



May 31, 2006

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



LETTER OF COMMENT NO. 221

Re: "Proposed Statement of Financial Accounting Standards – Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans"

Dear Director:

On behalf of AgStar Financial Services, ACA, we welcome the opportunity to express our views with respect to the proposed statement of Financial Accounting Standards on employers' accounting for defined benefit pension and other postretirement benefits.

Background Information about AgStar Financial Services, ACA

The AgStar Financial Services, ACA, is part of the Farm Credit System and is a government sponsored entity. We are a cooperative, owned by our members providing financial services to farmers, ranchers, producers or harvesters of aquatic products, cooperatives, and farm-related businesses. As of March 31, 2006, our assets totaled \$3.3 billion.

The comments that follow are the result of a thorough consideration of issues related to the accounting by employers' for defined benefit pension and other postretirement plans that affect the System.

General Comment

We agree with the goal of enhancing understandability of accounting and reporting of pensions as contained in the financial statements. However, we do not believe the proposed Statement, as currently written, achieves that goal. Financial Accounting Concept No. 6 defines liabilities as:

*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.*

We do not believe using the Projected Benefit Obligation (PBO) to determine the pension liability is consistent with the definition of a liability. If a pension plan is terminated or curtailed, the liability is the short fall of plan assets compared to benefits earned through the

termination date. The PBO, especially in a final average pay plan, **reflects projected obligations related to future salary increases and future service**. Including these future salary increases, which are within the control of the employer, is inconsistent with the Board's objective of reporting the current economic status of the pension plan. In addition to the future salary increases, the PBO is discounted at a current discount rate. This ignores that in many interest rate environments, including the current environment, the existing plan assets are expected to generate a rate of return in excess of the discount rate used to value the PBO.

We believe the accumulated benefit obligation (ABO) is a more realistic measure of the current liability since the ABO is based on compensation and service as of the measurement date, and, thus, has the characteristics of a liability as stated in Concept No. 6. Further, the ABO can be settled with a third party and, thus is a better measure of the actual economic liability. The use of the ABO is consistent with the existing FAS 87 requirement to record an additional minimum liability on the balance sheet based on unfunded ABO. Finally, the ABO is in substance similar to the APBO for other postretirement benefits. While the APBO includes an allowance for health care cost trend rates, this is different than the inclusion of future compensation levels in the PBO. Health care inflation is outside the plan sponsor's control while compensation levels are at the sponsor's discretion. Accordingly, we strongly recommend that the ABO be used if pension liability is to be recorded on the balance sheet.

Comments on FASB Proposed Issues

The following comments relate to the issues as set forth in the exposure draft.

Issue 1: Cost of Implementing the Proposed Statement's Requirement to Recognize a Plan's Overfunded or Underfunded Status in the Employers' Statement of Financial Position

The Board concluded that the costs of implementing the proposed requirement would not be significant. We disagree with the Board's conclusion that the costs of implementing the proposal would not be significant because the information required is already available to employers. In order to apply retrospective application, an entity will be required to assess, for the periods covered, the realizability of any incremental deferred tax assets and whether there is a need for a valuation allowance related to those assets. This retrospective application will require a significant amount of work and additional related costs. In addition, if actuaries and asset managers are required to use a measurement date that is the financial statement date instead of being allowed the option of up to three months prior for the measurement date, the costs incurred by companies are likely to increase due to the premium third parties are likely to charge for determining and providing such information within a very brief and time-specific period of time

Issue 2: The Employer's Measurement Date

The Board is proposing that 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 be eliminated. We strongly disagree with this proposal. Measurement of the pension information is generally not under management control but relies heavily on third parties, specifically plan trustees and fund managers, for measuring plan assets and actuaries for the projected benefit obligation. Allowing measurement up to 90 days before the statement of financial position provides additional time for third parties to provide companies with their required data that can then be reviewed and recorded before reporting in our financial statements. Requiring the measurement date to be the same date as the employer's statement of financial position would result in a significant lengthening of the "closing process," which could threaten our ability to meet accelerated reporting deadlines.

We believe that benefit obligations are estimates taking into account many assumptions so that using an earlier measurement date for this estimate should still be acceptable. An alternative may be to shorten the provisions in the Statements to permit measurement not more than one month prior to the date of the employer's statement of financial position instead of three months.

Issue 3: Effective Dates and Transition

Issue 3a: Recognition of the Overfunded or Underfunded Status

The proposed requirement to recognize the 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 deemed impracticable. We believe that the Board should allow for the impracticability exemption related to the assessment of the realizability of deferred tax assets. Determining the realizability of deferred tax assets may not be possible and would require significant amount of effort for retrospective application with minimal value to be gained.

Issue 3b: Contractual Arrangements

The Board is interested in how the proposed Statement impacts contractual arrangements other than debt covenants. We are regulated by the Farm Credit Administration. As a financial institution, we are required to comply with certain regulatory capital requirements that would be impacted by the proposed provisions of the Statement. Our regulatory agency will most likely carefully consider whether regulatory relief related to capital requirements may be necessary under the circumstances. This process would take additional time and any relief may not be determined by year-end 2006.

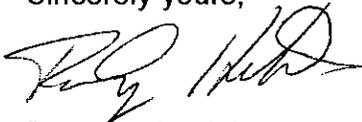
Issue 4: Measurement Date

The proposed Standard 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 a change in measurement date as of the beginning of the fiscal year beginning after December 15, 2006. Converting to a different measurement date can be accomplished but at a cost and at the risk of accurately reporting under accelerated reporting deadlines. As discussed in Issue 2, the significant issue is whether or not the measurement date must be the date of the statement of financial position. We believe that a provision allowing for an earlier measurement date should continue to be retained in the proposed Standard.

It is likely that if the Exposure Draft is finalized as written that many employers, including ourselves, may determine it necessary to freeze or close their defined benefit plans which would be an unfortunate consequence for our employees.

We appreciate this opportunity to respond and hope our comments prove useful to the Board. Please feel free to contact one of us with any questions you may have.

Sincerely yours,



Rodney Hebrink
Sr. VP and CFO
AgStar Financial Services, ACA



Janet Basballe
VP and Controller
AgStar Financial Services, ACA