



Vought Aircraft Industries, Inc.  
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May 30, 2006

Mr. Robert Herz, Chairman  
Financial Accounting Standards Board  
401 Merritt 7  
P.O. Box 5116  
Norwalk, CT 06856-5116



LETTER OF COMMENT NO. 149

REF: File #1025-300 Employer's Accounting for Defined Benefit Pension and other Postretirement Plans – an Amendment of FASB Statements No. 87, 88, 106 and 132R

Dear Mr. Herz:

Vought Aircraft Industries, Inc. (Vought) greatly appreciates the Financial Accounting Standards Board's effort to move to international accounting standards. However, we believe that the changes for pensions will cause more uncertainty in the capital markets and be detrimental to the formation and maintenance of defined benefit plans. The additional uncertainty would not be in the best interest of the plan participants, plan sponsors, or investors. Our concerns follow.

**Balance Sheet Recognition Concerns**

The recording of pension funds on plan sponsors balance sheets runs contrary to the spirit of ERISA, the governing regulation for American corporate pensions. ERISA was created to protect plan participants with plan assets removed from the control and influence of the plan sponsor and held in trust for the participants.

The recording of additional contingent liabilities on plan sponsors' financial statements will result in unnecessary concern and disruption in the capital markets. For example, the increased liabilities could result in violation of existing debt covenants and government regulations. The unnecessary churn and disruption of debt covenants and agreements will not add value. Many plan sponsors will face increased liabilities. For 2005, Greenwich Associates reported an average funding status of 91% for corporate pension plans – many corporations would be impacted.

Measuring pension liabilities with the Projected Benefit Obligation (PBO) instead of Accumulated Benefit Obligation (ABO) is not appropriate as it assumes salary increases that are uncertain, not guaranteed, and can vary significantly from year to year. If a change is made, it should be based on ABO, as it is the best available true measure of the current economic agreements. The PBO measurement does not equally address pension plan designs as benefit formulas using some form of final average salaries are treated differently than other formulas, for instance, those formulas that are a negotiated dollar amount per each year of service.

**Increased Volatility of Pension Expense**

Pensions, by their nature, are long-term commitments made by plan sponsors. Over the years, the use of smoothing techniques has served plan participants well. Smoothing,

which reflects the long-term nature of pensions, has made plan sponsors more willing and able to maintain pension programs.

The removal of smoothing techniques and recognition of fair value will result in significant volatility to the balance sheet. This volatility will not be in the best interests of plan participants as plan sponsors may seek alternatives to pensions by freezing and abandoning pension plans and in doing so increase pressure on the PBGC.

To show how dramatically pension fund assets could swing around a balance sheet, please look at the attached diagram on the Distribution of Return from Buck Consultants. This diagram shows the wide range of expected returns in the short-run. Basically, in any one year a typical American corporate pension plan could reasonably expect to experience returns ranging from -8% to 29%, a swing of 37%. Once every 20 years, returns could go below the -8% as the range shown is for a 90% confidence interval. But over the long-term, return ranges tighten, with the expected range going from 4 - 15% for a 10-year average and 5% - 12% looking over 30 years. Using a long-term smoothed rate of return better reflects the long-term nature and economic reality of pension funds.

#### **Operational and Implementation Issues**

In order to implement these recommendations, plan sponsors will incur additional accounting and actuarial costs. With the requirement that plan sponsors revise historical financials to the extent possible, the additional accounting and actuarial costs plan sponsors will face will be significant.

#### **Splitting the Exposure Draft into Two Phase**

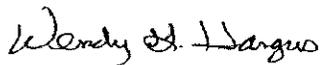
By addressing only the balance sheet in Phase I, the balance sheet and income statement will be out of synch and could cause inconsistencies or other time-consuming issues when they are synchronized after Phase II implementation.

