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LETTER OF COMMENT NO. 110



May 26, 2006

Technical Director
File Reference No. 1025-300
Financial Accounting Standards Board
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RE: Proposed Amendment of Statements No. 87, 88, 106 and 132(R)

This letter is a formal response to the FASB's request for comment on proposed amendments to FASB Statements No. 87, 88, 106 and 132(R). EDS supports the FASB and its standard setting process and recognizes the establishment of accounting requirements for pension and other postretirement plans is an extremely complex and difficult process. We appreciate the opportunity to comment on the proposed amendment of Statements No. 87, 88, 106 and 132(R), *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans*. We would like to comment specifically on the following issues raised by the Board:

Issue 1: Cost of Implementing the Proposed Statement's Requirements...

We have not been able to estimate the cost of the proposed change, but we do believe it to be significant. The cost of actuarial services will likely increase due to the compressed timetable associated with the change in the valuation date and fixed amount of available actuarial resources. Audit timetables will also be more compressed. We cannot estimate the cost to investors associated with delays in the provision of balance sheet data and future earnings estimates caused by the change in the valuation date.

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Issue 2: The Employer's Measurement Date

The proposal requires a valuation date of December 31 for companies operating on a calendar year basis. Given the long-term nature of the obligation, we do not believe a difference of one to three months between the valuation and reporting dates results in a material variation in the measurement of the obligation. We believe the obligation addressed in this statement has unique characteristics that separates it from substantially all other obligations, and the elimination of the early measurement date will be a detriment to timely SEC reporting for our and other companies. Some of the specific differences between the valuation of defined benefit pension plans and other assets and liabilities that are measured as of the balance sheet date are:

- The current value of most non-pension assets and liabilities reported in the financial statements 1) can be determined by management without the use of a specialist, 2) are known within a few days of the end of the reporting period, or can be reasonably estimated by management, 3) are based on a short-term market or cash flow stream.
- The benefit obligation for a defined benefit pension plan is based on estimates of cash flows that will occur over more than fifty years based on actuarial estimates as well as management's estimates of salary increases and asset returns. Based on the variables involved in the determination of the pension obligation, we do not believe financial reporting will be improved by the elimination of an early measurement date that is within ninety days of the financial statement date.
- The pension valuation requires the use of specialists, which creates the additional burden of 1) accumulating and communicating a significant amount of data to the specialists, 2) ensuring the correct data was used by the specialists, 3) allowing the external auditors to evaluate data submitted to and calculations of the specialists. Many large global companies must have valuations prepared in numerous countries using data from different systems.

Other considerations associated with the date requirement include the following:

- It is likely that we would be required to postpone our earnings release to a later date since pension information would not be available within normal timelines. Our balance sheet will not be available by the normal release date, nor will our estimates of the following year's earnings. If we were to maintain our current release date, our only option would be to release earnings without a balance sheet and the following year's earnings estimate. We would expect other companies to be in the same position. We do not believe this is in the best interest of investors.
- The actuaries who provide valuation services to numerous companies could have difficulty in meeting deadlines if their "busy season" is shortened from four months to one.

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- We sponsor over forty-five defined benefit plans in more than ten countries. The valuation process requires a significant amount of coordination with local management. Local management coordinates with the local actuaries and local auditors. This effort is reviewed by corporate management, and is then subjected to the audit procedures at the corporate level. We have further detailed our timeline for pension reporting in the Appendix attached.

In the past, we have considered moving our valuation date closer to year-end. Upon careful analysis, we changed our valuation date from September 30 to October 31. This conclusion was based on consideration of relevance of reported information and the practicality necessary for the valuation preparation and audit process. We encourage the FASB to maintain the current measurement date standards or to reduce such standards by no more than one month. If a material change in employee status, pension assets or economic conditions occur subsequent to the valuation date and prior to the reporting date, that fact should be disclosed in the notes to the financial statements along with an estimate of the associated impact.

Issue 3(a): Recognition of the Overfunded or Underfunded Status

We do not believe that recognition of a liability for the excess of the projected benefit obligation (PBO) over the accumulated benefit obligation (ABO) is appropriate. Since such excess is calculated using estimated future salary increases assuming an employee continues to provide service to a company over a future period, it does not meet the definition of a liability found in FASB Statement of Concepts No. 6. That Statement defines a liability as “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.” A company’s pension liability associated with past transactions or events as of the date of the financial statements is the ABO.

The PBO represents a “what if” scenario, assuming an employee works for an employer until retirement and receives regular increases in compensation. This is increasingly not the case in today’s business environment. In addition, pension benefits associated with future compensation increases have not been earned by the employee until future service has been provided by the employee and increases have been awarded by the employer. Therefore, we believe the PBO is appropriately included as a disclosure in the notes to the financial statements, similar to other commitments that do not represent obligations for accounting purposes. The ABO represents the legal obligation to the employee if the plan ceased or was frozen on the date of the financial statements and is the appropriate economic obligation to be considered for recognition in financial statements. Such obligation should be recognized in financial statements to the extent that it has not been satisfied by the contribution of assets to an irrevocable trust. Such contributed assets should be measured at the fair value at the measurement date.

