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GERALD I. WHITE, CFA
PRESIDENT

May 31, 2006

Ms. Sue Bielstein
Technical Director
Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, CT 06856-5116



LETTER OF COMMENT NO. 220

**Re: File Reference 1025-300, Employers' Accounting
for Defined Benefit Pension and Other Postretirement Plans**

Dear Ms. Bielstein:

I am writing this letter as someone who has been a financial analyst and investment advisor for more than thirty-five years. I have represented the analyst community in the financial reporting process, served on FASAC and several FASB task forces, and taught *financial statement analysis* at the graduate level. While some Board members and staff are familiar with my background, I have attached some biographical information to this letter.

The exposure draft represents an important step forward in the accounting requirements for pensions and other postretirement benefits. While the disclosure requirements of Statements 87, 88, 106, and 132(R) allowed financial analysts to adjust for the effects of such plans, the true plan status remained off-balance-sheet. Given the trend of financial reporting to fair value, the inclusion of net benefit assets or liabilities on the balance sheet is long overdue.

My only reservations about the ED lie in the area of disclosures. The new standards would continue to lack several disclosures that would enhance financial reporting at minimal cost to preparers. These are discussed later in this letter.

Responses to Specific Issues

Issue 1, Implementation Cost

I do not believe that the implementation cost of the ED would be significant. The only information that is currently unavailable relates to the deferred tax effects of current recognition. Currently analysts must make their own assessments of these tax effects. Preparers, given their long experience with Statement 109, are much better equipped to make the judgments required. The small incremental cost to preparers should be much smaller than the aggregate cost to financial statement users.

Issue 2, Measurement Date

I support the Board's decision to require that plan status be measured as of the reporting date. Financial statements already include complex information in such areas as foreign operations and derivatives. The inclusion of up-to-date benefit plan information should not be a hardship given the current reporting and disclosure requirements.

Issue 3, Recognition of Plan Status

- (a) The recognition of plan status on the balance sheet is the most important change mandated by the ED. If retrospective application is truly impractical (as opposed to merely inconvenient) for some preparers, an exemption is a small price to pay for this important improvement in financial reporting.
- (b) I recognize that such arrangements may exist. However contractual provisions based on reported data can, and frequently are, changed. They should not affect the Board's decision.

Disclosures

I agree, for the most part, with the Board's conclusions. However I disagree with respect to the following disclosures, which should be required:

Disclosure of Unamortized Amounts

Paragraph 6 (a) of the ED is not clearly written. I recognize that the prior requirement to reconcile plan status with recognized amounts would be obsolete given the complete recognition required by the ED. However unamortized prior service cost and net actuarial gain or loss remain important amounts that merit disclosure. These amounts will affect benefit cost in future years. While the requirement in paragraph 6(c) to disclose the estimated amortization in the following fiscal year is very helpful, it does not obviate the need for the unamortized amounts.

It is possible that the intent of paragraph 6(a) is to require such disclosure. As there are no relevant disclosures in Appendix A, I cannot be sure.¹ Therefore I request that the language of paragraph 6(a) be clarified to require the disclosure of unamortized prior

¹ If the intent of the ED was to omit these disclosures, then the summary and basis for conclusions should have had an explanation and justification for this change.

service cost and net actuarial gain or loss, and that Appendix A include an appropriate sample disclosure.

Market-Related Value of Plan Assets

In my experience, use of the market-related value of plan assets to report return on plan assets is virtually never disclosed, although it can sometimes be inferred. A requirement to report the market-related value for plans using that method (and the corresponding market value for those plans) would be virtually costless but would help financial statement users forecast benefit cost.

The ED states in paragraph B49, that the

aggregate market-related value would not necessarily be useful for an employer with multiple plans

I disagree. The disclosure of the market-related value of plan assets for plans that use that amount, and the corresponding market value of those same assets would provide useful information at minimal cost. Use of the market-related method tends to dampen the effect of changes in market value on benefit cost.

At a minimum, preparers should be required to disclose when this method is used.

