



Deloitte & Touche LLP
Ten Westport Road
PO Box 820
Wilton, CT 06897-0820

Tel: +1 203 761 3000
Fax: +1 203 834 2200
www.deloitte.com

May 31, 2006

Ms. Suzanne Bielstein
Director of Major Projects and Technical Activities
Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, CT 06856-5116



LETTER OF COMMENT NO. 97

File Reference No. 1025-300 — Proposed Statement of Financial Accounting Standards, Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans — an amendment of FASB Statements No. 87, 88, 106, and 132(R)

Dear Ms. Bielstein:

We are pleased to comment on the FASB's March 31, 2006, Exposure Draft of a Proposed Statement of Financial Accounting Standards, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans* — an amendment of FASB Statements No. 87, 88, 106, and 132(R) (the "Exposure Draft" or the "Proposed Standard").

We support the recognition of the funded status of an employer's defined benefit pension and other postretirement plans in the financial statements and the measurement of those plans' assets and benefit obligations as of the date of the employer's statement of financial position. We encourage the Board to issue the Proposed Standard as a final statement — the proposal's conclusions represent an improvement to existing generally accepted accounting principles under FASB Statements No. 87, 88, 106, and 132(R). The appropriate measure (i.e., PBO or ABO) for the funded status of a defined benefit postretirement plan is a significant issue that we considered in developing our comment letter response. While we have concerns about whether the PBO is the best measure of a plan's liability, we support the Board's approach to address this and all other measurement issues in Phase II of the project. These significant issues suggest that the Board should move as expeditiously as possible to complete Phase II.

Our responses to the specific questions posed in the Exposure Draft and certain other comments are discussed in the Appendix to this letter. If you have any questions concerning our comments, please contact Dawn Trapani at (203) 761-3697 or James Johnson at (203) 761-3709.

Yours truly,

Deloitte & Touche LLP

Appendix

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 implementation of the 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? (See paragraphs B20–B34 for the basis for the Board's conclusions.)

We agree that the direct costs of implementing this provision of the Proposed Standard should not be significant. However, in making a cost/benefit assessment, we note that there may be other indirect costs that may be incurred (e.g., modification of debt covenant agreements or other contractual arrangements).

The Board should also consider the incremental costs associated with changing the measurement date for plan assets and benefit obligations to coincide with the employer's fiscal year end as part of its cost/benefit assessment.

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 measuring other assets and liabilities that are recognized as of the date of the statement of financial position? (See paragraphs B36–B40 for the basis for the Board's conclusions.)

We believe that conceptually the requirement to measure plan assets and benefit obligations as of the date of the employer's statement of financial position is an improvement to existing financial reporting requirements. However, we believe that preparers, especially those with global operations or numerous, complex, or diverse postretirement plans, are in the best position to identify implementation issues. Therefore, we recommend that the Board ensure that it has gathered sufficient focused preparer input prior to reaching a final conclusion.

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 it 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? (See paragraphs B61–B64 for the basis for the Board’s conclusions.)

We agree that the Board should provide an impracticability exemption for retrospective application related to the assessment of the realizability of deferred tax assets. We believe that some companies may not be able to assess the realizability of any incremental deferred tax assets resulting from the application of this Proposed Standard for prior periods without using hindsight pertaining to their future taxable income. We are not aware of any other reasons that would cause retrospective application to be impracticable.

Issue 4

This proposed Statement would require a public company that currently measures plan assets and benefit obligations as of a date other than the date of its statement of financial position to implement the change in measurement date as of the beginning of the fiscal year beginning after December 15, 2006. If that entity enters into a transaction that results in a settlement or experiences an event that causes a curtailment in the last quarter of the fiscal year ending after December 15, 2006, the gain or loss would be recognized in earnings in that quarter. Net periodic benefit cost in the year in which the measurement date is changed would be based on measurements as of the beginning of that year.

Are there any specific impediments to implementation that would make the proposed effective date impracticable for a public entity? How would a delay in implementation to fiscal years ending after December 15, 2007, alleviate those impediments? (See paragraphs B66–B69 for the basis for the Board’s conclusions.)

We believe that preparers, especially those with global operations or numerous, complex, or diverse postretirement plans, are in the best position to identify impediments to implementation. Therefore, we recommend that the Board ensure that it has gathered sufficient focused preparer input prior to reaching a final conclusion.

