

Via Email: [director@fasb.org](mailto:director@fasb.org)



LETTER OF COMMENT NO. 230

May 30, 2006

Technical Director  
File Reference No. 1025-300

Financial Accounting Standards Board  
401 Merritt 7  
Post Office Box 5116  
Norwalk, Connecticut 06856-5116

Dear Sir or Madam:

U.S. Bancorp appreciates the opportunity to offer comments with respect to the Proposed Statement of Financial Accounting Standards, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans, an amendment of FASB Statements No. 87, 88, 106, and 132 (R)." U.S. Bancorp is a bank holding company and with its subsidiaries has approximately 50,000 employees. As a sponsor for several pension and postretirement benefit plans for our employees, we have a strong interest in the proposed changes in accounting for these plans. We support the Board's effort to improve financial reporting related to pensions and other postretirement plans. However, we have concerns with some of the concepts outlined in the proposed amendment to the existing standards.

Our primary concerns are focused on:

- The use of the projected benefit obligation rather than the accumulated benefit obligation as the balance sheet liability. While the Projected Benefit Obligation may be appropriate to determine net periodic pension cost, it is inappropriate as a measure of a balance sheet liability under the fair value accounting model. We believe the accumulated benefit obligation is a better indicator of the entity's obligation on the date of the balance sheet.
- The requirement that plan assets and benefit obligations be measured as of the date of the employer's statement of financial position. While we acknowledge that in theory it is preferable to use the fiscal year end as the measurement date, we believe this is not practical. In order to meet reporting deadlines, entities will use various assumptions and an earlier cut-off date, which effectively will result in a measurement date earlier than the balance sheet date. A more reasonable approach would be to allow an early measurement date as long as it is not more than one month prior to the fiscal year end balance sheet date.

We have included discussion of these primary concerns below, along with our other comments, and have also provided our responses to the specific questions outlined by the FASB in the Exposure Draft.

## **Use of Projected Benefit Obligation vs. Accumulated Benefit Obligation**

We believe the balance sheet liability should be based on the accumulated benefit obligation (ABO) rather than the projected benefit obligation (PBO). The ABO is a better indication of the entity's true liability on the date of the balance sheet.

The PBO as of a date is the actuarial present value of benefits attributed by the pension benefit formula to employee service rendered prior to that date and using an assumption as to future compensation levels, assuming the plan continues in effect and that estimated future events (including compensation increases, turnover, and mortality) occur. We believe the PBO overstates the liability at the balance sheet date by including the impact changes in compensation levels that will only occur if the employee provides future service. The ABO differs from the PBO in that it includes no assumption about future compensation levels. Since the entity is not obligated to make changes to future compensation levels, nor even to continue the plan, the ABO better represents the liability as it is the amount at which the obligation could be settled on the balance sheet date.

Additionally, we believe that as a result of the issuance of the Phase I Statement, and the expectations of the issuance of the Phase II Statement, many entities will implement dramatic changes to their pension plans and post-retirement benefits, including plan curtailment and/or freezing of benefits. If this does happen, the ABO will in fact be the more accurate measure of plan liabilities.

We strongly encourage the Board to reconsider using the ABO to determine the funded status of the applicable plans and the resulting balance sheet asset or liability to be reflected in a company's financial statements.

## **Use of an Early Measurement Date**

We are concerned with the elimination of the early measurement date concept and impracticality of moving to a measurement date that falls on the last day of the year-end reporting period. The measurement of pension and other postretirement benefit obligations are significantly more complex than other assets and liabilities and require the use of third party specialists (i.e., actuaries and plan administrators). With the measurement date being the balance sheet date, the only practical way these third party specialists could complete their computations in a timely manner would be by imposing a "cut off" earlier than the year-end. The result is essentially the same as having allowed an earlier measurement date.

In order to give third party specialists adequate time to value plan assets and compute plan obligations, we recommend allowing a measurement date one month in advance of the reporting entity's year-end.

In addition, we are concerned about the transition rules for eliminating an early measurement date and the related costs. As currently proposed, changing from a

September 30 measurement date to a December 31 measurement date will require a plan sponsor to measure twice within a period of three months. The first measurement would be as of September 30, 2006 and would determine the net periodic pension cost to be recorded for the remainder of 2006 and for disclosures for the 2006 financial statements. The second measurement would be as of December 31, 2006 and would be used for net periodic pension cost for 2007 and to update balance sheet amounts as of the beginning of 2007 for adoption of the proposed amendment. We encourage the Board to consider transition rules that would not require multiple measurements within such a short period of time.

## **Responses to Specific Issues Outlined by the FASB**

*Issue 1: The Board concluded that the costs of implementing the proposed requirement to recognize the 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 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?*

While the implementation of this proposed Statement would not require information that is not already available, the costs of implementation could be significant due primarily to the timing of the required information and reliance upon third party specialists such as actuaries and plan administrators. Also, additional costs will likely be incurred by entities and lenders needing to resolve debt covenant failures caused by any additional liabilities and decreases in equity.

