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Congress of the United States  
House of Representatives  
Washington, DC 20515-0505

October 17, 2002

Robert H. Herz  
Chairman of the Board and  
Financial Accounting Standards Board  
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P.O. Box 5116  
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Letter of Comment No: 1  
File Reference: 1025-PNU  
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Dear Chairman Herz:

I am writing to express concerns over the current accounting treatment of company pension plan assets. I believe that those accounting rules create the potential for overstatement of corporate earnings and create incentives to corporations to overinvest pension plan assets in stocks.

As you are aware, corporations are permitted to report earnings to shareholders based on expected, not actual, returns from pension plan assets. It appears that corporations have continued to use historically high rates of return in determining expected earnings from pension plan assets, even in light of recent dramatically lower returns on both bond and equity investments. I can think of no other circumstance in which corporations report earnings to shareholders based on returns that they hope to realize in the future. Enron's abuse of mark-to-market accounting rules comes close, but even there, analyses of specific transactions were required.

For example, one major corporation for its 2001 fiscal year reported earnings to shareholders that were based on the assumption that it earned \$4.2 billion on its pension fund assets, an assumed rate of return of 10 percent. Instead, the corporation actually lost \$2.4 billion during that year on those assets. If the corporation had used its actual results in reporting to shareholders, over \$6 billion of its reported \$7.7 billion in earnings would have disappeared.

The current rules also permit corporations to understate their net pension plan liabilities when reporting to workers and shareholders. The current rules permit corporations to report improved net pension plan liabilities when, in actuality, the funding status of their plans could have deteriorated significantly. For instance, the corporation discussed above reported to its shareholders that its net pension position improved during 2001 by over a billion dollars. In actual fact, the funded status of its pension plans declined by over \$6 billion during that year.

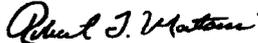
The current rules also create incentives for corporations to invest all of their pension plan assets in common stocks rather than holding a more balanced and less risky portfolio. Selling investment-grade bonds and investing the proceeds in the equity market is a simple way for management to meet its earnings goals. There is no way to justify high assumed rates of return

with a portfolio that includes significant investment-grade bonds. Only a pure equity portfolio could justify such assumptions. This creates incentives that could result in substantially less pension security for workers. It also could create potential liabilities for the Federal Pension Benefit Guarantee Corporation.

Mr. Chairman, I urge that you promptly undertake a review of the accounting rules for pension plan assets. The Enron and other corporate scandals have created a lack of confidence in the accuracy of reported corporate earnings with unfortunate results in the equity markets. Restoring confidence will be impossible if corporations can easily manipulate those earnings through devices such as the current rules applicable to pension plan assets.

This is an issue that needs to be resolved promptly before the retirement security of millions of American workers is further threatened. I look forward to your prompt response to this issue.

Sincerely,



ROBERT T. MATSUI  
Member of Congress