



LETTER OF COMMENT NO. 112A

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**From:** Schryer, Tom  
**Sent:** Wednesday, May 31, 2006 3:48 PM  
**To:** 'director@fasb.org'  
**Subject:** File Reference No. 1025-300

These comments come from the perspective of an actuary who has provided information under these standards (FAS 87 / 88 / 106 / 132) since their respective inception dates. I have talked to several of the FASB's employees about technical matters over the years and Ashley Strange actually asked me to try to respond on this topic. Thank you for this opportunity / responsibility.

### **Questions directly posed in this Exposure Draft**

Issue 1 – I agree (there probably will not be significant extra expenses, although every change entails extra reformatting expenses by outside experts and internally).

Issue 2 - Nearly one out of four pension *asset* statements is issued over a month after the end of the fiscal year. It is not all that uncommon for the lag to be two or three months, or more. Some of the insurance companies have a delay of several months due to the audits of their general funds. Therefore, until we receive such asset statements we do not have 1) the market value of assets, 2) disbursement details, and 3) contribution details – all of which must be shown in financial statements. Further, it sometimes – maybe for one plan in 30 - takes weeks to iron out problems with asset statements. Those problems include mischaracterizing as contributions things like returned pension checks (for deceased pensioners) and proceeds from asset sales / account transfers, multiple trustees disagreeing on market values, and the list goes on. You should address how enterprises required to forward results before asset statements are available should cope with these rules. Secondly, my guess is that the proposal would result in quite a few plans changing trustees just due to the timing issue – not the seemingly more important issue of investment performance. The issues faced by pension plans probably *are* more detail-intensive than getting statements for an enterprise's checking account, endowment, building fund, etc.

Regarding the “immediacy” of the results, anyone truly interested would probably be able to make suitable adjustments. The assets and liabilities as of the end of the fiscal year *could be estimated from data on stock and bond yields and prices in the period from the Measurement Date to the end of the fiscal year, the breakdown of the assets into classes (in the statement), the discount rate, and the asset and liability values as of the Measurement Date.* Instead of changing the Measurement Date you should probably add a requirement to remind readers of the timing issues and suggest ways of coping.

Issue 5 – The additional guidance to Not-for-Profit Organizations should be welcomed since the CFOs at these organizations probably wanted more direction and peer-to-peer consistency. The prior guidance was too broad.

## Comments on Other New Provisions

The usage of PBOs and APBOs on the balance sheet is not always “representationally faithful”, per your objectives. For example, an enterprise that is highly stable (e.g. a Museum with a monstrously large Endowment) should probably carry a pension reserve based on actual expected investment returns (instead of bond yields) since it is unlikely to go into bankruptcy or otherwise settle pension obligations any time in the foreseeable future. Anything much higher than that is probably overly conservative. An obligation based on actual expected stock and bond yields will be roughly 35% less than the PBO. The PBO or APBO might be a good surrogate for a plan termination liability which would definitely be useful information for companies nearing bankruptcy. Then again, it might not. I could not discern your objective. Is inclusion of future pay increases appropriate? Explanatory comments definitely need to be added to the Financial Statement so the reader can understand the appropriate context for what is presented on the balance sheet. I can think of eight different pension liability measurements that are appropriate for various purposes. What is the specific objective for FAS 87? On the one hand PBO anticipates an ongoing company by reflecting future pay increases but on the other it anticipates immediate settlement by using bond yields to discount the projected payouts. One of your other objectives was “understandable financial statements” and as an investor, an actuary, and someone interested in macro economics I do not understand what we are getting at. It is quite possible that a few different pension obligations could be presented on the balance sheet, each one described a bit. For example, one reflecting future pay increases discounted using stock and bond yields might be an appropriate view for a financially secure enterprise when the objective is being fair to successive generations of shareholders, another reflecting only today’s vested benefits discounted using bond yields might be appropriate when considering bankruptcy, and the one proposed seems overly conservative and unfair to successive generations of shareholders but could be presented as presenting the pension obligation for a continuing organization (anticipating future pay increases but ignoring expected savings due to the plan’s investments in instruments expected to yield more than bonds). The benefits payable by most (but certainly not all) postretirement medical plans are cancelable by the sponsor; more commentary should be added to inform readers about the nature of the obligations for such plans. Frankly, any extra liability for pension plans strikes me as essentially identical conceptually to determining *warranty reserves* – since something has to go pretty drastically wrong before there is a claim against the enterprise. So why are the FASB’s approaches to these two contingencies worlds apart? We should stochastically factor in the likelihood and timing of pension / retiree medical settlements to determine appropriate reserves instead of making the adjustments called for by the old *or* the proposed approach. We could even have standards for when bankruptcy is deemed to be an imminent possibility and then require an estimate of immediate settlement values.

While on the subject of the balance sheet, does it include the current market value of real estate owned by the enterprise or the expected market value of the company if it were sold to a competitor? A consistent basis needs to underlie all components on the balance sheet.

The CFOs who have already had to deal with Other Comprehensive Income from the pension plan have found making all those adjustments and dealing with lenders, etc. fairly traumatic. All CFOs with pension plans would now have to face this every year under the proposal. Your objectives should be made much, much clearer in order to get the FASB's real front-line soldiers (CFOs) on board with the changes - to the extent the proposed changes are made final. The "why" of these rules is often nearly as important as the "what to do."

Changing subjects, the new paragraph 44A for FAS 87 provides good and welcome guidance on yield curve usage.

The elimination of Unrecognized Transition Asset or Obligation bases certainly could be seen as cavalier. This action of the FASB might also be seen as needlessly disruptive to the orderly processes and expectations of businesses, investors, and lenders. Is it really that constructive?

The earnings-per-share data in financial statements currently do a good job of showing how the core enterprise is doing. Fortunately, the proposed changes to the balance sheet should not materially affect that.

### **Mass Noncompliance Issue**

This is a great time to clean up a problem. Straight-line amortization of a Prior Service Cost base is more rapid than the standard approach. One is completed in roughly 15 years whereas the other might take 50 years. Also, straight-line amortization is far more popular than the standard approach and usage is virtually never disclosed - as is seemingly required. Something is wrong with practitioners *or* FAS 87. I propose adding *one* of the following to the end of Paragraph 26 of FAS 87 (which is being modified in the proposal already) -

- However, usage of straight-line amortization over the average remaining service period described above does not need to be disclosed.

- , even usage of straight-line amortization over the average remaining service period described above.

### **Closing Comments**

These sorts of changes in accounting rules partially explain why essentially no new DB plans are being established and existing plans are freezing and terminating. DB plans play a significant role in our social fabric and that purpose will become painfully apparent in the next 20 years as people outlive their 401(k) balances. It is sort of ironic too: the accounting rules do not allow us to anticipate plan terminations and freezings.

This was a huge effort on your part and the staff is to be commended for the massive "assembly job" that they did.

These are my personal views. Thanks again for this opportunity. We all want fair, balanced, disciplined, and understandable accounting and I suspect that you will get quite a bit of input on the proposed changes. I hope that you are able to fashion an update to these standards that incorporates the best practices of the FASB and the many people who took the time to send in comments.

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