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October 27, 2003

Mr. Lawrence Smith
Director of Technical Application and Implementation Activities
Financial Accounting Standards Board
401 Merritt 7
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Letter of Comment No: 77
File Reference: 1025-200
Date Received: /0/27/03

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Dear Mr. Smith:

PricewaterhouseCoopers LLP appreciates the opportunity to respond to the Proposed Statement of Financial Accounting Standards, *Employers' Disclosures about Pensions and Other Postretirement Benefits, an amendment of FASB Statements Nos.* 87, 88, and 106 and a replacement of FASB Statement No. 132.

This proposed statement was developed by the FASB in response to concerns expressed by users of financial statements that the information that is currently provided by companies about their pension and other postretirement benefit (OPEB) plans does not provide them with a sufficient understanding of the assets, obligations, cash flows, and net benefit costs associated with those plans. We understand those concerns and believe that they arise in large part because the existing accounting rules for recording the obligations of benefit plan sponsors result in companies reporting pension and OPEB expense (or income) that fails to reflect in their periodic financial statements the impact of a decline or increase in the value of the assets set aside to pay benefits or the impact of other events that have a direct and immediate effect on the obligation. These situations result from the delayed recognition features of the current pension and OPEB accounting model. Those features permit the cost of plan amendments, differences between actual and estimated investment returns, the effects of assumption changes, and differences between estimated and actual results to be deferred and recognized in future periods. We believe that to increase the understanding of users about the present financial condition of a company's plan and its effect on the company's assets, obligations, income, and cash flows, the FASB also should reconsider these aspects of the model. Accordingly, although we support providing the information needed by users to fully understand the company's obligations, we consider this project to be a first step in what we hope will be the FASB's broader reconsideration of the entire pension and OPEB accounting



model, specifically the recognition and measurement aspects of FAS 87, Employers' Accounting for Pensions, and FAS 106, Employers' Accounting for Postretirement Benefits Other Than Pensions.

Obviously, we understand that changing the accounting model to eliminate the smoothing effects of the current model will introduce significant volatility into the current financial reporting model. The Board needs to consider this in conjunction with its financial performance project.

Lastly, we have concerns about the ability of companies to understand and implement a new statement that is issued December 15, 2003 and effective for financial statements with a December 31, 2003 year-end. Our view is that by amending the effective date of the new statement to years ending after June 15, 2004, companies, along with their actuaries and investment managers, will have a reasonable period of time to modify the systems and processes necessary to gather the information to comply with the new statement.

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We appreciate the opportunity to express our views on the proposal. Our responses to the specific questions contained in the Invitation to Comment are included in the attached appendix. If you have any questions regarding our comments, please contact Virginia Benson (973-236-5422), Kenneth Dakdduk (973-236-7239), or James F. Harrington (973-236-7203).

Sincerely,

PricewaterhouseCoopers LLP



#### Request for Comments on Issues 1-4

Are the proposed disclosures described in Issues 1–4 needed for users to understand the financial condition and results, market risks, and cash flows associated with pension plans and other postretirement benefit plans? Should any of the proposed disclosures be eliminated and why? What additional disclosures should the Board require that are not included in this proposed Statement or existing requirements? Can the information to be disclosed be provided without imposing excessive cost?

Similar to the disclosure of general accounting policies, we recommend that companies be required to disclose their significant pension and OPEB accounting policies. Those disclosures should include the following.

- Whether the market related value of plan assets is based on fair value or a calculated value. If a calculated value is used, the disclosure should describe the methodology used to determine the calculated value, the period over which the related amounts are being recognized, and the amount of the calculated value at the measurement date.
- 2. The amortization method used for unrecognized gains and losses, or a statement that those amounts are immediately recognized, if applicable.
- The measurement date used, without regard to whether one or more economic events occurred or economic conditions changed between the measurement date and the fiscal year-end.
- The company's policy on performing interim measurements of pension or OPEB obligations and costs.

In addition, we recommend that companies be required to disclose the amortization period for unrecognized prior service costs (whether positive or negative) and the amount of new prior service costs arising in the current period that are attributable to active and inactive (retired) plan participants. We also recommend that companies be required to disclose the significant components of the unrecognized net gain or loss arising in the current period and identify what each significant gain and loss is attributable to.

