investment (or equivalent) is calculated in a manner consistent with "*Financial Services – Investment Companies"* (ASC 946) as of the reporting entity's measurement date. This decision must be made on an investment-by-investment basis, and shall be consistently applied to the entity's entire position in a particular investment. As defined under ASC 946, investment companies with all the following attributes may use NAV as a practical expedient of fair value:

- The investment companies primary business activity involves investing its assets, usually in the securities of other entities not under common management, for current income, appreciation, or both.
- Ownership in the investment company is represented by units of investments, such as shares of stock or partnership interests, to which proportionate shares of net assets can be attributed.
- The funds of the investment company's owners are pooled to avail owners of professional investment management.
- The investment company is the primary reporting entity.

Principal feels its pooled separate accounts and collective investment trusts (including Stable Value Fund) currently meet the practical expedient requirements, including those around investment company reporting. See discussion of proprietary investments below for further information.

Fair Value Hierarchy

- ASC 820 sets forth a fair value hierarchy for inputs which must be disclosed in the footnotes to the financial statements.
- The fair value hierarchy prioritizes the inputs to valuation techniques used to measure fair value into three broad levels. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and lowest priority to unobservable inputs (Level 3)
- In some cases, the inputs used to measure fair value might fall in different levels of the fair value hierarchy. What level in the fair value hierarchy the asset or liability in its entirety falls shall be determined based on *the lowest level input* that is significant to the fair value measurement *in its entirety*.
- Assessing the significance of particular inputs to the fair value measurement in its entirety requires judgment on the part of the plan sponsor, considering factors specific to that asset or liability.

Unit Of Account

- The unit of account defines what is being measured for financial reporting purposes. It is an accounting concept that determines the level at which an asset or liability is aggregated or disaggregated for purposes of applying ASC 820, as well as other Topics. Identifying the asset or liability being measured is fundamental to determining its fair value.

Input Levels

- **Level 1 inputs** are *quoted prices* (unadjusted) in active markets for identical assets that the plan has the ability to access at the measurement date (e.g. prices derived from New York Stock Exchange, NASDAQ or Chicago Board of Trade).

- **Level 2 inputs** are inputs other than quoted price included within Level 1 that are *observable* for valuing the asset or liability, either directly or indirectly (i.e. interest rate and yield curves observable at commonly quoted intervals, default rates, etc.). Observable inputs include quoted price for similar assets or liabilities in active or non-active markets. Level 2 inputs may also include insignificant adjustments to market observable inputs.

- **Level 3 inputs** are *unobservable* inputs used for valuing the asset or liability. Unobservable inputs are those that reflect the plans own assumptions about the assumptions that market participants would use in pricing the asset, based on the best information available in the circumstances. An example could be real estate valuations, which require significant judgment.

  For those investments where NAV is allowed to be used to estimate fair value as a practical expedient (see Fair Value Framework above), if the reporting entity has the ability to redeem its investment at NAV as of the measurement date, ASC 820 states the fair value measurement of the investment shall be categorized as a Level 2 fair value measurement.

  If the reporting entity will never have the ability to redeem its investment at NAV, ASC 820 states the investment shall be categorized as a Level 3 fair value measurement. If the investment can not be redeemed at the measurement date but the investment may be redeemable at a future date (i.e. investments subject to a lockup or gate), ASC 820 states the reporting entity shall consider the length of time until the investment becomes redeemable in determining whether the fair value measurement should be categorized as a Level 2 or Level 3 fair value measurement. If the reporting entity does not know when it will have the ability to redeem or does not have the ability to redeem the investment in the near term at NAV, the fair value measurement shall be categorized as a Level 3 fair value measurement. None of the pooled separate accounts or collective investment trusts made available by Principal are currently subject to withdrawal limitations.

In 2015, the FASB issued Accounting Standards Updates ("ASU") 2015-07, *Fair Value Measurement (Topic 820): Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent) (a consensus of the FASB Emerging Issues Task Force)* and ASU 2015-12, *Plan Accounting: Defined Benefit Pension Plans (Topic 960), Defined Contribution Pension Plans (Topic 962), Health and Welfare Benefit Plans (Topic 965): (Part I) Fully Benefit-Responsive Investment Contracts, (Part II) Plan Investment Disclosures, (Part III) Measurement Date Practical Expedient (consensuses of the FASB Emerging Issues Task Force).*

- **ASU 2015-07**

  The amendments in this Update remove the requirement to categorize within the fair value hierarchy all investments for which fair value is measured using the NAV per share practical expedient.The amendments also remove the requirement to make certain disclosures for all investments that are eligible to be measured at fair value using the NAV per share practical expedient. Rather, those disclosures are limited to investments for which the entity has elected to measure the fair value using that practical expedient.

The amendments in this Update are effective for public business entities for fiscal years beginning after December 15, 2015, and interim periods within those fiscal years. For all other entities, the amendments in this Update are effective for fiscal years beginning after December 15, 2016, and interim periods within those fiscal years. A reporting entity should apply the amendments retrospectively to all periods presented. The retrospective approach requires that an investment for which fair value is measured using the NAV per share practical expedient be removed from the fair value hierarchy in all periods presented in an entity's financial statements. Earlier application is permitted.

- **ASU-2015-12**

Part I — Although contract value is used to measure fully benefit-responsive investment contracts for purposes of determining the net assets of an employee benefit plan, GAAP also requires fully benefit-responsive investment contracts to be measured at fair value for purposes of presentation and disclosure. This includes providing a reconciliation of contract value to fair value, when those measures differ, on the face of the plan financial statements. Under the amendments, fully benefit-responsive investment contracts are measured, presented, and disclosed only at contract value. A plan will continue to provide disclosures that help users understand the nature and risks of fully benefit-responsive investment contracts.

