



## VECTOR GROUP LTD.

J. BRYANT KIRKLAND III VIGE PRESIDENT, TREASURER AND CHIEF FINANCIAL OFFICER

May 31, 2006

Technical Director – File Reference No. 1025-300 Financial Accounting Standards Board 401 Merritt 7 P.O. Box 5116 Norwalk, CT 06856-5116

Re: 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)

I am the Chief Financial Officer of Vector Group Ltd. ("Vector"), a NYSE traded company that is engaged in the manufacture and sale of cigarettes in the United States through its subsidiary Liggett Group LLC, the development and marketing of the low nicotine and nicotine-free QUEST cigarette products and the development of reduced risk cigarette products through its subsidiary Vector Tobacco Inc. and the real estate business through its subsidiary New Valley LLC. Vector and its subsidiaries sponsor four defined benefit retirement plans ("Pension") and two other postretirement benefit ("OPRB") plans covering approximately 2,600 participants.

As a preparer and user 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 Statement of Financial Accounting Standards ("SFAS") Numbers 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*, ("the Exposure Draft") which would amend SFAS Numbers 87, 88, 106, and 132(R).



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Our primary concern relates to the Exposure Draft's proposal to not allow the use of a measurement date of up to three months prior to fiscal year-end. Pension and other postretirement benefit plan assets and obligations are significantly different from other types of assets or liabilities recognized in our financial statements and require additional lead time to be accurately measured. A measurement date up to three months prior to fiscal year-end remains appropriate. In contrast, a fiscal year-end measurement date would represent false precision and would not materially improve the accounting. Instead, it would force us and other companies to use estimation techniques rather than accurate values as of an earlier measurement date and it would increase the potential of reporting errors.

We presently use a measurement date that is three months before our fiscal year-end. We believe Pension and OPRB assets and obligations are significantly different from other types of assets and liabilities reported in the balance sheet and continued use of a measurement date within three months of fiscal year-end is appropriate. If FASB nonetheless decides to require a fiscal year-end measurement date, the proposed method of transition seems unnecessarily costly.

As mentioned above, Pension and OPRB assets and liabilities are significantly different from other types of assets and liabilities reported in our financial statements because most other financial statement items are merely summaries of activity during the year. However, Pension and OPRB reporting and disclosures require gathering new information and subjecting the information to extensive actuarial and accounting calculations, analysis and review. The following table details the steps and current timing involved in preparing our year-end calculations and disclosures.

Activity	Timing
Prepare cash-flow projections for discount rate determination.	By measurement date
Collect and review interest rates, yield curves and liability durations and internally decide on discount rates.	2 weeks after measurement date
Obtain approval from independent certified public accounting firm of discount rates selected for each plan; provide discount rates to actuaries to use in computing benefit liabilities.	2½ weeks after measurement date
Collect asset information as of the measurement date for each plan.	30 days after measurement date
Collect benefit liabilities and related information from actuaries and review for reasonableness.	5 weeks after measurement date



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Activity	Timing
Consolidate the liability and asset information for all plans to generate preliminary reconciliations.	6 weeks after measurement date
Review reconciliations against subsidiary books and consolidated reporting to identify any issues.	7 weeks after measurement date
Investigate any issues identified in the preceding step and make adjustments as appropriate.	8 weeks after measurement date
Determine fourth-quarter benefit payments from unfunded OPRB and nonqualified Pension plans (this step would be eliminated by using a fiscal year-end measurement date)	1 – 2 weeks after fiscal year-end
Make, reconcile and review subsidiary financial statement entries (this step would become much more difficult and significant with required balance sheet entries to recognize the funded status of all Pension and OPRB plans).	2 weeks after fiscal year-end
Obtain final SFAS No. 132 report with footnote information from actuaries.	3 – 4 weeks after fiscal year-end
Draft consolidated retirement plans footnote and MD&As and circulate internally for review and approval	4 – 5 weeks after fiscal year-end

In particular, we are concerned about the time required for our actuary and our trustee to adequately gather information necessary to prepare a complete and accurate estimate of Pension and OPRB liabilities.

- Obtain market values of assets. Market values of insurance contracts and private equity and hedge funds are not generally available until 45 days after the measurement date. If a fiscal year-end measurement date must be used, this leaves insufficient time to complete our financial statements by the accelerated filing financial reporting deadlines promulgated by the Securities and Exchange Commission ("SEC"). To cope with a fiscal year-end measurement date, we would be forced to roll forward market values determined as of an earlier date for these assets which offers little or no benefit compared to using an earlier measurement date.
- Select the discount rate for each plan. We use a quantitative analysis that examines the prevailing prices of high quality bonds to determine the appropriate discount rate for each plan. However, the underlying information related to applicable yields and prices of high-quality bonds prevailing at the measurement date is usually not available for two weeks after the measurement date. It must then be matched against projected cash flows to determine the appropriate discount rate, a process that requires a few business days. After we provide the discount rate to our actuary, the actuary needs another two weeks to determine all the



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required plan liabilities (including ABO for Pension plans and trend-sensitivity demonstration for OPRB plans), reconcile the funded status, and prepare the balance sheet entries and footnote disclosures. If a fiscal year-end measurement date must be used, liabilities will not be available until four to five weeks after fiscal year-end, which leaves insufficient time to complete our financial statements by the accelerated SEC filing deadline. To cope with a year-end measurement date requirement, we would need to either (i) adopt a less accurate discount-rate selection method (for example, using a bond yield index) or (ii) before fiscal year-end, perform multiple liability measurements using a range of discount rates – at substantial additional cost – and then select which measure to use after the appropriate discount rate is determined.

- Obtain claims cost information for OPRB plans. Our OPRB plan administrator does not provide claims information until approximately one month after the measurement date. If forced to use a fiscal year-end measurement date, we will have to determine our starting claims cost using payments as of an earlier date plus estimated claims through fiscal year-end. As stated previously, the proposed process offers no improvement compared to using an earlier measurement date.
- Consolidate results. As previously indicated, we have four defined benefit Pension and two OPRB plans. Gathering data from actuaries and consolidating it is currently an eight-week process. Rushing this process may result in errors, which could result in unreliable information being provided to our stockholders.

Our time for completing these tasks has already been compressed by the SEC's accelerated filing requirements. Beginning with the year ending December 31, 2006, we believe we will have only 60 days after year-end to file our Form 10-K, compared with 75 days for the year ended December 31, 2005 and 90 days prior to years ending before December 31, 2003. Further compressing the time frame by requiring use of a fiscal year-end measurement date would increase the likelihood that errors will make their way into our future financial statements.

We believe Pension and OPRB assets and obligations are significantly different from other types of assets and liabilities recognized in our financial statements and require additional lead time to measure accurately. The use of a measurement date up to three months prior to fiscal year-end remains appropriate, and SFAS Nos. 87 and 106 should not be amended to require use of a fiscal year-end measurement date. Such a requirement would not materially improve the accounting. As a practical matter, it would force us to use estimation techniques rather than accurate values at the earlier disclosed measurement date and it would increase the chance of material errors in our financial statements. Therefore, the proposed requirement represents false precision and could result in inaccurate and misleading information.



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

Very truly yours,

J. Bryant Kirkland III

Vice President, Treasurer & CFO

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CC: Members of the Board of Directors of Vector Group Ltd.

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