



LETTER OF COMMENT NO. 223

## WASHINGTON SOCIETY OF CERTIFIED PUBLIC ACCOUNTANTS

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Financial Accounting Standards Board 401 Merit 7 P.O. Box 5116 Norwalk, Connecticut 06856-5116

I am writing you in my official capacity as Chairperson of the Accounting, Auditing and Review Standards Committee of the Washington Society of Certified Public Accountants. Our committee is charged with the review, evaluation, and commenting on exposure drafts for accounting and attest standards as issued by the various promulgating organizations as representatives of all licensed CPAs who are Society members in the State of Washington.

The letter is to express the committee members' consensus comments of the Financial Accountant Standards Board Proposed Statement – Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans.

Issue 1: Costs of Implementing the Proposed Statement's Requirement to Recognize a Plan's Over funded or Under funded Status in the Employer's Statement of Financial Position:

We agree that the cost of implementation would not be significant for public and non-public companies which typically include full disclosures in their financial statements and no additional information, with the exception of the determination of the related income tax effects would be required. The committee is concerned, however, that the implementation of the proposed statement would require information relating to the income tax effects of the Plan's over funded or under funded status, which may be significant in the initial year of implementation.

In addition, some small private companies have chosen to report pension cost on the income tax basis primarily due to the additional cost to compute the pension cost as required by generally accepted accounting principles and the accountant's report is qualified to state that the company financial statements were not in compliance with this standard. The proposed standard would require the recognition of unrecognized prior service costs, net actuarial loss and transition obligations, and previously unrecorded costs. Additional costs would be incurred to compute these amounts which the company considers significant. We believe that the Financial

Accounting Standards Board should also address the disclosures to be included in the accountant's report for a company that reports the pension costs on a tax or a basis not in compliance with generally accepted accounting principles.

## Issue 2: The Employer's Measurement Date:

Some small nonpublic companies depend on their pension and benefit companies to compute the plan obligations and funding status of the plan. Certified public accounting firms often are waiting on the pension funds to compute the pension costs after completing field work for a review or audit. As most small companies have a calendar year end, a burden will be placed on obtaining information in order for the certified public accountant to issue a report in a reasonable period of time after completion of the field work.

## Issue 3: Recognition of the Overfunded or Underfunded Status:

Issue 3(a) The committee does agrees that the implementation of the retrospective application for public companies is reasonable and that some reporting entities may find it impracticable to retroactively access the realizability of any incremental deferred taxes without the use of hindsight. Not allowing the use of hindsight may lead to assumptions which may be manipulated in an arbitrary manner. Rather than allow an exception to full retrospective application the board should consider allowing or requiring implementation based on the actual transactions?

Issue 3 (b) Some companies have contractual arrangements with employees and executives which are based on the company's performance. Other companies have purchase and sale arrangements which may reference book value as a basis of the repurchase price of the stock. Often no consideration is given to changes in generally accepted accounting principles. Delaying the implementation of this standard may provide time for these companies to revise the agreements to consider the change in accounting principles.

## Issue 4: Measurement Date:

We are not aware of any impediments that would be alleviated by delaying implementation until December 15, 2007 for public companies. However, we believe non-public companies should be allowed to delay implementation until 2007. Small nonpublic companies usually have accounting staffs, which are not as familiar with generally accepted accounting principles as their public companies counterparts and would benefit greatly from the experience of the public company implementation of this proposed standard. Non public companies could also begin implementation of this standard in 2006, by gathering the information necessary to retroactively restate the beginning retained earnings and comprehensive income, in the comparative statements presented in 2007.

Issue 5: Not-for-Profit Organizations and Other entities That Do not report Other Comprehensive Income.

We agree FASB statement No. 130, Reporting Comprehensive Income, can provide guidance for the proposed statement. Additional guidance would include specific examples of presentation, and the supporting basis for any functional classifications

David D. Chandler, Chair.