### Additional costs related to the timing of the required information

For calendar year-end entities with measurement dates as early as September 30, third parties such as actuaries and plan administrators had reasonable time to perform their services for a number of entities with varying measurement dates, effectively spreading their work out over a span of several months. With measurement dates for all calendar year-end entities being moved to December 31, actuaries and plan administrators will be required to perform their assessment of the plan assets and obligations under much tighter deadlines. It can be presumed that these third parties will assess higher fees for their services under these conditions.

### Additional costs to borrowers and lenders related to debt covenants

Some entities will be required to renegotiate debt covenants with their lenders. This renegotiation will require some measure of time and resources on the part of the entity and the financial institution, resulting in additional cost. Additionally, banks and other lenders will need to consider the results of the new Statement on borrower financial

statements and determine what modifications may be needed to credit administration procedures (both loan underwriting and subsequent monitoring of borrowers). The magnitude of these costs to the borrowers and lenders will likely vary based on their size and situation, but could be significant to certain borrowers and lenders on a relative basis.

*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?*

The primary implementation issues with this requirement that differ significantly from the issues that apply to other assets and liabilities is the complexity of calculating the plan obligations, and the use of third party specialists (i.e., actuaries and plan administrators). With the measurement date being the balance sheet date, in practicality the only way these third party specialists could complete their computations in a timely manner would be by imposing a "cut off" earlier than the year-end. The result is essentially the same as having allowed an earlier measurement date.

In order to give the third party specialists adequate time to value plan assets and compute plan obligations, we recommend allowing a measurement date one month in advance of the reporting entity's year-end.

*Issue 3(a): The Board's goal is to issue a final Statement by September 2006. 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 it is deemed impracticable 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 deferred tax assets? Why or why not? Are there other reasons that retrospective application might be impracticable that the Board should be aware of?*

We have no comments on this issue

*Issue 3(b): Some nonpublic 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 this 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.*

Financial institutions such as US Bancorp are subject to bank regulatory capital requirements and the proposed Statement will likely impact compliance with those requirements unless amendments are also made by bank regulators

#### Bank Regulatory Capital Requirements

Banking regulators define minimum capital requirements for bank and financial services holding companies. These requirements are expressed in the form of a minimum Tier 1 capital ratio, total risk-based capital ratio, and Tier 1 leverage ratio. These ratios are reported to FDIC on the Consolidated Reports of Condition and Income for FFIEC031. In the event the capital ratios of the financial institution fall below the minimum requirements, that financial institution will come under additional scrutiny from banking regulators. The economic status of postretirement plans is presently excluded from the calculations of the capital ratios, and presumably from determination of the minimum capital requirements, therefore these ratios are affected by the proposed changes in the Exposure Draft. Although the results of the exposure draft would have a very small impact on well capitalized financial institutions such as US Bancorp, it is theoretically possible that implementation of the exposure draft without a corresponding change in the way the regulatory capital ratios are calculated could result in a financial institution failing the minimum capital requirements, when in reality there has been no true economic change in its financial position.

To date, banking regulators have not announced if there will be any changes as to how the ratios will be calculated, or how the proposed exposure draft will affect the calculation of these capital ratios or the minimum requirements.

*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 earnings 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 the year.*

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

For the reasons stated earlier in this letter, we believe there will be difficulty for entities to accommodate the change in the measurement date. This will especially be true if the final standard is issued after September 30, 2006. By delaying the implementation to fiscal years ending after December 15, 2007, entities will have adequate time to implement appropriate processes and controls to ensure accurate financial reporting. Again, we believe allowing an early measurement date of one month prior to the fiscal year end will provide adequate time to complete the complex calculations associated with determining pension and other postretirement benefit obligations and result in accurate, meaningful financial statements.

As stated earlier in this letter, we are also concerned about the transition rules for eliminating an early measurement date and the related costs. As currently proposed, changing from a September 30 measurement date to a December 31 measurement date will require a plan sponsor to measure twice within a period of three months. The first measurement would be as of September 30, 2006 and would determine the net periodic pension cost to be recorded for the remainder of 2006 and for disclosures for the 2006 financial statements. The second measurement would be as of December 31, 2006 and would be used for net periodic pension cost for 2007 and to update balance sheet amounts as of the beginning of 2007 for adoption of the proposed amendment. We encourage the Board to consider transition rules that would not require multiple measurements within such a short period of time.

Thank you for your consideration of our comments on these very important issues. Please contact me at 612-303-4352 with any questions, comments or if you would like any further information.

Sincerely,

/s/ Terrance R. Dolan

Terrance R. Dolan  
Executive Vice President and Controller