Letter of Comment No: 7/File Reference: 1025-200
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October 27, 2003

Director of Technical Application and Implementation Activities Financial Accounting Standards Board File Reference No. 1025-200 Via email

Invitation to Comment on Exposure Draft
Proposed Statement of Financial Accounting Standards:
"Employers' Disclosures about Pensions and Other Postretirement Benefits"
An amendment of FASB Statements No. 87, 88 and 106 and a replacement of
FASB Statement No. 132.

We appreciate the opportunity to respond to the Exposure Draft of Proposed Statement of Financial Accounting Standards, "Employers' Disclosures about Pensions and Other Postretirement Benefits". 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 certain provisions of this exposure draft will provide useful information to users of financial information and represent an improvement in disclosure. Because we believe this to be an area with significant financial implications, we voluntarily began providing interim financial information related to pensions and other postretirement benefits in our quarterly filings in the third quarter of 2002. We have received consistent positive feedback from the investment community on these disclosures. Our interim footnote includes many of the disclosures contemplated by this exposure draft. We have included a copy of our second quarter 2003 footnote on pension and postretirement benefits as appendix B to this letter as an example of what we believe to be an appropriate level of additional disclosure in interim reporting.

While we are supportive of the efforts of the FASB to help provide users of financial statements with additional information in this area, we have significant reservations about several of the proposals in the exposure draft. We feel strongly that the elimination of the reconciliations of beginning and ending balances of plan assets and benefit obligations would impair user's abilities to understand the activity and nature of a company's pension and postretirement plans. One of the most useful features of the current reconciliation is that the information is presented on an integrated basis. The exposure draft states the most important information would be available in other disclosures, but the information is not as useful to readers when disaggregated.

We do not agree with the required disclosure of additional discretionary contributions that the company may make to the plan during the next fiscal year. By their very nature, discretionary contributions are contingent on multiple factors such as uncertain events or economic environments can and, in most cases, cannot be predicted with any significant degree of accuracy. Companies, in general, would feel that stating they may make discretionary contributions might be taken as a commitment to do so, especially in collective bargaining. Accordingly, there may be a tendency to disclose any such contributions at the lowest possible level. This disclosure, in turn, may discourage companies from making additional contributions as they would be reluctant to adjust the projected contribution they have previously disclosed.

In addition, we are concerned with the proposed requirement to disclose an expected long-term rate of return on each asset class. We do not believe this information is necessary to evaluate the effect of pension and postretirement plans on the company. Estimates of asset returns actually fall within a range and these

ranges often involve significant interaction among asset classes. The current disclosure of the expected rate of return on plan assets, as a whole, represents management's estimate of where asset returns will be within that range. While stating this complex relationship as a single number from that range represents a simplified composite, it is nonetheless meaningful because the range itself preserves the more accurate interaction. Accordingly, rather than providing a greater degree of accuracy, the series of individual asset class returns contemplated by the exposure draft emphasizes each of these individual numbers and eliminates the more accurate interaction. We believe the effect of this will be to provide estimates that are less accurate in assessing and understanding the investment risk or expected long-term rate of return on assets.

We have included in appendix A of this letter our comments on the individual issues raised by the Board. 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 (js0093@txmail.sbc.com).

Yours very truly,

John J. Stephens

Vice President and Controller

Appendix A

Response to Request for Comments on Issues 1-3:

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?

Plan Assets

While we understand the need for useful information in understanding the risk or expected long-term rate of return on assets, we do not believe that the reporting of plan assets by major asset class improves understanding of investment risk or expected long-term rate of return on assets. Estimates of asset returns actually fall within a range and these ranges often involve significant interaction among asset classes. The current disclosure of the expected rate of return on plan assets, as a whole, represents management's estimate of where asset returns will be within that range. While stating this complex relationship as a single number from that range represents a simplified composite, it is nonetheless meaningful because the range itself preserves the more accurate interaction. Accordingly, rather than providing a greater degree of accuracy, the series of individual asset class returns contemplated by the exposure draft emphasizes each of these individual numbers and eliminates the more accurate interaction. Therefore, the proposal to disclose EROA by asset class should be eliminated as it is an overly burdensome disclosure requirement that adds little value for the average reader and provides a misleading impression of greater accuracy.

The other items included in the exposure draft, i.e., disclosure of the broad categories of assets (equity, debt, real estate and other) along with the percentage of each of the FMV of total assets and the target allocation percentages would be of interest to the average reader and provide asset class detail less subject to misinterpretation than any disclosure of expected return by asset class. As target asset allocation is typically established as a range, any disclosure should also be of target ranges, rather than one specific percent.

