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Mr. Lawrence W. Smith
Director, Technical Application and Implementation Activities
Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
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Letter of Comment No: 57 File Reference: 1025-200 Date Received: /0/27/03

Dear Mr. Smith:

FASB Exposure Draft of a Proposed Statement, Employers' Disclosures about Pensions and Other Postretirement Benefits, an amendment of FASB Statements No. 87, 88, and 106 and Replacement of FASB Statement No. 132 (File Reference No. 1025-200)

We support the Board's timely response to financial statement users' concerns about the adequacy of disclosures in employers' financial statements about their defined benefit pension plan assets, obligations, cash flows, and net pension costs. We are in general agreement with the Board's conclusion that disclosures about pensions could be improved to better serve users' needs. However, we have concerns about transition and the costs associated with certain aspects of the Board's proposals.

We agree with the Board's assertion that the information required by the proposed Statement already is essential in complying with Statements 87, 106, and 132. However, with respect to the proposed cash flow information it is not clear that the Board has demonstrated that the cost of compiling, analyzing, and auditing all of the proposed additional disclosures is, as the Board asserts, *modest* in relation to the benefits to be derived by financial statement users in the form of additional decision-useful information.

Finally, we urge the Board to weigh the value of the additional disclosure items for 2003 financial statements against the pressures created by other standards that require adoption by December 31, 2003, the ability of actuarial firms to provide necessary information to prepare the disclosures, and the SEC's accelerated filing deadlines which will become effective for many calendar-year companies for the 2003 Form 10-K.

Our comments on the specific issues raised in the Notice for Recipients follow.



Disclosures in Annual Financial Statements

Request for Comments on Issues 1-4

Are the proposed disclosures described in Issues 1-4 needed for users to understand the financial condition and results, market risks, and cash flows associated with pension plans and other postretirement benefit plans? Should any of the proposed disclosures be eliminated and why? What additional disclosures should the Board require that are not included in this proposed Statement or existing requirements? Can the information to be disclosed be provided without imposing excessive cost?

Plan Assets

Issue 1: This proposed 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. Disclosure by narrower asset categories and additional information about specific assets within a category would be encouraged if that information is expected to be useful in understanding the investment risks or expected long-term rate of return on assets. The following information would be required to be presented for each major asset category:

- a. Percentage of the fair value of total plan assets as of the date of each statement of financial position presented
- Target allocation percentage or range of percentages, presented on a weighted average basis
- c. Expected long-term rate of return, presented on a weighted-average basis.

In addition, this proposed Statement would require disclosure of the range and weighted average of the contractual maturities, or term, of all debt securities.

Additional disclosures about investment strategies and policies, including the degree to which contractual maturities of plan assets align with the amount and timing of benefit payments, would be encouraged.

We agree with the Board's proposal to require disclosure of certain information about each major category of plan assets. As the Board concluded in Statement 87, the fair value of plan assets is essential to understanding the economics of the employer's benefit plans and useful in assessing management's stewardship responsibilities for efficient use of those assets. We agree with the four categories of plan assets (equity securities, debt securities, real estate, and all other assets) that the Board proposed to be disclosed, and agree with the Board's conclusion that the cost of requiring narrower categories would



outweigh the benefit. The proposed disclosure in paragraphs 5(d)(1)(a) and 5(d)(1)(c) about percent of the fair value of total plan assets and expected long-term rate of return on assets for those categories seems consistent with that cost-benefit assessment. We also believe that it would be useful for investors to know the method that a company used to measure fair value of plan assets.

Paragraph 5(d)(2) encourages disclosure of additional asset categories and additional information about specific assets within a category if that information is useful in understanding the risks and expected long-term rate of return for each asset category. We believe that the proposal in 5(d)(1)(b) to disclose the target allocation percentage or range of percentages would be better integrated into the standard as an example of a disclosure that a preparer might make under 5(d)(2), rather than as a stand-alone disclosure requirement. It is not clear to us that disclosing target allocation percentages always adds value, nor is it clear that the disclosures are auditable with a reasonable cost-benefit tradeoff.