Part II — GAAP requires plans to disclose (1) individual investments that represent 5 percent or more of net assets available for benefits and (2) the net appreciation or depreciation for investments by general type. This Update will eliminate those requirements for both participant-directed investments and nonparticipant-directed investments. The net appreciation or depreciation in investments for the period still will be required to be presented in the aggregate, but will no longer be required to be disaggregated and disclosed by general type.

Under ASC 820, classes of assets are grouped and disclosed on the basis of nature, characteristics, and risks, and under ASCs 960, 962, and 965, classes of assets are grouped and disclosed on the basis of general type.

Examples of classes of assets grouped and disclosed by general type include registered investment companies, government securities, common collective trusts, pooled separate accounts, short-term securities, corporate bonds, common stocks, mortgages, and real estate.

Classification by general type might be inconsistent with classification by nature, characteristics, and risks, which often results in plans grouping their investments in two different ways.

For example, an employee benefit plan may identify mutual funds as a general type of investment but then further break down the mutual fund into index funds, balanced funds, and fixed income funds to group those funds by nature, characteristics, and risks. The amendments in Part II of this Update will require that investments (both participant-directed and nonparticipant-directed investments) of employee benefit plans be grouped only by general type, eliminating the need to disaggregate the investments in multiple ways.

In addition, if an investment is measured using the NAV per share (or its equivalent) practical expedient in Topic 820 and that investment is in a fund that files a U.S. Department of Labor Form 5500, Annual Return/Report of Employee Benefit Plan, as a direct filing entity, disclosure of that investment's strategy will no longer be required.

Part III — the amendments in this Update provide a practical expedient to permit plans to measure investments and investment-related accounts (for example, a liability for a pending trade with a broker) as of a month-end date that is closest to the plan's fiscal year-end, when the fiscal period does not coincide with a month end.

The amendments of this Update are effective for fiscal years beginning after December 15, 2015. Earlier application is permitted. An entity should apply the amendments in Part I and II of this Update retrospectively for all financial statements presented.

The document below will focus mainly on the changes for ASU 2015-07 and 2015-12, Parts I and II. Plan sponsors should work with their plan auditors for assistance in determining the proper reporting assessments of all these changes.

Disclosures

The disclosures include information that enables users of the financial statements to assess the inputs used to measure fair value. Those disclosures include:

- Identification of the input level for each class of asset and liability reflected at fair value.
- Statement as to the effect significant unobservable inputs (Level 3) have on changes in the assets or liabilities for the period, including a reconciliation of the beginning and ending balances for each class of asset and liability. Includes:
  - Total gains or losses for the period (realized and unrealized) included in earnings (or changes in net assets).
  - Purchases, sales, issuances and settlements, as applicable, disclosed separately.
  - Transfers between Level 1 and 2 and in and/or out of Level 3 with reasons for those transfers and the policy for determining when transfers between levels are deemed to have occurred. For Principal proprietary investments, this happens very infrequently.
- The amount of total gains and losses for the period included in earnings (or changes in net assets) related to assets and liabilities still held at the reporting date.

Also, for fair value measurements categorized within Level 2 and Level 3 of the fair value hierarchy, ASC 820 requires a reporting entity to disclose a description of the valuation technique(s) and the inputs used in the fair value measurement. More information on those descriptions is discussed below within proprietary and non-proprietary investment options. For fair value measurements categorized within Level 3 of the fair value hierarchy, information about the significant unobservable inputs used must be quantitative. This is discussed below as well.

For investments that are calculated utilizing NAV, even if the practical expedient is not applied, the reporting entity shall disclose information that enables users of its financial statements to understand the nature and risks of the investments and whether the investments are probable of being sold at amounts different from NAV. To meet that objective, to the extent applicable, the reporting entity shall disclose the following information separately for each class of investment:

- The fair value of the investments in the class, and a description of the significant investment strategies of the funds in the class. Descriptions for Principal proprietary investments will be available as described below under "*What information will Principal provide for ASC 820 disclosure requirements"*?

  Class of investment shall be determined on the basis of the nature and risks of the investments. In determining whether disclosure for a particular security type is necessary and whether it is necessary to further separate a particular security type into greater detail, an entity shall consider shared activity/ business sector, credit quality, or economic characteristics.

- The amount of the reporting entity's unfunded commitments related to investments in the class.

  Unfunded commitments typically are found in private equity funds and therefore not applicable to pooled separate accounts, collective investment trusts, mutual funds or stocks.

- A general description of the terms and conditions upon which the investor may redeem investments in the class (for example, quarterly redemption with 60 days' notice). Pooled separate accounts and collective investment trusts generally can be redeemed on a daily basis. Mutual funds and stocks trade within industry standard settlement periods (i.e. T+3). Guaranteed Investment Contracts issued by us have various types of withdrawal limitations depending on the contract type. Plan sponsors should review applicable contract information to obtain specific information needed.

- The circumstances in which an otherwise redeemable investment in the class (or a portion thereof) might not be redeemable (for example, investments subject to a lockup or gate). Also, for those otherwise redeemable investments that are restricted from redemption as of the reporting entity's measurement date, the reporting entity shall disclose its estimate of when the restriction from redemption might lapse. If an estimate cannot be made, the reporting entity shall disclose that fact and how long the restriction has been in effect.

  None of the pooled separate accounts or collective investment trusts made available by Principal are currently subject to withdrawal limitations.

