

FitchRatings

One State Street Plaza
New York, NY 10004

T 212 908 0500 / 800 75 FITCH
www.fitchratings.com



May 26, 2006

LETTER OF COMMENT NO. 600

Technical Director – File Reference **1025-300**
Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, Connecticut 06856-5116

Exposure Draft: Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans an amendment of FASB Statements No. 87, 88, 106, and 132(R)

Dear Technical Director:

We appreciate the opportunity to comment on the FASB's Proposed Statement of Financial Accounting Standards, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans an amendment of FASB Statements No. 87, 88, 106, and 132(R)*. (hereinafter referred to as the "Exposure Draft" or "Proposed Replacement"). We support the Board's objectives to require preparers to improve the understandability and representational faithfulness of financial statements, as Fitch believes the current accounting model needs improvement. As a general comment on Phase I of the project, Fitch views positively the requirement to record net pension assets and liabilities on-balance sheet that take into account the impact salary increases will have on the amounts the company will eventually pay. In Phase II of the project, Fitch would welcome the opportunity to comment on the measurement and disclosure issues that arise as a result of the vast array of assumptions underlying the numbers reported in the financial statements. In this respect the agency would particularly welcome disclosure of the impact on numbers of each change in main assumption from one period to the next.

As always, we believe it is important for accounting standards to consider the heavy reliance on *cash flow related disclosures* by credit analysts and fixed-income investors in determining a company's ability to service its debt and continue as a going concern.

The underlying economic risks of Defined Benefit Pension and Other Postretirement Plans ("Plans") are not currently presented fully in the financial statements and footnotes

or in the Management Discussion and Analysis (“MD&A”) section of SEC filings of public companies. Fitch uses the information reported in footnotes and MD&A in order to assess the credit implications of Plans. However, without full disclosure of legal and regulatory obligations, we cannot understand the basis for the company’s cash contributions to plans in the year to which the financial statements relate. This hinders a user’s ability to forecast the likely timing of cash outflows, which in extreme circumstances could result in a failure of the company to repay its debt. In Fitch’s view, the user would benefit particularly from a requirement to describe cash outflows related to each pension scheme and the reasons for any material increases/decreases in these from one period or year to the next in the notes to the accounts plus commentary on expectations of the timing of future cash outflows. Requirements to disclose known minimal funding requirements over at least each of the next five years would be particularly helpful to users. Fitch has observed that the potential for retiring employees to accelerate benefits received can result in substantial cash outflows for companies, and disclosure on this would be welcome.

Fitch is skeptical that Phase I or Phase II of the project will manage to give fixed income investors the information they need to understand the long-term cash flow requirements of Plans, particularly with regard to Defined Pensions. Paragraph B52 states:

“The Board considered whether it should require disclosure of significant plan contributions that might be triggered by the Employee Retirement Income Security Act’s or other funding requirements. The Board concluded that existing disclosures (that is, those required by FASB Statements and, for public companies, SEC regulations) should provide sufficient information about future contributions to the plans. In developing disclosures that focus solely on certain U.S. regulatory requirements that apply only in limited circumstances, the Board would have had to consider whether there are similar requirements elsewhere in the world applicable to plans of multinational companies. That effort was beyond the scope and not considered necessary to meet the objectives of this Statement.”

While we sympathize with the Board’s conclusion that disclosure of significant contributions triggered by ERISA funding requirements is outside the scope of this Statement, we disagree “that existing disclosures should provide sufficient information about future contributions to the plans.” In particular, without information such as a company’s “ERISA credits,” changes to legal funding requirements and knowledge of underlying actuarial assumptions made by companies, investors cannot determine the future cash funding requirements. Therefore, the current proposal does not provide the most vital information that we feel fixed income investors need in order to make investment decisions, and we urge FASB to bear this in mind as the project develops. Furthermore, while we understand that it would be impossible to list specific disclosure requirements to deal with every pension-related cash outflow that might result around the world, we believe that disclosure would be improved by requiring more specific explanation of ERISA requirements plus a general requirement to provide similar information for all other pension plans to which the company must contribute.

We believe comprehensive and clear disclosure will allow users of financial statements to analyze management's assumptions in accounting for the Plans. Fitch believes the FASB should still require companies to disclose the information supporting the pension-related calculations and amounts appearing in the financial statements and footnotes.

Fitch supports the FASB's conclusions regarding presentation of current and non-current assets and liabilities of individual plans on a gross basis. We also support showing separately, rather than netting off, in the balance sheet plans whose assets exceed their obligations from plans whose obligations exceed their assets. In particular, we look forward to Phase II of the project, where we believe the Board should strive for convergence with the IASB and to eliminate what are commonly referred to as "smoothing provisions," in order to give investors a clear, current description of the economic risks in Plans. Below are comments we would like to provide regarding specific questions posed by the Board in the Exposure Draft.

Issue 2: Fitch supports the Board's proposal to measure plan assets and benefit obligations as of the date of the employer's statement of financial position. As credit analysts, Fitch believes it is important to measure the entire balance sheet and changes in assets and liabilities at the period end.

Fitch notes that companies sponsoring multi-employer plans may find it difficult to report their net obligations as at their own year ends, as our experience has been that they can be dependent to a great extent on information as delivered by the plans' trustees. From the user's perspective Fitch would like to see improved disclosure on multi-employer plans in general, although we appreciate that this is beyond the scope of this Statement.

Issue 3(a): Retrospective application of accounting rules enhances comparability between periods. As such, Fitch supports the Board's proposal to require companies to retrospectively apply the rules to the Plans. Fitch understands the necessity for an impracticability exception related to the assessment of deferred tax assets. Fitch understands the Board's decision not to require or permit retrospective application for the provisions of this Statement related to changes in measurement date. In particular credit analysts' understanding of a company's current financial condition would not be assisted by information concerning the amount of deferred tax assets that would have been assessed as realizable in prior periods.

Issue 4: If an entity enters into a transaction that results in a settlement or experiences an event that causes a curtailment in the last quarter of the fiscal year ending after the measurement date, Fitch believes the gain or loss should be recognized in earnings in that quarter in the same manner as such gains and losses will be recognized in subsequent quarters. Fitch supports the Board's conclusion that results of operations for each interim period and the fiscal year will represent events occurring during those periods more faithfully.

We look forward to discussing these comments with the Board at the appropriate time. The undersigned and members of our Credit Policy Group will be happy to answer any questions on our comments above.

Sincerely,

Bridget Gandy
Managing Director
Credit Policy
Fitch Ratings
London

Julie Burke
Managing Director
Insurance
Fitch Ratings
Chicago