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Mr. Lawrence Smith
Director TA&I--FSP
Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
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Letter of Comment No: 17
File Reference: FSPFAS106B

Dear Mr. Smith:

BDO Seidman, LLP is pleased to offer comments on the Proposed FASB Staff Position (FSP) FAS 106-b.

We generally agree with the guidance in the Proposed FSP and support its issuance. In particular, we agree that the effects of the Medicare subsidy reduce the employer's share of expected future postretirement health care costs. Therefore, we also agree that the effects of the subsidy on the APBO should be reflected as an actuarial experience gain. We further agree with the practical guidance in paragraphs 16 and 17 that requires combination of the direct effects of plan amendments on the APBO with the indirect effects caused by the interaction of an amendment with the subsidy, rather than attempting to separately identify and account for the elements. We have the following suggestions to clarify or improve the guidance in the proposed FSP:

Scope

We agree with the Scope of this FSP. However, questions will arise about the accounting for the subsidy by sponsors of multiemployer plans, and we believe the staff should address that issue in a separate FSP. We do not know how frequently the subsidy will exceed an employer's share of the costs of postretirement benefits, but if that situation occurs, the staff should be proactive in providing guidance.

We suggest rewording the last sentence of the paragraph to state: "It also does not address accounting for the subsidy by sponsors or participating employers of multiemployer plans." There is no reason in that sentence to address the accounting by the plans. Statement 106 deals only with sponsors' accounting. No FASB document addresses accounting by health and welfare benefit plans. Therefore, no reader should have an expectation that the FSP would address the plans' accounting.

Income Tax Accounting

We agree with the observation that the subsidy does not affect plan-related temporary differences, because the subsidy is exempt from federal taxation. To properly measure the temporary differences and the related deferred income taxes, we believe that plan sponsors effectively will be required on a continuing basis to compute what the accrued postretirement benefits liability would have been if the subsidy did not exist. If we are correct, then we believe that paragraph 18 should explicitly acknowledge that consequence, rather than talking vaguely about how “those complexities must be considered.”

Transition and Effective Date

The transition requirements are incredibly complicated. In addition, we are troubled that the treatment is so different for employers who make the determination of actuarial equivalence as part of adopting the FSP (restatement) and who make the determination of actuarial equivalence at a later date (prospective). This seems inequitable, it will lead to noncomparability among employers, and it provides an incentive for employers to delay their assessment of actuarial equivalence.

We would recommend the following alternative approach to transition. Our approach is simpler than the staff’s proposal, it treats substantially all employers the same, and it minimizes restatements:

- For employers who (a) did not elect deferral and (b) treated the subsidy as a one-time gain rather than as an actuarial experience gain, adoption of the FSP is a change in accounting principle. (This is the same as proposed paragraph 27.)
- For all other employers, the determination of actuarial equivalence, whether made as part of adopting the FSP or later, is deemed to be a significant event pursuant to paragraph 73 of Statement 106, requiring a remeasurement of plan assets and obligations and a new measurement of net periodic postretirement benefit cost for subsequent periods.

We believe that our proposal, coupled with the disclosures required by paragraphs 19 and 20, would provide readers of financial statements with relevant and useful information without unduly burdening plan sponsors.

We would be pleased to discuss our comments with the FASB staff. Please direct questions to Ben Neuhausen at 312-616-4661.

Very truly yours,

s/ BDO Seidman, LLP