Letter of Comment No. 3
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Director of Technical Application and Implementation Activities Financial Accounting Standards Board File Reference No. FAS 106-a Via email

Invitation to Comment on Exposure Draft Proposed FASB Staff Position

"Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003"

We appreciate the opportunity to respond to the Exposure Draft of Proposed FASB Staff Position "Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003." We rank among the largest providers of telecommunications services in the United States and the world. We provide communications services and products in the United States and have investments in more than 25 countries. We are a Fortune 30 company, employing approximately 173,000 people as of June 30, 2003, and had approximately \$30 billion in pension and postretirement assets at December 31, 2002.

We believe that the benefits that users of financial statements would gain from consistent application of FASB Statement No. 106 (FAS 106) as written far outweigh the uncertainties noted in the exposure draft (ED) relating to the Act. The ED raises several issues as reasons to forego the accounting required by FAS 106 until some unspecified future date.

- "Certain accounting issues raised by the Act may not be explicitly addressed by FAS 106, and significant uncertainties presently exist...as to the eventual regulations required to implement the Act". The Act, as a piece of legislation, concerned itself primarily with the economics of Medicare benefits. While true that all regulations are not specified and accounting implications are not even considered, this is routine for the vast majority of all legislation. Regulations are an implementation tool, they are not meant to be, indeed cannot be, a substitute for the intent of the legislation. It is reasonable to suggest that the eventual regulations would be consistent with the Act. It is doubtful that any legislation passed that would affect retiree medical care would ever have all of the regulations necessary for implementation established on the day of passage. FAS 106 recognized this by requiring recognition of changes on the date of enactment, not waiting until the date they become effective. To vary from this principle would have dangerous implications for other generally accepted accounting principles, notably FAS 109 accounting for income taxes. It is far better to require companies to comply with the existing accounting principles by producing their best estimates under FAS 106. Like any other estimate, should later developments require revisions to the estimates, those revisions would be evaluated and accounted for at the time of those developments.
- "Significant uncertainties presently exist...as to...the Act's overall effect on plan participants' behavior and health care costs." The uncertainties inherent related to participants' behavior and health care costs are no greater an obstacle than any number of factors that are considered by professional actuaries in routine valuations performed for FAS 106 accounting. Examples include everything from new medical procedures to new prescription drugs to any number of factors that can change mortality or service expectations must be and are dealt with routinely in an actuarial valuation. Many of these factors are at least as uncertain as the effect of the Act and could have far more widespread impact on medical costs accounted for under FAS 106 than the Act. To suggest that uncertainty is a reason to not use FAS 106 accounting is to suggest that FAS 106 accounting be abandoned for a return to cash basis accounting.

- "Plan sponsors or their advisors may not have either sufficiently reliable information available on which to measure the effects of the Act (or) sufficient time before issuance of financial statements for fiscal years that include the Act's enactment date to prepare actuarial valuations that reflect the effects of the Act". We and our independent actuaries have both the text of the Act and the legislative discussion of the Act. Furthermore, we have been monitoring the legislative activity surrounding the Act including potential effect of each of the major alternatives discussed by Congress. We can state with confidence that we could have a materially correct estimate under FAS 106 of the expected impacts of the Act on our financial statements. We do not believe that we or our advisors are unique in this ability, and that most public companies are similarly prepared to quantify the impact of the Act.
- "Plan sponsors or their advisors may not have...sufficient guidance to ensure reasonably comparable accounting by plan sponsors for the effects of the Act." FAS 106 is a tool for the estimation of the economic liabilities that employers have for current and future retirees. The Act has an impact on those economic liabilities much in the same way that any number of other factors also affect these liabilities. There is nothing inherent or unique in the Act that makes estimation of its economic impact any more involved than estimating those other factors. Accounting for the impact of the Act should be no less comparable than the accounting for any other economic factor.

The suggestion that companies ignore the enacted legislature provisions on their FAS 106 calculations is to suggest that companies willingly publish financial statements that include information that management does not believe represents their best estimate of their expenses and liabilities. To state it more strongly, not only would the financial statements not include the best estimates, they would include estimates that management believes to be wrong. The interests of owners and potential owners are not served when their financial reports deliberately exclude management's best estimates.

The ED contains the note that the "sponsor is encouraged to provide additional disclosure of any information that the sponsor has and believes is appropriate for the reader to understand the Act's possible economic consequences for the sponsor including whether the sponsor intends to amend the plan in light of the new legislation." However, the ED also states "it would be premature [for a sponsor] to disclose any anticipated effects regarding the accounting in subsequent periods." The inconsistency in these two statements is glaring, unless one supposes that accounting under FAS 106 does not provide any understanding or measurement of economic consequences of factors relating to postretirement benefits. We do not believe that the FASB staff means to imply such a supposition.

We are also concerned that the ED states that FAS 106 accounting be suspended until further consideration. An indefinite delay harms the reader of the financials by leaving known inaccurate information outstanding for an unspecified period of time.

We appreciate the opportunity to comment on projects undertaken by the Financial Accounting Standards Board. If you would like to further discuss any of our comments, please do not hesitate to contact either Andrew Libera, Executive Director – External Reporting and Accounting Policy at (210) 351-3043 (al7444@txmail.sbc.com) or myself at (210) 351-3900 (is0093@txmail.sbc.com).

Yours very truly,

John J. Stephens Vice President and Controller