



LETTER OF COMMENT NO. 67



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Executive Vice President and Controller

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Technical Director
Financial Accounting Standards Board
401 Merritt 7
Norwalk, CT 06856-5116

File Reference No. 1025-300: Exposure Draft, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans, an amendment of FASB Statements No. 87, 88, 106, and 132(R)*

Dear Sir/Madam:

JPMorgan Chase & Co. (JPMorgan Chase or the Firm) appreciates the opportunity to comment on the Financial Accounting Standards Board's (FASB or the Board) Exposure Draft, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans, an amendment of FASB Statements No. 87, 88, 106, and 132(R)* (proposed Statement). From a theoretical perspective, we do not object to the specific requirements of the proposed Statement, other than as described in the following paragraph. Other than this issue related to the measurement of the obligation to be recognized on the balance sheet, which we believe requires further deliberation, we agree that the proposed Statement will improve the transparency of reported postretirement benefit obligations, which is one of the Board's objectives. This proposed Statement would not have a significant operational impact on the Firm, primarily because the measurement date of its material defined benefit pension and other postretirement employee benefit (OPEB) plans is already the same as its fiscal year end.

The attached Appendix A responds to the specific questions on which the Board has requested feedback. The Firm's only other comment relates to the balance sheet recognition of the projected benefit obligation (PBO) for defined benefit pension plans. Paragraph B17.a. of the proposed Statement says, "The Board concluded in Statement 87 that the PBO is the most relevant measure of the benefit obligation after extensive debate of the issue." While we agree that the Board reached this conclusion in Statement 87 as it relates to measuring net periodic pension cost, it is not clear that they reached this same conclusion in terms of the balance sheet recognition of the liability. Statement 87's Basis for Conclusions suggests that there was considerable debate about which obligation should be recognized on the balance sheet – the PBO, the accumulated benefit obligation (ABO), or the unfunded accrued pension cost – and it does not appear that this issue was completely resolved. The Board ultimately concluded that the recognized (reported) liability should not be less than the unfunded ABO. In addition, two Board members expressed the view that the PBO should not be recognized on the balance sheet. For these reasons, the Board should not require recognition of the PBO on the balance sheet in Phase 1 of this project. Instead, the Board should continue to require disclosure of the PBO in the footnotes, and recognition of the funded status of the ABO on the balance sheet. It should then address the appropriate measurement of the obligation to be recognized on the balance sheet during Phase 2 of the project, since "how to measure an entity's benefit obligation" is already a stated objective of that comprehensive Phase.

We appreciate the opportunity to submit our views and would be pleased to discuss our comments with you at your convenience. If you have any questions, please contact me at 212-270-7559 or Shannon Warren at 212-648-0906.

Very truly yours,
Joseph Sclafani

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.

Question: 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?

Response: Yes, we agree that the information required to recognize the overfunded or underfunded status of a defined benefit postretirement plan is readily available and, therefore, the costs of implementation should not be significant.

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.

Question: 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?

Response: All material defined benefit postretirement plans of JPMorgan Chase are measured at the date of the Firm's statement of financial position. Therefore, changing the measurement date is not an issue for the Firm. However, this requirement may create implementation issues for entities that must change the measurement date of their plan(s).

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.

Question: 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?

Response: While gathering and revising prior period funded status information may be time consuming, particularly for employers who sponsor multiple plans, since overfunded and underfunded plans must be separately aggregated, JPMorgan Chase does not foresee other factors that might make retrospective application of the proposed Statement impracticable. In addition, JPMorgan Chase regularly assesses the realizability of its deferred tax assets and therefore, would have forecasted future taxable income in connection with this assessment process as required for each prior annual report. Many of JPMorgan Chase's temporary differences do not reverse for many years into the future. Accordingly, it would not be impractical for JPMorgan Chase to retroactively apply the requirement of the proposed Statement to assess the realizability of its retroactively created deferred tax assets.

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.

Question: 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.

Response: In an issue related to debt covenants, it is typical for derivative contracts to have cross-default provisions, such that if a borrower goes into default under a credit agreement due to the provisions of the proposed Statement, that borrower may also be in default under any derivative contracts with the same lender. While it is not typical for derivative contracts themselves to have financial covenants, the proposed Statement may have an indirect impact on the derivatives markets through these cross-default provisions.

In addition, many segments of the financial services industry, including several of those in which the Firm operates, are subject to regulatory minimum capital requirements. In general, the Firm believes that adoption of the proposed Statement will impact its capital calculations under regulatory minimum capital requirements. JPMorgan Chase is not aware of any potential changes to these regulatory capital requirements due to the proposed Statement.

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.

Question: 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?

Response: As previously noted, the proposed elimination of the early measurement date has no impact on JPMorgan Chase and, as such, we are unable to provide direct feedback in response to this question.

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.

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

Response: No comment.