



Central Finance
Shell International Limited
Shell Centre
London SE1 7NA
United Kingdom
Tel + 44 20 7934 2207
Fax + 44 20 7021 3020
Email B.Deere@shell.com
Internet <http://www.shell.com>

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Technical Director – File Reference No. 1025-300
Financial Accounting Standards Board
401 Merrit 7
PO Box 5116
Norwalk, CT 06856-5116
USA



LETTER OF COMMENT NO. 38

Dear Sir or Madam:

Exposure Draft *Employers Accounting For Defined Benefit Plans, an Amendment of FAS 87, 88, 106 and 132(R)*

We are grateful for the opportunity to comment on this Exposure Draft. We have various general comments before answering the specific questions raised in the ED.

General comments

We support the proposals as providing more meaningful information to accounts users. We also welcome the resulting closer convergence between US GAAP and IFRS (the option available under IAS 19 paragraph 93A), with respect to the reporting of net assets. However differences remain – for example IFRS net assets may not fully reflect plan surpluses/deficits where there is deferred recognition of non-vested prior service cost. We suggest that such divergences be eliminated as a “quick win” in the early stages of any future FASB/IASB joint project.

Specific questions

Issue 1 – Costs of Implementing the Proposed Statement’s Requirement to Recognize a Plan’s Overfunded or Underfunded Status in the Employer’s Statement of Financial Position

Do you agree that implementation of this proposed Statement would not require information (other than that related to income tax effects) that is not already available, and, therefore, the costs of implementation would not be significant? Why or why not?

(See paragraphs B20–B34 for the basis for the Board’s conclusions.)

We agree that most of the information should already be available for entities under the existing FASB requirements and that implementation should not then involve significant costs.

Issue 2 – The Employer’s Measurement Date

Unless a plan is sponsored by a subsidiary that is consolidated using a fiscal period that differs from the parent’s, this proposed Statement would require that plan assets and benefit obligations be measured as of the date of the employer’s statement of financial position. This proposed Statement would eliminate the provisions in Statements 87 and 106 that permit measurement as of a date that is not more than three months earlier than the date of the employer’s statement of financial position.

Are there any specific implementation issues associated with this requirement that differ significantly from the issues that apply to other assets and liabilities that are recognized as of the date of the statement of financial position? (See paragraphs B36–B40 for the basis for the Board’s conclusions.)

The valuation of postretirement plan liabilities is a specialist area, for which entities are likely to require external expertise and for which the calculations are complex and time consuming.

We agree with the Board (ED paragraph B38) that measurement as of the financial reporting date – and in time for incorporation in the entity’s financial statements – should usually be practicable, given appropriate established procedures and the possibility of estimation (ED paragraph B39). It would nevertheless be expected that entities might encounter difficulties during the implementation stage.

Issue 3 - Effective Dates and Transition

Issue 3(a): The Board’s goal is to issue a final Statement by September 2006. The proposed requirement to recognize the over- or underfunded statuses of defined benefit postretirement plans would be effective for fiscal years ending after December 15, 2006. Retrospective application would be required unless it is deemed impracticable for the reason discussed below.

An entity would be exempt from retrospective application only if the entity determines that it is impracticable to assess the realizability of deferred tax assets that would be recognized in prior periods as a result of applying the proposed Statement [paragraph 16]

Should the Board provide an impracticability exemption related to the assessment of the realizability of deferred tax assets? Why or why not? Are there other reasons that retrospective application might be impracticable that the Board should be aware of? (See paragraphs B61–B64 for the basis for the Board’s conclusions.)

We agree with the Board view (paragraph B63) that “an entity may find it impracticable to determine, without the use of hindsight, what would have been its forecasts in earlier periods of future taxable income,” but would expect this to apply only in very limited circumstances – for example where an entity does not already routinely prepare fiscal forecasts for tax planning purposes or for the evaluation of existing deferred tax assets.

We are not aware of any other reasons that could prevent retrospective application.

Issue 3(b) – Time required for implementation by non-public entities

No comments.

Issue 4 - Measurement Date

This proposed Statement would require a public entity that currently measures plan assets and benefit obligations as of a date other than the date of its statement of financial position to implement the change in measurement date as of the beginning of the fiscal year beginning after December 15, 2006. If that 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 December 15, 2006, the gain or loss would be recognized in earnings in that quarter.

Net periodic benefit cost in the year in which the measurement date is changed would be based on measurements as of the beginning of that year.

Are there any specific impediments to implementation that would make the proposed effective date impracticable for a public entity? How would a delay in implementation to fiscal years ending after December 15, 2007, alleviate those impediments? (See paragraphs B66–B69 for the basis for the Board’s conclusions.)

We are not aware of any impediments beyond those mentioned in our response to Issue 2.

Issue 5 – Adequacy of Guidance for Not-for-Profit Organizations and Other Entities That Do Not Report Other Comprehensive Income

No comments.

Yours sincerely,

Bob Deere

Vice President Accounting and Reporting