While paragraph 5(d)(1) and 5(d)(2) do not explicitly require a company to disclose the fair value of plan assets that are invested in the company's own stock, we note that the illustrations in paragraph C2 of the Exposure Draft include that disclosure. Did the Board intend to make that a required disclosure? We believe that it would be useful for investors to know the percent of fair value of plan assets that a company has invested in its own stock. However, we acknowledge that the proposal in paragraph 5(d)(1)(c) to disclose the expected long-term rate of return on assets could be sensitive when those assets comprise the company's own securities. The proposed requirement is tantamount to requiring companies to make projections about their own stock price. Therefore, to provide additional useful information to investors, we would support a more general disclosure about the percentage of company securities held in the plan without a specific indication of expected returns.

Defined Benefit Pension Plan Accumulated Benefit Obligation

Issue 2: This proposed Statement would require disclosure of the defined benefit pension plan accumulated benefit obligation. The accumulated benefit obligation is the measure of the pension obligation used to determine the amount of the minimum liability, when the accumulated benefit obligation exceeds the fair value of plan assets.

We believe that the proposed requirement to disclose the accumulated benefit obligation related to a defined benefit pension plan responds to concerns expressed by financial statement users about their need for more information about pension plan obligations. We do not disagree with the Board's assertion in paragraph A24 that, "Annual disclosure of the accumulated benefit obligation will enable financial statement users to monitor the



funded status of the plans, determined in the aggregate, using the accumulated benefit obligation as the measure of the benefit obligations." However, it is interesting to note that the Board considered but rejected this requirement in its deliberations leading up to Statement 132, and that this disclosure has become desirable again in the current environment of stock price swings and the resulting concerns about the funded status of plans.

Cash Flow Information

Issue 3: This proposed Statement would require disclosure of:

- a. A schedule of estimated future benefit payments included in the determination of the benefit obligation, as of the date of the latest statement of financial position presented, for each of the five succeeding fiscal years, and the total amount thereafter, with separate deduction from the total for the amount representing interest necessary to reduce the estimated future payments to present value
- b. The employer's contributions expected to be paid to the plan during the next fiscal year beginning after the date of the latest statement of financial position, showing separately:
 - (1) Contributions required by funding regulations or laws
 - (2) Additional discretionary contributions
 - (3) The aggregate amount and description of any noncash contributions.

The Exposure Draft states that the disclosures proposed in paragraph 5(f) will enable financial statement users to assess the amounts, timing, and pattern of cash flows and how well asset maturities align with benefit payments. Stated another way, users may view the disclosure as a proxy for the employer's ability to pay pension benefits as needed in the future. We do not disagree with the Board that that is useful information.

However, we question whether the information about cash flows proposed in paragraphs 5(f) and (g) is readily available from many actuarial systems and, therefore, whether the Board underestimates the complexity and cost of compliance, as they relate to compiling, analyzing, and auditing the information.

We understand that many actuarial systems use present value annuity factors and, therefore, do not produce cash flow information. Thus, for many companies, changing actuarial valuation systems to produce benefit obligation-based cash flows will require extensive systems changes and testing, all of which must be accomplished in the very short time remaining until the effective date proposed in the Exposure Draft. Therefore, we would support a phased-in approach to the disclosures in this standard under which



the cash-flow information would not be required until financial statements for periods ended after December 15, 2004.

Question 19 in the FAQ document on this Exposure Draft clarifies that annual disclosures of expected contributions to fund the plan are for the fiscal year following the date of the most recent statement of financial position. The disclosures about additional discretionary contributions may not be available at the time the enterprise is required to file its annual financial statements, since additional contributions may depend on interim results in the next year. This puts tension on the interim requirements not merely to update, but to disclose contribution information.

Assumptions

Issue 4: This proposed Statement would require use of a tabular format for disclosure of the following key assumptions (separately identifying the assumptions used to measure benefit obligations as of the plan's measurement date and those used to measure net benefit cost or income for the period): the assumed discount rates, rates of compensation increase (for pay-related plans), and expected long-term rates of return on plan assets. Those disclosures would be reported on a weighted-average basis. This proposed Statement would not change the information presently required to be disclosed but would seek to improve the clarity of the information.

