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April 12, 2004

Mr. Lawrence W. Smith
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Financial Accounting Standards Board
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Letter of Comment No: 12
File Reference: FSPFAS106B
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Re: Proposed FASB Staff Position No. FAS 106-b, "Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003"

Dear Mr. Smith:

We are pleased to comment on the proposed FASB Staff Position No. FAS 106-b, "Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003" (FSP106-b or the proposed FSP).

We appreciate the short time frame within which the Staff and the Board have had to respond to the unusual accounting issues raised by the passage of the Medicare Prescription Drug, Improvement and Modernization Act of 2003 (the Act), including how to deal with the implementation uncertainties of some of the requirements of the Act, and we commend the Staff and the Board on their responsiveness. Overall, we support the proposed accounting and disclosures, although, as explained below, it is unclear as to how certain requirements of the proposed FSP reconcile with the provisions of FASB Statement No. 106, *Employers' Accounting for Postretirement Benefits Other Than Pensions* (SFAS 106). We are also concerned about the complexity of the transition requirements of the proposed FSP. These comments and our recommendations for simplifying and clarifying the proposed FSP are explained in greater detail below. The appendix to this letter contains additional editorial suggestions.

Accounting Recognition

We support the actuarial gain treatment of the subsidy described in paragraphs 12-15. This approach appears consistent with the requirements of SFAS 106. However, the treatment of negative plan amendments does not appear to be consistent with the guidance in SFAS 106. Paragraph 16 of the proposed FSP would require that a decrease in the accumulated postretirement benefit obligation (APBO) resulting from a plan amendment be treated as an actuarial experience gain, but paragraph 55 of SFAS 106 states:

A plan amendment can reduce, rather than increase, the accumulated postretirement benefit obligation. A reduction in that obligation shall be used first to reduce any existing unrecognized prior service cost, then to reduce any remaining unrecognized transition obligation. The excess, if any, shall be amortized on the same basis as specified in paragraph 52 for prior service cost. Immediate recognition of the excess is not permitted.

We recommend that the guidance in the proposed FSP follow paragraph 55.

In addition, the last section of paragraph 18 indicates that providing detailed guidance on the application of FASB Statement 109, *Accounting for Income Taxes*, is beyond the scope of this proposed FSP. However, it would be helpful to have an example that includes some of the complexities noted in paragraph 18 of the proposed FSP.

Transition

The transition guidance and effective dates are extensive and complex. This results from the many potential fact patterns that derive from the specific circumstances of various plans and the diversity in practice in accounting for the effects of the Act. Some of that diversity is a result of the choices provided by FASB Staff Position No. FAS 106-1, *Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003* (FSP 106-1). We recommend considering an approach that is less complex yet responsive to the variations in circumstances.

Recommended Approach to Transition

Our recommended approach is based on the measurement date requirements in SFAS 106, namely that remeasurement is required annually unless there is a significant event. SFAS 106 does not define a significant event, but paragraph 73 does provide examples of events – plan amendments, settlements, and curtailments – “that ordinarily would call for remeasurement.” We would observe that as a result of the guidance in SFAS 106, actuarial gains and losses are not ordinarily treated as significant events that trigger a requirement to remeasure. Accordingly, we propose the following transition requirements:

- For employers that have already incorporated the effects of the Act in the measurement of the APBO, the effects of adopting the guidance in the proposed FSP, if any, should be recognized as a cumulative effect adjustment in the next reporting period.
- All other employers should recognize the effects of the Act based on their recognition and measurement policies under SFAS 106 and their judgments regarding the significance of the effects of the Act on their plans.
 - If the effects of the Act are not deemed a significant event, the FSP should permit recognition of the effects as of the earliest measurement date subsequent to December 8, 2003, or the next regularly scheduled measurement date. We believe that either date is appropriate, considering the fact that FSP 106-1 temporarily permitted deferral of recognition of the effects of the Act.
 - If the effects of the Act are deemed a significant event, the FSP should require measurement of the effects as of December 8, 2003 or, as a convenience in these circumstances, at December 31, 2003.

To the extent that previously issued financial reports would have been affected by remeasurement of plan assets and obligations, the requirements in paragraph 20 of APB Opinion No. 20, *Accounting Changes*, and paragraph 10 of FASB Statement No. 3, *Reporting Accounting Changes in Interim Financial Statements*, as applicable, should be followed.

If a more simplified approach to transition is not adopted, we recommend including a flowchart of the transition requirements or a summary table to assist preparers in applying the guidance. The additional comments below address transition as currently described in the proposed FSP.

