

LETTER OF COMMENT NO. 70

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Robert L. Morris
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Technical Director
Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, Connecticut 06856-5116

Re: File Reference No. 1025-300

Dear Director:

We are writing in response to your invitation to comment on the Exposure Draft entitled, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans - an amendment of FASB Statements No. 87, 88, 106 and 132(R)" (Exposure Draft).

KeyCorp (Key), headquartered in Cleveland, Ohio, is a bank-based financial services company that, at March 31, 2006, had assets of approximately \$93 billion. Key sponsors several funded and unfunded pension and other postretirement benefit plans covering over 31,000 employees and retirees. At December 31, 2005, the aggregate benefit obligations for these plans were \$1.2 billion. At that same date, the funded plans had assets of that same amount, the majority of which relate to Key's primary qualified Cash Balance Pension Plan which was over funded by \$184 million. Therefore, the subject matter addressed in this Exposure Draft is of great interest to Key and its employees.

We appreciate the opportunity to comment on this Exposure Draft and support the Board's commitment to developing high-quality financial accounting standards and improving comparability of financial information while promoting international convergence of accounting standards. Key takes pride in providing detailed, timely and comprehensive financial information to the investment community, and supports standards and interpretations that clearly result in reliable and relevant information that can improve investor understanding and allow for more informed decisions.

It is important to note that from a general society perspective this proposed accounting guidance is likely to have a very detrimental impact in the long-term. Requiring companies to include the over or under funded amount relative to its pension and other postretirement benefits plans on its balance sheet may be the appropriate answer from an accounting perspective; however, the resulting impact on the society as a whole may be much more profound. The promulgation of this accounting guidance will simply provide companies with another reason to stop offering pension and other postretirement benefits and leave its employees to fund their own retirements through 401(k) and other retirement funding vehicles. We felt compelled to highlight this issue

in our comments because the ramifications of this proposed accounting guidance may be far more significant from a societal perspective in the long run than simply the short-term accounting impact.

From a theoretical accounting perspective, Key agrees that reporting the over or under funded status of pension and other postretirement benefits plans in the balance sheet provides more useful information and a more accurate financial picture of a particular company for an investor. While Key believes the proposed changes set forth in the Exposure Draft will enhance information provided within an entity's balance sheet, Key also feels the following items need to be addressed in any final guidance issued relative to pensions and other postretirement benefits.

- The over or under funded status of pension plans proposed to be recognized as an asset or
 more likely a liability should be measured as the excess/(deficit) of the fair value of plan
 assets compared to the ABO (accumulated benefit obligation) rather than the PBO
 (projected benefit obligation) as proposed in the Exposure Draft.
- The accumulated postretirement benefit obligation (APBO) to be recognized for other postretirement benefits on the balance sheet should be limited to those participants who, as of the measurement date, are eligible to retire and receive benefits (along with the APBO for retirees).
- Allowing companies to use an early measurement date should continue rather than requiring a fiscal year end measurement date.
- The effective date of any final guidance should be reconsidered based on changes that may or may not be made to the accounting requirements currently set forth in the Exposure Draft.

Balance Sheet Recognition of Funded Status (PBO vs. ABO)

The Exposure Draft requires recognition on an entity's balance sheet of the difference between the fair value of the pension plan assets and the projected benefit obligation (PBO) as the over or under funded amount of the company's pension plan. The PBO measure incorporates actuarial present values of pension benefits attributed to service already rendered as well as assumptions as to future compensation levels. Therefore, the PBO does not meet the definition of a liability as set forth in Concepts Statement 6, Elements of Financial Statements, which states "Liabilities are probable future sacrifices of economic benefits arising from present obligations of a particular entity to transfer assets or provide services to other entities in the future as a result of past transactions or events". Since the PBO includes assumptions relating to an entity's future compensation levels, it is not indicative of the entity's present obligation relative to its pension plan. A company has control over its future compensation levels and therefore can influence its PBO by changing these compensation levels based on future events and circumstances. As a result, Key believes it is inconsistent and inappropriate to measure the over or under funded amount using the PBO that incorporates a future compensation level assumption when determining the amount that is ultimately recorded as an asset or more likely a liability on an entity's balance sheet.

It is our contention that the accumulated benefit obligation (ABO) is a more appropriate measure for determining the over or under funded status of a particular pension plan. The ABO, like the PBO, incorporates actuarial present values of pension benefits attributed to service already

rendered; however, the ABO relies on current compensation levels rather than the projected future compensation amounts that are used in calculating the PBO. The ABO is substantively similar to the APBO measurement used for other postretirement plans. Although the APBO does give consideration to future health care inflation, that is outside of the plan sponsor's control unlike future compensation levels used in the determination of the PBO. The Exposure Draft requires the use of the APBO for determining the over or under funded amount of a postretirement benefits plan. Therefore, Key believes using the ABO compared to the fair value of plan assets is a more appropriate measurement for determining the over or under funded amount of a pension plan and would maintain consistency in the accounting guidance between pension and other postretirement benefits plans.

