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Vice President and Chief Financial Officer



May 31, 2006

LETTER OF COMMENT NO. 217

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



**RE: File Reference No. 1025-300, Exposure Draft of the Proposed Statement of Financial Accounting Standards, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans"**

**FILED ELECTRONICALLY (director@fasb.org)  
AND SENT VIA U.S. Mail**

Dear Mr. Herz:

We appreciate the opportunity to comment on the Financial Accounting Standards Board's ("FASB" or "the Board") Exposure Draft of a Proposed Statement of Financial Accounting Standards, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans" (the "Proposed Standard"). This letter summarizes our views and concerns regarding this Proposed Standard.

We commend the Board for reconsidering the accounting for postretirement benefits, including pension plan benefits. This project should improve the transparency in employers' accounting and the representational faithfulness and usefulness of the underlying disclosures. We also support the concurrent re-evaluation jointly with the International Accounting Standards Board and strongly agree it will be critically important to coordinate this project with the Board's work on the conceptual framework, financial performance reporting and consolidations

We are, however, concerned with the Board's planned two-phase approach and with certain conclusions reached in the first phase of the project. We do not think the projected benefit obligation (PBO) is the most appropriate basis for measuring the employer's obligation for postretirement benefits. We think the accumulated benefit obligation (ABO) is more appropriate. However, if the Board thinks a change is necessary, this might better be evaluated during the re-evaluation of the accounting for postretirement benefits planned for phase two. In addition, we are concerned with the practical implications of requiring use of a year-end measurement date.

We have provided a summary of our more significant comments, concerns and suggestions in the following paragraphs and have attached a more detailed Exhibit addressing the Board's "Issues."

**Measurement of the Employer's Obligation for Postretirement Benefits**

Generally, we do not think the PBO is the most appropriate basis for measuring the employer's liability since it incorporates participants' estimated future salary increases. The inclusion of future salary increases in determining the employer's obligation is inconsistent with the definition and characteristics of liabilities as set forth in the Statement of Financial Accounting Concepts No. 6, "Elements of Financial Statements" (SFAC No. 6), which defines liabilities as follows:

Liabilities are 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.**

SFAC No. 6 further describes the characteristics of a liability as follows:

A liability has three essential characteristics: (a) it embodies a present duty or responsibility to one or more other entities that entails settlement by probable future transfer or use of assets at a specified or determinable date, on occurrence of a specified event, or on demand, (b) **the duty or responsibility obligates a particular entity, leaving it little or no discretion to avoid the future sacrifice,** and (c) **the transaction or other event obligating the entity has already happened.**

The employer's obligation for postretirement benefits arising from projected future salary increases should not accrue until these salaries have actually been paid or the employer is otherwise contractually obligated to pay such amounts to plan participants. Future salary increases in this context represent the obligating "transaction or event," and have not yet "happened." Therefore, the employer's duty to pay postretirement benefits attributable to salary increases has not yet been incurred. Likewise, participants have not earned the right to postretirement benefits arising from future salary increases and will not earn the right to these benefits until their future services have been performed and related salaries have been earned.

The employer still has the "discretion" to amend or terminate the plan and, thereby, "avoid the future sacrifice." In fact, in the event the employer elects to terminate the plan, settlement of the employer's obligation will be based on the ABO, not the PBO. The ABO is the most relevant measure of the employer's liability since it incorporates the participant's services performed and compensation earned through the date of the balance sheet.

We recognize salary escalation is included in determining net periodic pension cost under the projected unit credit method required by Statement of Financial Accounting Standards No. 87, "Employers' Accounting for Pensions" (SFAS No. 87). This method was developed in order to recognize projected benefits more evenly over the period of an employee's service since benefits would otherwise increase geometrically as employees' salary, age and credited service increase. While this

may be appropriate from a prudent funding standpoint, it is not consistent with the definition of a liability in the current conceptual framework.

Therefore, we think comprehensive re-evaluation of the accounting for postretirement benefits (currently planned as the second phase of the project) would provide a better opportunity to align funding and financial reporting considerations. There are a number of elements in addition to the definition of the employer's obligation for postretirement benefits which may need to be re-evaluated, including net periodic pension cost, actuarial methods and applicable discount rates. Re-evaluating these elements collectively would promote internal consistency and alignment with the Board's evolving deliberations on the conceptual framework, financial performance reporting and consolidations

### **Measurement Date**

In determining plan assets and obligations under SFAS No. 87, employers are currently permitted to use a measurement date up to three months prior to the balance sheet date. This affords adequate time for employers to accumulate asset information and data for use in actuarial valuations.

