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Letter of Comment No: 14  
File Reference: FSPFAS106A

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December 22, 2003

Mr. Lawrence W. Smith  
Director, Technical Application and Implementation Activities  
Financial Accounting Standards Board  
401 Merritt 7  
P.O. Box 5116  
Norwalk, CT 06856-5116

Dear Mr. Smith:

**Proposed FASB Staff Position No. FAS 106-a, "Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003"**

We agree with the FASB staff's interpretation in proposed FASB Staff Position (FSP) No. FAS 106-a that a literal application of paragraph 40 of FASB Statement No. 106, *Employers' Accounting for Postretirement Benefits Other Than Pensions*, would require existing obligations and subsequent measurements of postretirement benefit costs incurred after the date of enactment of the Medicare Prescription Drug, Improvement and Modernization Act of 2003 (the Act) to reflect the provisions of the Act. However, we also agree with the staff's assessment that certain accounting and actuarial issues raised by the Act may not be explicitly addressed by Statement 106, and that significant uncertainties exist about the eventual regulations that will be required to implement the Act. As a consequence, we concur with the staff's conclusion that the overall effect on plan participant's behavior and, thus, on sponsor health care costs as a consequence of the Act are currently unknown.

Because of those behavioral, actuarial, and accounting uncertainties, we support the proposal's conclusions that it is "premature for *any* plan sponsor to reflect enactment of the Act in the accounting for its plan." Additionally, we believe that it is important that the staff issue this guidance on a timely basis so that preparers and auditors will have sufficient notice about the staff's conclusions as they prepare and audit upcoming calendar year-end financial statements.

Also, because of the uncertainties noted above, we support the staff's proposal that it likewise would be premature for sponsors of postretirement health care plans that provide prescription drug benefits to disclose "any anticipated effects regarding the accounting in subsequent periods." Additionally, we support the staff's proposal that those sponsors



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should disclose the existence of the Act, and the fact that measures of the APBO or net periodic postretirement benefit cost in the financial statements or accompanying notes do not reflect the effects of the Act on the plan

The proposed FSP includes the following proposed disclosure requirement:

A sponsor is encouraged to provide additional disclosure of any information that the sponsor has and believes is appropriate for the reader to understand the Act's **possible economic consequences** for the sponsor including whether the sponsor intends to amend the plan in light of the new legislation. (Emphasis added.)

We do not disagree with the staff that the possible economic consequences of the Act is useful information for financial statement users. However, because of its nature, that disclosure would include forward-looking information that we believe is better disclosed in management's discussion and analysis (MD&A) than in the notes to the financial statements.

If the staff proceeds with an FSP that requires disclosure of the economic consequences in the notes, it should be aware that much of that information will not be audited because it is prospective in nature. If the final FSP requires disclosure in the notes, the staff should consider providing more specific guidance about the type of information that it believes is relevant to a user's understanding of the possible economic consequences. In doing so, we urge the staff to provide examples of the types of information, in addition to plan amendments, that it is referring to in the proposed disclosure of possible economic consequences.

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If you have questions about our comments or wish to discuss any of the matters addressed herein, please contact John Guinan at (212) 909-5449.

Very truly yours,

KPMG LLP