We believe that this information would help users to better understand why current market conditions are not yet reflected in the financial statements, enable them to assess the quality of a company's judgments in setting measurement assumptions, and provide them with data that would assist them in estimating what current year obligations and costs might have been absent the deferral mechanisms in FAS 87 and 106.

### **Plan Assets**

Issue 1: This proposed Statement would require disclosure of information for each major category of plan assets. The broadest categories of assets for which this information would be required are equity securities, debt securities, real estate, and all other assets. Disclosure by narrower asset categories and additional information about specific assets within a category would be encouraged if that information is expected to be useful in understanding the investment risks or expected long-term rate of return on assets.

The following information would be required to be presented for each major asset category:

- Percentage of the fair value of total plan assets as of the date of each statement of financial position presented
- b. Target allocation percentage or range of percentages, presented on a weightedaverage basis
- c. Expected long-term rate of return, presented on a weighted-average basis.

In addition, this proposed Statement would require disclosure of the range and weighted average of the contractual maturities, or term, of all debt securities.

Additional disclosures about investment strategies and policies, including the degree to which contractual maturities of plan assets align with the amount and timing of benefit payments, would be encouraged.

In general, we support the proposed disclosures about plan assets. Most of them would, in our view, assist users in understanding the financial condition of, and market risks and cash flows associated with, companies' pension and OPEB plans. By helping users to understand the composition of assets in the plan, they will be better able to assess the relative risks inherent in the company's funding strategy and the potential likelihood that future cash outflows of the company will be needed for the payment of benefits.

We recommend, however, that the disclosures described in items b. and c. be reconsidered. In our view, those disclosures will not provide financial statement users with useful information. In a highly volatile stock market, planned asset allocations can quickly become meaningless as companies and their plan administrators must react to swings in market prices and readjust allocation percentages accordingly. Further, different financial statement users could interpret targeted allocation information in different ways and some will inevitably misinterpret it. For example, some users will give credit to plan management for reacting to changes in market and plan conditions if those users believed that the required allocations should have differed from what was originally targeted. Others may attribute missed targets, or allocations that stayed on target but in the user's view should have changed, to poor, even inept, asset management on the part of the company. Because this information could be interpreted in several ways, and it will be difficult for users to know which is the correct interpretation, the disclosure in item b. standing alone will not, in our view, provide useful information. To do that, it would need to be accompanied by additional information that explains why targets were missed or why the allocations did or did not change. Absent that required information, we suggest that the entire disclosure be eliminated in the final statement.

We also believe that the disclosure in item c. will not provide readers with useful information absent the additional information that is discussed in paragraph A14. of the ED. Just as the Board rejected that additional information as being too general and not specifically informative about an entity's situation, we believe the same holds true for presenting only the weighted average expected long-term rate of return for each asset category. Further, because

measurements under FAS 87 and 106 utilize one expected long-term rate of return, not two or more individual rates, the presentation of the rate of return for each asset category could confuse readers.

### **Defined Benefit Pension Plan Accumulated Benefit Obligation**

Issue 2: This proposed Statement would require disclosure of the defined benefit pension plan accumulated benefit obligation. The accumulated benefit obligation is the measure of the pension obligation used to determine the amount of the minimum liability, when the accumulated benefit obligation exceeds the fair value of plan assets.

Disclosure of the ABO would enable financial statement users to compare that amount to plan assets to assess the risk that a company would need to record in the future an additional minimum liability. When the company has only one pension plan, this could be useful and meaningful information. However, the proposed statement suggests (e.g., in paragraph A24) that when there are multiple pension plans, this disclosure would be made in the aggregate for all of those plans. Thus, the consolidated ABO would be disclosed, forcing users to compare it to consolidated plan assets. Clearly that type of gross analysis would not enable users to determine the potential for a future additional minimum liability because the determination of that liability is required to be made at the individual plan level, not based on an aggregation of all plans. However, for a company with a significant number of plans, disclosure of each plan's ABO may not be practical. To achieve a balance between a meaningful disclosure and practicality, the Board should consider an alternative to detailed ABO disclosures. An alternative could be that companies with multiple plans should disclose the percentage of company plans with an ABO in excess of plan assets. In addition, if there are any individual plans that the company believes may have an impact on its future cash flows, the nature and amount of such cash flows should also be disclosed.

