Deloitte & Touche LLP Ten Westport Road Wilton, CT 06897

Tel: (203) 761-3000 Fax: (203) 834-2260 www.deloitte.com

Deloitte & Touche

August 13, 2003

Mr. Larry Smith
Director, TA&I—FSP
Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, CT 06856-5116

Dear Mr. Smith:

We are pleased to respond to the proposed FASB Staff Position (FSP), Determining Whether a One-Time Termination Benefit Offered in Connection with an Exit or Disposal Activity Is, in Substance, an Enhancement to an Ongoing Benefit Arrangement Subject to FASB Statement No. 112, Employers' Accounting for Postemployment Benefits.

We are concerned that from a standard setting process perspective, issuance of this FSP may be setting an undesirable precedent in that it appears to be amending a footnote in an FASB Statement. Footnote 4 to FASB Statement No.146 (Statement 146) states, in part (in reference to its effects on FASB Statement Nos. 87, 88, 106 and 112):

This Statement does not change the accounting for termination benefits, including onetime termination benefits granted in the form of an enhancement to an ongoing benefit arrangement, covered by those accounting pronouncements.

The proposed FSP, however, would require that one-time termination benefits granted in the form of an enhancement to an ongoing benefit arrangement covered by FASB Statement No. 112 (Statement 112) be accounted for in accordance with Statement 146, which would be a change in accounting for termination benefits covered by Statement 112. We believe that this type of change would require an amendment to Statements 146 and 112.

Nonetheless, there are valid reasons to be concerned that Statement 146 may not be applied in circumstances in which it should be applicable because involuntary termination benefits will be provided by means of one-time enhancements to Statement 112 plans. Thus, the proposed FSP is addressing an important issue. We believe that the Staff's proposed method of distinguishing between one-time involuntary benefits and other enhancements to Statement 112 plans is a practical approach. However, while the proposed FSP will result in greater consistency in accounting for one-time involuntary termination benefits, it reduces the consistency in accounting for changes to Statement 112 plans in general. That is, there will be differences in accounting for changes to a Statement 112 involuntary termination benefit plan based on whether or not the change is a one-time enhancement to the plan.



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The proposed FSP would also reduce the consistency in accounting for involuntary termination benefits provided through a one-time enhancement to a Statement 112 plan versus such benefits provided by means of a one-time enhancement to other types of plans, such as a one-time enhancement to a defined benefit pension plan. For example, if the benefit provided in the example illustrating the application of the proposed FSP were a one-time increase in age and years of service under a pension plan for employees being involuntarily terminated, that benefit would be accounted for as an amendment to the pension plan. Such distinctions effectively provide an opportunity to structure termination benefits to achieve an accounting objective.

Having considered these issues, we believe that a Board-level project should be undertaken to reconcile the various approaches to termination benefits. Overall, there should be consistency in the accounting for one-time termination benefits, whether voluntary or involuntary. Therefore, the objective of any new project should be to enhance consistency in the accounting for those benefits. Such an effort may require amendments to existing literature, but we believe the result would accomplish a broader objective and lead to a more principles-based approach. We would also support issuance of the guidance proposed by the Staff in the proposed FSP as a FASB interpretation that would address the immediate problem as a first step.

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If you have any questions concerning our comments, please contact Naomi Erickson at (203) 761-3138.

Yours truly,

Deloitte & Touche LLP