- Any other significant restriction on the ability to sell investments in the class at the measurement date.

The new accounting standard updates described above will impact some of these disclosures. Under ASC 820, classes of assets are grouped and disclosed on the basis of nature, characteristics, and risks, and under ASCs 960, 962, and 965, classes of assets are grouped and disclosed on the basis of general type.

Examples of classes of assets grouped and disclosed by general type include registered investment companies, government securities, common collective trusts, pooled separate accounts, short-term securities, corporate bonds, common stocks, mortgages, and real estate. Classification by general type might be inconsistent with classification by nature, characteristics, and risks, which often results in plans grouping their investments in two different ways. The updates will require that investments (both participant-directed and nonparticipant-directed investments) of employee benefit plans be grouped only by general type, eliminating the need to disaggregate the investments in multiple ways.

The amendments in the accounting standard updates remove the requirement to categorize within the fair value hierarchy all investments for which fair value is measured using the NAV per share practical expedient. The amendments also remove the requirement to make the above disclosures for all investments that are eligible to be measured at fair value using the NAV per share practical expedient. Rather, those disclosures are limited to investments for which the entity has elected to measure the fair value using that practical expedient.

In addition, if an investment is measured using the NAV per share practical expedient in Topic 820 and that investment is in a fund that files a U.S. Department of Labor Form 5500, Annual Return/Report of Employee Benefit Plan, as a direct filing entity, disclosure of that investment's strategy will no longer be required.

For assets of a benefit plan, the information might be presented as follows (these are examples only):

Prior to ASU 2015-07 and ASU 2015-12

		Fair Value Measurements at Reporting Date Using		
Description	**12/31/XX**	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobervable Inputs (Level 3)**
Pooled separate accounts				
U.S. large cap equity portfolio	$90	—	$90	—
U.S. small/mid cap equity portfolios	$60	—	$60	—
International equity portfolios	$35	—	$35	—
U.S. real estate portfolio	$15	—	$15	—
Mutual Funds	—	—	—	—
U.S. large cap equity portfolios	$20	$20	—	—
Guaranteed interest contracts	$10	—	—	$10
Total	$230	$20	$200	$10

For Level 3 investments of a benefit plan, the reconciliation might be presented as follows:

	Fair Value Measurements Using Unobservable Inputs (Level 3)
	Guaranteed interest contracts
Beginning Balance	$5
Total gains or losses (realized & unrealized) included in changes in net assets	1
Purchases Sales	6 (2)
Transfers in and out of Level 3	—
Ending Balance	$10
The amount of total gains and losses for the period included in changes in net assets relating to assets still held at the reporting date:	$1

Please review ASC 820 for additional information on the required disclosures as these are for illustrative purposes only.

For those investments eligible for the NAV practical expedient, required disclosures might be presented as follows prior to ASU 2015-7 and 2015-12:

Description	**Fair Value 12/31/XX**	**Unfunded Committments**	**Redemption Frequency (if currently eligible)**	**Redemption Notice Period**
Pooled separate accounts				
U.S. large cap equity portfolios	$120	--	Daily	1 day
U.S. small/mid cap equity portfolios	$60	--	Daily	1 day
International equity portfolios	$35	--	Daily	1 day
U.S.real eastate portfolios	$15	--	Daily	1 day
Total	$230	--		

The new accounting standards updates described above will impact the fair value hierarchy for those investments measured using the NAV per unit practical expedient. *As shown here, those investments will no longer be reflected in the fair value hierarchy but will be shown in total to permit reconciliation of the fair value hierarchy to the line items presented in the statement of net assets.*

		Fair Value Measurements at Reporting Date		
Description	**12/31/XX**	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Using Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
Mutual Funds	$20	$20	—	—
Guaranteed interest contracts	$10	—	—	$10
Total	$30	$20	—	$10
Other investments measured at net asset value[a]	$200			
Total Investments	$230			

[a] In accordance with Subtopic 820-10 certain investments that were measure at NAV per share (or its equivalent) have not been classified in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the line items presented in the statement of net assets.

For those investments eligible for the NAV practical expedient, required disclosures might be presented as follows:

Description	**Fair Value 12/31/XX**	**Unfunded Commitments**	**Redemption Frequency (if currently eligible)**	**Redemption Notice Period**
Pooled Separate Accounts	$230	—	Daily	1 day
Total	$230	—		

The amendments are effective for fiscal years beginning after December 15, 2016, and interim periods within those fiscal years. *A reporting entity should apply the amendments retrospectively to all periods presented. The retrospective approach requires that an investment for which fair value is measured using the NAV per share practical expedient be removed from the fair value hierarchy in all periods presented in an entity's financial statements. Earlier application is permitted.*

How does ASC 820 apply to preparers of benefit plan financial statements?

Benefit plan financial statements include retirement plan assets that are reflected at fair value. Plan assets may include pooled separate accounts, collective investment trusts, mutual funds, public and non-publicly traded individual securities as well as other types of investments. Each of these has unique valuation and disclosure considerations. ASC 820 clarifies how fair value should be determined as it relates to these plan assets. Based on the types of significant inputs used to determine the fair value of the plan assets, judgment must be made on where in the fair value hierarchy the individual plan assets should be included and then disclose those results in the plan's financial statements. This assessment of fair value hierarchy level and the determination of whether the value reported represents fair value must be made by the plan sponsor with information provided by the applicable investment manager or investment sponsor serving as support.