Disclosure of debt securities by range and weighted-average of the contractual maturities should not be required. Clarifying the weighted average assumptions' relationships to the obligation and to income/expense would likely add value to the disclosure, but it is not appropriate to isolate bonds as the exposure draft assumes a higher correlation of cash flows from bonds to benefit payments then actually exists.

Defined Benefit Pension Plan Accumulated Benefit Obligation

We do not disagree with the disclosure. This information was required to be disclosed prior to the adoption of FAS 132, and is not a burden to accumulate.

Cash Flow Information

We do not agree with the disclosure of employer's additional discretionary contributions (cash or noncash) that are expected to be paid to the plan during the next fiscal year. It is not reasonable to expect companies to predict, for public disclosure, discretionary contributions that are dependent on various factors possibly outside of companies' control. Public companies especially would be subject to unreasonable expectations with regard to disclosed potential contribution levels. Certain events or economic environments can change and result in a change in the estimated cash available for additional discretionary contribution. We do believe that disclosures should include the following year's contributions required by funding laws or regulations as this provides valuable information for the reader and is not subject to change at the company's sole discretion. We include this information in our 2002 Annual Report and 2003 Forms 10-Q.

Response to Request for Comments on Sensitivity Information about Changes in Certain Assumptions:

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

We agree with the Board that sensitivity information that changes one factor and holds other factors constant, ignoring interaction among those factors, does run the risk of being misinterpreted. Additionally, sensitivities that address only a component of net periodic cost, such as service and interest, are often misinterpreted as the impact on total periodic cost. Should the Board decide to include sensitivity

information, we suggest disclosure be on total expense rather than components, and that for items such as discount rate and expected return on assets the sensitivities be on quarter point, rather than full one percent changes.

Response to Request for Comments on Measurement Date(s):

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

Disclosure of the measurement date (when it is not the same as the fiscal year end date) should be required when changes occur after the measurement date and prior to fiscal year end that are material to items disclosed such as plan assets. It should not be required when there are no such changes as it is not meaningful.

Response to Request for Comments on Reconciliations of Beginning and Ending Balances of Plan Assets and Benefit Obligations:

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

These reconciliations should continue to be required disclosure as they provide meaningful information to the reader of the financial statements regarding the change in plan assets and obligations and also provide an easy to read basis for year over year comparisons. In addition, readers have become accustomed to these reconciliations and thus are familiar with how to interpret them and we see no reason for discontinuing the disclosure in this format. Provision of the information on a fragmented basis would not be as useful to readers.

Response to Request for Comments on Disclosures in Interim Financial Reports:

Are the proposed disclosures needed for users to understand the financial condition, results, and cash flows associated with pension and other postretirement benefits?

We feel that the elements of pension and postretirement cost listed in the proposal, although not absolutely necessary for readers to understand the impact of pension and postretirement benefits, are very useful, and we have included these disclosures in our quarterly reports beginning with our September 30, 2002 Form 10-Q. We have included the footnote from our June 30, 2003 Form 10-Q as appendix B to this letter.

Should either of the proposed interim period disclosures be eliminated?

As noted above in the annual disclosure section, we do not believe that expected additional discretionary contributions should be a required disclosure.

Appendix B

SBC Communications Inc.

PENSION AND POSTRETIREMENT BENEFITS (Footnote 7 to our Second Quarter Form 10-Q)

Substantially all of our employees are covered by one of various noncontributory pension and death benefit plans. We also provide certain medical, dental and life insurance benefits to substantially all retired employees under various plans and accrue actuarially determined postretirement benefit costs as active employees earn these benefits. Our objective in funding these plans, in combination with the standards of the Employee Retirement Income Security Act of 1974, as amended (ERISA), is to accumulate assets sufficient to meet the plans' obligations to provide benefits to employees upon their retirement. In the aggregate, as of June 30, 2003, our total plan assets were invested between 65% and 80% in equities, between 20% and 30% in fixed income instruments and between 0% and 10% in cash and real estate. Although no significant cash contributions are required under ERISA regulations during 2003, in July 2003 we contributed \$500 to the pension trust for the benefit of plan participants. Also in the first quarter of 2003, while not required, we contributed \$445 to a Voluntary Employee Beneficiary Association trust to partially fund postretirement benefits. We currently anticipate we will not be required to make any contributions to the pension plans during 2004.