We are very concerned with the Board's plan to require measurement of assets and obligations as of the balance sheet date. For corporations operating in many countries with numerous pension plans, collection of asset information is frequently a painstaking, time consuming process. Actuarial valuations similarly require collection of substantial demographic data and involve complex calculations. In addition, employers must establish the economic assumptions to be used in the actuarial valuation for each plan, such as the discount rate and expected rate of return on plan assets. Employers then review these assumptions with their actuaries and independent auditors, further extending the time necessary to complete the measurement process, particularly where employers administer multiple plans in various countries..

Use of a year-end measurement date will be substantially more problematic for public companies given the acceleration of SEC filing deadlines and the limited number of globally qualified actuarial firms available to address actuarial requirements for thousands of companies in a significantly compressed time frame. Moreover, a year-end measurement date would not result in any meaningful improvement in the resulting information in view of the statistical nature of an actuarial valuation and the numerous, often subjective assumptions and estimates used in the underlying calculations. We therefore recommend retaining the current flexibility of the "three-month window" between measurement and balance sheet dates.

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Thank you for your consideration of our views. We would be glad to meet with you or your staff to discuss this matter further at your convenience.

Sincerely,



Michael E. Keane  
Chief Financial Officer

cc: *Members of the Financial Accounting Standards Board*

Attachment

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**CSC Responses to Specific FASB Requested Issues**

**Costs of Implementing the Proposed Statement's Requirement to Recognize a Plan's Overfunded or Underfunded Status in the Employer's Statement of Financial Position**

**Issue 1:**

The Board concluded that the costs of implementing the proposed requirement to recognize overfunded or underfunded status of a defined benefit postretirement plan in the employer's statement of financial position would not be significant. That is because the amounts that would be recognized are presently required to be disclosed in the notes to the financial statements, and, therefore new information or new computations, other than those related to income tax effects, would not be required.

Do you agree that implementation of this proposed Statement would not require information (other than that related to income tax effects) that is not already available, and, therefore, the costs of implementation would not be significant? Why or why not?

**Response:**

The principal cost of the current planned approach would be the potential acceleration of the continuing decline in defined benefit pension plans as a viable means of financing the retirement of the workforce in this country. By overstating the employer's obligation for postretirement defined benefit plans, many more companies will conclude they can no longer afford to provide these benefits.

The requirement to retrospectively restate prior year's financial statements would also result in substantial costs for employers and their actuaries and accountants. There will be additional costs where employers must renegotiate debt covenants and other contractual agreements impacted by the change in financial reporting.

Employers will incur even more substantial costs in complying with the use of a year-end measurement date for plan assets and benefit obligations. This matter is discussed more fully under Issue 2 below.

**The Employer's Measurement Date**

**Issue 2:**

Unless a plan is sponsored by a subsidiary that is consolidated using a fiscal period that differs from the parent's, this proposed Statement would require that plan assets and benefit obligations be measured as of the date of the employer's statement of financial

position. This proposed Statement would eliminate the provisions in Statements 87 and 106 that permit measurement as of a date that is not more than three months earlier than the date of the employer's statement of financial position.

Are there any specific implementation issues associated with this requirement that differ significantly from the issues that apply to other assets and liabilities that are recognized as of the date of the statement of financial position?

**Response:**

We are very concerned with the Board's plan to require measurement of assets and obligations as of the balance sheet date. For large global corporations operating with numerous pension plans in many countries, collection of asset information is frequently a painstaking, time consuming process. Actuarial valuations similarly require collection of substantial demographic data and involve complex calculations. In addition, employers must establish the economic assumptions to be used in the actuarial valuation for each plan, such as the discount rate and expected rate of return on plan assets. Employers must then review these assumptions with their actuaries and independent auditors, further extending the time necessary to complete the measurement process, particularly where employers administer multiple plans in the various countries in which the company conducts its global business.