The guidance confirms the practice used historically by Principal for the determination of fair value on our proprietary investment options. While we are unable to determine the fair value hierarchy level and assess the fair value for each employee benefit plan of the plan sponsor, applicable supporting information will be provided on the investment options offered by us. Plan sponsors should work with their plan auditors for assistance in determining the proper assessments.

What information does Principal provide for ASC 820 disclosure requirements?

Where we serve as the investment sponsor for certain investment options (herein referred to as proprietary investment options), we will provide support for plan sponsors to assess where those plan assets should be disclosed in the ASC 820 fair value hierarchy. Information on investment options not sponsored by us (herein referred to as non-proprietary investment options) should be obtained from the applicable investment manager or sponsor.

Proprietary investments include Principal Life Insurance Company (Principal Life) pooled separate accounts and guaranteed investment contracts, Principal Trust Company℠ collective investment trusts, Principal Funds (mutual funds) offered through Princor Financial Services, Inc. and stable value funds. To determine where in the hierarchy the applicable proprietary investment falls, the plan sponsor should determine the significant inputs used to compute fair value for that plan asset. If a publicly quoted price in an active market is not available for a proprietary investment, we suggest that the plan sponsor look at the the option of using NAV as a practical expedient for estimating fair value and its ramifications per disclosure guidance within ASC 820.

Mutual Funds

Overview

Mutual funds, as defined, are a pooled investment vehicle sponsored and maintained by a fund company which is a legal entity. While they are sold to the general public as retail funds, they are also included as investment options within retirement plans.

Principal customers’ retirement plan investments into mutual funds are not considered part of an insurance company like PSAs are and therefore not subject to insurance regulations. Domestic mutual funds are highly regulated in the United States by the SEC. Principal has as retirement plan investment options both its own proprietary as well as non-proprietary mutual funds of other fund companies. Mutual fund operations are exempt from ERISA.

SEC regulations require yearly audited financial statements, including underlying asset information, and other various reporting by mutual funds. This information is publicly available on most funds’ websites. Mutual funds have investment option names, ticker symbols and NAV’s are available via various exchanges. Also, NAV’s are widely available on investment websites and newspapers. Therefore, they are not eligible for the NAV practical expedient and it is not needed. For mutual funds held as an individual plan asset, this public information is the data needed for the plan sponsor to make a fair value hierarchy assessment. Mutual funds can also be held as part of a pooled separate account or a collective investment trust. See “*Proprietary Pooled Separate Account*” and “*Proprietary Collective Investment Trusts*” below for more information on mutual funds held by these investment types.

Pooled Separate Accounts (PSA)

Overview

PSAs, by definition, are investment vehicles established and maintained by an insurance company. PSAs may only be accessed through the purchase of an insurance contract such as a group annuity. A separate account is not a separate legal entity; it is part of the insurance company that established it.

Principal has made PSAs available as an investment option for retirement plans for many decades and PSAs are a very common component of our customers' investment lineup. They are regulated by state insurance laws and are subject to review by state examiners on a regular basis.

On a yearly basis, Principal reports all underlying assets of PSAs to the various insurance departments of the states it does business in including its state of domicile, Iowa. While PSAs are covered by federal securities laws, they are exempted from registering with the Securities and Exchange Commission ("SEC") if they are issued as part of a qualified pension plan, including both group defined benefit ("DB") and defined contribution ("DC") plans, much like those sold by Principal. Therefore audited financial statements for these types of PSAs are not required and for the most part

Principal does not provide them with exceptions being registered separate accounts and Principal's U.S. Properties separate account. PSAs have investment option names but do not have ticker symbols and NAVs are not available on an exchange. PSA NAV's are computed daily and available on Principal's website. Currently all redemptions of PSAs are at that day's computed NAV. We will provide certain ASC 820 information for proprietary PSA investments. Non-proprietary PSA investment information should be obtained from the applicable asset manager or investment sponsor.

Assets held in pension plan PSAs are subject to regulations of the Employee Retirement Income Security Act of 1974("ERISA"). Therefore, all fiduciary and prohibited transaction restrictions apply as they relate to Principal's management of the PSA assets. PSAs may invest in equities, fixed income, mutual funds, other PSAs, CITs, Exchange Traded Funds ("ETFs"), real property and alternative investment vehicles.

Reporting requirements

ASC 820 clarifies that where an investment falls in the fair value hierarchy is determined based on the lowest level input that is significant to the fair value measurement in its entirety. Because benefit plans own and transact units of a PSA, not the underlying assets, the unit of account would be at the fund level, not at the underlying investments level.The plan sponsor should decide if a particular PSA in *its entirety* should be considered level 1, 2 or 3 using their own judgment based on the significance of the level of inputs. The NAV is not a publicly quoted price in an active market and is computed in accordance with investment company measurement principles. Currently all redemptions for PSAs are at that day's computed NAV. Based on these facts, using NAV as a practical expedient to estimate fair value is allowed by ASC 820. In instances where the practical expedient is used, if the reporting entity has the ability to redeem its investment at NAV as of the measurement date, ASC 820 states the fair value measurement of the investment shall be categorized as a level 2 fair value measurement.

We will provide the plan sponsor information that can be used for their fair value hierarchy assessment of our proprietary PSAs. The information provided will include:

- Portfolio holding reports reflecting underlying investment type information in each PSA and the basic pricing sources and methodologies. Based on that information we will provide the suggested input levels of each of the individual underlying investments in each PSA

- A chart summarizing by percentage the fair value hierarchy (or input level) of the underlying investments in each PSA

The above information for each calendar quarter will be available on our website at principal.com.

