

Letter of Comment No: 6
File Reference: 1025-PNU
Date Received: 01/09/04

November 21, 2003

Mr. Robert H. Herz, Chairman
Financial Accounting Standards Board
401 Merritt 7
P. O. Box 5116
Norwalk, CT 06856

Dear Mr. Herz:

We are in support of the FASB's recent efforts to address the concerns over pension disclosures. However, in light of the recent discussions around pension accounting, coupled with the fact that the IASB is currently working on a project to address certain pension accounting and disclosure issues, we are encouraging the FASB to add pension accounting and disclosure to its short-term convergence project agenda.

The current model for pension accounting, both in the United States and internationally, provides for delayed recognition of gains and losses. Investors regularly read about companies who are reporting pension income when in fact their pension fund experienced significant losses and companies using optimistic assumptions to manage their earnings. The result has been increased scrutiny over pension accounting and disclosure.

Our key concerns are that (1) the balance sheet does not reflect the financial condition of the pension plan and (2) the statement of earnings does not clearly disclose the pension plan's performance. The IASB, drawing on the foundation established by the United Kingdom's Accounting Standards Board in Financial Reporting Standard No. 17 "Retirement Benefits" ("FRS 17"), intends to address these concerns by moving to what is best described as a mark-to-market approach to pension accounting. We believe that the accounting and disclosure provisions of FRS 17 provide for increased transparency that reflects the pension plan's performance in an understandable manner as gains and losses are reported when they arise (but does not give them the same standing as the plan's operating and financing costs). Furthermore, we believe the balance sheet should reflect a liability that represents the entity's unfunded legal or constructive benefit obligation or an asset that represents the entity's recoverable surplus.

We encourage the FASB to add a pension accounting project to its short-term convergence project agenda and consider moving the accounting requirements toward FRS 17. As the IASB is currently well down the path towards proposing improvements in pension accounting, we further encourage the FASB to address these issues now in order to better coordinate efforts with the IASB. The attached position paper entitled

Mr. Robert H. Herz
Page 2
November 21, 2003

“The Need for Global Pension Accounting Standards and Transparency in Financial Reporting” more fully describes our concerns, views and proposals. If you would like to discuss this further, please do not hesitate to contact Dinyar S. Devitre, Senior Vice President and Chief Financial Officer, Altria Group, Inc. at (917) 663-4000.

Very truly yours,

Dinyar S. Devitre
Senior Vice President and
Chief Financial Officer
Altria Group, Inc.

James Huether
Corporate Controller
International Flavors & Fragrances Inc.

Robert F. Woods
Vice President and Controller
International Business Machines Corporation

If you have any questions or comments, please contact Marie T. Gallagher, Assistant Controller at (917) 663-4154 or Marie.Gallagher@altria.com or Joseph A. Tiesi, Vice President and Controller at (917) 663-3955 or Joe.Tiesi@altria.com. Our mailing address is:

Altria Group, Inc.
120 Park Avenue
New York, NY 10017

Attachment

cc: The Honorable William H. Donaldson
Chairman
U.S. Securities and Exchange Commission

Altria Group, Inc.
**Position Paper on The Need for Global Pension Accounting Standards and
Transparency in Financial Reporting**

Background

With global competition for financial resources, the need for a common set of accounting standards and financial measures has become increasingly apparent. In an effort to improve the comparability of financial statements issued around the world, the Financial Accounting Standards Board (“FASB”) and the International Accounting Standards Board (“IASB”) have issued a joint memorandum of understanding, formalizing their commitment to the convergence of United States and international accounting standards. This agreement – to adopt compatible, high-quality standards addressing existing and future accounting issues – has extended to other accounting standard-setters around the world, such as the United Kingdom and Canadian Accounting Standards Boards.

We are in support of the FASB’s recent efforts to address the concerns over pension disclosures. However, in light of the recent discussions around pension accounting coupled with the fact that the IASB is currently working on a project to address certain pension accounting and disclosure issues, we are encouraging the FASB to add pension accounting and disclosure to its short-term convergence project agenda.

In addition, ongoing corporate accounting scandals have led to concerns with the quality and transparency of financial reporting in the United States. These concerns led the FASB to undertake a project to explore adoption of a principles-based approach to standard setting, rather than the current rules-based approach. The FASB’s action was taken with the full support of the Securities and Exchange Commission (“SEC”), which is responsible for overseeing the activities of the FASB.

The FASB and IASB have also undertaken projects to rethink how a company’s financial performance is reported. The objective is to improve the quality of information displayed in financial statements so that investors, creditors, and others can better evaluate a company’s financial performance and ascertain that the financial statements contain sufficient information to enable investors and creditors to calculate key financial measures. The projects focus on form and content, classification and aggregation, and display of specified items, as well as summarized amounts on the basic financial statements, both quarterly and annually.

Public companies in the European Community (which includes the United Kingdom) are required to comply with International Financial Reporting Standards in 2005. This action, together with a perceived need for a single set of accounting standards as the capital markets become more global, is putting even more pressure on the SEC to accept or require financial statements to be prepared in accordance with international accounting standards.

