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Technical Director
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Financial Accounting Standards Board
401 Merritt 7
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LETTER OF COMMENT NO. 79

Ashland Inc. is pleased to comment on your Exposure Draft (ED), "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans, an amendment of FASB Statements No. 87, 88, 106, and 132(R)." We will start with our general impressions of the ED, and then address each of your enumerated issues individually.

Overall Assessment of the Exposure Draft

We agree with the FASB regarding the need for companies to fully record the funded position for a defined benefit pension plan on the balance sheet and believe this is reflective of the fair value concept that the FASB has continued to frame new accounting standards around recently. However, we disagree with the FASB's proposal to use the projected benefit obligation (PBO) instead of the accumulated benefit obligation (ABO) in the measurement of the funded position. In our opinion, the PBO does not represent a liability at the measurement date. The PBO assumes future salary increases that have not occurred, whereas the ABO represents pensions earned through the measurement date, calculated according to the pension formula at historical salary rates. The only way for the employee to earn the higher rate is to continue employment through the assumed retirement date and experience the assumed salary rate increases. The fair value liability that should be recognized on the balance sheet is the one that measures current economic reality, which is the difference between the ABO and the current fair value of plan assets. As you know, that is the current balance sheet recognition criteria under FAS 87. Therefore, we believe there is no need for issuance of a new statement addressing the balance sheet presentation only. We also believe that the pension expense model should reflect future salary increases as they occur; however, that should be addressed in Phase II of the project when the model itself is readdressed. We acknowledge that the expense recognition model could be improved to eliminate some of the smoothing in the current model, but we would hope that the FASB would keep in mind that pensions are long-term obligations and the funding of those obligations typically reflects that economic reality. Immediate recognition in the income statement of fluctuations in the value of long-term plan assets or changes in discount rates would not provide meaningful information relative to a company's progress in meeting this long-term obligation.

FASB Comment Issues

Following are our specific comments to each of your enumerated 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 information should generally be available to restate prior balance sheets other than the related tax effects. However, we believe that those tax effects could require significant analysis and possibly restatement of income statements as well, due to the potential impacts of valuation allowances. Also, even though the information is available, the administrative burden of restating prior balance sheets (including five-year and longer supplemental presentations) should not be minimized. Since the prior year information is available in the notes to the financial statements, we see no benefit derived from restating prior periods. Trend analysis of balance sheet information is often not particularly meaningful. We would propose the revised balance sheet presentation be adopted prospectively.

The Employer's Measurement Date

Issue 2: Unless a plan is sponsored by a subsidiary that is consolidated using a fiscal period that differs from the parent's, this proposed Statement would require that plan assets and benefit obligations be measured as of the date of the employer's statement of financial position. This proposed Statement would eliminate the provisions in Statements 87 and 106 that permit measurement as of a date that is not more than three months earlier than the date of the employer's statement of financial position.

Are there any specific implementation issues associated with this requirement that differ significantly from the issues that apply to other assets and liabilities that are recognized as of the date of the statement of financial position?

We agree with the FASB's proposal of having the measurement date the same as the date of the consolidated balance sheet. Since Ashland's measurement date is the same as our reporting date, we have no implementation issues with this proposal.

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?

See our response to Issue 1. We do not believe retrospective application is necessary and since the Board has apparently recognized that restatement could create practicality issues, that requirement should be dropped for all companies.

Issue 3(b): Some nonpublic entities (and possibly some public entities) may have contractual arrangements other than debt covenants that reference metrics based on financial statement amounts, such as book value, return-on-equity, and debt-to-equity. The calculations of those metrics are affected by most new accounting standards, including this proposed Statement.

The Board is interested in gathering information for use in determining the time required to implement this proposed Statement by entities that have such arrangements other than debt covenants. That information includes (a) the types of contractual arrangements that would be affected and what changes to those arrangements, if any, would need to be considered, (b) how the economic status of postretirement plans that is presently included in note disclosures is currently considered in those arrangements, and (c) how the effects of the current requirement in Statement 87 to recognize a minimum pension liability previously were addressed for those contractual arrangements.

The adoption of this Standard would not significantly impact Ashland's contractual arrangements in its current business environment.

Measurement Date

Issue 4: This proposed Statement would require a public entity that currently measures plan assets and benefit obligations as of a date other than the date of its statement of financial position to implement the change in measurement date as of the beginning of the fiscal year beginning after December 15, 2006. If that entity enters into a transaction that results in a settlement or experiences an event that causes a curtailment in the last quarter of the fiscal year ending after December 15, 2006, the gain or loss would be recognized in earnings in that quarter. Net periodic benefit cost in the year in which the measurement date is changed would be based on measurements as of the beginning of that year.

Are there any specific impediments to implementation that would make the proposed effective date impracticable for a public entity? How would a delay in implementation to fiscal years ending after December 15, 2007, alleviate those impediments?

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Ashland's fiscal year ends on September 30, so the proposed standard would not become effective for Ashland until the fiscal year ended September 30, 2007. We would not anticipate issues with the timing of adoption; however, we could see where adoption for calendar year-end companies by December 31, 2006 could be challenging.

Not-for-Profit Organizations and Other Entities That Do Not Report Other Comprehensive Income

Issue 5: This proposed Statement would apply to not-for-profit organizations and other entities that do not report other comprehensive income in accordance with the provisions of FASB Statement No. 130, *Reporting Comprehensive Income*. Paragraphs 7-13 of this proposed Statement provide guidance for reporting the actuarial gains and losses and the prior service costs and credits by those organizations and entities.

Do you agree that those standards provide appropriate guidance for such entities? If not, what additional guidance should be provided?

Issue 5 is not applicable to Ashland, since we currently record comprehensive income in our consolidated balance sheet. We agree that the provisions of the proposed Statement should apply to all organizations, but we have not analyzed the provisions of paragraphs 7-13.

Sincerely,

A handwritten signature in cursive script that reads "Lamar M. Chambers".

Lamar M. Chambers