Further ASC 820 information on the underlying assets of Principal U.S. Property Separate Account can be obtained from its audited financial statements. The financial statements are made available in April to applicable plan sponsors in the employer website on principal.com. Audited financial statements are not available for Principal Life's other separate accounts at this time.

Disclosure requirements

As discussed above, accounting guidance requires the disclosure of valuation techniques utilized. Since we provide NAV as a practical expedient to estimating fair value, the additional information we provide for proprietary PSA investments should suffice for the new requirements. Non-proprietary PSA investment information should be obtained from the applicable asset manager or investment sponsor.

The amendments in the accounting standard updates mentioned above remove the requirement to categorize within the fair value hierarchy all investments for which fair value is measured using the NAV per share practical expedient. *Based on Principal Life's assessment that PSAs meet the requirements for the NAV per share practical expedient, those investments should be removed from the disclosure but shown in total to permit reconciliation of the fair value hierarchy to the line items presented in the statement of net assets. See above for requirements around effective date and retroactive impacts.*

Collective Investment Trusts (CIT)

Overview

CITs, as defined, are pooled investment vehicles sponsored and maintained by a bank or trust company. Principal has a trust company subsidiary that establishes trusts and maintains their activities. Principal retirement plan customers can participate in CITs and offer them as a type of investment option. Their investments into CITs are not considered part of an insurance company like PSAs are and therefore not subject to insurance regulations.

CITs may be regulated by the Office of the Comptroller of the Currency (“OCC”), the state banking commissioner and/or the Federal Reserve. CITs may be exempt from SEC registration with Principal’s currently designed to be so. For each of its CITs, Principal produces annual audited financial statements. CITs have investment option names but do not have ticker symbols and NAVs are not available on an exchange. CIT NAV’s are available on Principal’s website. Currently all redemptions of CITs are at that day’s computed NAV.

CITs must comply with ERISA if retirement plans regulated by ERISA participate in the CIT. Therefore, all fiduciary and prohibited transaction restrictions apply as they relate to Principal’s management of the CIT assets. CITs may invest in equities, fixed income, mutual funds, PSAs, other CITs, ETFs, and alternative investment vehicles.

Reporting requirements

Very similar to PSAs described above, ASC 820 clarifies that where an investment falls in the fair value hierarchy is determined based on the lowest level input that is significant to the fair value measurement in its entirety. Because benefit plans own and transact at units of a CIT, not the underlying assets, the unit of account would be at the fund level, not at the underlying investments level.The plan sponsor should decide if a particular CIT in *its entirety* should be considered level 1, 2 or 3 using their own judgment based on the significance of the level of inputs. The NAV is not a publicly quoted price in an active market and is computed in accordance with investment company measurement principles. Currently all redemptions for CITs are at that day’s computed NAV. Based on these facts, using NAV as a practical expedient to estimate fair value is allowed by ASC 820. In instances where the practical expedient is used, if the reporting entity has the ability to redeem its investment at NAV as of the measurement date, ASC 820 states the fair value measurement of the investment shall be categorized as a level 2 fair value measurement.

Further ASC 820 information on the CIT’s underlying assets and their assigned fair value hierarchy can be obtained from each CIT’s audited financial statements that are made available to applicable plan sponsors on the employer website at principal.com.

Non-proprietary CIT investment information should be obtained from the applicable asset manager or investment sponsor.

Disclosure requirements

As discussed above, accounting guidance requires the disclosure of valuation techniques utilized. Since we suggest that the plan sponsor look at using NAV as a practical expedient to estimating fair value, the additional information we provide for proprietary CIT investments should suffice for the new requirements. Non-proprietary CIT investment information should be obtained from the applicable asset manager or investment sponsor.

The amendments in the accounting standard updates mentioned above remove the requirement to categorize within the fair value hierarchy all investments for which fair value is measured using the NAV per share practical expedient. *Based on Principa Lifel's assessment that CITs meet the requirements for the NAV per share practical expedient, those investments should be removed from the disclosure but shown in total to permit reconciliation of the fair value hierarchy to the line items presented in the statement of net assets. See above for requirements around effective date and retroactive impacts.*

Principal Stable Value Fund (PSVF)

Reporting Requirements

The PSVF is a stable value CIT for which Union Bond & Trust Company acts as trustee. The investment in a CIT is required to be reported at fair value in a benefit plan's financial statement. However, contract value is the relevant measurement attribute for that portion of the net assets of a PSVF attributable to fully benefit-responsive investment contracts as defined by ASC 962-205, *Plan Accounting-Defined Contribution Pension Plans*, because contract value is the amount participants would receive if they were to initiate permitted transactions under the terms of the underlying defined-contribution plans. Per the ASC, the amount representing the difference between net assets reflecting all investments at fair value and net assets available for benefits 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 which is considered the CITS's NAV.

See the PSVF audited financial statements that are made available to applicable plan sponsors on our website at principal.com for further information. The accompanying portfolio of investments reflects both the fair value as well as the adjustment to contact value for each investment deemed fully benefit responsive. The Statement of Assets and Liabilities presents the fair value of the investment contracts as well as the adjustment of the fully benefit responsive investment contracts from fair value to contract value. The contract of a fully benefit-responsive investment contract represents contributions plus earnings, less participant withdrawals and administrative expenses. The fair value of PSVF provided to plan sponsors for their benefit plan reporting is based on the proportionate investment by each benefit plan of the benefit responsive NAV.

