



LETTER OF COMMENT NO. 227

May 31, 2006

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

Re: Amendment of FASB Statements No. 87, 88, 106 and 132(R) Exposure Draft Comments

Dear Sir or Madam:

The purpose of this letter is to share comments on the Financial Accounting Standards Board's (FASB) proposed amendment of FASB Statements No. 87, 88, 106, and 132(R). I support the Board's objectives and efforts to develop accounting principles that provide relevant financial statements. I also support the Board's initiative to do a comprehensive and coordinated review of international pension and other postretirement accounting principles at this time. My response to the Board's specific questions raised in the proposed Statement and additional observations and comments follow.

Issue 1 – Costs of Implementation

In the proposed statement, the Board clearly recognized most of the cash costs involved with implementation. The Board also recognized the one-time costs associated with a change in measurement date and the measuring of plan assets as of the financial reporting date. Besides those costs, I wish to point out other costs not fully recognized by the Board as noted below:

- Given the shortened deadlines for releasing financial statements, the change to a year-end measurement date considerably shortens the timetable to gather, analyze and prepare pension and other postretirement information to meet that deadline. This will significantly increase the cost of this entire process in an attempt to accomplish this in such a short time period. Trustees, actuaries and service providers will ask for significantly greater fees in order to perform the same tasks in a severely condensed time period. For large, multinational companies this cost gets multiplied several times over for each plan and each provider in multiple countries.
- Other non-cash costs that were not considered by the Board due to the proposed change in measurement date requirement include costs associated with potential delays in the release of financial statements, lost productivity to restate financial statements, reduced ability to project plan costs to investors, explanation of internal planning and budgeting variances from actual costs, and a greater risk of error due to less time to analyze and audit results.
- Further costs include the yet to be determined implementation and ongoing costs of Phase II of this project. Extra costs could be avoided by consolidating this project.

For the reasons stated above, I feel that the Board should not piecemeal their review of pension and other postretirement accounting principles. With a piecemeal approach, there is the possibility that findings in the succeeding phase could undo some of the changes in the initial phase, thereby creating unnecessary costs. In addition, there are significant international harmonization issues that are not yet being considered at this time. As you read on in my letter, I have several important practical issues with the current proposed statement that appear to outweigh any immediate benefits.

Issue 2 – Employer’s Measurement Date

The proposed standard includes a requirement that the measurement of plan assets and obligations shall be as of the date of the financial statements. Currently, the measurement of plan assets and obligations can be made as of a date not more than three months prior to that date, if used consistently from year to year. I understand that it is conceptually desirable to use a measurement date consistent with the financial statements. From a practical viewpoint, large, multinational companies do use a measurement date of three months prior to the financial statement date. I believe the practical considerations outweigh the use of a conceptually desirable measurement date for such organizations. My specific concerns are as follows:

Availability of asset values

- For many companies, plan assets reside in a master trust arrangement where individual plan assets are pooled. Because the assets are pooled, individual plan asset values are typically not available until ten to fifteen business days after the end of the preceding month. Companies that close their books within five business days will either have to estimate asset values as of the financial statement date due or delay the release of financial statements due to this constraint.
- Foreign pension plans, asset values are not typically immediately available after the financial statement date due to different customs and technology of those countries. Asset values for certain foreign plans are not available for anywhere from two to six weeks after month end.
- In addition to the above, time is needed to audit the information, make corrections, if necessary, and add proper accruals. All of this is done before asset values are sent to the actuary to include in their reports. The actuary also checks the asset values for reasonableness, which adds more time into the process. Once the actuarial process is complete, the company then needs appropriate time to record these amounts in their financial statements. Due to the involvement of multiple parties and countries, and limited resources this process can take two to four weeks to complete.

Availability of retiree medical claims cost

- For other postretirement plans, retiree medical claims cost information is gathered from several service providers. Generally, this information is not available until two to five weeks after the date of the financial statements. Under the current rules, the use of an earlier measurement date allows companies sufficient time to gather complete claims information from service providers. By using a year-end measurement date as in the proposed statement, companies will have to estimate claims costs for the last two or three months of the year.

- Precise claims cost estimates, for the last month or two of the fiscal year, are difficult for various reasons, such as, the timing of provider payments, impact of holidays on claims, year-end retiree purchasing patterns due to plan redesign, switching health care plans from year-to-year and plan-benefit limits, and estimation of drug subsidies. Due to these and other factors, the difference between estimated and actual retiree claims cost could be substantial. Such estimates will not improve the completeness and accuracy of the funded status through the use of a year-end measurement date.

