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Letter of Comment No: 10  
File Reference: FSPFAS106A

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Mr. Lawrence W. Smith  
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401 Merritt 7  
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Norwalk, CT 06856-5116

Re: File Reference FSP FAS 106-a

Dear Larry,

The Committees on Corporate Reporting (“CCR”) and Benefits Finance (“CBF”) of Financial Executives International (“FEI”) are commenting in this letter on the Financial Accounting Standards Board’s Proposed Staff Position on *Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003* (“FSP”). FEI is a leading international organization of 15,000 members, including Chief Financial Officers, Controllers, Treasurers, Tax Executives and other senior financial executives. CCR is a technical committee of FEI, which reviews and responds to research studies, statements, pronouncements, pending legislation, proposals and other documents issued by domestic and international agencies and organizations. CBF is a technical committee of FEI, which reviews and responds to existing or proposed legislation and regulations affecting employee benefits. This document represents the views of CCR and CBF, not necessarily the views of FEI.

We believe it is important to provide the appropriate context for considering the consequences of the *Medicare Prescription Drug, Improvement and Modernization Act of 2003* (the “Act”) on companies. Actuarial valuations related to employee benefit plans always have included numerous assumptions, projections and estimates. Many companies have been working with their actuaries to determine the impact of the enacted changes in the law and related assumptions and estimates required to record the effect of the Act. The level of effort and judgment involved in developing these estimates is equivalent to many of the other estimates already required by FAS 106. If practicable to determine, we believe that the effect of the Act’s reduction of the accumulated postretirement benefit obligation (APBO) should be recognized currently. Further, we believe that if companies are not in a position to estimate the effect, they should not be required to do so and should simply disclose relevant details about the Act’s effect that are known as of the date the financial statements are filed.

We understand that the basis for issuing the proposed FSP was to respond to concerns about the ability to recognize the effect of the Act on the APBO given its complexity and timing. We are very appreciative of the Board's effort to respond quickly on behalf of those who are unable to estimate its effect in time for year-end 2003 financial reports. That said, we think it is important to recognize that companies are in different states of readiness and that a universal answer based on the staffing and preparation of some companies is a precarious precedent. Indeed, for many large companies, a majority of the effort of measuring the impact of the Act on the APBO is performed by persons not otherwise involved in accounting (e.g., third party benefit consultants). It is also important to note that, rather than having sweeping effects on calendar year-end financial statements, allowing companies to follow the literature would principally affect disclosures provided to investors. From that standpoint, it seems clear that financial reporting will be adversely affected if the impact of the Act on the FAS 106 obligation were ignored completely. Indeed, as the FSP acknowledges, paragraph 40 of Statement 106 requires presently enacted changes in relevant laws to be considered in current period measurements of postretirement benefit costs and APBO. Moreover, the pension accounting literature on which postemployment benefit accounting is conceptually based is clear in requiring current recognition of enacted legislation (FAS 87 Q&A number 63; 2002 Q&A on sunset provisions of the 2001 Tax Act).

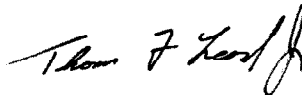
We are unable to identify provisions in the Act that FAS 106 does not address. For example, it is expected that some companies will respond to the Act by sharing these savings with employees or expanding coverage. We believe that FAS 106 requires this modification of the substantive plan to be accounted for as a second step, that is, as a plan amendment only when it occurs. We understand that several alternative views have been advocated on how the effects of the Act should be accounted for. While we have not been able to find support in FAS 106 for such views, if significant accounting diversity is indeed the primary concern, then the FASB's obligation is to clarify the rules in a timely fashion. Because we find FAS 106 to be clear, we believe that no action by the Board is necessary. The accounting firms have a means to communicate the effects of this change to their clients. Under no circumstances would we support the FSP's approach, which amends FAS 106 to the detriment of financial reporting.

We have included in an Attachment what we believe to be the FAS 106-required answers to questions we have encountered about the Act. If you have any questions regarding the letter, please feel free to contact Frank H. Brod at (989) 636-1541.

Sincerely,



Frank H. Brod  
Chair, Committee on Corporate Reporting  
Financial Executives International



Thomas F. Leonard, Jr.  
Chair, Committee on Benefits Finance  
Financial Executives International

**Attachment**

**Why Not Await Plan Certification to Ensure Availability of the Act's Benefits?**

The impact of the Act will be important to investors currently. In the absence of clarifying regulations regarding actuarial equivalence, some plan sponsors may not be able to determine its effects on their financial statements. Although there is no way of determining the number of companies who will not be in a position to obtain satisfactory information, we believe that investors will be better served if companies disclose what they know rather than waiting for the FASB to issue further guidance.

**We May Change Our Plan But Have Not Done So. What Should We Do?**

Some sponsors will doubtless eliminate company-provided drug benefits given the Act's provisions. "Intent to react" to this legislation may not be reflected under FAS 106 and may only be recorded when a management decision has been definitively made and employees have been formally notified. When both of these events occur, a plan amendment should be reflected in APBO and appropriately amortized prospectively. However, this should not preclude the employer from recognizing an actuarial gain due to the reduction in APBO upon enactment of the Act.

**How Can a Plan's Drug Benefits be Estimated?**

Two critical estimates in the actuarial process are the possible change in plan participation rates and whether contribution amounts can be split between healthcare and drug benefits. With respect to these assumptions, companies and their actuaries must use a sensible actuarial approach and their best judgment to determine appropriate assumptions. As noted earlier, this is precisely what plan sponsors are required to do for all plan estimates.

**Does The Act Trigger a Plan Settlement or Curtailment?**

Some view this case as analogous to the issue addressed in EITF Issue No. 03-2, *Accounting for the Transfer to the Japanese Government of the Substantial Portion of Employee Pension Fund Liabilities*, where the EITF reached a consensus that transfer of assets and related pension benefit obligation to the Japanese government would be accounted for as a settlement in accordance with Statement 88. Although no asset transfer is occurring in this case, we certainly believe that similar consideration must be given to settlement or curtailment accounting if the benefit is eliminated because of employees expected to transfer from a company plan to Medicare coverage.