Classification of benefit cost

Variations in benefit cost over time may result in significant effects on reported gross margin and on S, G, and A expense as a percent of sales, both important measures of corporate performance. Without knowing where those effects appear, financial statement users may draw misleading conclusions about management performance. The proposed disclosure should be virtually costless to preparers.²

Paragraph B72 states that:

The Board decided not to specify the display of postretirement benefit assets or liabilities at this time. The Board reasoned that the footnotes provide adequate disclosure about amounts recognized. In addition, SEC registrants are already subject to certain reporting requirements for significant assets and liabilities.

I agree that footnotes provide adequate information regarding *total* recognized amounts. However there is rarely any information about the income statement line(s) in which these amounts are included. Security prices can be affected by variations in gross margin or other line items that may seem small to an accountant, but are seen by investors as significant indicators of trend.

²The FASB Task Force on Financial Performance Reporting discussed separate reporting of benefit cost at its meeting on February 26, 2002. My recollection is that there was little disagreement that separate reporting, which would have the same effect as the proposed disclosure, would be beneficial.

One good example is General Motors. Assuming that its benefit costs relate entirely to its non-financial segment, both the level and change in total benefit costs was highly significant when comparing 2002 with 2001 profitability. As shown in the table below, the 2002 increase in total benefit cost was equal to one percent of sales. If all of this cost is included in costs of goods sold (COGS), it explains the entire increase in cost of goods sold as a percent of sales. Put differently, the gross margin (sales less COGS) was unchanged except for the effect of benefit cost.

If, on the other hand, benefit cost is included in S, G, A expense, then gross margin was lower in 2002 than in 2001. The reduction in S, G, and A expense (from 10.6% to 9.4% of sales) in this case would be even greater as that ratio was increased by one percentage point.

This illustrates the importance of knowing which income statement line item(s) includes benefit cost so that this factor can be considered when evaluating corporate performance.

<i>General Motors</i>		
Years ended December 31		
Data in \$ millions		
	2001	2002
Benefit cost		
Pensions - US	\$ 146	\$ 1,260
Pensions non-US	404	545
Other benefits	<u>3,722</u>	<u>4,110</u>
Total benefit cost	\$ 4,272	\$ 5,915
Cost increase		1,643
<i>Automotive Segment</i>		
Sales	\$ 151,491	\$ 159,737
Cost of goods sold	(135,620)	(144,550)
S, G, A expense	<u>(16,043)</u>	<u>(14,993)</u>
Operating income	\$ (172)	\$ 194
<i>% of sales</i>		
Cost of goods sold	-89.5%	-90.5%
S, G, A expense	<u>-10.6%</u>	<u>- 9.4%</u>
Operating income	- 0.1%	0.1%
Total benefit cost	2.8%	3.7%
Change in cost		1.0%

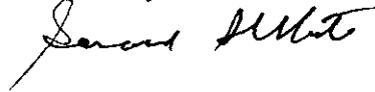
Source: Data from General Motors 10-K Report, Year ended December 31, 2002

Conclusion

I urge the Board to adopt the exposure draft as a final statement. Plan status is often significant to the reporting company's financial position and can no longer be left to footnote disclosure. However the Board should ensure that the disclosure requirements of the new standard are adequate to provide full transparency.

If there are any questions, I would be pleased to respond.

Sincerely,

A handwritten signature in black ink, appearing to read "Sarah White". The signature is written in a cursive style with a long, sweeping underline.

GIW/dp

GERALD I. WHITE, CFA

President, Grace & White, Inc. Investment Counsel

Brown University, AB 1966

New York University, MBA 1971

CFA© Charter holder

CFA Institute (formerly AIMR):

Member, Corporate Disclosure Policy Council

Member, Financial Accounting Policy Committee, 1970 - 2000
(Chairman 1976 - 1987)

Distinguished Service Award (1987)

C. Stewart Sheppard Award (1995)

Adjunct Professor of Accounting, New York University

Stern School of Business (1978 - 1995)

Co-Author, *The Analysis and Use of Financial Statements, Third Edition*
(Wiley, 2003)

Member, FASB Task Force on Financial Performance Reporting