The other reason we believe the PBO is not an appropriate measure for determining the over or under funded status of a pension plan is because unlike other balance sheet liabilities, it cannot be settled. The PBO cannot be exchanged with a third party, for example, the purchase of annuities through an insurance company, due to the future compensation component which remains in control of the employer. The ABO on the other hand, can be settled with a third party and thus is a more appropriate measure for determining the over or under funded status of a pension plan for balance sheet recognition.

APBO Measurement

Although the APBO is substantively similar to the ABO, there is one fundamental difference relating to the liability. Benefits in respect of other postretirement plans generally do not vest and can typically be eliminated at any time for any reason. This is unlike pension benefits which are generally vested and cannot be eliminated by the employer. Key believes measuring the over or under funded status of other postretirement plans by limiting the APBO to those participants who have an "accrued benefit" would be more in accord with the ABO used for pensions. Consequently, we recommend that the APBO recognized on the balance sheet be limited to those participants who, as of the measurement date, are eligible to retire and receive benefits (along with the APBO for retirees).

Measurement Date

The Exposure Draft eliminates the use of an early measurement date and instead requires the measurement date to be the same as the financial statement date (i.e., fiscal year end). Key is a calendar-year company and avails itself of the current guidance that allows its measurement to be performed as of September 30. The plan valuations at issue relate to plans that are very long-term in nature, therefore a 3-month time differential does not result in any significant meaningful differences between the amounts that would be calculated at the two dates. The measurement date requirement set forth in the Exposure Draft may be necessary if an entity has a curtailment or termination of its plan between the measurement date and the financial statement date. In this case, it would be appropriate to require a new measurement be performed as of the financial statement date; however, it is not appropriate to have this measurement date requirement across the board.

This requirement is not consistent with the 60-day accelerated filing deadline that will be effective for large accelerated filers for 2006 annual reports and will place an unreasonable burden on both actuaries and plan sponsors. At this time, we are not confident that this timing

would allow for the proper preparation and review of the plan valuation and its results necessary to compile the required disclosures.

If a December 31 (12/31) measurement date must be used, it would delay (relative to the timing with our use of the September 30 early measurement date) when the actuarial firm would receive the required information to perform the plan valuation. The actuarial firm would then require ample time to complete their calculations and apply the necessary degree of scrutiny and review to the resulting valuation information. After the valuation is received from the actuarial firm, it would be analyzed and reviewed by the appropriate benefits personnel within the company who may identify issues or questions that must be addressed or answered. Then there are various oversight committees within the company that must review the valuation information and approve it. Once this process is complete, the information must be included in the appropriate disclosures within the company's annual report that is then subjected to its own review procedures. As one can visualize from the multiple steps and individuals/entities involved in this process, to complete it in the time that this measurement date requirement would allow would be very close to impossible. This fact when combined with the reality that this measurement date requirement will provide little if any benefit (as discussed in the following paragraph), makes it clear that this requirement is not necessary and in fact may be detrimental to the financial reporting process due to the added time pressure it introduces.

Notwithstanding the above, we do recognize that both SFAS No. 87 and No. 106 do not require that all measurement procedures be performed as of the measurement date, and that "as with other financial statement items requiring estimates, much of the information can be prepared as of an earlier date and projected forward to account for subsequent events..." This existing guidance is acknowledgement that the obligation and asset measurements may simply be estimates. Numerous assumptions are used to estimate obligations such as those economic and demographic in nature. And, it is usually not practical to gather actual measurement data as of the measurement date, especially since data gathering may take several months for large plans such as ours. Thus, much of the measurement data is generally collected as of an earlier date and projected forward to the measurement date as permitted under existing guidance. Having said all of this, it is undisputable that the overall measurement process involves many estimates which are based on data that is several months "old". Consequently, it is Key's contention that concern with an exact measurement date implies a false level of precision and would not result in any significantly more accurate measurements of plan obligations and assets.

Requiring a measurement date that coincides with the financial statement date may be necessary if a curtailment or termination has occurred but for ongoing plans this measurement date requirement provides no added value from an investor's or an entity's perspective. Therefore, we believe the ability to use an early measurement date as provided in the current accounting literature should be retained.

Effective Date

The Exposure Draft, if adopted by the FASB as final guidance, would be effective for fiscal years ending after December 15, 2006. Considering final comments are due May 31, 2006, a public roundtable is scheduled for late June 2006, and then the Board must re-deliberate the proposed guidance over the summer and into the fall, it would be Key's request that the effective date for the various aspects of this proposed guidance each be pushed back by one year. This

delay would be particularly important if the measurement date requirement as currently included in the Exposure Draft remains the same. The preparation for meeting this requirement within the timeframe provided will require extensive process rework. In addition, this new accelerated process must be properly developed and documented for adherence with 404 requirements.

We hope these comments are useful and positively influence the final guidance. We welcome the opportunity to discuss this issue in more detail. Please feel free to contact Chuck Maimbourg, Director of Accounting Policy & Research at 216-689-4082 or me at 216-689-7841.

Sincerely,

Robert L. Morris Executive Vice President and Chief Accounting Officer