We support the proposal to require employers to present weighted-average information about key assumptions in tabular format. We agree with the Board that that format will improve clarity about the period and measure to which those assumptions relate by separately presenting the assumptions used to determine benefit obligations and the assumptions used to determine net benefit cost.

The response to Question 14 in the FAQ document that the Board issued on the Exposure Draft offers additional information about the meaning of the term *weighted-average basis*. That information has implications for both preparers and auditors of the calculations and, thus, we urge the Board to incorporate the discussion from the FAQ into the final standard.

Nonpublic Entities

Issue 5: This proposed Statement would retain the more limited disclosures for nonpublic entities required by Statement 132. Of the new disclosures that would be required by this proposed Statement, all would be required of nonpublic entities except for interim-period disclosure of the components of net periodic benefit cost recognized.



Do you agree that all disclosures that would be required by this proposed Statement, except for interim-period disclosure of the components of net periodic benefit cost recognized, should be required for nonpublic entities? Do nonpublic entities have any special circumstances affecting their ability to provide the proposed disclosures?

We agree with the Board that all disclosures required by this proposed Statement, except for interim-period disclosures of the components of net periodic benefit cost recognized, should be required for nonpublic entities. We are not aware of any special circumstances that would affect the ability of nonpublic entities to provide the proposed disclosures, beyond the concerns already expressed about public entities' ability to comply by the effective date.

Sensitivity Information about Changes in Certain Assumptions

Issue 6: The Board considered, but did not include in this proposed Statement, a requirement to disclose sensitivity information about the impact on net periodic benefit cost and the benefit obligation of a hypothetical change in certain assumptions, such as expected long-term rates of return on assets, discount rates, and rate of compensation increase, while holding the other assumptions constant. The Board was concerned that such disclosures of hypothetical changes would not provide useful information, because economic conditions and changes therein often affect multiple assumptions. Also, an analysis that varied only one assumption at a time, holding the others constant, could be misleading or misinterpreted. The effect of a one-percentage-point increase and the effect of a one-percentage-point decrease in the assumed health care cost trend rates on (a) the aggregate of the service and interest cost components of net periodic postretirement health care benefit cost and (b) the accumulated postretirement benefit obligation for health care benefits would still be required.

Should disclosure of sensitivity information about hypothetical changes in certain assumptions be required and why?

Some Board members observed during the development of Statement 132 that the disclosure of the effect of a one-percentage-point increase in the assumed health care cost trend rate initially was required by Statement 106 because users at that time were less familiar with postretirement health care measurements than with pension measurements. Like those Board members, we believe that users are sufficiently familiar with the effects of changes in health care trend rates on the postretirement health care obligation. Thus, the disclosure no longer is useful.



Paragraphs A31 and 32 discuss the Board's concerns about and reasons for not requiring sensitivity analysis about pensions. We observe that the Board's rationale in that discussion applies equally to the health care benefits cost sensitivity analysis. Therefore, the Board should eliminate the required disclosure of sensitivity analysis for postretirement health care plans.

Measurement Date(s)

Issue 7: This proposed Statement generally would not require disclosure of the measurement date(s) used to determine pension and other postretirement benefit measurements when different from the fiscal year-end date. Disclosure of the measurement date(s) would be required when an economic event occurs, or economic conditions change, after the measurement date(s) but before the fiscal year-end, and if those changes may have had a significant effect on plan assets, obligations, or net periodic cost, had the fiscal year-end date been used as the measurement date. The nature of the significant changes also would be described.

Should disclosure of the measurement date(s) be required and why?

We do not agree with the proposed requirement to disclose the measurement date used to determine pension and other postretirement benefit measurements if an economic event occurs or economic conditions change after the measurement date and if those changes have a significant effect on plan assets, benefit obligations, or net periodic cost. That proposal seems at odds with the Board's logic on disclosure of certain information for interim periods. The Board decided not to require interim period disclosure of plan assets and the benefit obligation because those disclosures would be overly burdensome and costly. We believe that the same logic applies to disclosing the measurement date and the nature of significant events after that date.