#### **Availability of Market Value Information for Alternative Investments**

Many plan sponsors have invested in private real estate, private equity and other alternative investment partnerships directly or through funds of funds, investments that historically have increased returns and dampened volatility of pension funds' portfolios. Historically, the partnerships have taken up to 5 months after yearend to produce audited financials which in turn has meant that audited, fund of fund statements might not be available until 6 months after yearend. Given the industry and contracting practices for these investments, the plan sponsors have little realistic recourse to require more timely audited financials of the partnerships or funds of funds. The result is that plan sponsor's balance sheet will reflect a portion of pension assets with out-of-date valuation dates that differ from the measurement date.

We appreciate the opportunity to provide comments on this important subject and hope that the Board considers the concerns raised.

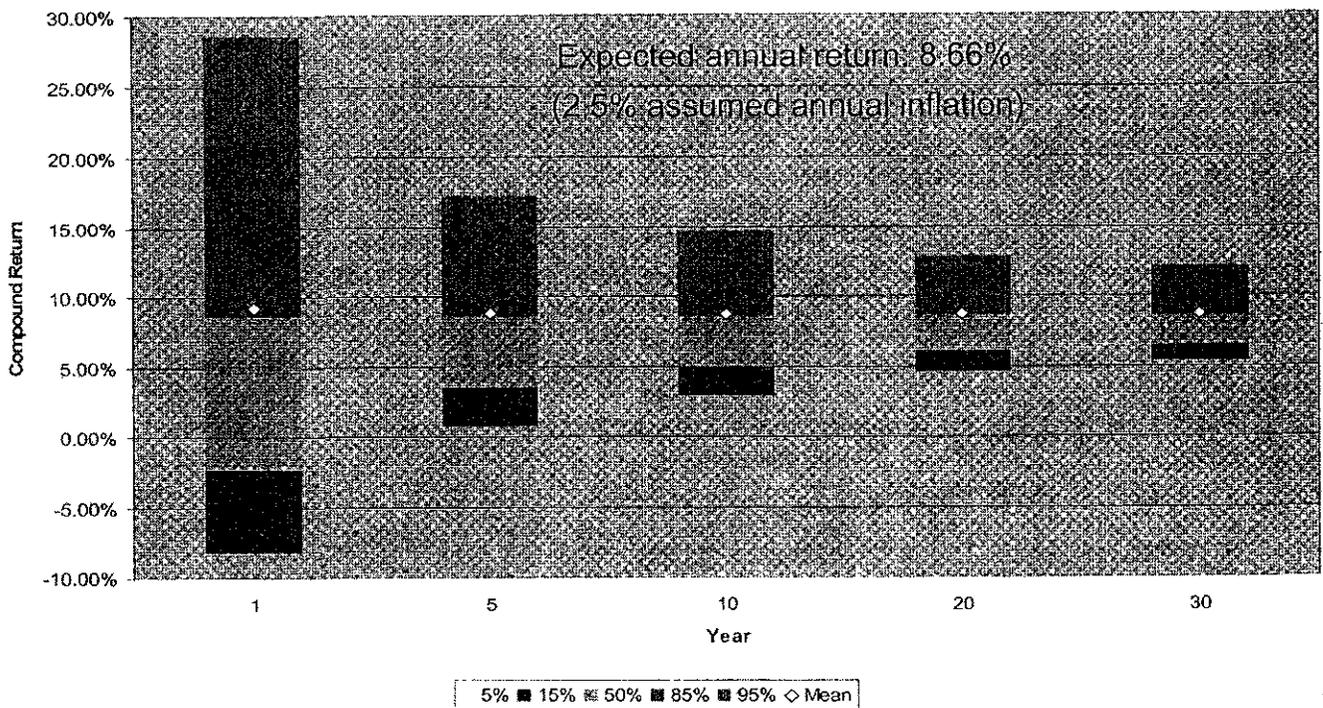
Sincerely,



Wendy G. Hargus  
Treasurer and Acting Controller  
Vought Aircraft Industries, Inc.

# Distribution of Nominal Returns

70% equity, 30% fixed income



Attachment