Moody's Investors Service

99 Church Street
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May 31, 2006

LETTER OF COMMENT NO. 88

Ms. Suzanne Q. Bielstein
Technical Director
Financial Accounting Standards Board
401 Merritt 7
PO Box 5116
Norwalk, CT 06856-5116

Re: File Reference 1025-300 – Proposed Statement of Financial Accounting Standards: *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans*

Dear Ms. Bielstein:

We appreciate the opportunity to comment on the FASB's Proposed Statement of Financial Accounting Standards: *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans.* We agree that existing standards on employers' accounting for defined benefit postretirement plans fail to produce representationally faithful and understandable financial statements and support the Board's proposed amendments.

Measurement of Plans' Funded Status and Presentation on the Balance Sheet

Moody's strongly supports the Board's proposal to require companies to report the current economic status (either over-funded or under-funded) of defined benefit postretirement plans in the statement of financial position. Investors and other users of financial statements, like Moody's, have long had to adjust companies' balance sheets using information from the notes to financial statements to reflect the plans' funded status and to produce balance sheets that are economically faithful and analytically useful.

The artificial smoothing in current accounting often results in misleading reporting. To illustrate, Moody's recently published a report that examined current financial reporting related to the postretirement plans of 50 large companies in Moody's rated issuer population. The balance sheets of 26 of the 50 companies reflected a net pension asset even though those companies sponsored plans that were in net under-funded positions. In many of these cases the amounts are huge. The Board's proposal will improve the relevance of financial reporting by requiring recognition of amounts currently relegated to the financial statement footnotes in companies' reported balance sheets.

We also believe the importance of completing Phase 1 of the Board's project in a timely manner outweigh concerns regarding measurement issues that the Board plans to appropriately address in Phase 2 of the project. Moody's and others have adjusted companies' financial statements based on projected benefit obligation (PBO) measurements for many years. PBO measurements avoid back-ending of pension

expense and are consistent with plans' benefit formulas. Anticipation of inflation in the measurement of an obligation is also consistent with other areas of accounting such as other postretirement benefits, contingent legal claims and asset retirement obligations. Although alternative measurements, such as accumulated benefit obligation (ABO), have merit, we believe consideration of such alternatives is best left for Phase 2 of the project.

Employer's Measurement Date

We also support the Board's proposal to eliminate the provisions in Statements 87 and 106 that allow companies to measure and report plan assets and benefit obligations as of a date not more than three months prior to a company's fiscal year end. However, we do not view this provision of the Board's proposal as a critical element of Phase 1. Harm caused by delays resulting from a prolonged debate of this issue would clearly outweigh the benefits to be realized from swift implementation of the other provision of the proposed standard.

Effective Date and Transition

We applaud the Board's efforts to complete Phase 1 of the project in time to impact 2006 annual reporting by companies that report on a calendar year basis. Moody's agrees with the Board's conclusion that the information necessary for companies to adopt the new standard is already contained in the financial statement footnotes; thus, incremental costs of preparing financial statements under the new standard would not be significant.

Two-Phase Approach

By adopting a two-phase approach we believe the Board will be able to measurably improve reporting around companies' financial position in the near-term. Although many of the issues that will be addressed in Phase 2 of the project are very important to investors and other financial statement users, in particular the income statement recognition of postretirement benefit costs, the years it would take to complete the entire project in a single phase would not serve investors well. The Board's proposal is clearly a step in the right direction and we encourage the board to press ahead with the second phase as expeditiously as possible.

We would be pleased to address any questions you may have regarding our comments or discuss our position at your convenience.

Sincerely,

Gregory J. Jonas
Managing Director
Accounting Specialist Group

Mark C. LaMonte
Vice President – Senior Credit Officer
Corporate Finance Group/Accounting Specialist Group