

FINDLEY DAVIES

June 21, 2004

Financial Accounting Standards Board
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P.O. Box 5116
Norwalk, CT 06856-5116

Letter of Comment No: 9
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Attn: Mr. Robert H. Herz, Chairman
Mr. George J. Batavick
Mr. G. Michael Crooch
Mr. Gary S. Schieneman
Ms. Katherine Schipper
Ms. Leslie F. Seidman
Mr. Edward W. Trott

Dear Board Member:

I am writing this letter on behalf of our firm, Findley Davies, Inc., which consults on the design, funding and accounting of various types of pension, defined contribution, and health & welfare plans. We believe that the Financial Accounting Standards Board ("FASB") is approaching a critical watershed in its setting of standards for employers' accounting of pension plans. We would like to share with you our thoughts on a couple of your current initiatives.

1. Immediate Recognition of Market Fluctuations

Given the slide toward the exclusive use of market values and the immediate recognition of gains and losses for pension accounting standards in many countries, we would first like to acknowledge the fact that the FASB has wisely decided not to rush in that direction. By approaching the matter with caution, you have proved that you understand the long-term nature of pension funding and accounting better than your counterparts on the Accounting Standards Board of the UK and on the International Accounting Standards Board ("IASB"). It is our belief that your firm stand in this area is of particular importance to the very survival of defined benefit pension plans.

The standards FASB promulgated in the 1980's (Statement Nos. 87 and 88) and in the 1990's (Statement No. 106) have stood the test of time. These standards are no cakewalk and impose formidable income statement and balance sheet implications. For example, the recent stock market tumble required many organizations to establish additional liabilities on their balance sheets, which often resulted in significant reduction in shareholder equity. Just like Statement Number 17 of Financial Reporting Standards ("FRS 17") in the UK, the FASB's Statement No. 87 ("FAS 87") puts the investment community on notice when the fair value of a pension plan's assets drops below the accumulated benefit obligation. But unlike FRS 17, FAS 87 has not caused the wholesale re-evaluation of the soundness of the defined benefit plan as a retirement mechanism nor of the proven wisdom of investing pension funds in equities.

Absent a vital underlying public policy goal, accounting standards should not cause established mechanisms and instruments to be eliminated or transformed to the detriment of millions of workers. FRS 17 will result in volatility that will distort income statements and cause imprudent investment decisions – FAS 87 has not.

The recent update of the FASB pension disclosure standard, Statement No. 132, adds value to financial statements without the unnecessary and counter-productive chaos of FRS 17. In our view, it would be wise to limit the FRS 17-type accounting rules to the footnotes and not allow them to distort financial statements and, in particular, income statements. The FASB's history over the last two decades on pension accounting standards has been worthy of the body and an example to the rest of the world.

We wonder, though, whether we will be able to continue to state this in the future. This is because of the convergence of accounting standards advocated in the Norwalk Agreement. In order to accomplish the convergence of standards and stay true to the more thoughtful US standards in the pension accounting area, the FASB needs to get ahead of the curve and influence the IASB. The IASB must be convinced to abandon the more controversial aspects of FRS 17 of the UK. If you head the IASB off at the pass, we can all breathe a sigh of relief as the convergence project moves closer to a sensible conclusion in the pension area. You should note that, except for the UK and a few other developed countries, the existence of funded defined benefit pension plans is a rarity and, therefore, these rules are of little consequence to many of the IASB members.

2. Cash Balance Plans

We would also urge the FASB to reconsider its tentative decision to ignore the difference between a cash balance plan's variable interest accumulation rate and the FAS 87 discount rate in the calculation of obligations. It is totally inappropriate to require that the same rate be used when the rate for crediting accounts is just simply not the same as, or equivalent to, the discount rate. At one meeting, you discussed how two otherwise identical cash balance plans – one that credits accounts with 2% more than some benchmark and another that uses 2% less than the same benchmark – would be viewed as having identical liabilities, even though one plan is probably 40% more valuable than the other. Nevertheless, you have decided to tentatively apply that rule, for no apparent reason other than the notion that future interest credits were too unpredictable.

Future salary increases are just as unpredictable as these interest credits, so the new rule could violate FAS 87's paragraph 46 requirement that all assumptions be consistent. The FASB's credibility could be damaged if the new rule results in usage of inconsistent assumptions. Continuing to base obligations and costs on the plan's actual interest credits would continue to produce more reliable and accurate costs.

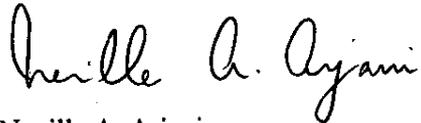
Further, setting up a special requirement like this for cash balance plans could lead to all sorts of special requirements for other situations. This could lead to instances of inconsistency in the application of these special requirements. In our view, this is not a prudent step. We recommend that there be no such special requirement for these plans but that this issue be addressed by the actuary-expert in the same manner as all other issues are – by the appropriate application of actuarial principles within the general guidelines of FAS 87.

Financial Accounting Standards Board
June 21, 2004
Page 3

As always, we appreciate the opportunity to present our views and thank you for your consideration of our comments. We would be pleased to discuss these matters further with you or the FASB staff.

Sincerely,

FINDLEY DAVIES, INC.

A handwritten signature in cursive script that reads "Neville A. Arjani".

Neville A. Arjani
Principal and Chief Actuary

c: Mr. James J. Leisenring, IASB
Ms. Suzanne Q. Bielstein, FASB
Ms. Kimberley R. Petrone, FASB
Mr. Lawrence W. Smith, FASB
Mr. Gerard M. O'Callaghan, FASB