The FAQ reiterates that the proposed Statement does not require quantification of the effects of the changes. We believe that it will be impossible for preparers to disclose whether there has been a significant change without first quantifying the effect of the economic event or changes in economic conditions. Thus, the requirement to disclose measurement dates when certain economic events occur or economic conditions change after the measurement date and have a significant effect on plan assets, obligations, or net periodic cost may create a de facto requirement to update the measurement. Most calendar year-end companies that use a September 30 measurement date do so because of concerns about ability to complete the valuation using a year-end date. In effect, the Board's proposed disclosure would require companies to have an updated actuarial analysis done at the balance sheet reporting date. As an alternative, we would support disclosure of the measurement date in all instances, without the added costs associated



with determining whether significant changes in the pension information may have occurred.

Reconciliations of Beginning and Ending Balances of Plan Assets and Benefit Obligations

Issue 8: This proposed Statement would eliminate the requirement in Statement 132 to provide reconciliations of beginning and ending balances of the fair value of plan assets and benefit obligations. This proposed Statement would instead require disclosure of ending balances and would retain key elements of the reconciliations that are not disclosed elsewhere, such as actual return on assets, benefit payments, employer contributions, and participant contributions. As such, this proposed Statement would provide a more focused approach for key items previously included in the reconciliations.

Should the reconciliations, as required by Statement 132, be eliminated or retained and why?

We do not support the Board's proposal to eliminate the reconciliations of beginning and ending balances of the fair value of plan assets and benefit obligations that are required by Statement 132. We agree with the Board members who believe that it is inappropriate to eliminate the reconciliation in the absence of evidence by financial statement users that the usefulness of those disclosures has diminished.

The Basis for Conclusions states that the Board decided that while the reconciliation approach may be more complete and financial statement preparers are accustomed to providing it, a more focused approach would be more useful to users of financial statements. The discussion in the Basis for Conclusions does not make a strong case for eliminating the reconciliation. The fact that preparers and users are accustomed to preparing and receiving, respectively, more complete information sounds like an argument for retaining the reconciliation. We believe that the reconciliation of plan assets and benefit obligations provides more useful information than the disclosures of only certain key activities, such as actual return of assets, benefit payments, and employer contributions.

Disclosures Considered but Not Proposed

Issue 9: The Board considered but rejected a number of other disclosures that were requested by users of financial statements. The following information would not be required by this proposed Statement:

a. A description of investment policies and strategies.



- An explanation of the basis for selecting the expected long-term rate of return on assets assumption.
- The pension benefit obligation and funded status determined on a regulatory basis (for example, Employee Retirement Income Security Act of 1974 [ERISA]).
- d. The pension benefit obligation and funded status determined on a plan termination basis (for example, the Pension Benefit Guaranty Corporation [PBGC] termination basis).
- e. The amount and classification of net periodic pension and other postretirement benefit cost or income recognized in the statement of income, showing separately the amounts of net benefit cost or income included in each line item in the statement of income and reported for each period for which a statement of income is presented. The aggregate amount of net benefit cost or income recognized would be reconciled to the total amount of net benefit cost or income, identifying the aggregate amount capitalized as part of inventory or other productive assets.
- f. The number of pension plan participants by group (for example, active, terminated-vested, and retired).
- g. The amount of benefit obligation by participant group (for example, active, terminated-vested, and retired).
- h. The weighted-average duration of the benefit obligation.
- i. Interim-period disclosure of plan assets and benefit obligations.
- j. A description of participation in multiemployer plans.

Should any of the above information be required to be disclosed and why?

We support the Board's decision not to require disclosure of the information identified above. While we understand the arguments of users who suggest that disclosing the financial statement line items that contain the net benefit cost would enhance cost and margin analysis, we do not believe that requiring the disclosure would be a sufficient improvement to financial reporting, in the context of the Board's broader objectives in this project.

