



LETTER OF COMMENT NO. 66

May 25, 2006

Ms. Suzanne Q. Bielstein  
Director of Major Projects and Technical Activities  
Financial Accounting Standards Board  
401 Merrit 7  
PO Box 5116  
Norwalk, Connecticut 06856-5116

Subject: File Reference No. 1025-300; Exposure Draft on *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans*

Dear Ms. Bielstein:

Progress Energy, Inc. appreciates the opportunity to comment on the Financial Accounting Standards Board's exposure draft on *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans* (the "ED").

We support the primary objective of the exposure draft, i.e., the requirement to recognize a plan's overfunded or underfunded status in the statement of financial position. We agree with the Board's fundamental principle that recognition is clearly preferable to footnote disclosure.

In the remainder of this letter, we provide comments on some of the issues addressed in the ED and on certain additional issues.

**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**

*Issue 1: The Board concluded that the costs of implementing the proposed requirement to recognize the overfunded or underfunded status of a defined benefit postretirement plan in the employer's statement of financial position would not be significant. That is because the amounts that would be recognized are presently required to be disclosed in notes to financial statements, and, therefore, new information or new computations, other than those related to income tax effects, would not be required.*

*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?*

We agree that the requirement to recognize a plan's overfunded or underfunded status in the statement of financial position would not result in significant implementation costs. The information is readily available.

We have concerns, however, about costs associated with other aspects of the ED, which will be addressed below.

### **Effective Dates and Transition Recognition of the Overfunded or Underfunded Status**

*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.*

*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?*

We do not support the retrospective application of recognition in the statement of financial position. We do not believe the benefits of retrospective application justify the costs involved, based on the following considerations:

- Users' focus with regard to the statement of financial position is a current-position focus, and trends are not as important as for the statement of income.
- Changes in the current year-end statements due to the implementation of the new requirements would be clearly disclosed and readily apparent to the user.
- The costs of retrospective application are not insignificant for large companies such as Progress Energy that have multiple legal entities and plans, compounded by the fact that quarterly retrospective application would be required.

### **Progress Energy Additional Comment No. 1 --- Transition Asset/Obligation**

Paragraph 15.c requires the retrospective elimination of any unamortized transition asset or obligation. We do not support the retrospective application because we do not believe the benefits of retrospective application justify the costs involved, based on the following considerations:

- The costs of retrospective application are not insignificant for large companies such as Progress Energy that have multiple legal entities and plans, compounded by the fact that quarterly retrospective application would be required.
- While retrospective application would be warranted with regard to items that would have a significant impact on entities' income, we do not believe the effect of the amortization of transition assets and obligations is significant with regard to most, if not all, entities' total operating expenses. For example, the subject amortizations for Progress Energy represent less than .06% of total operating expenses.

### **Progress Energy Additional Comment No. 2 --- Current and Noncurrent Portions**

We recommend that additional implementation guidance be provided with regard to the current versus noncurrent portions of the asset or liability recognized. For example, it is possible that a plan could be in a pension asset position (i.e., overfunded) based on generally accepted accounting principles, but have a pension funding requirement within 12 months under IRS regulations. It is not clear how that near-term funding requirement should be reflected with regard to the current versus noncurrent distinction.

### **Progress Energy Additional Comment No. 3 --- New Proposed Disclosure**

Paragraph 6.c of the ED requires the following disclosure:

*Separately, the estimated portion of the net actuarial gain or loss and the prior service cost or credit in accumulated other comprehensive income that will be recognized as a component of net periodic benefit cost over the fiscal year that follows the most recent statement of financial position presented.*

We do not support this new requirement. Determining the most reliable estimated portion of net actuarial gain or loss to be recognized during the next fiscal year would entail an updated actuarial projection during January, for calendar year companies, based on year-end discount rates and final asset returns. For companies such as Progress Energy that have multiple legal entities and multiple plans, this is not an insignificant task, particularly given actuarial disclosure work that is already being performed during January to meet the Securities and Exchange Commission's accelerated Form 10-K filing requirements.

We believe the current requirement for interim disclosure of the net periodic benefit cost components for pension and other postretirement benefits provides adequate and timely information regarding the items addressed in this proposed disclosure.

**Progress Energy Additional Comment No. 4 -- Elimination of Disclosures**

We believe the Board should consider whether additional current disclosures should be eliminated in light of the requirement of the ED. For example, current disclosures related to the pension accumulated benefit obligation do not appear to be as relevant or necessary given the changes in the ED.

We would be please to discuss any of our comments with the Board or the FASB staff. Please direct your questions or comments to me at (919) 546-2388 or Jim Bass at (919) 546-6645.

Sincerely,



Jeffrey M. Stone  
VP Accounting

