

LETTER OF COMMENT NO. 204

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

RE: Exposure Draft Comments Regarding Accounting for Defined Benefit Pension Plans and Other Postretirement Benefit Obligations – File Reference No. 1025-300

Dear Ms. Bielstein:

Hormel Foods Corporation appreciates the opportunity to comment on the proposed changes to accounting for defined benefit pension and other postretirement benefit obligations. As both a plan sponsor and issuer of financial statements, we support the overall efforts being undertaken to improve the transparency and relevance of the accounting for benefit obligations. We believe the current standards provide for accounting and disclosure that is useful to only the most sophisticated readers, and it is difficult for the average investor to assess the company's obligations and future cash flows associated with defined benefit pension and other postretirement benefit plans.

While we support the effort to modify the current accounting standards related to benefit plans, we believe the current exposure draft takes too conservative a position on the issues of balance sheet recognition of the obligations and the measurement date used for the plan valuations. Specific comments related to these issues are detailed below.

Balance Sheet Recognition - Pension Plans

We believe the proposed balance sheet recognition of the funded status of the plan using the projected benefit obligation (PBO) less plan assets is too conservative a measure of the plan sponsor's benefit obligations and does not fit within the concept of principles based accounting. We feel a more meaningful measure on the balance sheet is the funded status calculated using the accumulated benefit obligation (ABO) which is consistent with current minimum liability requirements.

Given that a balance sheet is intended to present a snapshot of the company's assets and obligations at a point in time, the ABO is a more relevant measure of the company's true liabilities at the balance sheet date. The PBO is less relevant to the current financial position of the company because of the assumption that salaries will increase at an

estimated rate in the future – an increase the company is under no legal obligation to make. Furthermore, because the ABO represents the benefits that plan participants have earned based on services rendered to date, the ABO would remain on the company's balance sheet if the defined benefit plans were frozen. Putting the PBO on the balance sheet contradicts the definition of a liability under the conceptual framework.

The exposure draft as currently written is also biased toward liability recognition in that no provision for the future growth of plan assets is permitted to offset the increased obligation. At a minimum, projections of future plan asset balances calculated using a growth rate for a safe investment such as U.S. Treasury notes should be allowed into the valuation. Congruence between asset and liability measurement is necessary to give a fair representation of the plan sponsor's financial condition.

Balance Sheet Recognition - Other Postretirement Benefit Plans

Other postretirement benefit (OPRB) obligations are fundamentally different from defined benefit pension obligations and should require different balance sheet treatment. Most OPRB plans allow the plan sponsor to unilaterally reduce or eliminate OPRB obligations for all employees. Our company in the past has exercised this right and put limitations on the benefits that certain employee groups can accrue. Therefore, the ABO for the OPRB plans is not necessarily representative of the true liability to plan participants.

We believe liability measurement should only include the portion of the ABO calculated for participants who are fully eligible for post-retirement benefits. This is still a conservative measure since plan sponsors can and frequently do eliminate or reduce benefits for retired employees receiving post-retirement benefits.

Plan Measurement Date

When the original pronouncements governing the accounting for pension and postretirement benefit obligations were issued, the FASB recognized the practicality of allowing plan sponsors to measure plan assets and liabilities up to three months before the end of the sponsor's fiscal year. Since the original issue date of these pronouncements, much has changed in the world of financial reporting. In most cases, these changes have placed increased burdens on financial staffs to issue reports more quickly and with more complex disclosures. Requiring that the plan measurement dates coincide with the end of fiscal year is not practical given the requirements for accelerated financial reporting.

As a plan sponsor, we currently use a measurement date that is three months prior to the end of our fiscal year. Using this date allows us sufficient time to contemplate the correct assumptions to use for the discount rate and expected return on plan assets – both of which have a significant impact on our plan valuations. Furthermore, we have

identified the process of setting these assumptions as a critical accounting policy and feel that the process deserves more attention than can be given during a year-end close process already filled with other demands for equally important processes.

We close our general ledger by the end of the eighth business day following the end of the fiscal year. Maintaining this schedule is necessary to complete the financial consolidation and review results internally and externally before making a public earnings release. Given the complexity of the actuarial valuation process, we feel we will most likely have to delay our general ledger close so the required adjustments can be booked after receiving the final reports from our actuaries. With the inevitable time pressure the valuation will be completed under, the opportunity for a thorough review of the results will be diminished and errors will be more likely to occur. We believe the interests of investors are better served by providing more timely financial information than the benefits that would be obtained by moving the plan measurement date forward.

One argument cited for moving the measurement date forward is to force recognition of the expense associated with plan curtailments and settlements made in the fourth quarter. Under the current pronouncements, expense recognition can be avoided by using a measurement date three months prior to the end of the fiscal year. We agree that a discrete event such as a curtailment or settlement should recognized in the fiscal year it occurs regardless of the measurement date used for the benefit plans. However, we believe this issue can be addressed in a way that still permits the early measurement of plan assets and liabilities to facilitate accelerated financial reporting.

Conclusion

We believe our suggestions will enhance the quality of the financial reporting of pension and other postretirement benefit plan obligations by balancing increased transparency with the conceptual framework and requirements for accelerated financial reporting.

Thank you for considering our comments.

Sincerely,

MICHAEL J. McCOY

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