



Altria Group, Inc. 120 Park Avenue, New York, NY 10017 (917) 663-4000 LETTER OF COMMENT NO. 238

June 14, 2006

Mr. Lawrence W. Smith
Director of Technical Application and Implementation Activities
Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
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Re: Comments on the Exposure Draft
Employers' Accounting for Defined Benefit Pension and Other Postretirement
Plans—an amendment of FASB Statements No. 87, 88, 106 and 132(R)
File Reference Number 1025-300

Dear Mr. Smith:

We appreciate the opportunity to comment on the FASB's Exposure Draft, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans—an amendment of FASB Statements No. 87, 88, 106 and 132(R)" (the "Proposed Statement"). This letter summarizes our positions and includes our comments on the issues that have been raised in the Proposed Statement.

#### General Comments

#### Multi-Phase Approach

We commend the Board's efforts to address pension accounting. However, we believe that by following the proposed multi-phase approach, the Board is "putting the cart before the horse." We understand that this Phase I proposal only addresses statement of financial position recognition of deferred gains and losses, and that in Phase II the Board will address measurement and recognition issues. We believe that it would be preferable to define the proper liability measurement principles prior to requiring companies to record significant amounts on their statements of financial position. We also believe that the proposed multi-phase approach could be confusing to financial statement users and will cause companies to spend unnecessary time and resources implementing these changes and communicating them to financial statement users.

Projected Benefit Obligation ("PBO") versus Accumulated Benefit Obligation ("ABO")

The Proposed Statement would require companies to reflect the funded status of their pension plans on the statement of financial position. While we agree with this aspect of Mr. Lawrence W. Smith Page 2 June 14, 2006

the Proposed Statement, we believe that, in the absence of the deliberations contemplated in Phase II of the project, the funded status should be measured using the ABO rather than the PBO. We believe the PBO overstates a company's liability at the date of the statement of financial position since it includes the impact of future salary growth that is yet to be earned (yet it does not include assumptions about the future service required in order to earn the future salary growth).

We believe that future salary increases are not current obligations of a company as they can be discontinued or reduced at the company's discretion. Our belief is based on the concepts put forth in Statement of Financial Accounting Concepts No. 6, "Elements of Financial Statements," ("Concepts 6"), which states that "liabilities are probable future sacrifices of economic benefits arising from present obligations of a particular entity to transfer assets or provide services to other entities in the future as a result of past transactions or events." Concepts 6 further states that "a liability has three essential characteristics: (a) it embodies a present duty or responsibility to one or more entities that entails settlement by probable future transfer or use of assets at a specified or determinable date, on occurrence of a specified event, or on demand, (b) the duty or responsibility obligates a particular entity, leaving it little or no discretion to avoid future sacrifice, and (c) the transaction or other event obligating the entity has already happened [emphasis added]." We believe that including future salary increases as a component of a liability does not conform to items (b) and (c) above since a company has the discretion to avoid future sacrifice (i.e., forego future salary increases) and the event obligating the company has not yet occurred (i.e., the salary increases have not yet been granted or earned).

Rather than being viewed as a valuation component of an existing liability, we believe that the PBO represents valuable forward-looking information about the nature of an existing benefit plan. Further, we do not believe that the FASB's inability to distinguish comparable amounts for SFAS No. 106 disclosures is a compelling argument to record the PBO into the financial statements. We believe that increasing medical costs constitute an appropriate valuation methodology for benefits earned to date. We believe that this differs fundamentally from the SFAS No. 87 requirement to value salary increases that have not yet been granted or earned.

#### A Proposal for a Different Approach to Phase I of the Project.

Despite our belief that PBO does not represent a current liability, we believe that disclosure could be enhanced under the current pension accounting paradigm pending resolution of the definition of the employer's liability in Phase II. As noted, we believe that the current disclosures of funded status overstate an employer's liability. We would propose, in the interim, that the funded status tables prescribed by SFAS No. 132 be retained, but using the ABO rather than the PBO. Disclosures could be added to indicate the true, forward-looking nature of the PBO by including statements such as the following:

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"If all participants in the plan continued their employment until retirement date and received average annual salary increases of X.X%, the Company's liability to plan participants for service to date would be \$xxx million."