Disclosures in Interim Financial Reports

Issue 10: This proposed Statement would require disclosure of the following information in interim financial statements that include a statement of income:



- a. The amount of net periodic pension and other postretirement benefit cost recognized, showing separately the service cost component, the interest cost component, the expected return on plan assets for the period, the amortization of the unrecognized transition obligation or transition asset, the amount of recognized gains and losses, the amount of prior service cost recognized, and the amount of gain or loss recognized due to a settlement or curtailment
- b. The employer's contribution paid, or expected to be paid during the year, if significantly different from previous disclosures pursuant to paragraph 5(g) of this proposed Statement, showing separately (1) contributions required by funding regulations or laws, (2) additional discretionary contributions, and (3) the aggregate amount and description of any noncash contributions.

Are the proposed disclosures needed for users to understand the financial condition, results, and cash flows associated with pension and other postretirement benefits? Should additional disclosures be required? Should either of the proposed interim period disclosures be eliminated?

We support the Board's proposal not to require all of the same disclosures in interimperiod financial statements as in annual financial statements. However, we are concerned about two aspects of the proposed interim disclosures.

The discussion in Question 19 of the Board's FAQ on this Exposure Draft clarifies the length of time that updated disclosures about expected contributions to fund the benefit plans cover. The response states that, "Subsequent updates in interim period financial reports are only required when there has been a significant change in those expected contributions and are to address actual contributions made to date and expected contributions for the remaining portion of the fiscal year encompassed by the original projection included in the annual disclosure." As stated in our response to Issue 3, the disclosures about additional discretionary contributions may not be available at the time the enterprise is required to file its annual financial statements, since additional contributions may depend on interim results in the next year. This puts tension on the interim requirements to provide that contribution information.

Second, we do not support the proposal in paragraph 9a to require interim-period disclosure of the components of net pension and other postretirement benefit costs. In paragraph A36 of the Basis for Conclusions, the Board acknowledges that the net benefit cost would not vary significantly from one quarter to another because quarterly amounts are based on the annual actuarial valuation. However, because the results of that annual actuarial valuation would not otherwise be disclosed until year-end, the Board decided that interim-period disclosure would better inform users about the effects of the most recent actuarial valuation on net benefit cost. Currently, many actuarial valuations are



conducted as of September 30 to produce information in time for year-end financial reporting. Thus, we do not believe that this proposed interim information will produce information that is useful in analyzing interim-period results.

Effective Date and Transition

Issue 11: The provisions of this proposed Statement would be effective for fiscal years ending after December 15, 2003. The interim-period disclosures in this proposed Statement would be effective for the first fiscal quarter of the year following initial application of the annual disclosure requirements. The disclosures for earlier annual periods presented for comparative purposes would be restated for (a) the percentages of each major category of plan assets held and (b) the accumulated benefit obligation. The disclosures for earlier interim periods presented for comparative purposes would be restated for the components of net benefit cost. However, if obtaining this information relating to earlier periods is not practicable, the notes to the financial statements would include all available information and identify the information not available. All other disclosures, other than those identified above for restatement, would only be required to be presented as of the date of the most recent statement of financial position.

Are the proposed effective date provisions and transition appropriate? If not, what alternative effective dates and transition would you suggest and why? If individual disclosures require additional time to compile, please describe the nature and extent of the effort required.

We are concerned that the proposed timing of issuance of the final standard will not give entitics, particularly small- and medium-size entities, sufficient time to study the final standard before the effective date. We are concerned that the Board has not sufficiently considered the administrative burden that the new disclosure format and interim information requirements will create for small- and medium-size entities. Additionally, as stated in our response to Issue 3, changing actuarial valuation systems to produce benefit obligation-based cash flows will require systems changes and testing for many companies in a relatively short time frame.

Finally, we urge the Board to weigh the value of the additional disclosure items for 2003 financial statements against the pressures created by other standards that require adoption by December 31, 2003, the ability of actuarial firms to provide necessary information to prepare the disclosures, and the SEC's accelerated filing deadlines which will become effective for many calendar-year companies for the 2003 Form 10-K. If the Board decides not to change the proposed transition date, the Board should consider a delayed implementation date for cash flow information, as we propose in response to Issue 3.