Issue 5

This proposed Statement would apply to not-for-profit organizations and other entities that do not report other comprehensive income in accordance with the provisions of FASB Statement No. 130, Reporting Comprehensive Income. Paragraphs 7–13 of this proposed Statement provide guidance for reporting the actuarial gains and losses and the prior service costs and credits by those organizations and entities.

Do you agree that those standards provide appropriate guidance for such entities? If not, what additional guidance should be provided? (See paragraphs B53–B58 for the basis for the Board’s conclusions.)

Paragraph 8 of the Proposed Standard states:

A not-for-profit employer that presents an intermediate measure of operations (or performance indicator) in its statement of activities that is the functional equivalent of income from continuing operations of a for-profit employer shall recognize, in separate line items apart from that measure, the actuarial gains and losses and the prior service costs and credits that would be recognized in other comprehensive income pursuant to paragraph 4(c) of this Statement.

We believe that the Exposure Draft should clearly define “an intermediate measure of operations (or performance indicator)...that is the functional equivalent of income from continuing operations of a for-profit employer.”

Additionally, based on the definition of a “public entity” provided in paragraph 14 of the Proposed Standard, certain not-for-profit organizations may be considered public entities due to outstanding debt securities that are traded in a public market. Is it the Board’s intention that these not-for-profit organizations be considered “public entities” for purposes of applying the Proposed Standard? If this is the Board’s intention, we believe paragraphs 21 and 22 of the Exposure Draft should be clarified. As currently drafted, these paragraphs imply that not-for-profit organizations are considered nonpublic and are thus subject to the delayed requirement to measure plan assets and benefit obligations as of the date of the employer’s statement of financial position.

Other Comments

Current and Noncurrent Portions of Funded Status

Paragraph 4b of the Exposure Draft should be expanded to include the following language to further clarify when a liability or portion of a liability related to the underfunded status of a defined benefit pension or other postretirement plan should be classified as a noncurrent liability.

If it is expected that the liability will not be funded in the next 12 months (or operating cycle, if longer), then it shall be classified as a noncurrent liability. If, however, it is expected that a part or all of the liability will be funded in the next 12 months (or operating cycle, if longer), the portion to be funded shall be classified as a current liability.

This language is consistent with the proposed amendments made to paragraph 36 of Statement 87 and paragraph 44B of Statement 106 included in Appendix C and D, respectively, of the Exposure Draft.

In addition, paragraph 4b of the Proposed Standard should be revised, and paragraph 36 of Statement 87 and paragraph 44B of Statement 106 should be further amended, to clarify when an asset or portion of an asset related to the overfunded status of a defined benefit pension or other postretirement plan should be classified as a current asset.

Single Method of Transition

Paragraph 17 states that “a single method of transition shall be applied consistently for all of an employer’s defined benefit plans.” Does this sentence apply only to the impracticability exception provided in paragraph 16 of the Proposed Standard? That is, if it is determined that retrospective application is impracticable for one of an employer’s plans, should no other plans retrospectively apply the Proposed Standard to any period earlier than the first period in which all plans can apply it? Paragraph 17 should be expanded to clarify what is meant by the phrase “a single method of transition.”

Guidance on Discount Rates

Paragraph 44 of Statement 87 states:

Assumed discount rates **shall** reflect the rates at which the pension benefit could be effectively settled. It is appropriate in estimating those rates to look to available information about rates implicit in current prices of annuity contracts that could be used to effect settlement of the obligation (including information about available annuity rates currently published by the Pension Benefit Guaranty Corporation). In making those estimates, employers **may** also look to rates of return on high-quality fixed-income investments currently available and expected to be available during the period to maturity of the pension benefits. [Emphasis added]

The Exposure Draft amends Statement 87 by adding paragraph 44A, which states, in part:

Pursuant to paragraph 44, an employer **shall** look to rates of return on high-quality fixed-income investments in determining assumed discount rates. The objective of selecting assumed discount rates using that method is to measure the single amount that, if invested at the measurement date in a portfolio of high-quality debt instruments, would provide the necessary future cash flows to pay the pension benefits when due. [Emphasis added]

We believe that the word “shall” in paragraph 44A should be replaced with “may” in order to reconcile the guidance related to determining assumed discount rates provided in paragraphs 44 and 44A.