The fair value of the PSVF is based on the market value of its underlying investments. Because benefit plans own units of the PSVF, not the underlying investments, the unit of account would be at the fund level, not at the underlying investments level. Because the PSVF is required to be reported at fair value in benefit plan financial statements, ASC 820 disclosures are required. The plan sponsor should decide if the PSVF in *its entirety* should be considered level 2 or 3 using their own judgment based on the significance of the level of inputs. The PSVF's fair value is not a publicly quoted price in an active market. The assets held at fair value in the fund are predominantly categorized as a Level 2 fair value measurement. Plan sponsors should work with their plan auditors for assistance in determining the proper assessments for the PSVF.

Disclosure requirements

Further ASC 820 valuation information on PSVF underlying assets and their assigned fair value hierarchy can be obtained from the PSVF audited financial statements that are made available to applicable plan sponsors on our website at principal.com. As discussed above, accounting guidance requires the disclosure of valuation techniques utilized.

The amendments in the accounting standard updates mentioned above remove the requirement to categorize within the fair value hierarchy all investments for which fair value is measured using the NAV per share practical expedient. *Based on Principal Life's assessment that PSVFs meet the requirements for the NAV per share practical expedient, those investments should be removed from the disclosure but shown in total to permit reconciliation of the fair value hierarchy to the line items presented in the statement of net assets. See above for requirements around effective date and retroactive impacts.*

Guaranteed Investment Contracts (GICs)

GICs issued by Principal Life are backed by our general account. Due to the nature of these contracts, they do not have specific underlying assets assigned. Currently, there are divergent interpretations of how these contracts should be fair valued within both the plan sponsor and auditing communities. While Principal Life can provide certain levels of information to aid the assessment process, ultimately plan sponsors are responsible for investment valuation conclusions.

Since Principal Life GICs are not traded on an open market and public prices are not available, fair value calculations will need to be determined based on unobservable inputs that reflect the plan's own assumptions about how the market would price the asset (assuming it could be sold), based on the best information available in the circumstances.

Since both defined contribution and defined benefit GICs generally cannot be sold, transferred, or assigned externally, there is limited market data to support valuation. The best proxy for fair value for plans that intend to maintain the GIC with Principal Life are possible transactions involving plan participants and or plan sponsors.

For certain defined contribution GICs, most participant transactions are executed using contract value without adjustment. Therefore, for these types of GICs, the contract value is a good proxy for fair value. These contracts do have surrender charges if they are terminated by the contract holder or a plan terminates its interest in such contracts within certain time periods. If the contract holder is considering terminating the contract or a plan is considering terminating its interest in such contracts in the near future, contract value less surrender charges may be a better proxy for fair value.

For other defined contribution GICs and all defined benefit GICs, most participant and plan sponsor transactions that occur prior to maturity are realized at an adjusted contract value that takes into account the current rates of interest available in the marketplace for similar GICs. Therefore, for these GICs, the contract value adjusted by the early withdrawal charge is a good proxy for fair value. Depending on circumstances, however, the contract holder may wish to assess the use of contract value as a proxy for fair value.

Principal Life Insurance Company's (Principal Life) GICs include:

Principal Life Group Annuity Contract *	**DB/DC**	**Possible proxies of fair value**
Principal Fixed Income Option ("PFIO")	DC	Contract value or contract value adjusted for surrender charge
Principal Fixed Income Guaranteed Option ("PFIGO")	DC	Contract value or contract value adjusted for surrender charge
Guaranteed Fund Contract ("GFC")	DC	Contract value or contract value adjusted for surrender charge
Guaranteed Interest Balance Contract ("GIBC")	DC	Contract value or contract value adjusted for surrender charge
Flexible Investment Annuity Group Contract ("FIA")	DC	Contract value adjusted to recognize the rates of interest available in the marketplace for similar GICs or contract value
Principal Security Builder Retirement Program^{SM}	DC	Contract value adjusted to recognize the rates of interest available in the marketplace for similar GICs or contract value
Principal Pension Provider^{SM}	DC	Contract value adjusted to recognize the rates of interest available in the marketplace for similar GICs or contract value
Principal Comprehensive Retirement Program ("PCRP")	DC	Contract value adjusted to recognize the rates of interest available in the marketplace for similar GICs or contract value
	DB	
Flexible Pension Investments Group Contract ("FPI")	DB	Contract value adjusted to recognize the rates of interest available in the marketplace for similar investments or contract value
Immediate Participation Guarantee Group Contract ("IPG")	DB	Contract value adjusted to recognize the rates of interest available in the marketplace for similar investments or contract value

*For contract's legal name or number refer to the contract document.

For more information if your contract is not listed, please contact the audit support line at 1-800-543-4015, ext 76844.

For any of these contract types, please consult with applicable financial professional and auditor to fully assess these concepts. Ultimately, it is the plan sponsor's responsibility to assess the appropriate valuation of these contracts.

The FASB has not provided specific guidance on how GICs should be disclosed for ASC 820 purposes in the fair value hierarchy. The American Institute of CPA's ("AICPA") has provided examples the plan sponsor may want to refer to (the plan auditor should have access to that information). Ultimately, it is the plan sponsor's responsibility to make this assessment. Considerations in determining the fair value hierarchy of a GIC may include:

- GICs are not traded on an open market
- Public prices are not available for GICs

Disclosure requirements

As discussed above, accounting guidance requires the disclosure of valuation techniques utilized as well as quantifiable information about the significant unobservable inputs. GICs should be considered to have unobservable inputs. The guidance requires a tabular format of all the key quantitative unobservable inputs utilized for level 3 investments including the valuation techniques utilized. A reporting entity is not required to create quantitative information to comply with this disclosure requirement if quantitative unobservable inputs are not developed by the reporting entity when measuring fair value (for example, when a reporting entity uses prices from prior transactions or third-party pricing information without adjustment). Some of the valuation techniques discussed above do consider prices from prior transactions that wouldn't warrant additional disclosure. For those techniques discussed that utilize quantifiable inputs, Principal will provide the appropriate information.