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As stated in our response to the 2003 FASAC survey, investors' awareness of pension accounting and funding issues has been heightened by the effect of lower interest rates and declines in stock values on the status of pension-plan funding, the ability of plan sponsors to use the accounting rules to legitimately *smooth* the accounting for changes in both assets and obligations, and recent press reports about the deficits of the Pension Benefit Guaranty Corporation. We view the current project as a short-term enhancement to financial reporting. After it completes the current disclosure project, we urge the Board to address measurement and disclosure issues in a broad project to review the conceptual underpinnings of the accounting for *all* forms of compensation costs, and to consider the need for convergence with the IASB standards.

If you have questions about our comments or wish further to discuss any of the matters addressed herein, please contact John Guinan at (212) 909-5449.

Very truly yours,





APPENDIX

Miscellaneous Comments

Danagraph	Comment
Paragraph	Comment
5	Paragraph 5(i) requires disclosure of the amount included within other comprehensive income for the period arising from a change in the additional minimum liability. However, paragraph 5(c)(5) requires disclosure of the amount of accumulated OCI. Most entities disclose the change in OCI in the statement of shareholders' equity (net of deferred income taxes) and do not disclose the amount of the change in the pension footnote. Since the balance of accumulated OCI recognized as a result of the additional minimum liability is required to be disclosed, the current period change is apparent. Therefore, paragraph 5(i) probably is unnecessary.
	The disclosure of OCI information is not relevant to not-for-profit enterprises. Should there be additional specific guidance for those enterprises?
5(r)	In paragraph 5(r), did the Board consider requiring disclosure of the implications of the effect of foreign currency rate changes?
7	The second sentence of paragraph 7 states, "A foreign reporting entity that prepares financial statements in conformity with U.S. generally accepted accounting principles (GAAP) shall apply the preceding guidance to its domestic and foreign plans." We read this sentence to mean that an entity (foreign from the perspective of the U.S. financial statement user) uses its domestic plan as the baseline and breaks out its foreign plans, which may include U.S. plans, if they are significant, and suggest that the Board clarify the wording to reflect its intent.
8 (g)	The wording in paragraph 8(g) is subtly different from the wording in paragraph 8(c) in Statement 132 that it is replacing. It also is different from the similar requirement in paragraphs 7(h) and 7(i) for a public company. We suggest that the Board review the wording in paragraph 8(g) to enhance clarity.
9	The lead-in to paragraph 9 states, "A publicly traded entity shall disclose the following information in its interim financial statements that include a statement of income." Did the Board intend for a company to make this disclosure in its interim financial statements for each period for which a statement of income is presented? Stated another way, we urge the Board to clarify whether a company would



Appendix Page 2

	make these disclosures for year-to-date information or for only quarterly information.
9(b) and 10	We suggest replacing the phrase "during the year" with "during the current fiscal year" to clarify the period in question.
19	As Statement 132 will be replaced by the forthcoming Statement, shouldn't the new Statement also supersede the paragraphs in Statement 135 that amended Statement 132?
Basis for Conclusions	We believe that the Board's constituents would be better served if the Board integrated the relevant parts of the Basis for Conclusions from Statement 132 with the Basis from this proposed Statement, rather than carry forward the Basis from Statement 132 in its entirety. We believe that it is more useful for constituents to understand why the Board supports the current proposal than for them to understand the history of how the Board got there, unless that history still applies in which case the Board should state so explicitly in the document.
FAQ Document (General)	The need for the FASB to issue a 24-question FAQ document on this Exposure Draft indicates to us some significant misunderstandings of the Exposure Draft. Throughout this letter we identified the more significant issues or wording choices that we believe were addressed more clearly in the FAQ than in the Exposure Draft. We urge the Board to fully integrate the relevant responses to the FAQ into the final Statement and the Basis for Conclusions.
FAQ Q10	Several of the proposed disclosure requirements in the Exposure Draft use the words "as of the date of the statement of financial position." The Board clarified in its FAQ on the Exposure Draft that it intended for disclosures related to the statement of financial position to be as of the measurement date. We suggest that the Board clarify that intent in the wording of the final Statement.
C2	The heading of two columns in the example disclosures about plan assets should read "Weighted-average target allocation 20X4" rather than "Target allocation 20X4."
C3 and C4	We suggest adding the words "in 20X4" after the phrase "Company A previously disclosed that it expected to contribute \$125 million to its pension plan."