#### **Cash Flow Information**

Issue 3: This proposed Statement would require disclosure of:

- a. A schedule of estimated future benefit payments included in the determination of the benefit obligation, as of the date of the latest statement of financial position presented, for each of the five succeeding fiscal years, and the total amount thereafter, with separate deduction from the total for the amount representing interest necessary to reduce the estimated future payments to present value
- b. The employer's contributions expected to be paid to the plan during the next fiscal year beginning after the date of the latest statement of financial position, showing separately:
  - (1) Contributions required by funding regulations or laws
  - (2) Additional discretionary contributions



(3) The aggregate amount and description of any noncash contributions.

We agree that providing cash flow information about pension and OPEB obligations will help financial statement users understand the financial condition of, and market risks and cash flows associated with, such plans. However, we believe the disclosure of contributions and benefit payments should only be made in those situations where they directly impact liquidity. For example, for a plan that is funded, cash flows will be impacted by the company's contributions to the plan and should be disclosed. For the same plan, benefit payments will not impact company cash flows as they will be paid directly from plan assets, making this disclosure irrelevant to company cash flows. For an unfunded plan, there are no company contributions; company cash flows are impacted only by benefit payments, as these will be paid directly by the company. Accordingly, benefit payments are a relevant disclosure for an unfunded plan. We recommend that the disclosure requirement in the final statement reflect this distinction between funded plans and unfunded plans.

If the disclosure of future benefit payments is retained in the final statement, we recommend that the Board reconsider the tabular presentation in Illustration 1 of the ED. Under the proposed approach, the future cash outflows included in the presentation would be attributable only to employee services rendered to date. Thus, they would not represent total expected future cash outflows (benefit payments) that employees will ultimately receive under the benefit arrangement. We recommend that the disclosure include all future expected benefit payments for the current closed group of employees, and then show deductions for both future service attribution and interest to reconcile to the present benefit obligation.

### Assumptions

Issue 4: This proposed Statement would require use of a tabular format for disclosure of the following key assumptions (separately identifying the assumptions used to measure benefit obligations as of the plan's measurement date and those used to measure net benefit cost or income for the period): the assumed discount rates, rates of compensation increase (for payrelated plans), and expected long-term rates of return on plan assets. Those disclosures would be reported on a weighted-average basis. This proposed Statement would not change the information presently required to be disclosed but would seek to improve the clarity of the information.

We agree that the disclosure of stipulated key assumptions in a tabular format, showing separately the assumptions used to determine benefit obligations and the assumptions used to determine benefit costs, would help users to better understand the measures to which those assumptions relate.

### **Nonpublic Entities**

Issue 5: This proposed Statement would retain the more limited disclosures for nonpublic entities required by Statement 132. Of the new disclosures that would be required by this

proposed Statement, all would be required of nonpublic entities except for interim-period disclosure of the components of net periodic benefit cost recognized.

Do you agree that all disclosures that would be required by this proposed Statement, except for interim-period disclosure of the components of net periodic benefit cost recognized, should be required for nonpublic entities? Do nonpublic entities have any special circumstances affecting their ability to provide the proposed disclosures?

We agree that the disclosures required by this proposed statement, except the interim period disclosures, should be required for nonpublic entities. We are not aware of any special circumstances that would affect the ability of nonpublic entities to provide the proposed disclosures.

#### Sensitivity Information about Changes in Certain Assumptions

Issue 6: The Board considered, but did not include in this proposed Statement, a requirement to disclose sensitivity information about the impact on net periodic benefit cost and the benefit obligation of a hypothetical change in certain assumptions, such as expected long-term rates of return on assets, discount rates, and rate of compensation increase, while holding the other assumptions constant. The Board was concerned that such disclosures of hypothetical changes would not provide useful information, because economic conditions and changes therein often affect multiple assumptions. Also, an analysis that varied only one assumption at a time, holding the others constant, could be misleading or misinterpreted. The effect of a one-percentage-point increase and the effect of a one-percentage-point decrease in the assumed health care cost trend rates on (a) the aggregate of the service and interest cost components of net periodic postretirement health care benefit cost and (b) the accumulated postretirement benefit obligation for health care benefits would still be required.