The Proposed FSP Approach

The proposed FSP requires all entities that conclude that their plans are actuarially equivalent to perform a measurement of their plans regardless of their circumstances, such as their plan measurement date, the interplay of their fiscal year end and their measurement date, and the expected impact on the APBO. In many cases, the required timing of this measurement under the proposed FSP will not coincide with the plan's normal measurement date. Under SFAS 106 additional plan measurement is not required unless a significant event occurs; however, the proposed FSP does not direct the employer to consider whether the Act would be considered a significant event. We question whether an employer should be forced to incur the cost of an additional plan measurement if the effects of the Act (or any other legislation) would not be considered a significant event (absent a policy to the contrary). In addition, required remeasurement seems unexpected when considered in light of FSP 106-1 that permitted entities to defer the measurement and recognition of the Act.

There are some employers that believe the effects of the Act are a significant event and, in anticipation of the proposed FSP, concluded that their plan is actuarially equivalent as of December 8, 2003, and have incurred the cost of measuring their plan obligations and assets as of that date. However, the proposed FSP would not permit an employer that deferred recognition to include the cumulative income statement effects for the portion of the interim or annual period after the effective date of the Act since measurement is required at the earlier of the plan's measurement date that ordinarily would have followed enactment of the Act or the end of the employer's interim or annual period that includes the date of the Act's enactment. For entities with interim or annual periods ending on November 30, for example, the proposed FSP would not include the income statement effects for nearly a full quarter since the effects of the Act would not be measured until February 29, 2004. We recommend that the proposed FSP permit employers to remeasure their plan either at December 8, 2003 (the Act's enactment date) or at the end of the first interim or annual period that includes the effects of the Act.

Clarifications

This proposed FSP will supersede FSP 106-1; however, the title of both FSPs is the same. We recommend either using a different name for the title of this proposed FSP or adding some notation in the title clarifying that this is a revision of FSP 106-1.

The proposed scope indicates that the proposed FSP does not apply to situations where "the expected subsidy exceeds the employer's share of the costs of postretirement prescription drug coverage". We recommend that the Staff clarify:

- Whether "the employer's share of the costs of postretirement prescription drug coverage" should be computed on a pretax or net-of-tax basis?
- The application of this scope limitation. That is, should the sponsor account for the costs and subsidy to the extent that its costs equal or are less than the subsidy in accordance with the proposed FSP and account for the amount of the subsidy in excess of the costs separately or should the sponsor not apply the proposed FSP to any of the subsidy when it exceeds costs?

The scope paragraph and the proposed FSP focus primarily on the subsidy but, as noted in paragraph 9, "[r]egardless of the impact of the subsidy, the existence of prescription drug coverage under

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Medicare Part D may have an effect on an employer's per capita cost for a plan that currently provides a prescription drug benefit." Paragraph 21 addresses the timing and method of the measurement of that effect. It may be helpful to move those requirements to the FASB Staff Position section of the FSP and to note in the scope paragraph that that effect is addressed as well in the FSP. We also suggest introducing the scope paragraph with a more general opening, similar to the introductory paragraph of the proposed FSP, i.e., "The guidance in this proposed FSP applies to employers that sponsor defined benefit postretirement health care plans that provide prescription drug benefits."

It would be helpful to clarify whether the guidance in paragraph 15 is intended to cover the situation in which an employer initially concluded that a plan was actuarially equivalent but subsequently determined that the plan was not actuarially equivalent.

* * * * *

We appreciate your consideration of our comments. If you have any questions concerning our comments, please contact Naomi Erickson at (203) 761-3138 or Bob Uhl at (203) 761-3705.

Yours truly,

Deloitte & Touche LLP

APPENDIX
DELOITTE & TOUCHE LLP COMMENTS
Proposed FASB Staff Position No. 106-b

We have the following editorial suggestions on the proposed FSP:

- Paragraph 7 should add the word non-taxable before the word subsidy ...
- Paragraph 17 should state “that reduced coverage may not be considered actuarially equivalent” rather than “that reduced coverage may cease to be considered actuarially equivalent”.
- Paragraph 20(b), the second sentence states, in part:

The effect of the subsidy on the measurement of net periodic postretirement benefit cost for the current period. That effect includes (1) any amortization of the actuarial experience gain in (a) either explicitly or implicitly as a component of the net amortization called for by paragraph 59 of Statement 106...

We recommend clarifying or eliminating the phrase “explicitly or implicitly.”
- Paragraph 21 should state, “it should, subject to the guidance in the following sentence, incorporate any effects of the Act other than the subsidy” rather than “it should, subject to the guidance in the following sentence, recognize any effects of the Act other than the subsidy”.