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July 15, 2003

Mr. Robert E. Herz Chairman, Financial Accounting Standards Board 401 Merritt 7 P.O. Box 5116 Norwalk, CT 06856-5116

Dear Bob,

The Committees on Corporate Reporting ("CCR") and Benefits Finance ("CBF") of Financial Executives International ("FEI") wish to share their views on the Financial Accounting Standards Board's (the "Board") project, Disclosures about Pension Plans. FEI is a leading international organization of 15,000 members, including Chief Financial Officers, Controllers, Treasurers, Tax Executives and other senior financial executives. CCR is a technical committee of FEI, which reviews and responds to research studies, statements, pronouncements, pending legislation, proposals and other documents issued by domestic and international agencies and organizations. CBF is a technical committee of FEI, which reviews and responds to existing or proposed legislation and regulations affecting employee benefits. This document represents the views of CCR and CBF and not necessarily the views of FEI.

As active participants in the markets, FEI companies have recently confronted a significant amount of market concern over pension funding issues. We believe these concerns should be met with narrow, targeted additional disclosures in the financial statements themselves, not in MD&A or "off line," as we are all doing now. Funding concerns are quite narrow, and therefore are best addressed with such targeted disclosures.

Specifically, we recommend the following matters be included in financial statements:

- Minimum pension liability (ABO)
- Statutory minimum funding requirements (ERISA for U.S. plans)

We understand that the Board has undertaken a broader disclosure project that includes a vast array of additional information including, among other things, point-in-time asset allocations, forecasts and justification for long-term return rates and interim effects of defined benefit plans on earnings. From our experience, these proposals far exceed the market's interests. Given that most of our companies have dozens, and some have hundreds, of discrete defined benefit pension plans, it is apparent that the costs of such supplemental information far exceed any benefits. Combined with the self-evident

impenetrability of existing pension disclosures, it seems clear that a broad new layer of disclosures is not the appropriate path for the Board.

Should the Board continue to pursue this path of increased disclosures, we believe that the proposal would benefit from input from a broader audience including preparers, actuaries and pension fund managers prior to issuing the Exposure Draft for comment.

Details of our recommendation are attached (Attachment A). We shall be pleased to discuss with you at your convenience. If you have any questions regarding this letter or further information about the complexity, costs, and administrative requirements that these proposals would require, please feel free to call Ron Olejniczak at (860) 273-7231 or Frank Brod at (989) 636-1541.

Sincerely,

Frank H. Brod

Chair, Committee on Corporate Reporting

Louise M. Olyman

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Ronald M. Olejniczak Chair, FASB/IASB Subcommittee Committee on Corporate Reporting

Financial Executives International

CCR/FASB Liaison Meeting/Background

The requirements of FAS 87, "Employer's Accounting for Pensions", are complex, particularly the delayed recognition of investment returns, the cost of plan amendments and actuarial gains and losses. For those financial statement users that do not deal with this standard on a regular basis, the disclosure requirements are difficult to understand. As you well know, before the issuance of FAS 132, "Employers Disclosures about Pensions and Other Postretirement Benefits", users of financial statements indicated that the disclosure requirements of FAS 87, although extensive, did not provide sufficient information on a company's pension obligations, specifically the changes in the benefit obligation and the pension plan's impact on the quality of the company's earnings. In 1996, the Board initiated a project to improve disclosure effectiveness of pensions (and other postretirement benefit obligations). This project resulted in the issuance of FAS 132. FAS 132 standardized the disclosure requirements of FAS 87 and 106, with the effect of distilling the complex requirements of these standards into disclosures that were considered capable of being understood and prepared with a reasonable amount of effort.

As we discussed in our June 5 meeting, we requested the CCR pension working group and members of CBF to perform a review of FAS 132 disclosure requirements and suggest which pension disclosures, if any, could or should be potentially revised or deleted. Our narrow survey indicated that most of the pension working group members believed the current reporting requirements were effective and enabled financial statement users to analyze benefit obligations, fair value of plan assets and changes in both during the reporting period. They also believed current pension disclosures enabled users to assess the quality of current earnings. No substantial changes were suggested with respect to current FAS 132 disclosure requirements. In addition, most members could not recall ever being questioned by the analysts that follow their respective companies about these disclosures.