Use of a year-end measurement date will be substantially more problematic for public companies given the acceleration of SEC filing deadlines and the limited number of globally qualified actuarial firms available to address actuarial requirements for thousands of companies in a significantly compressed time frame. Moreover, a year-end measurement date would not result in any meaningful improvement in the resulting information in view of the statistical nature of an actuarial valuation and the numerous, often subjective assumptions and estimates used in the underlying calculations. We therefore recommend retaining the current flexibility of the "three-month window" between measurement and balance sheet dates.

**Effective Dates and Transition**  
**Recognition of the Overfunded or Underfunded Status**

**Issue 3(a):**

The Board's goal is to issue a final Statement by September 2006. The proposed requirement to recognize over- or underfunded statuses of defined benefit postretirement plans would be effective for fiscal years ending after December 15, 2006. Retrospective application would be required unless it is deemed impractical for the reason discussed below.

An entity would be exempt from retrospective application only if the entity determines that it is impracticable to assess the realizability of deferred tax assets that would be recognized in prior periods as a result of applying the proposed Statement.

Should the Board provide an impracticability exemption related to the assessment of the realizability of the deferred tax assets? Why or why not? Are there other reasons that retrospective application might be impracticable that the Board should be aware of?

**Response:**

We agree with the Board's impracticability exemption related to the assessment of the realizability of deferred tax assets and would encourage the Board to assess other possible situations where application may be impracticable.

As indicated under Issue 1 above, we do not think the PBO is the most appropriate measure of the employer's liability for postretirement defined benefit plans. If, however, the Board retains the PBO as the measure of the employer's liability, we would recommend the Board increase the transition period to allow companies to address the related potential contractual, legal and statutory implications which we think would be very substantial.

**Issue 3(b):**

Some non-public entities (and possibly some public entities) may have contractual arrangements other than debt covenants that reference metrics based on financial statement amounts, such as book value, return-on-equity, and debt-to-equity. The calculations of those metrics are affected by most new accounting standards, including this proposed Statement.

The Board is interested in gathering information for use in determining the time required to implement the proposed Statement by entities that have such arrangements other than debt covenants. That information includes: (a) the types of contractual arrangements that would be affected and what changes to those arrangements, if any, would need to be considered, (b) how the economic status of postretirement plans that is presently included in note disclosures is currently considered in those arrangements, and (c) how the effects of the current requirement in Statement 87 to recognize a minimum pension liability previously were addressed for those contractual arrangements.

**Response:**

Public and non-public companies in regulated industries are frequently subject to statutory financial compliance ratios. For example, the insurance industry is subject claims paid reserve coverage requirements, other organizations such as third party claims administrators are generally subject to minimum capital requirements. These types of financial compliance ratios are not typically affected by information disclosed in the notes. In these cases, organizations may need 12-18 months to mitigate erosion in financial metrics which could otherwise result in statutory non-compliance which could have significant regulatory implications.

**Measurement Date**

**Issue 4:**

This proposed Statement would require a public entity that currently measures plan assets and benefit obligations as of a date other than the date of its statement of financial position to implement the change in measurement date as of the beginning of the fiscal year beginning after December 15, 2006. If that entity enters into a transaction that results in a settlement or experiences an event that causes a curtailment in the last quarter of the fiscal year ending after December 15, 2006, the gain or loss would be recognized in that quarter. Net periodic benefit cost in the year in which the measurement date is changed would be based on measurements as of the beginning of that year.

Are there any specific impediments to implementation that would make the proposed effective date impracticable for a public entity? How would a delay to fiscal years ending after December 15, 2007, alleviate those impediments?

**Response:**

We do not think use of a year-end measurement date is practicable or necessary as indicated in our response to Issue 2 above.

**Not-for-Profit Organizations and Other Entities that Do Not Report Other Comprehensive Income**

**Issue 5:**

This proposed Statement would apply to not-for-profit organizations and other entities that do not report other comprehensive income in accordance with the provisions of FASB Statement No 130, "Reporting Comprehensive Income," paragraphs 7-13 of this proposed Statement would provide guidance for reporting the actuarial gains and losses and the prior service costs and credits by those organizations and entities.

Do you agree that those standards provide appropriate guidance for such entities? If not, what additional guidance should be provided?

**Response:**

No comment.