Should disclosure of sensitivity information about hypothetical changes in certain assumptions be required and why?

We agree with the Board that there should not be a requirement to disclose sensitivity information about the impact on net periodic benefit cost and the benefit obligation of a change in certain assumptions, such as expected long term rates of return on assets, while holding other assumptions constant. We share the Board's concern that such disclosure would not provide useful information because economic conditions and changes therein often affect multiple assumptions. Results of such an analysis could be misleading or misinterpreted. Moreover, we believe that sensitivity disclosures are contrary to the premise that assumptions used are those appropriate for arriving at the best estimate. Accordingly, we recommend that the requirement to disclose sensitivity information about health care cost trend rates be eliminated in the final statement. It should be noted, however, that because our recommendation would result in the elimination of a disclosure that has been required for five years (e.g., health care cost trend rate) the Board may wish to seek the input of analysts and others to determine whether such information is used by them and whether the elimination of such information would be to their detriment.



### Measurement Date(s)

Issue 7: This proposed Statement generally would not require disclosure of the measurement date(s) used to determine pension and other postretirement benefit measurements when different from the fiscal year-end date. Disclosure of the measurement date(s) would be required when an economic event occurs, or economic conditions change, after the measurement date(s) but before the fiscal year-end, and if those changes may have had a significant effect on plan assets, obligations, or net periodic cost, had the fiscal year-end date been used as the measurement date. The nature of the significant changes also would be described.

Should disclosure of the measurement date(s) be required and why?

Disclosure of the measurement date(s) would be meaningful information for financial statement users because it would alert them to the fact that any event that affects the obligations and assets under the plan and that occurred after the measurement date has not yet been reflected in either of those measures. Accordingly, we believe that disclosure of the measurement date(s) should be required for all plans, not just those that have been impacted by a significant economic event or condition. By disclosing the measurement date(s) for all plans, we believe comparability between financial statements will be improved. Such a requirement would eliminate the need for companies that use a measurement date other than their fiscal year-ends to incur the additional cost of analyzing the effects of significant economic events or conditions that occurred after the measurement date but before year-end to determine whether they must disclose, under this proposed standard, that they use an earlier measurement date.

# Reconciliations of Beginning and Ending Balances of Plan Assets and Benefit Obligations

Issue 8: This proposed Statement would eliminate the requirement in Statement 132 to provide reconciliations of beginning and ending balances of the fair value of plan assets and benefit obligations. This proposed Statement would instead require disclosure of ending balances and would retain key elements of the reconciliations that are not disclosed elsewhere, such as actual return on assets, benefit payments, employer contributions, and participant contributions. As such, this proposed Statement would provide a more focused approach for key items previously included in the reconciliations.

Should the reconciliations, as required by Statement 132, be eliminated or retained and why?

We believe that over time the benefit obligation and plan asset reconciliations required by FAS 132 have proven useful as they provide a well-organized, consistent format for disclosure that facilitates comparison between financial statements. They also assist users in relating the various detailed amounts to the financial statements. In addition, when aggregating multiple plans from multiple locations, perhaps with multiple actuaries and investment managers, these reconciliations are a useful tool for ensuring that the appropriate amounts are reflected in the financial statements. Accordingly, we recommend that the reconciliations be retained.



# Disclosures Considered but Not Proposed

Issue 9: The Board considered but rejected a number of other disclosures that were requested by users of financial statements. The following information would not be required by this proposed Statement:

- a. A description of investment policies and strategies.
- b. An explanation of the basis for selecting the expected long-term rate of return on assets assumption.
- c. The pension benefit obligation and funded status determined on a regulatory basis (for example, Employee Retirement Income Security Act of 1974 [ERISA]).
- d. The pension benefit obligation and funded status determined on a plan termination basis (for example, the Pension Benefit Guaranty Corporation [PBGC] termination basis).
- e. The amount and classification of net periodic pension and other postretirement benefit cost or income recognized in the statement of income, showing separately the amounts of net benefit cost or income included in each line item in the statement of income and reported for each period for which a statement of income is presented. The aggregate amount of net benefit cost or income recognized would be reconciled to the total amount of net benefit cost or income, identifying the aggregate amount capitalized as part of inventory or other productive assets.
- f. The number of pension plan participants by group (for example, active, terminated-vested, and retired).
- g. The amount of benefit obligation by participant group (for example, active, terminated-vested, and retired).
- h. The weighted-average duration of the benefit obligation.
- i. Interim-period disclosure of plan assets and benefit obligations.
- j. A description of participation in multiemployer plans.