Current FASB Pension Project

In its current project, the Board is proposing once again to increase the disclosure requirements for pension obligations. We believe that these increased disclosures would result in disclosure overload. This overload would further compound the comprehension issues for users without appreciably increasing their financial statement understanding, while increasing costs for preparers. We are convinced that the costs to be incurred by preparers to comply with the tentative disclosures being discussed will far outweigh the benefits to financial statement users, especially for multi-national companies with many defined benefit plans. A couple of our members performed high-level analyses to determine estimates of the cost to comply with the proposed disclosures. These companies determined the estimated ongoing costs to compile, aggregate, test and audit would be approximately \$500,000 to \$1,000,000 annually. These estimates did not include the initial cost to create a new reporting mechanism and to change programs to compile the required data. While these estimates require further analysis, and data from more companies would need to be considered, we believe the substantial cost to be incurred by preparers should cause the Board to pause in its rush to adopt a standard and reflect on the new pension requirements in a more deliberative manner. We believe the Board should consider whether the perceived enhanced qualitative characteristics of the information would exceed the costs of providing it, as required by the Board's Statement of Concepts No. 2, "Qualitative Characteristics of Accounting Information". We would be willing to assist the Board in undertaking a study that would provide credible data on the estimated implementation and ongoing costs.

In our view, and as stated above, financial statement users appear to be focusing on two key concerns. The issues are:

- · Impact of minimum liability requirements on the company's operations, and
- · Expected cash requirement for pension plans

We believe these concerns can be addressed simply by disclosing the amount of accumulated benefit obligations ("ABO") and the pension plans' future minimum funding requirements.

Specific Comments on Tentative Decisions

Our specific comments on the Board's current, tentative proposed disclosures (paraphrased in italics) are as follows:

Disclosure of pension plan assets:

Disclosure of the following information for each broad category of pension plan assets (i.e., equity securities, fixed income securities, real estate, securities of the plan sponsor and other assets):

- Fair market value.
- Percentage of total plan assets,
- Target allocation percentage,
- > Expected long-term rate of return, and
- > A description of the maturity characteristics of fixed income securities

We appreciate concerns raised by analysts and investors regarding the composition of plan assets and understand some disclosure of plan assets is essential to an understanding of how a company's pension obligation will be funded. However, we believe that neither the analyst community nor the Board has presented a clear case supporting the need for this detailed expansion of disclosures. We do not believe that this level of disclosure would be meaningful nor would it be easily compiled on a timely basis.

For companies that offer pension plans in multiple countries and jurisdictions, these additional disclosures will prove onerous to provide and add little value to financial statement users. In many countries, as a result of local regulatory restrictions, pension plan asset investment options are restricted and require the use of local trustees. Obtaining detailed fair value information and maturity information from overseas and multiple domestic plan trustees on a timely basis will be difficult, especially in light of the accelerated SEC filing requirements for annual reports.

Rather than trying to provide this type of disclosure, we believe it would be useful for a company to disclose its general investment strategy by the types of broad asset categories suggested. Furthermore, since pension obligations are long-term in nature, we believe that disclosure of historical returns for the assets (e.g., 10-20 year basis) would be more meaningful to a reader.

We also do not believe providing the Company's expected rate of return by broad asset category is meaningful to financial statement users. Management develops its estimate of expected returns on plan assets based on several assumptions, including the composition of current invested assets, projected long-term inflation rates, and numerous other assumptions. The expected rate of return used by broad asset category is not often indicative of the expected return of the entire portfolio. Further, if the plan assets contain the employer's securities as a separate asset class rather than as a component of an index fund, we would question the appropriateness of a company separately disclosing a forecasted, expected return for its own securities. We believe the current disclosure of the expected long-term rate of return for the entire amount of plan assets is sufficient to provide users information regarding this assumption. Any attempt to "disaggregate" an estimate into a specific asset category would serve only to confuse rather than to inform financial statement users.

Analysts and sophisticated investors will generally try to use disclosure information to forecast *short-term* results. The expected rate of return on plan assets, however, is supposed to be a *long-term* assumption. It is questionable whether the additional disclosures suggested would really allow investors to introduce a higher level of dependability or accuracy into any forecasts. It may actually result in a greater amount of error in those projections.

Net pension cost by income statement line item:

Disclosure of the income statement classification of net periodic pension cost.

The full amount of the net periodic pension cost often is not presented on the income statement in the same period as it is calculated, as a portion of the cost may be capitalized on the balance sheet as a part of inventory, etc. We believe providing a reconciliation of this cost to the components of the income statement and balance sheet will prove to be a difficult task, and would require significant changes to a company's accounting systems, particularly in those industries where pension costs are capitalized or inventoried and in companies that have regulatory assets on their balance sheets. We also question the value of isolating this one component of total salary/benefit cost. We believe current disclosures on total pension cost are appropriate and are concerned with the level of complexity this proposed disclosure would add without meaningful benefit.

