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Sent: Tuesday, July 18, 2006 3:29 PM
To: Director - FASB
Subject: File Reference No. 1025-300

July 18, 2006

Technical Director
File Reference No. 1025-300
Financial Accounting Standards Board
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Although we realize that comments regarding the Proposed Statement of Financial Accounting Standards, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans, were to be received by May 31, 2006, we have only recently become aware, as part of our implementation planning, of two technical issues that we believe need to be addressed by the Board prior to the issuance of a final standard. These issues involve the application of FASB Statements No. 52 and 109 to the accounting being proposed by the exposure draft.

Under current accounting for non-U.S. subsidiaries where the reporting currency, not the local currency, has been designated as the functional currency, the assets and liabilities recognized in the statement of financial position for defined benefit pension and other postretirement plans of those subsidiaries are viewed as monetary items and are remeasured to the functional currency using current exchange rates. The related expense for these items is remeasured to the functional currency using average exchange rates for the period.

Under the accounting proposed in the exposure draft, it appears that the cumulative net actuarial gains or losses and the prior service costs or credits to be recorded in other comprehensive income represent deferred charges and credits as those terms are used in Appendix B of Statement No. 52. If this interpretation is correct, these items would need to be remeasured to the functional currency using historical exchange rates. Historical rate remeasurement of these items and their related cost components would create a number of issues including:

1. The requirement for retrospective application of the proposed standard would, in theory, necessitate recomputing balances from the date Statements No. 87 and 106 were first adopted for the subject subsidiaries in order to properly determine the historical-rate-remeasured balances to be recorded in other comprehensive income and the amount of cumulative exchange gains and losses from remeasurement of the new asset and liability amounts in the statement of financial position.

2. Guidance would need to be developed for how historical-rate-remeasured balances should be amortized. Such guidance would then need to be applied retrospectively from the date Statements No.

87 and 106 were first adopted for the subject subsidiaries in order to properly determine the cumulative effect on the balance in other comprehensive income and on retained earnings prior to the earliest period presented in the financial statements for the change in the cost reported for these plans.

If the Board determines that the above analysis is incorrect and that the amounts recorded in other comprehensive income should be remeasured to the functional currency using current exchange rates, we believe Statement No. 52 would still need to be amended to clearly indicate that these balances require current rate remeasurement and to indicate how exchange gains and losses arising from the remeasurement of balances recorded in other comprehensive income should be reported, i.e. as part of net income or as an element of other comprehensive income.

We do not believe that the above issue has arisen in situations where an additional minimum liability is recognized pursuant to paragraph 36 of Statement No. 87 because, in practice, the adjustment to record the minimum liability occurs after amounts initially reported in the statement of financial position have been remeasured to the functional currency.

With respect to the application of Statement No. 109 to the accounting proposed in the exposure draft, paragraph 289 of Statement No. 109 defines a temporary difference as follows:

> A difference between the tax basis of an asset or liability and its reported amount in the financial statements that will result in taxable or deductible amounts in future years when the reported amount of the asset or liability is recovered or settled, respectively. Paragraph 11 cites 8 examples of temporary differences. Some temporary differences cannot be identified with a particular asset or liability for financial reporting (paragraph 15), but those temporary differences (a) result from events that have been recognized in the financial statements and (b) will result in taxable or deductible amounts in future years based on provisions of the tax law. Some events recognized in financial statements do not have tax consequences. Certain revenues are exempt from taxation and certain expenses are not deductible. Events that do not have tax consequences do not give rise to temporary differences.

To the best of our knowledge, the only taxable events with respect to defined benefit pension and other postretirement plans are tax deductions for company contributions and taxes paid on withdrawals of excess funds at termination. Under the accounting proposed in the exposure draft, the deferred taxes that will be recorded for temporary differences related to the assets and/or liabilities recognized in the statement of financial position will fully reflect all of the future tax consequences associated with these plans.

Our concern is that the exposure draft speaks to recognizing amounts to be recorded in other comprehensive income "net of tax". Based on our reading of the exposure draft, the amounts to be recorded in other comprehensive income do not appear to meet the above definition of a temporary difference because (a) they do not meet the definition of assets or liabilities and (b) they do not conform to the items described in paragraph 15 of Statement No. 109. These items also do not result in any current tax expense or benefit. As such, they would appear to be events that do not have tax consequences. We are confused as to why events without tax consequences would be recorded net of tax.

This issue does not arise for the current recording of amounts in other comprehensive income associated with recording an additional minimum liability pursuant to Statement No. 87, paragraph 36. Paragraph 37 of Statement No. 87 specifically states that the amounts recorded in other comprehensive income are temporary differences. As such, the "net of tax" recorded under paragraph 37 is actually, by definition, the recording of a deferred tax liability (i.e. the tax effect of a taxable temporary difference) as a component of other comprehensive income. This "net of tax" accounting is consistent with the Board's description of the net-of-tax approach to accounting for income taxes set forth in paragraph 214 of Statement No. 109. In addition, by designating the amounts recorded in other comprehensive income as temporary differences, the accounting currently set forth in paragraph 37 of Statement No. 87 helps to ameliorate the issue of the need for a valuation allowance for the realizability of the incremental deferred tax asset resulting from the recording of the additional minimum liability by creating a partially offsetting incremental taxable temporary difference and resultant deferred tax liability within other comprehensive income. Finally, by designating the amounts recorded in other comprehensive income as temporary differences, changes in those amounts arising from amortization will result in a change in the related deferred tax balance such that a deferred tax benefit is recorded in the tax provision appropriate to the amortization expense included in pretax accounting income. Absent the designation of the amount recorded in other comprehensive income as a temporary difference, we are unclear how, under the provisions of Statement No. 109, any tax amounts recorded in other comprehensive income would ever enter into the reporting of net income other than by the inclusion of the item as an element of current tax expense.

Thank you for your consideration of these matters.

Sincerely,

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