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VIA E-MAIL to director@fasb.org, File Reference No. 1025-300

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Technical Director – File Reference No. 1025-300
Financial Accounting Standards Board
401 Merritt 7
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LETTER OF COMMENT NO. 182

Subject:

**Proposed Statement of Financial Accounting Standards
Employers' Accounting for Defined Benefit Pension and Other Postretirement
Plans**

I am the Senior Vice President and Chief Financial Officer of Brunswick Corporation ("Brunswick"), a Fortune 500 public company that is a global leader in marine engines, pleasure boats, fitness equipment, bowling and billiards, and emerging technologies. Brunswick sponsors a number of defined benefit pension plans and other postretirement benefit (OPRB) plans covering thousands of participants around the world.

As a preparer of financial statements, I understand the need for transparent accounting and reporting. Our management team supports FASB's efforts to improve the value and relevance of financial information reported to the users of financial statements by revisiting the decisions made 20 years ago in developing SFAS Nos. 87 and 106. However, we have significant concerns about the proposed statement of financial accounting standards, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Benefit Plans*, which would amend SFAS Nos. 87, 88, 106, and 132(R):

- **Implementation costs and retrospective application.** The implementation costs of the proposed standard will be significant. To minimize transition costs, the effective date should be at least six months after publication of the final standard, and the transition method (retrospective application) should be modified.
- **Pension liability measure.** The accumulated benefit obligation (ABO) – the current value at the measurement date of benefits earned to date by our current and former employees – is the most appropriate measure of the market value of pension liabilities. The ABO – not the projected benefit obligation (PBO) – should be used to determine the required balance sheet recognition.
- **Liability measure for other postretirement benefits.** Because OPRB plans can be unilaterally reduced or eliminated, their APBO does not meet the definition of a liability under Concept Statement 6. Required balance sheet recognition of OPRB plans should include only the present values of future benefits to which participants have a legally binding right.

These concerns are detailed on the next page.



Implementation Cost and Retrospective Application

We disagree with the Board's conclusion that implementation costs will not be significant, as described under Issue 1 of the *Notice for Recipients of This Exposure Draft*. We estimate our costs to implement the proposed statement will be significant. To minimize the implementation costs, the effective date should be at least six months after publication of the final standard.

Our practice is to show a 6-year history of key financial results so that users of our financial statements will understand long-term trends affecting our business. We understand that retrospective application would require us to revise *all* financial results shown in our financial statements issued after the effective date – even results for periods for which we do not show complete financial statements. We have estimated it will be very costly to revise key financial results for the past 6 years because of the effort required to compile the 6 years of detailed historical information for all of the pension and OPRB plans we sponsor around the world. The only option the exposure draft gives us for lowering this implementation cost is to reduce the number of years of historical information we show – information we believe users of our financial statements find very valuable.

To reduce the implementation cost to a reasonable level while maximizing the value of our financial statements to users, retrospective application should be required only for periods for which complete financial information is shown. Summary results shown for earlier periods should simply be footnoted to indicate they were determined under GAAP accounting standards in effect at the time and do not reflect new pension and OPRB accounting rules.

Pension Liability Measure

The projected benefit obligation (PBO) – the present value of a hypothetical benefit determined by dividing projected retirement benefits (including assumed pay increases between the valuation date and the assumed retirement date) by benefit accrual service to the assumed retirement date – is *not* a measure of the “market value” of plan liabilities. Rather, it is merely another SFAS No. 87 smoothing mechanism designed to produce a more level pattern of net periodic cost over participants' careers. The PBO includes amounts related to future salary increases that are not yet liabilities of the company as defined in Concept Statement 6. Requiring balance sheet recognition of the PBO goes against the underlying conceptual framework of GAAP accounting and artificially increases plan sponsors' liabilities. It will discourage the continuation of defined benefit plans, a result that cannot be undone if the Board decides in Phase 2 that the accumulated benefit obligation (ABO) – or some other measure – is the correct measure for balance sheet recognition (and perhaps also for expense).

The ABO – the present value of benefits earned by our current and former employees as of the measurement date – is the appropriate market-value measure of pension liabilities. Use of the ABO to determine balance sheet recognition is a logical extension of the current SFAS No. 87 additional minimum liability rules. It would also improve comparability among companies. Using ABO, my company's balance sheet liability for a 40-year-old employee who has earned a benefit of \$10,000 per year payable starting at age 65 would be the same as any other company's balance sheet liability for a 40-

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year-old employee with the same accrued benefit – a logical and consistent result. But by using PBO, different companies' balance sheet liabilities for identical participants with identical accrued benefits will vary according to whether the pension plan is frozen, flat dollar, career pay, or final pay – a result that defies logic. For these reasons, the ABO, not the PBO, should be used to determine any required balance sheet recognition.

OPRB Liability Measure

OPRB obligations are fundamentally and substantively different from pension obligations and as such require a different balance sheet liability measure. In a pension plan, the ABO becomes fully vested upon plan termination. The only way an employer can reduce pension liabilities below the level of the ABO is by underfunding the plan and entering bankruptcy. But this is not the case for OPRB plans.

Similar to the PBO for pension plans, the APBO may be appropriate for long-term budgeting or expense, but it is not a "market value" of liabilities. Because OPRB plans can be unilaterally reduced or eliminated, their APBO does not meet the definition of a liability under Concept Statement 6. In fact, like most employers, Brunswick has reserved the right to unilaterally reduce or eliminate OPRB liabilities for all participants. As such, including the entire APBO for all OPRB plans on the balance sheet vastly overstates the company's OPRB liability. A different balance sheet liability measure is needed for OPRB plans.

We appreciate your consideration of these comments. Please call me if we can provide any additional clarification or assistance.

Sincerely,



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