Expected benefit payouts for future years:

Disclosure of the expected benefit payouts for future years.

We understand that the intention of this proposed disclosure is to provide information about the amount and timing of benefit payments that can be matched to asset maturities. We do not believe this proposed disclosure satisfactorily meets this objective. In our experience, a large majority of pension plan assets are held in investments with no maturity date (i.e., equity securities) and benefit payments for unfunded plans are met from general, corporate cash flows. This proposed disclosure of expected benefit payouts, coupled with the proposed tabular disclosure on the maturity characteristics of fixed income securities, would not provide a complete picture of the timing and amount of future funding requirements. We believe that the current disclosures of the funded status of the plan (i.e., fair value of assets compared with the projected benefit obligation), combined with the current requirement for providing the amount of benefits actually paid, provide appropriate information for a reader to assess asset coverage of all liabilities. Further, it is not clear whether such a disclosure would reconcile to the

projected benefit obligation, the accumulated benefit obligation nor the funded status of the plan.

We understand analysts and investors occasionally inquire as to a company's future cash flow requirements of a pension plan. The tentative expected benefits payment disclosure discussed above would not meet the stated objective of providing a measurement of the Company's future cash flow requirements as it has little correlation to minimum funding requirements. We believe users would benefit from increased disclosure of a pension plan's minimum funding requirements required by regulatory requirements (e.g., ERISA, etc.) as further discussed below.

Management's best estimate of future contributions:

Disclosure of management's best estimate of contributions to be made to the pension trust over the next year.

The Board's tentative disclosure requirements of management's best estimate of contributions to be made to a pension trust over the next year should be limited to the minimum funding requirements required by local regulation (e.g., ERISA, etc.) based on the most recent information available. Contemplated voluntary contributions should not be required to be disclosed, as such disclosure may lead to "second guessing" of management's actual versus previously disclosed estimated contributions. A company's use of capital varies significantly over the course of a fiscal year and voluntary contributions are often made based on a number of factors, which can change dramatically (e.g., tax considerations, investment market conditions, availability of capital and other capital requirements). Further, this information may be considered forward-looking; a disclosure better located and is already required in the liquidity section of the MD&A portion of a company's periodic reports, and therefore would be appropriately covered by safe-harbor provisions.

Amount of the Accumulated Benefit Obligation:

Disclosure of the amount of the accumulated benefit obligation ("ABO").

The amount of the ABO is the basis for the minimum liability accrual requirements. We therefore agree this amount should be disclosed.

Sensitivity analysis requirements:

We understand that the Board is currently discussing, but has tentatively agreed, that disclosure of sensitivity information should not be required. Instead, the Board is opting for increased disclosures of the assumptions that were used to calculate year-end disclosure results and the assumptions that were used to calculate the prior year's pension expense. We agree that sensitivity analyses would be misleading to financial statement users, as several assumptions may change at once as economic conditions change. The impact of individual assumption changes may also not be linear or able to be used for extrapolation.

Timing of implementation:

Given our stated concerns and the large volume of data that multi-national companies will be required to collect and consolidate, issuance of a final standard in December 2003 that would be effective for companies with December 31 fiscal year-end filings is particularly burdensome particularly in light of the SEC's accelerated filing deadlines. The proposed standard would require actuaries to calculate and provide data that is not routinely provided as part of a standard liability valuation. For calendar year-end companies with measurement dates prior to the issuance of a final Statement, may have to re-perform actuarial work in order to comply with the proposed year-end disclosures. Further, additional time would be required by actuarial consultants to revise computer models used to support a company's valuation study. The FASB should also allow implementation of the standard prospectively so that companies will not have to incur additional expense to gather and calculate data for prior years. For multinational companies, it is common practice to send out Annual Report instructions in September for December 31 year-end filers. For these reasons, we believe the FASB should delay the effective date of any final rules for one year.

The unfortunate reality is that the calculation of pension cost and expense is a very specific area that is rather technical and complicated. The fundamental problem in communicating information to investors lies with the subject matter – not with the level of disclosure. It is questionable whether additional disclosure would add any clarity for investors or improve their ability to perform short-term forecasts, or if this would result in additional data that leads to more confusion.

We do not believe the Board has adequately considered the costs and benefits of these new disclosures. Prior to issuance of a new standard, we believe that a comprehensive review of the compliance costs should be undertaken and that such a review will show that the costs to comply significantly outweigh the benefits. As we stated in our June 5 meeting, we remain committed to working with the Board to address these issues.