With this backdrop, it is clear that globalization of accounting standards is on the way, and that transparency in financial reporting is the order of the day. Companies can

Altria Group, Inc.
**Position Paper on The Need for Global Pension Accounting Standards and
Transparency in Financial Reporting**

choose to sit back and wait for it to happen, or they can get out in front of the crowd and lead the way.

While we support the FASB's current project addressing concerns over pension disclosures, disclosure is no substitute for recognition. Ongoing concerns expressed by financial statement users concerning the shortcomings of the Statement of Financial Accounting Standard No. 87, "Employers' Accounting for Pensions" ("FAS 87") accounting model indicate change is needed. The IASB has already acknowledged this need and has identified changes it intends to make to International Accounting Standard No. 19, "Employee Benefits" ("IAS 19"). We strongly encourage the FASB to add pension accounting and disclosure to its short-term convergence project agenda in order to provide for a joint FASB/IASB effort in the evolution of pension accounting.

Implications for Pension Accounting

The current model for pension accounting, both in the United States and internationally, provides for delayed recognition of gains and losses. Investors regularly read about companies who are reporting pension income when in fact their pension fund experienced significant losses, and companies using optimistic assumptions to manage their earnings. The result has been increased scrutiny over pension accounting and disclosure.

The key concerns are:

- *The balance sheet does not reflect the financial condition of the pension plan.* In fact, because of the delayed recognition of gains and losses, a company can report a prepaid pension asset for an underfunded pension plan, when that plan has unrecognized costs (such as unrecognized prior service cost and an unrecognized net loss due to experience differences). The additional minimum liability requirement may partially mitigate this concern, but this is only triggered when the accumulated benefit obligation is underfunded.
- *The statement of earnings does not clearly disclose the pension plan's performance.* Companies can smooth the effect of volatile asset returns, which has been highlighted in recent years of market downturns. Timing of recognition results in companies showing current year pension income even while pension assets have performed at a loss. Losses are deferred for recognition at a future date, thereby resulting in a mismatch of financial statements vis-à-vis the plan performance. In addition, the corridor approach, which allows for amortization of only the net gain or loss in excess of the corridor, can indefinitely delay the recognition of realized and unrealized gains and losses. These accounting practices can confuse investors and analysts who have come to expect greater transparency in financial reporting.

The IASB, drawing on the foundation established by the United Kingdom's Accounting Standards Board in Financial Reporting Standard No. 17 "Retirement Benefits" ("FRS 17"), intends to address these concerns by moving to what is best described as a mark-to-

Altria Group, Inc.
**Position Paper on The Need for Global Pension Accounting Standards and
 Transparency in Financial Reporting**

market approach to pension accounting. IAS 19 and FRS 17 already differ from FAS 87 in the following areas:

- Measurement of plan assets: IAS 19 and FRS 17 require that plan assets be measured at fair value at the balance sheet date, both for disclosure purposes and for determining the expected return on plan assets. Smoothed asset values are not permitted.
- Prior service cost recognition: IAS 19 and FRS 17 require prior service cost to be recognized upon vesting, rather than being amortized over future service.

In addition, FRS 17 requires immediate recognition of all gains and losses – the difference between the actual and expected return on plan assets, as well as actuarial gains and losses – through the Statement of Realized and Unrealized Gains and Losses (“STRGL”, a financial statement similar to the Statement of Other Comprehensive Earnings (Losses) in the United States). FRS 17 also requires that the components of cost be separated into operating income (service cost and prior service cost) and financing costs (interest cost and the expected return on plan assets).

<i>Statement of Earnings</i>	
<i>Operating Income</i>	<ul style="list-style-type: none"> • Service cost • Prior service cost
<i>Financing Costs</i>	<ul style="list-style-type: none"> • Interest cost • Expected return on plan assets

<i>Statement of Realized and Unrealized Gains and Losses</i>
<ul style="list-style-type: none"> • Actuarial gains/losses related to changes in assumptions and liability-related gain/loss experience • Asset gain or loss different from expectations

Like FRS 17, the IASB has agreed in principle that, without exception, actuarial gains and losses should be recognized immediately (elimination of the corridor and amortization of gains and losses).

Conclusion

Overall, we believe that the accounting and disclosure provisions of FRS 17 provide for increased transparency that reflects the pension plan’s performance in an understandable manner as gains and losses are reported when they arise (but does not give them the same

Altria Group, Inc.
**Position Paper on The Need for Global Pension Accounting Standards and
Transparency in Financial Reporting**

standing as the plan's operating and financing costs). Furthermore, we believe the balance sheet should reflect a liability that represents the entity's unfunded legal or constructive benefit obligation or an asset that represents the entity's recoverable surplus. Determination of these liabilities or assets should not be left to the investor or analyst's imagination.

We encourage the FASB to add a pension accounting project to its short-term convergence project agenda and consider moving the accounting requirements toward FRS 17. As the IASB is currently well down the path towards proposing improvements in pension accounting, we further encourage the FASB to address these issues now in order to better coordinate efforts with the IASB.