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Mr. Larry Smith
Director of Technical Application and Implementation Activities
Financial Accounting Standards Board
401 Merritt 7
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Letter of Comment No: 6
File Reference: FSPFAS106B
Date Received: 64-12-04

Dear Larry:

The Financial Reporting Committee of the Institute of Management Accountants appreciates the opportunity to comment on FSP FAS 106-b, Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003. The FRC is generally supportive of the conclusions the Board has reached in addressing the FAS 106 application issues that result from unique characteristics of the Act. We also appreciate the speed with which the Board acted to deliberate the issues and reach conclusions. Our primary concerns with the proposed FSP relate to transition and disclosures.

Transition

For those enterprises subject to deferral, the proposed FSP becomes effective for the first interim or annual period beginning after June 15, 2004. When preparing comparative financial statements covering earlier periods in 2004, restatement in accordance with FAS 3 is required for certain fact patterns and not for others. As we understand it, comparative periods are required to be restated in the following circumstances: (1) the entity's plan is deemed to be actuarially equivalent at the date of enactment, and (2) the entity's plan is deemed not to be actuarially equivalent and management has no plan to initiate changes to make it so. On the other hand, restatement is not required in other circumstances, including: (1) the plan is subsequently amended to make it actuarially equivalent and (2) the status of the plan is unclear at the time this FSP first becomes effective.

The FRC does not agree with how the Board has applied FAS 3 in this instance. It seems to us that those companies that chose deferral under FSP FAS 106-b have not yet accounted for the effects of the legislation. Accordingly, we believe that the proper transition method is to account for the effects of the Act in the period they adopt FSP FAS 106-b. We believe that this treatment

is appropriate since adoption of the FSP provides the first opportunity for them to account for the effects of the Act.

Noting that the choice of transition methods is largely a matter of judgment about which best serves the needs of all constituents, we observe that the diversity in circumstances among individual companies is likely to result in considerable variation in how, and when, transition effects will be reflected in financial statements. Accordingly, consistency and comparability of the financial statement effects of the Act is likely to prove elusive under the transition provisions of the proposed FSP. It is therefore unclear what benefits will result by requiring earlier periods to be restated in some cases and not in others.

In addition, we note that many companies could have implemented the accounting required by FAS 106 in the reporting period beginning January 1, 2004, and thereby avoided restatement, were it not for the explicit prohibition in FSP FAS 106-a that applied to those electing deferral. Given how disruptive it is to change previously reported financial statements, it would be quite helpful if the Board were to permit prospective adoption of the provisions of this FSP in all cases. In so doing, the Board would satisfactorily address objections by those companies that would have accounted for the effects of the Act earlier but were precluded by the prior FSP.

Disclosures

We note that the FSP proposes to expand disclosures required by FAS 132R. We were not aware that the FSP process contemplated the introduction of new disclosures and considering the limited due process and short time comment deadlines associated with FSPs, we question whether this is an appropriate use of this type of document.

With respect to the disclosures required by paragraph 19, we note that these should have been provided already in annual financial statements filed by calendar-year companies. Under SEC rules, repeating such disclosures would only be necessary if there were changes from the annual statements. We disagree with the proposed disclosures in paragraph 20(b), which appear disproportionate in comparison to the relative importance of the Act. It would be helpful if the Board would consider why disclosure of these components is necessary and what financial statement users would do with this additional information. We believe that FAS 132R satisfactorily addresses the needs of financial statement users.

Please let me know if we can be of further assistance in the finalization of this FSP. I can be reached at (203) 373-3563.

Sincerely,

mitch Danaher

Mitchell A. Danaher Chair, Financial Reporting Committee Institute of Management Accountants