Determination of discount rate assumption

It will be difficult for large, multinational companies to timely select discount rates for multiple countries using a year-end measurement date as described below:

- To select appropriate discount rates, companies first gather information by country on rates of return on high-quality fixed-income investments from one or more source. Actuaries then provide their assumption recommendations. This information is reviewed and benchmarked against averages to best determine a discount rate for each country. Due to increased SEC scrutiny, more sophisticated tools, such as a yield curve, are now being used to substantiate the selection of a discount rate. These tools require additional time to produce the liabilities after the measurement date. Once all of this information is complete and recommendations are made, the chief financial officer must approve these and other key assumptions to satisfy Sarbanes-Oxley requirements. Once approved, the key assumptions, such as the discount rate, are then released to actuaries to prepare their reports. Depending on the availability of certain data this process may take up to one month to complete.
- The above process will need to materially change in order for large, multinational companies to meet their financial statement deadlines using a year-end measurement date. Under the current standard, it provides these companies with the time needed to accurately collect, assess and prepare the required information.

I ask that the Board strongly consider the practical issues with gather data in a highly condensed time frame. I feel the benefits of accurate and error-free data produce better results by using a measurement date that allows multinational companies sufficient time to prepare the results with their limited resources. Therefore, I strongly urge the Board to retain the use of a measurement date of up to ninety days before the date of the financial statements.

Issue 3 – Effective Dates and Transition

My concerns in recording the funded status and restatement of financial statements are as follows:

Recognition of the funded status using the PBO for pensions

- The proposal to record the funded status on the balance sheet by using the projected benefit obligation (PBO), overstates the company's actual obligation. The PBO includes future salary increases, which overstates the amount the pension benefits could be effectively settled. Unless contractually required, an employer has a great deal of discretion over the future salary levels and whether or not pension benefits will continue to be based on salary.
- A more meaningful measure of the obligation would be the accumulated benefit obligation (ABO). The ABO would be a more relevant measure for liability recognition as it represents the actuarial present value of benefit for service rendered to date.

Therefore, I believe the balance sheet liabilities should represent the company's actual obligations as of the balance sheet date. The ABO is the best measure of this obligation.

Recognition of the funded status using the APBO for other postretirement benefits

- Unlike most pension obligations, retiree health and life benefits are generally rescindable, in whole or part, by an employer.
- The accumulated postretirement benefit obligation (APBO), which represents the obligation for these benefits, includes future trending of health care costs.

For the above reasons, I believe that the proposal to record the funded status to the balance sheet based on the APBO, overstates the employer's obligation. I ask that the Board consider using an obligation adjusted to reflect the non-contractual nature of most postretirement benefit obligations and to exclude the trending of health care costs from the funded status calculation.

Restatement of financial statements

- The proposed statement requires a restatement of prior periods to eliminate the transition obligation. This restatement must also be tax-effected. Although most information is readily available to restate the results, the benefits gained from this will be minimal. The transition obligation for most entities is nearly fully amortized and represents an immaterial portion of the total pension and other postretirement benefit obligation.
- Generally, financial statements should not be revised except in rare circumstances or to correct errors as noted by the SEC. This does not involve an error nor does it qualify as a rare circumstance since the amounts involved are not significant.

I ask the Board to consider prospective implementation of the proposed amendment or to delay the implementation until the Board completes all phases of this project.

Issue 4 – Measurement Date

- Specific impediments to implementation would include many of the items mentioned above.
- Large, multinational companies will need to reengineer the entire process in order to implement the proposed standard timely and meet their financial statement deadlines. Delaying the release of financial statements is generally not an option, which means less time will be spent on due diligence, completeness and accuracy.
- By using a year-end measurement date, asset values may need to be projected to the measurement date in order to meet deadlines. Actual asset values will need to be compared to the estimated values once they become available. Anticipated discount rates will have to be selected prior to the measurement date. Subsequent to the measurement date, these will need to be benchmarked to indices and yield curve studies to verify their reasonableness and to support the results. Should the estimates vary significantly from actual results, the financial statements will need to be adjusted, thereby creating a delay. I realize that this is a reactive and potentially a fire-drill solution.

I therefore strongly ask the Board to consider retention of a measurement date up to three months prior to the financial statement date, so large multinational companies can proactively measure their asset values and obligations.

Conclusion

I am supportive of the Board's efforts to revisit the current pension and other postretirement accounting principles. However, as indicated by my comments I ask the Board to revisit the current proposals as part of a comprehensive project to make improvements in this area. I hope the Board will give careful consideration to my comments. I appreciate the opportunity to comment and would be pleased to discuss the comments with the Board further, if so desired.

Sincerely yours,

Lawrence A. Ruff, CPA