The following details pension and postretirement benefit costs included in operating expenses (in cost of sales and selling, general and administrative expenses) in the accompanying Consolidated Statements of Income. We account for these costs in accordance with Statement of Financial Accounting Standards No. 87, "Employers' Accounting for Pensions" and Statement of Financial Accounting Standards No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions". In the following table, gains are denoted with brackets and losses are not.

		Three months ended June 30,			Six months ended June 30,		
		2003		2002	 2003		2002
Pension cost:							
Service cost - benefits earned during the period	\$	182	\$	161	\$ 365	\$	323
Interest cost on projected benefit obligation		416		445	833		890
Expected return on assets		(610)		(857)	(1,219)		(1,714)
Amortization of prior service cost and transition asso	t	24		25	48		50
Recognized actuarial (gain) loss		12		(58)	27		(118)
Net pension (benefit) cost	\$	24	\$	(284)	\$ 54	\$	(569)
Postretirement benefit cost: Service cost – benefits earned during the period Interest cost on accumulated postretirement	\$	94	\$	73	\$ 189	\$	147
benefit obligation		402		358	806		715
Expected return on assets		(125)		(172)	(248)		(345)
Amortization of prior service cost (benefit)		(28)		-	(55)		1
Recognized actuarial loss		102		12	207		24
Postretirement benefit cost	\$	445	\$	271	\$ 899	\$	542
Combined net pension and postretirement (benefit) cost	\$	469	\$	(13)	\$ 953	\$	(27)

Our combined net pension and postretirement cost increased \$482 in the second quarter and \$980 in the first six months of 2003. This cost increase primarily resulted from net investment losses and pension settlement gains recognized in 2002 and previous years, which reduced the amount of unrealized gains recognized in 2003. (Under GAAP, if lump sum benefits paid from a plan to employees upon termination or retirement exceed required thresholds, we recognize a portion of previously unrecognized pension gains or losses attributable to that plan's assets and liabilities. Until 2002, we had unrecognized net gains,

primarily because our actual investment returns exceeded our expected investment returns. During 2002, we made lump sum benefit payments in excess of the GAAP thresholds, resulting in the recognition of net gains, referred to as "pension settlement gains".)

Four other factors also increased our combined net pension and postretirement cost in the second quarter and first six months of 2003. First, this cost increased approximately \$85 in the second quarter and \$171 for the first six months due to our decision to lower our expected long-term rate of return on plan assets from 9.5% to 8.5% for 2003, based on our long-term view of future market returns. Second, our decision to reduce the discount rate used to calculate service and interest cost from 7.5% to 6.75% increased this cost approximately \$40 in the second quarter and \$81 for the first six months of 2003. Third, medical and prescription drug claim experience increased expense approximately \$38 in the second quarter and \$76 for the first six months of 2003. Fourth, in response to rising claim costs, we increased the assumed medical cost trend rate in 2003 from 8.0% to 9.0% for retirees 64 and under and from 9.0% to 10.0% for retirees 65 and over, trending to an expected increase of 5.0% in 2009 for all retirees, prior to adjustment for cost-sharing provisions of the medical and dental plans for certain retired employees. This increase in the medical cost trend rate caused our combined net pension and postretirement cost to increase approximately \$46 in the second quarter and \$93 for the first six months of 2003.

As a result of this increase in our combined net pension and postretirement cost, we have taken steps to implement additional cost controls. To offset some of the increases in medical costs mentioned above, in mid-2002, we implemented cost-saving design changes in our management medical and dental plans including increased participant contributions for medical and dental coverage and increased prescription drug co-payments effective beginning in January 2003. These changes reduced our postretirement cost approximately \$57 in the second quarter and \$114 for the first six months of 2003.

While we will continue our cost-cutting efforts discussed above, certain factors, such as investment returns, depend largely on trends in the U.S. securities market and the general U.S. economy. Our ability to improve the performance of those factors is limited. In particular, a weakness in the securities markets and U.S. economy could result in investment losses and a decline in plan assets, which under GAAP we will recognize over the next several years. As a result of these economic impacts and assumption changes discussed below, we expect a combined net pension and postretirement cost of between \$1,800 and \$2,000 (\$0.36 to \$0.40 per share) in 2003. Approximately 10% of these costs will be capitalized as part of construction labor, providing a small reduction in the net expense recorded. Should the securities markets decline and medical and prescription drug costs continue to increase significantly, we would expect increasing annual combined net pension and postretirement cost for the next several years. Additionally, should actual experience differ from actuarial assumptions, combined net pension and postretirement cost would be affected in future years.