

VIA E-MAIL to director@fasb.org, File Reference No. 1025-300

May 25, 2006

Technical Director – File Reference No. 1025-300 Financial Accounting Standards Board 401 Merritt 7 P.O. Box 5116 Norwalk, CT 06856-5116

Subject:

Proposed Statement of Financial Accounting Standards Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans

I am the Chief Financial Officer of Muscatine Foods Corporation, a private company that sponsors pension plans and other postretirement benefit (OPRB) plans covering 1,700 participants.

As a preparer and user of financial statements, I understand the need for transparent accounting and reporting. Our management team supports FASB's efforts to improve the value and relevance of financial information reported to the users of financial statements by revisiting the decisions made 20 years ago in developing SFAS Nos. 87 and 106. However, we have significant concerns about the proposed statement of financial accounting standards, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Benefit Plans*, which would amend SFAS Nos. 87, 88, 106, and 132(R):

- Implementation costs, effective dates, and transition. The implementation costs of the proposed standard will be significant. To minimize transition costs, the effective date should be at least six months after publication of the final standard, and the transition method (retrospective application and the transition to a fiscal year-end measurement date) should be modified.
- Measurement date. Pension and other postretirement benefit (OPRB) plan assets and obligations are significantly different from other types of assets or liabilities recognized in our financial statements and require additional lead time to measure accurately. A measurement date up to three months prior to fiscal year-end remains appropriate. In contrast, a fiscal year-end measurement date would represent false precision and would not materially improve the accounting. Instead, it would force us to use estimation techniques

rather than accurate values as of an earlier measurement date, and it would increase the likelihood of reporting errors.

- Pension liability measure. The accumulated benefit obligation (ABO) the current value at the measurement date of benefits earned to date by our current and former employees – is the most appropriate measure of the market value of pension liabilities. The ABO – not the projected benefit obligation (PBO) – should be used to determine the required balance sheet recognition.
- Liability measure for other postretirement benefits. Because OPRB plans can be unilaterally reduced or eliminated, their APBO does not meet the definition of a liability under Concept Statement 6. Required balance sheet recognition of OPRB plans should include only the present values of future benefits for participants that are currently eligible.

These concerns are detailed below.

Implementation cost, effective dates, and transition

We disagree with the Board's conclusion that the implementation costs will not be significant, as described under Issue 1 of the Notice for Recipients of This Exposure draft. To minimize the implementation cost, the effective date should be at least six months after publication of the final standard, and the transition method (retrospective application and the transition to a fiscal year-end measurement date) should be modified as described below:

Retrospective application. Our practice is to show a 10-year history of key financial results so that users of our financial statements will understand long-term trends affecting our business. We understand that retrospective application would require us to revise all financial results shown in our financial statements issued after the effective date – even results for periods for which we do not show complete financial statements. The only option the exposure draft gives us for lowering this implementation cost is to reduce the number of years of historical information we show – information we believe users of our financial statements find very valuable.

To reduce the implementation cost to a reasonable level while maximizing the value of our financial statements to users, retrospective application should be required only for periods for which complete financial information is shown. Summary results shown for earlier periods should simply be footnoted to indicate they were determined under GAAP accounting standards in effect at the time and do not reflect new pension and OPRB accounting rules.

Transition to new measurement date. We currently use a measurement date that is 3 months before our fiscal year-end. As indicated under Measurement date below, we believe pension and

OPRB assets and obligations are significantly different from other types of assets and liabilities reported in the balance sheet, so continued use of a measurement date within three months of fiscal year-end is appropriate.

The proposed transition method requires measuring assets and liabilities twice within a period of no more than three months. The sole purpose of requiring two measurements – both composed of many estimates – is to refine the breakdown of amounts between retained earnings and unrecognized gains (losses) at the moment of transition. We do not believe the cost for 2nd measurement is justified.

The transition can be easily accomplished with only one measurement at the new measurement date, significantly reducing implementation cost with no decrease in useful results. We therefore recommend modifying the transition method to require a single measurement at the new measurement date – with the adjustment to retained earnings at the start of the fiscal year determined from the prior measurement. For example, under our proposed transition method, we would measure assets and liabilities at June 30, 2006 for our September 30, 2006 financial statements. We would also use this measurement to determine net benefit cost for 15 months (from June 30, 2006 through September 30, 2007). The first three months' net benefit cost would be an adjustment to retained earnings at October 1, 2007, and the next 12 months' net benefit cost would be 2007 expense. The next measurement at September 30, 2007 would be used for our September 30, 2007 financial statements and 2008 expense.

