Texas Society of
Certified Public Accountants

Letter of Comment No: 46
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October 27, 2003

Financial Accounting Standards Board
of the Financial Accounting Foundation
401 Merritt 7
P. O. Box 5116
Norwalk, Connecticut 06856-5116

RE: File Reference Number 1025-200—Proposed Statement of Financial Accounting Standards; Employers' Disclosures about Pensions and Other Postretirement Benefits.

To Whom It May Concern:

One of the expressed goals of the Texas Society of Certified Public Accountants (TSCPA) is to speak on behalf of its membership when such action is in the best interest of its members and serves the cause of certified public accountants in Texas, as well as the public interest. The TSCPA has established the Professional Standards Committee to represent those interests on accounting and auditing issues. This communication is in accordance with that goal.

We have developed our response to this Exposure Draft (ED) by individually addressing each of the issues posed therein. Our committee appreciates the opportunity to provide our response.

Issue 1

As stated in the ED, the proposed Statement of Financial Accounting Standards (Statement) would require disclosure of information for each major category of plan assets. The broadest categories of assets for which this information would be required are equity securities, debt securities, real estate, and all other assets. We believe further guidance should be provided for real estate, which can be included in the major categories of equity securities and debt securities. Real Estate Investment Trust ownership is often classified among equity securities. Direct mortgage instruments could be classified as debt securities. Additionally, direct ownership of real estate, through investing entities such as limited partnerships or limited liability companies, would be included in the real estate category. However, they are all "real estate."

The ED also requires the disclosure of the "weighted average of the contractual maturities, or term, of all debt securities." When debt is associated with real estate, we believe it is important to require disclosure of the date the loans are pre-payable prior to the scheduled maturity. In addition, information relating to any prepayments penalties or defeasance should also be disclosed. We believe failure to provide this information has the potential to lead users to think that coupon rates will be obtained throughout the life of the loan, when in fact such returns may not be achievable in periods where lower rates are in effect.

Issue 2

We have no comments on the question addressed in issue two.

Issue 3

In addition to the disclosures outlined in Issue 3, we believe the Statement should require management to discuss how the money required to fund future minimum contributions will be obtained. Many companies currently face large unfunded pension liabilities, but do not say how they intend to acquire the funds to meet these obligations. Some companies face the prospect of selling a large amount of capital assets to raise the required cash, but never are required to disclose these intentions. Failure to have information about these significant funding decisions being made by management leaves shareholders and other interested third parties with incomplete information about the company's future plans.

Issue 4

We have no comment on the question addressed in issue four.

Issue 5

Regarding the questions addressed in Issue 5, we believe the financial statements of nonpublic entities most often serve as a basis for loans, insurance bonds, or other specific financing or operating needs. These needs concern the practical aspects of the business entity, and not a need for sophisticated investment purposes. As such, disclosures are an integral part of the financial statements of these entities as long as those disclosures enhance a user's understanding of the entity's financial position and results of operations. Typically, the disclosures in these cases are guided by sound judgment and materiality. Regarding the information contained in paragraph A30 in the ED, we believe the Board has erred in ignoring the concept of materiality. We find it difficult to justify requiring extensive disclosures on a pension plan for a nonpublic entity, or a public company for that matter, if the plan assets or liabilities are not material to the financial statements. When preparers of financial statements of nonpublic entities are concerned with the relevance and informational content of the disclosures included therein, it seems odd that information of an immaterial nature would be a required part of those disclosures.

We also believe that nonpublic entities should be granted some sort of summary disclosure requirement. It appears unlikely that a banker or bonding company, the typical users of such statements, would be concerned about any aspect of the pension plan other than limiting the amount of contributions the entity could make. Typically, when a nonpublic entity has a pension plan the particulars of that plan are handled by a trustee (actuary, bank or insurance company). Investment decisions are controlled by the trustee. The nonpublic entity has little influence over major decisions and is influenced primarily by the amount of the annual contributions, not the pension plan terms, investment rates, etc.

Issue 6

The sensitivity of a pension plan's components to rate changes is important information that aids in understanding and analyzing the plan. Thus, we believe the Board should require the disclosure of such information. This information is not difficult to obtain or to present. A simple matrix can be used to show variances in liabilities, cash flow and benefit costs. Information can be provided to show how various percentage changes (1%, 2%, 3%, etc.) in rate of return assumptions could impact future funding requirements. This information would provide users with a basis for analyzing and adjusting the confidence level being portrayed in management's assumptions of future investment results.

Issue 7

We have no comment on the question addressed in Issue 7.

Issue 8

We have no comment on the question addressed in Issue 8.

Issue 9

This proposed Statement is generally described as a Statement designed to enhance the disclosures related to pension plans and other defined benefit plans. However, in Issue 9 we find a large number of disclosures being eliminated. Many of the disclosures cited in this section represent information that is readily available or easily obtained. While these disclosures may not be individually significant, we believe their elimination leaves a void in one's understanding of the pension plan components. Furthermore, many of the reasons for failing to require these disclosures seem inadequate, such as "too broad," "too complex," or "might confuse." These reasons imply a lack of sophistication and/or intelligence on the part of prospective users that is not only condescending but perhaps suggests that management wishes to keep important information from its shareholders. Would the shareholders of Enron have objected to disclosures about the LJM special purpose entities because such transactions were too complex? The accounting profession faces credibility problems today because of the beliefs on the part of many financial statement users that it failed to require important disclosures. The time has come to put the burden on management to disclose all the facts and let the user determine if the facts are relevant to their needs.

We disagree with the conclusion of Issue 9b. Management should be required to provide an explanation of the basis for selecting an expected long-term rate of return on assets assumption. An understanding of this assumption will provide shareholders with a basis for evaluating the soundness of the assumptions presented.

Regarding items 9c and 9d, we see no reason why such disclosures about minimum funding requirements of certain regulatory agencies should not be provided. Even if they are based on different assumptions and calculations than those provided by actuaries or investment bankers, users should have the information so they can determine its relevance.

We believe the information about age classification, in item 9g, would be particularly helpful to users. They would most likely be interested in knowing if the company has an older-than-average work force, especially if post retirement benefits are a major concern. Users could then weigh this information against management's post retirement benefit assumptions.

Thank you very much for allowing us the opportunity to present these comments in accordance with the goals stated above.

Sincerely,

Jeff Gregg

C. Jeff Gregg, CPA
Chair, Professional Standards Committee
Texas Society of Certified Public Accountants