We believe that a significant amount of market confusion over pension accounting arises from an insufficient understanding of the nature of the PBO. As long as pension funding law is based on the concept of a current liability (more akin to the ABO than the PBO), companies will not be able to make sufficient tax-deductible contributions to meet the SFAS No. 87 underfunding of the PBO.

In effect, we are stating a belief that the current accounting model may have unintentionally caused confusion in the market place by prescribing a liability measure that is inconsistent with the FASB's Concept releases and is not applicable to the real world measurements that companies have to fund against. We believe that recording amounts to shareholders' equity based upon a model that the FASB intends to revisit in the near-term, only compounds the confusion. However, interim disclosure of the PBO as a forward-looking amount, rather than forcing it to be a "liability" valuation technique, could eliminate much of the confusion and set the stage for a more informed public debate in Phase II of the project.

### Combined Impact of the Proposed Statement and Other Outstanding FASB Proposals

The Board should also consider the fact that companies will be required to adopt, within a short period of time, the Proposed Statement in addition to the provisions of the Board's proposal on Uncertain Tax Positions. For many companies, each of these standards may result in a significant negative impact on shareholders' equity that could require them to renegotiate existing debt covenants. We find it burdensome to force companies to go to their lenders once for the Proposed Statement and again for the proposed statement on Uncertain Tax Positions within a short timeframe. Accordingly, we believe the Board should consider overlapping adoption periods so that the revised shareholders' equity of companies can be calculated and disseminated to lenders and other financial statement users once, rather than twice within a short period of time.

## Comments on Specific Issues Raised in the Proposed Statement

# Costs of Implementing the Proposed Statement's Requirement to Recognize a Plan's Overfunded or Underfunded Status in the Employer's Statement of Financial Position

Issue 1: The Board concluded that the costs of implementing the proposed requirement to recognize the overfunded or underfunded status of a defined benefit postretirement plan in the employer's statement of financial position would not be significant. That is because the amounts that would be recognized are presently required to be disclosed in notes to financial statements, and, therefore, new information or new computations, other than those related to income tax effects, would not be required. Do you agree that

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implementation of this proposed Statement would not require information (other than that related to income tax effects) that is not already available, and, therefore, the costs of implementation would not be significant? Why or why not?

We agree that the costs to implement (i.e., to reflect the amounts in the financial statements) the proposed requirement to recognize the overfunded or underfunded status of a defined benefit postretirement plan in the statement of financial position would not be significant as the required information is currently available. However, companies (and their actuaries) will incur additional costs in implementing other aspects of the Proposed Statement, such as the requirement to measure plan assets and benefit obligations as of the date of the statement of financial position, rather than a period of up to three months before, as additional costs may be incurred in allocating incremental qualified resources to accomplish this effort in a timely manner. In addition, there will be a one-time incremental cost associated with performing the valuation of investments and obligations multiple times due to the nature of the proposed transition methodology.

Also the multi-phase approach increases costs as each accounting change potentially requires modifications to a company's internal processes, internal controls and systems. These changes need to be reviewed and audited by the company's independent auditors, a task complicated by the recalculation of prior period amounts due to the FASB's choice to follow retrospective adoption. In addition, many companies will incur significant costs in order to renegotiate or modify existing debt agreements and other contracts that may include covenants that are calculated based upon shareholders' equity.

Since the FASB has indicated that this is Phase I of a longer term project, the resulting financial statement impact will be an interim solution. Given its interim status, we urge the FASB to reconsider its decision to require retrospective adoption. Once Phase II is complete, retrospective adoption is a logical methodology, but we believe restatement of prior period amounts to reflect an "interim fix" is onerous.

#### The Employer's Measurement Date

Issue 2: Unless a plan is sponsored by a subsidiary that is consolidated using a fiscal period that differs from the parent's, this proposed Statement would require that plan assets and benefit obligations be measured as of the date of the employer's statement of financial position. This proposed Statement would eliminate the provisions in Statements 87 and 106 that permit measurement as of a date that is not more than three months earlier than the date of the employer's statement of financial position. Are there any specific implementation issues associated with this requirement that differ significantly from the issues that apply to other assets and liabilities that are recognized as of the date of the statement of financial position?