To obtain information pertaining to ASC 820 on GICs not issued by us, the plan sponsor should contact the appropriate insurance company directly.

Some of Prinipal Life's GICs are considered fully benefit-responsive investment contracts where contract value is used for purposes of determining the net assets of an employee benefit plan (see ASC 962-10, "*Plan Accounting — Defined Contribution Pension Plans*" for more information on what are fully benefit-responsive investment contracts). Currently, GAAP also requires fully benefit-responsive investment contracts to be measured at fair value for purposes of presentation and disclosure. This includes providing a reconciliation of contract value to fair value, when those measures differ, on the face of the plan financial statements. The amendments in the accounting standard updates mentioned above states that fully benefit-responsive investment contracts should be measured, presented, and disclosed only at contract value and fair value information will no longer be required. All GICs that are deemed benefit-responsive investment contracts should no longer be included in ASC 820 fair value disclosures as described above. A plan should continue to provide disclosures that help users understand the nature and risks of fully benefit-responsive investment contracts. The amendments are effective for fiscal years beginning after December 15, 2015 and should be applied retrospectively for all financial statements presented. Earlier application is permitted.

Other investments

- **Individually Managed Accounts** - Individually managed accounts are accounts consisting of individual plan assets that are managed specifically for that retirement plan. The portfolio holdings of these accounts may include any type of investment option which may include:
  - Proprietary and non-proprietary pooled separate accounts -see "*Pooled Separate Accounts*" discussion above for further information on pricing inputs.
  - Proprietary and non-proprietary collective investment trusts – see "*Collective Investment Trusts"* discussion above for further information on pricing inputs.
  - Individual securities such as bonds and equities are priced by the applicable asset manager. That particular asset manager should be contacted for information on pricing inputs.

- **Principal Self Directed Brokerage Account**SM — All of the holdings in Principal Self Directed Brokerage Account are publicly traded securities for which holding detail and pricing are publicly available. **FASB ASU 2015-12 simplified the disaggregation of participant-directed brokerage to one general type.** For this reason, we are changing our reporting method for Form 5500 Schedule H/I from reporting the individual investments to reporting the total aggregate value of the assets beginning with the 2015 plan year.

The Audit List/Summary of Plan Transactions will reflect the "Principal Self-Directed Brokerage Account" as "Principal Self-Dir Broker Acct". These will no longer show the detail by individual investments.

- **Principal Pension Builder**SM — Principal Life has recently began offering an option to defined contribution plans whereby plan participants can purchase deferred income annuities as a way to accumulate assets for a guaranteed future income stream. Those assets can still be transferred in the future to other investment options within the plan or surrendered and thus are considered unallocated assets from the perspective of the benfit plan. An annuity is considered an insurance contract under ASC 944, "*Financial Services, Insurance*".

  Insurance contracts can be reported at either fair value or at amounts determined by the insurance entity (contract value) and shall be presented in the same manner as specified in the annual report filed by the plan with certain governmental agencies in accordance with ERISA. Plans not subject to ERISA shall present insurance contracts as if the plans were subject to the reporting requirements of the Act.

  Both fair value and contract value for Principal Pension Builder will be provided to plan sponsors via both our website at principal.com as well as plan statements.

  Since these annuities cannot be sold, transferred, or assigned externally, there is limited market data to support valuation. The best proxy for fair value for plans are possible transactions involving plan participants and or plan sponsors. Most participant and plan sponsor transactions that occur prior to the commencement of guaranteed income payments are realized at the lower of contract value (or return of premium) or an adjusted contract value that takes into account the current rates of interest available in the marketplace as well as mortality factors. Please consult with applicable financial professional and auditor to fully assess these concepts. Ultimately, it is the plan sponsor's responsibility to assess the appropriate valuation of these contracts.

The FASB has not provided specific guidance on how insurance contracts should be disclosed for ASC 820 purposes in the fair value hierarchy. Considerations in determining the fair value hierarchy for Principal Pension Builder may include:

- The annuities are not traded on an open market and public prices are not available.
- Assumptions used such as current rates of interest are observable and mortality assumptions are not.

Disclosure requirements

As discussed above, accounting guidance requires the disclosure of valuation techniques utilized as well as quantifiable information about the significant unobservable inputs. The guidance requires a tabular format of all the key quantitative unobservable inputs utilized for level 3 investments including the valuation techniques utilized. A reporting entity is not required to create quantitative information to comply with this disclosure requirement if quantitative unobservable inputs are not developed by the reporting entity when measuring fair value (for example, when a reporting entity uses prices from prior transactions or third-party pricing information without adjustment). The valuation technique discussed could consider prices from prior transactions such as contract value that wouldn't warrant additional disclosure. For those techniques discussed that utilize quantifiable inputs, Principal will provide the appropriate information.

Plan sponsors should work with their plan auditors for assistance in determining the proper assessments for Principal Pension Builder.

- **Loans to Participants —** Accounting guidance issued on reporting loans to participants by defined contribution pension plans clarifies that these instruments should be classified as notes receivable and segregated from plan investments and measured at their unpaid balance plus any accrued but unpaid interest. Since this is not considered reflective of fair value under ASC 820, it's no longer in scope for associated disclosure purposes and should be removed.

For those securities priced by The Principal, how was fair value obtained? What pricing methods were used?