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We believe the current footnote disclosures for defined benefit pension plans and other postretirement plans provide the users of the financial statements a transparent view of the obligations of a company, and that recognition of a minimum liability for plans whose ABO exceeds the fair value of the plan assets ensures that the balance sheet properly reflects the committed obligations of a company.

We believe that the issues addressed in this proposed Statement should be combined with the next phase of the Board's examination of accounting for defined benefit pension plans and other postretirement benefits. It does not make sense to us to change pension accounting on a piecemeal basis, resulting in different standards for balance sheet and income statement issues. Retrospective adjustments for changes in accounting principles tend to confuse users of financial statements, and we would much prefer to execute one comprehensive change if necessary.

Issue 4: Measurement Date

Based on our understanding of the proposed requirements, two valuations would be required during a single year as a result of the change in the measurement date. In addition, retrospective adjustments would also be required in 2006 and 2007. If a company is no longer able to use an early measurement date, the transition provisions should allow one restatement in a manner that would not require a company to incur incremental internal and external valuation and audit costs associated with a stub period. In our situation, this would mean a change in the measurement date from October 31 in the 2006 reporting year to December 31 in the 2007 reporting year (i.e. a 14 month period between actuarial valuations).

Other General Observations

Additionally, during recent years the decrease in corporate bond yields and the effect on the discount rate used by companies has led to increases in the number of underfunded plans reported by large companies. This has been widely publicized, leading to requests by the investment community and the general public to review pension accounting standards. However, investment-grade bond yields have already increased by as much as seventy-five basis points in 2006, and if the trend continues, companies who had underfunded plans at December 31, 2005, could potentially have overfunded plans at December 31, 2006. It will be interesting to see if investors accept the result of presenting the funded status in the balance sheet if the result is a significant increase in total assets which generally are not available for corporate use.

The funded status of a defined benefit pension plan is determined using a discount rate that reflects bond yields as of the valuation date. The rates used vary by company based on subjective circumstances. We would support a requirement for the use of a specific benchmark rate table by all companies that must issue US GAAP financial statements. Such table would provide current rates for yields for bonds with annual maturities for the next 50 years, and each company would be required to use the rate in the table that

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matched the expected average benefit payment period for its workforce. This would enable consistent reporting among all companies and eliminate subjectivity in the determination of the discount rate.

Finally, the Board should consider the fact that virtually all companies have the option to eliminate or freeze their plan at any given date. While this reinforces our view regarding the ABO being the appropriate obligation to include in the calculation of a pension obligation, it also leads us to believe that issuance of this pronouncement in its current form will likely encourage debt-laden or struggling companies with traditional pension plans to eliminate such plans at the expense of the employee. It will also likely accelerate the current trend of elimination of traditional pension plans in the US, at a time when the US savings rate is extremely low and global market development is increasing pressure on the US worker.

Thank you for considering our input to the standard setting process. Please call us if you have questions or would like to discuss any of our comments.

Sincerely,

A handwritten signature in black ink, appearing to read "Scot McDonald". The signature is fluid and cursive, with a large initial "S" and "M".

Scot McDonald

Vice President, Corporate Controller

Following is our current timeline for the annual valuation, which is performed as of October 31:

- Planning meeting in early September
- October – Preliminary conversations between local management and the local actuaries to discuss the pertinent market conditions and economic indicators and the expected impact on the valuation.
- Early November, local management finalizes assumptions based on October 31 economic indicators
- Mid to late November – Corporate management approves global assumptions.
- Early December – Final assumptions are presented to the Company’s external auditors.
- Throughout December – External auditors communicate with their local audit teams and national valuation specialists. Discussions to answer questions are difficult to coordinate because of the differences in time zones and the schedules of the individuals involved. Since the external auditors’ valuation specialists must review the assumptions of numerous clients in addition to those of EDS, we expect this to be especially challenging if all calendar year filers must perform valuations as of the same measurement date.
- Mid December – EDS receives a draft of the global valuation report from its actuaries. Again, this would be especially challenging for the actuaries if all calendar year filers must perform valuations as of the same measurement date. It is likely that valuation reports would be received early to mid February based on current timelines, thus causing difficulties in meeting reporting deadlines.
- Late December – Responsible parties in each country are required to review the draft report and verify census data, contribution data, and the assumptions used by the actuaries. Any corrections will be incorporated into the final report.
- Late January – The actuaries deliver the final report. A journal entry is usually required to adjust the accounts based on the final valuation report.

The process summarized above consumes a significant amount of time because of the coordination between personnel in different offices, time zones and countries, as well as the coordination with the actuaries and auditors in different cities and countries.