

August 13, 2003

Mr. Lawrence Smith  
Director of Technical Application and Implementation Activities  
Financial Accounting Standards Board  
401 Merritt 7  
P.O. Box 5116  
Norwalk, Connecticut 06856-5116

*Re: Proposed FASB Staff Position on 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.*

Dear Mr. Smith:

PriceWaterhouseCoopers LLP appreciates the opportunity to respond to the proposed Financial Accounting Standards Board (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* (FAS 112), Employers' Accounting for Postemployment Benefits.

We support the proposed FSP, but believe it should be revised as indicated in the attachment to this letter. We appreciate the Board's willingness to address implementation concerns on a timely basis, and believe that the issuance of the proposed FSP will help clarify implementation and interpretation issues surrounding additional termination benefits granted in the form of an enhancement to an ongoing benefit arrangement.

We agree with the conclusion reached in the FSP that in order to be considered an enhancement to an ongoing benefit arrangement subject to the provisions of FAS 112, additional termination benefits must represent a revision to the ongoing arrangement and not be limited to a specified termination event or a specified future period. However, there is an inconsistency between the FSP and the wording of footnote 4 of FAS 146, which states: "This

Statement does not change the accounting for termination benefits, including one-time termination benefits granted in the form of an enhancement to an ongoing benefit arrangement, covered by those accounting pronouncements.” The use of the word “one-time” in this sentence may lead the reader to a conclusion that an enhancement to an ongoing plan that would result in a benefit that is payable only one-time (for a specified termination event) should be accounted for under FAS 112, thus enabling the entity to accrue the costs related to the one-time benefit without meeting the requirements of paragraph 8 of FAS 146. In order to address that inconsistency and reduce the potential for a true one-time benefit (as defined in FAS 146) to be accrued before the conditions in paragraph 8 are met, we encourage the Staff to make the wording changes to the FSP illustrated in the attachment to this letter. Whether those changes are sufficient to effectively address the inconsistency should be addressed by the Staff based on monitoring practice.

Finally, we believe that entities should carefully analyze their practice of providing similar one-time benefits in connection with multiple termination events. For example, an entity might limit the additional benefits in its termination agreement to a particular termination event; yet in practice provide similar benefits in connection with other termination events. We believe that entities could be viewed as having a practice of providing similar benefits, and in substance those benefits could be considered an enhancement to an ongoing termination benefit plan covered by FAS 112, rather than one-time benefits covered by FAS 146. We believe that enhancements should be analyzed based on their substance and not merely on their legal form when determining whether they are covered by the provisions of FAS 146 or FAS 112. The Staff may wish to consider providing guidance to that effect in the FSP.

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If you have any questions regarding our comments, please feel free to contact Larry Dodyk (973- 236-7213), Ken Dakdduk (973-236-7239) or Bud Thomas (973-236-4989).

Sincerely,

PricewaterhouseCoopers LLP

Attachment

Proposed FSP—Determining Whether an Additional Termination Benefit Offered in Connection with an Exit or Disposal Activity Is, in Substance, (1) an Enhancement to an Ongoing Benefit Arrangement Subject to FASB Statement No. 112, *Employers' Accounting for Postemployment Benefits* or (2) a Benefit Subject to FASB Statement No. 146, *Accounting for Costs Associated with Exit or Disposal Activities*. (Comment Deadline: August 13, 2003)

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Q—When are additional termination benefits offered in connection with an exit or disposal activity considered, in substance, (1) an enhancement to an ongoing benefit arrangement and, therefore, subject to the provisions of FASB Statement No. 112, *Employers' Accounting for Postemployment Benefits* or (2) a benefit subject to FASB Statement No. 146, *Accounting for Costs Associated with Exit or Disposal Activities*?

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Background

Statement 146 addresses financial accounting and reporting for costs associated with exit or disposal activities. Paragraph 2(a) indicates that those costs include, but are not limited to:

Termination benefits provided to current employees that are involuntarily terminated under the terms of a benefit arrangement that, in substance, is not an ongoing benefit arrangement or an individual deferred compensation contract (hereinafter referred to as *one-time termination benefits*)<sup>4</sup>

<sup>4</sup> FASB Statements No. 87, *Employers' Accounting for Pensions*, No. 88, *Employers' Accounting for Settlements and Curtailments of Defined Pension Plans and for Termination Benefits*, No. 106, *Employers' Accounting for Postretirement Benefits Other Than Pensions*, and No. 112, *Employers' Accounting for Postemployment Benefits*, address the accounting for other employee benefits. APB Opinion No. 12, *Omnibus Opinion—1967*, as amended by Statement 106, addresses the accounting for deferred compensation contracts with individual employees. This Statement does not change the accounting for termination benefits, including one-time termination benefits granted in the form of an enhancement to an ongoing benefit arrangement, covered by those accounting pronouncements. [Emphasis added.]

A—In order to be considered an enhancement to an ongoing benefit arrangement and, therefore, subject to the provisions of Statement 112, the additional termination benefits must represent a revision to the ongoing arrangement that is not limited to a specified termination event or a specified future period. Otherwise, the additional termination benefits should be considered one-time termination benefits and accounted for under Statement 146. The following example illustrates the application of this FSP:

A company has a written involuntary termination benefit plan that is distributed to all of its employees at date of hire. The plan provides that upon an involuntary termination of employment for other than cause, each terminated employee will receive one week of severance pay for every year of service. In the current year, the company initiates a reduction in force (RIF). In connection with that RIF, management decides to amend the ongoing benefit arrangement to provide an additional two weeks of severance pay for every year of service. That additional benefit applies to all employees affected by this RIF and all future involuntary terminations.

**Evaluation:** The additional termination benefit is considered an enhancement to the ongoing termination benefit plan because it represents a revision to the ongoing plan that applies to all future involuntary terminations. That is, the amendment to the ongoing benefit arrangement is not limited to a specified termination event or specified future period. Therefore, the additional termination benefit should be accounted for in accordance with Statement 112.

If this example were changed to indicate that the additional termination benefits only applied to the employees affected by that RIF, those additional benefits would not be considered an enhancement to the ongoing termination benefit plan and would, therefore, be accounted for under Statement 146.

#### Transition

The guidance in this FSP is effective for exit or disposal activities initiated after August 15, 2003. Alternatively, an entity may elect to report the change in accounting as a cumulative-effect adjustment in accordance with APB Opinion No. 20, *Accounting Changes*, for exit activities initiated after December 31, 2002 (the original effective date of Statement 146).