Should any of the above information be required to be disclosed and why?

We agree with the Board that the above information should not be required to be disclosed, with the exception of item g., "the amount of benefit obligation by participant group (for example, active, terminated, vested and retired)." This information can be useful in considering what relative portion of the obligation is attributable to former employees, including retirees, and what portion is attributable to active employees who provide a current

economic benefit to the company through the rendering of current service in exchange for future benefits. Accordingly, we recommend that the information in item g. be a required disclosure in the final statement. We also recommend that the Board reinstate the FAS 106 disclosure of the APBO, identifying separately the portion attributable to retirees, other fully eligible plan participants, and other active plan participants.

# **Disclosures in Interim Financial Reports**

Issue 10: This proposed Statement would require disclosure of the following information in interim financial statements that include a statement of income:

- a. The amount of net periodic pension and other postretirement benefit cost recognized, showing separately the service cost component, the interest cost component, the expected return on plan assets for the period, the amortization of the unrecognized transition obligation or transition asset, the amount of recognized gains and losses, the amount of prior service cost recognized, and the amount of gain or loss recognized due to a settlement or curtailment
- b. The employer's contribution paid, or expected to be paid during the year, if significantly different from previous disclosures pursuant to paragraph 5(g) of this proposed Statement, showing separately (1) contributions required by funding regulations or laws, (2) additional discretionary contributions, and (3) the aggregate amount and description of any noncash contributions.

Are the proposed disclosures needed for users to understand the financial condition, results, and cash flows associated with pension and other postretirement benefits? Should additional disclosures be required? Should either of the proposed interim period disclosures be eliminated?

We agree that the disclosure of interim net periodic pension and OPEB costs, with their various components, will help users to better understand the financial condition of, and results and cash flows associated with, companies' pension and OPEB plans. If there is a significant difference between contributions paid and expected to be paid since the last financial statements, we believe that information also should be disclosed. In addition, companies should disclose any significant events that may impact the pension obligation.

#### Effective Date and Transition

Issue 11: The provisions of this proposed Statement would be effective for fiscal years ending after December 15, 2003. The interim-period disclosures in this proposed Statement would be effective for the first fiscal quarter of the year following initial application of the annual disclosure requirements. The disclosures for earlier annual periods presented for comparative purposes would be restated for (a) the percentages of each major category of plan assets held and (b) the accumulated benefit obligation. The disclosures for earlier interim periods presented for comparative purposes would be restated for the components of net benefit cost. However, if obtaining this information relating to earlier periods is not practicable, the notes

to the financial statements would include all available information and identify the information not available. All other disclosures, other than those identified above for restatement, would only be required to be presented as of the date of the most recent statement of financial position.

Are the proposed effective date provisions and transition appropriate? If not, what alternative effective dates and transition would you suggest and why? If individual disclosures require additional time to compile, please describe the nature and extent of the effort required.

As mentioned in the FASB's "Frequently Asked Questions" guide on this proposed statement, it is expected that a final statement will be issued in mid-December and will be effective for December 31, 2003 financial statements. Our view is that the timeframe in which to effectively implement the final statement will be insufficient for most calendar year-end companies. Among other things, it will be necessary for companies to coordinate with their actuaries and investment managers to obtain the information that will be required to make the new disclosures. In that regard, we understand that many actuaries may need to modify their actuarial valuation software so that it will generate the data necessary to disclose the past service component of expected benefit payments. Companies will also have to modify their current systems to be able to gather the necessary information internally. Those with multiple plans and/or multinational plans will have even greater difficulties complying with the new requirements in such a limited timeframe. Accordingly, we recommend delaying the effective date of the final statement to fiscal years ending after June 15, 2004 to allow companies, as well as their actuaries and investment managers, a reasonable period of time to understand the new disclosure requirements and make the necessary system and process modifications to ensure compliance.