Ongoing requirement to use fiscal year-end measurement date. If FASB implements the requirement to use a fiscal year-end measurement date, we expect our ongoing costs of complying with the new standard will also increase. As detailed in the next section, a great deal of work must be completed between the measurement date and the date we close our financial statements. The only practical way we could implement a year-end measurement date would be to prepare multiple liability measurements using a range of discount rates before the end of our fiscal year. When the discount rate is determined after fiscal year-end, we would then select the measurement to use (or estimate liabilities by interpolating between measurements if an intermediate discount rate is selected). Performing these additional measurements will increase our ongoing cost of preparing financial statements.

Measurement date

Pension and OPRB assets and liabilities are significantly different from other types of assets and liabilities reported in our financial statements. Most other financial statement items are merely summaries of activity during the year. But pension and OPRB reporting and disclosures require gathering new information and subjecting it to extensive calculations, analysis, and review.

In particular, we are concerned about the time required to complete the following tasks:

Obtain market values of assets. Market values of pension assets are not generally available
until three weeks after the measurement date. If a fiscal year-end measurement date must be
used, this leaves insufficient time to complete our financial statements. To cope with a fiscal
year-end measurement date, we would be forced to roll forward market values determined as
of an earlier date for these assets – which offers little or no benefit over using an earlier
measurement date.

We believe pension and OPRB assets and obligations are significantly different from other types of assets and liabilities recognized in our financial statements and require additional lead time to measure accurately. The use of a measurement date up to three months prior to fiscal year-end remains appropriate, and SFAS Nos. 87 and 106 should not be amended to require use of a fiscal year-end measurement date. Such a requirement would not materially improve the accounting. As a practical matter, it would force us to use estimation techniques rather than accurate values at the earlier disclosed measurement date, and it would increase the chance of material errors in our financial statements. The proposed requirement represents false precision – it is likely to result in more inaccurate and misleading information, not less.

Pension liability measure

The projected benefit obligation (PBO) – the present value of a hypothetical benefit determined by dividing projected retirement benefits (including assumed pay increases between the valuation date and the assumed retirement date) by benefit accrual service to the assumed retirement date – is *not* a measure of the "market value" of plan liabilities. Rather, it is merely another SFAS No. 87 smoothing mechanism designed to produce a more level pattern of net periodic cost over participants' careers. The PBO includes amounts related to future salary increases that are not yet liabilities of the company as defined in Concept Statement 6. Requiring balance sheet recognition of the PBO goes against the underlying conceptual framework of GAAP accounting and artificially increases plan sponsors' liabilities. It will discourage the continuation of defined benefit plans – a result that cannot be undone if the Board decides in Phase 2 that the accumulated benefit obligation (ABO) – or some other measure – is the correct measure for balance sheet recognition (and perhaps also for expense).

The ABO – the present value of benefits earned by our current and former employees as of the measurement date – is the appropriate market-value measure of pension liabilities. Use of the ABO to determine balance sheet recognition is a logical extension of the current SFAS No. 87 additional minimum liability rules.

OPRB liability measure

OPRB obligations are fundamentally and substantively different from pension obligations and as such require a different balance sheet liability measure. In a pension plan, the ABO becomes

fully vested upon plan termination. The only way an employer can reduce pension liabilities below the level of the ABO is by underfunding the plan and entering bankruptcy. But this is not the case for OPRB plans. Muscatine Foods Corporation has reserved the right to unilaterally reduce or eliminate OPRB liabilities for all participants. Furthermore, we have reduced retiree medical benefits for participants who have not yet retired and increased retiree contribution levels for those who have already retired.

Similar to the PBO for pension plans, the APBO may be appropriate for long-term budgeting or expense, but it is not a "market value" of liabilities. Because OPRB plans can be unilaterally reduced or eliminated, their APBO does not meet the definition of a liability under Concept Statement 6. Including the entire APBO for all OPRB plans on the balance sheet vastly overstates the company's OPRB liability. A different balance sheet liability measure is needed for OPRB plans.

Because our historical practice is to cut back benefits only for participants who are not yet eligible to retire, we believe the appropriate OPRB balance sheet liability measure is the ABPO for current retirees and for active participants who would be eligible for OPRB benefits if they retired on the measurement date.

Non-pension postretirement benefits are fundamentally and substantively different from pension benefits and raise significant measurement issues that should be considered before introducing balance sheet recognition.

We appreciate your consideration of these comments. Please call me if we can provide any additional clarification or assistance.

Sincerely,

David Jones
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