As a public company, we are required to have audited consolidated financial statements that include ASC 820 disclosures as well. For further detail please review our most recently filed Form 10K.

Specifically, the "*Fair Value Measurements"* footnote. This detail can provide further support for plan sponsors as we use the same methodologies for fair valuing proprietary investments held as plan assets.

In addition, we are providing a high level pricing matrix which describes by common security types various valuation techniques and types of inputs used (observable/unobservable) in those valuation techniques and how those inputs were used in determining the assigned levels in the fair value hierarchy for underlying securities. This is made available to applicable plan sponsors on the employer website at principal.com.

How can I find out more about the requirements of ASC 820?

- The Financial Accounting Standards Board has a website where all currently issued codifications and updates are available for at least viewing ("Basic View" is free for all subscribers but has limited capabilities including "view only"; more advanced "Professional View" charges a yearly subscription): asc.fasb.org.

  The plan sponsor's auditor may also be able to provide a copy of the codification.

- The plans sponsor should collaborate with the investment manager or advisor and plan auditor concerning the determination of fair value and the assignment within the fair value hierarchy of the plan's investments. However, while these are all valuable resources, it is important to understand the responsibility for investment valuation and disclosure remains with the plan sponsor.

- Review the information on the employer website pertaining to ASC 820 and Valuing Plans Assets.

What information does Principal provide as it relates to auditor requests?

Within reason, we fully support providing benefit plan reporting information to each plan sponsor's auditors, including specific requests. At the same time we need to be as efficient as possible in answering those requests and, as a result, we centralize significant amounts of information that we feel most auditors will require for their audits. This information is made available to applicable plan sponsors on the employer website at principal.com.

In addition to multitudes of plan asset information, it includes a signed representation letter regarding PSA and CIT compliance with investment company requirements, the representation of NAV as a practical expedient for deterimining fair value as well as representation surrounding our internal controls for computing NAV that is done by an outside firm. With all the requirements around benfit plan reporting, specifically investment disclosures, auditors will on occasion suggest that Principal complete a questionnaire requesting information already provided via the employer website. We would request the auditors review the employer website information first before submitting the full questionnaire.

If there are questions about the information we provide pertaining to ASC 820, please call the Form 5500 Audit Support Line at 1-800-543-4015, x76844.

How does a Company's fiduciary duties correspond with ASC 820 financial reporting disclosures?

Plan fiduciaries must select good, prudent investments that are suitable for meeting the retirement needs of their plan. Fiduciaries must consider many factors including the risk, cost, safety, function, and purpose of the investment, to name a few, when selecting an investment for the retirement plan.

As described above, Principal's investment options are all impacted by the disclosure requirements of ASC 820, specifically as it relates to input level categories for determining fair value. While there are different reporting requirements for each of the investment options, the reporting unit of account at the fund level is the same for each. The categorization of investments by input level is a reporting requirement only, prescribed by GAAP. The input levels define the method used to fair value the investment ranging from publicly available pricing to internally developed pricing with various internal and external inputs. The input levels have nothing to do with the quality, volatility, purpose or safety of the investment. Therefore, we would suggest that a plan fiduciary would not need to be concerned with the hierarchy level assigned to a particular investment.

A fiduciary would need to compare the underlying investments of the various investment vehicles to determine if the investment option in question is appropriate for their retirement plan. A plan fiduciary would select an investment categorized within Level 2 or 3 for the same reason they would select an investment categorized within level 1. The investment is a good, prudent investment that fits the needs for the plan and can be purchased at a reasonable price.

Principal® Financial Group

Separate Accounts are available through a group annuity contract with Principal Life Insurance Company, member of the Principal Financial Group®, Des Moines, IA 50392. Principal Life Insurance Company reserves the right to defer payments or transfers from Principal Life Separate Accounts as permitted by the group annuity contracts providing access to the Separate Accounts or as required by applicable law. Such deferment will be based on factors that may include situations such as: unstable or disorderly financial markets; investment conditions which do not allow for an orderly investment transactions; or investment, liquidity, and other risks inherent in real estate (such as those associated with general and local economic conditions). If you elect to allocate funds to a Separate Account, you may not be able to immediately withdraw them.

Principal Pension BuilderSM is a deferred income annuity rider available through certain group annuity contracts with Principal Life Insurance Company, a member of the Principal Financial Group®, Des Moines, Iowa 50392. Principal Pension Builder may not be available in all states.

Principal Pension Builder provides for the purchase of deferred income annuities that provide guaranteed income in retirement. Income may change due to elections by the plan fiduciary or participant, such as changing the income start date or annuity form or surrendering guaranteed income. Contributions and transfers used to purchase guaranteed income in Principal Pension Builder will not be subject to market gains or losses. In exchange, the participant is purchasing a guaranteed future income stream.

Clearing services are provided by Pershing, a BNY Securities Group Company, Solutions from The Bank of New York, One Pershing Plaza, Jersey City, New Jersey, 07399. Pershing LLC Member FINRA, SIPC. The Principal Financial Group is not affiliated with Pershing LLC, BNY Securities Group or their member companies.

Principal Trust Company℠ is a trade name of Delaware Charter Guarantee & Trust Company, a member company of the Principal Financial Group.

Insurance products and plan administrative services are provided by Principal Life Insurance Company. Securities are offered through Princor Financial Services Corporation, 1-800-547-7754, member SIPC and/or independent broker dealers. Securities sold by a Princor® Registered Representative are offered through Princor. Princor and Principal Life are members of the Principal Financial Group® (The Principal®), Des Moines, IA 50392.

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