

BOUNTIFUL

City of Beautiful Homes and Gardens February 1, 2005

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Letter

Letter of Comment No: 12 File Reference: AICPA ICG

Dear Mr. Smith:

It has come to my attention that the AICPA Investment Companies Expert Panel and Accounting Standards Executive Committee recently provided you with an issues paper requesting guidance on generally accepted accounting principles for valuing fully benefit responsive investment contracts held by non-registered investment companies (commingled stable value funds). I am writing to ask that you consider the impact your decision will have on thousands of small and medium plan investors, like myself, nationwide. We are only able to realize the full benefits of stable value by investing through commingled stable value funds. We don't have the big dollars of some investors. However, by gradually adding to our mutual funds and other retirement programs, we are trying to be self-sustaining and not drain government welfare/entitlement programs. Please consider what a concern this area has become for our nation and its people. Our President and Congress are regularly trying to encourage Americans to invest for themselves and plan for their own retirement. Most of us would like to do so but don't have big bucks with which to do it. Stable value funds are an integral component of our retirement programs for hardworking employees. Stable value has been, and continues to be, a popular investment option for our plan participants here in the public employee sector. It provides them with returns that are similar to an intermediate bond fund with risk levels comparable to a money market fund. Such funds provide an essential balance against the risk of equity funds in long-term portfolios. Stable value's attractiveness as an investment option stems from returns that average 2%-4% greater than money market instruments, without a corresponding increase in risk. Currently, our plan's stable value assets are invested in the VantageTrust PLUS Fund managed by the ICMA Retirement Corporation.

I believe it is imperative to preserve the current commingled stable value fund accounting treatment for fully benefit responsive investment contracts, as commingled funds are the only vehicle that will allow small plans to realize the diversification and portfolio efficiency (lower risk and higher return) of large plans. An unfavorable decision by the FASB would have a disparate impact on small and large defined contribution plans. The expected differences would be reflected by unequal performance, risk, and cost profiles for large and small plans. I mention reduced performance because I believe an unfavorable decision would create a two-tiered stable value portfolio structure. There would be efficient (higher return) portfolios for large plans (those with more than \$25 million in stable value assets), and less

efficient (lower return) portfolios for small- and mid-sized plans. Like too many other times, this would negatively impact the little guys, and provide to only the largest plans the opportunity to realize the most attractive returns in the stable value marketplace. I don't think it is right that only the big guys with the money have access to such opportunity. What's fair is fair for everyone. Rulings currently support the large investment plans, and the accounting treatment for smaller and medium-sized plans should be consistent and fair. I also mentioned increased risk because, in addition to access to higher return portfolios, large plans would be able to more broadly diversify their portfolios, thereby reducing the risk to plan participants. It is estimated that small to mid-sized plans will only be able to diversify among 15-25 different issuers while large plans will have the ability to diversify among hundreds of different issuers. This lack of diversification would obviously increase the risk for the small and medium-sized plans, and why should they have less opportunity and more risk than the larger plans? Also, fund managers who set high credit quality standards may then be forced to purchase securities of lower-rated firms in order to meet the Fund's investment demands. Finally, I mentioned the anticipated increased cost an unfavorable decision by the FASB would almost certainly cause. My provider, ICMA-RC, anticipates increased administrative and operational costs resulting from a decision to change accounting procedures for commingled stable value funds. Increased costs from the employer and ICMA-RC will reduce the rate of return to investors even further.

Stable value funds have a history of being an efficient and beneficial investment for defined contribution investors. No investor has ever experienced a loss from a stable value investment. There is no reason to change the investment accounting standards for these funds. As a public sector employee, I (as well as my employer) would encourage the FASB to consider the public policy and social impact of their decision. An unfavorable ruling will place small- and mid-sized plans at a competitive disadvantage to large plans. It will also lower the retirement investment returns of thousands of workers serving small towns, counties, and other public sector entities throughout America. I/we urge you to allow stable value funds to continue meeting the retirement needs of myself and our employees.

Sincerely,

Kim J. Coleman

City Recorder/Finance Director

City of Bountiful, Utah