While we appreciate the Board's efforts to reduce complexity and enhance understandability, we believe companies should be permitted to utilize an early measurement date. The Board reasoned that potentially significant changes in plan assets and benefit obligations that arise after the measurement date, but before the fiscal year

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end, are not recognized until the following fiscal period. We believe that financial statement users can reasonably be expected to be aware of changes in the capital markets. Accordingly, we believe the current requirement that companies disclose the measurement date(s) enables financial statement users to reasonably assess the likely effect on plan assets and benefit obligations of changes in economic conditions, without requiring companies to incur the additional costs, and potential risks, of more precisely measuring those effects.

In addition, the ability to use a measurement date prior to the company's fiscal year end is important for multinational companies with non-U.S. benefit plans. The logistics of coordinating with foreign trustees, actuaries and subsidiaries is already quite complex. Adding the complexity of a fiscal year measurement adds an increased burden to this process, increasing the risk of error by reducing the amount of time available for the preparation and review of the information. The elimination of the early measurement date also reduces the amount of time the independent auditors will have to audit the information.

Should the Board decide to eliminate the current three-month window, we recommend that the Board consider a narrower timeframe for the measurement date, such as 60 days, or even 30 days, in order to provide some practical relief for companies. Alternatively, we recommend the Board at least provide an exception for non-U.S. plans.

# Effective Dates and Transition—Recognition of the Overfunded or Underfunded Status

Issue 3(a): The Board's goal is to issue a final Statement by September 2006. The proposed requirement to recognize the over- or underfunded statuses of defined benefit postretirement plans would be effective for fiscal years ending after December 15, 2006. Retrospective application would be required unless it is deemed impracticable for the reason discussed below. An entity would be exempt from retrospective application only if the entity determines that it is impracticable to assess the realizability of deferred tax assets that would be recognized in prior periods as a result of applying the proposed Statement. Should the Board provide an impracticability exemption related to the assessment of the realizability of deferred tax assets? Why or why not? Are there other reasons that retrospective application might be impracticable that the Board should be aware of?

Issue 3(b): Some nonpublic entities (and possibly some public entities) may have contractual arrangements other than debt covenants that reference metrics based on financial statement amounts, such as book value, return-on-equity, and debt-to-equity. The calculations of those metrics are affected by most new accounting standards, including this proposed Statement. The Board is interested in gathering information for use in determining the time required to implement this proposed Statement by entities that have such arrangements other than debt covenants. That information includes (a) the types of contractual arrangements that would be affected and what changes to those arrangements, if any, would need to be considered, (b) how the economic status of

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postretirement plans that is presently included in note disclosures is currently considered in those arrangements, and (c) how the effects of the current requirement in Statement 87 to recognize a minimum pension liability previously were addressed for those contractual arrangements.

The Board notes that its goal is to issue a final statement in September 2006. Assuming this goal is achieved, calendar-year companies would have approximately three months to implement the Proposed Statement. This is not adequate time for companies to address issues related to the renegotiation of debt and other agreements. In prescribing an accounting change of this magnitude, the Board should provide a longer phase in period during adoption. While this change may appear quite simple, it will be complex, especially for multinational companies with plans in many countries around the world. Further, as previously noted, we believe that the FASB should allow for overlapping adoption periods for the Proposed Standard and the proposed standard on Uncertain Tax Positions to allow companies the option to forego multiple restatements of shareholders' equity in a short timeframe.

In addition, we believe that the Proposed Statement should be adopted prospectively rather than retrospectively. We believe that prospective adoption with proper disclosure is preferable so all modifications to a company's financial statements are contained within one period. We believe the requirement to retrospectively adopt will add unnecessary complexity to the Proposed Statement.

If you have any questions, or would like to discuss further, please do not hesitate to contact me.

Very truly yours,

Joseph A. Tiesi Vice President and Controller