



May 30, 2006

Technical Director
 Financial Accounting Standards Board
 401 Merritt 7
 P.O. Box 5116
 Norwalk, CT 06856-5116

Re: **File Reference No. 1025-300**

Dear Director:

This letter is written on behalf of our firm, Findley Davies, Inc. Findley Davies consults on the design, funding and accounting of various types of pension, defined contribution, and health & welfare plans. We are responding to the March 31, 2006 Exposure Draft titled "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans."

We appreciate the effort by the Board and the FASB staff in drafting this proposal. Although we agree with the general objective of improving the transparency of financial statements, particularly as they relate to pension and other postretirement plans, we have strong reservations about the Exposure Draft and its implications on corporate financial statements and the health of the affected plans.

Even though we generally agree with the "mark-to-market" philosophy for pensions, we feel that the Board's proposals go too far in a couple of critical areas and make an unnecessary change in another. The two areas where the Board seems to have gone too far are areas where there are more modest ways to reflect the desired policy without abandoning its objectives.

1. **Reflecting the Funded Status on the Balance Sheet**

Our position is that there is a better way than that proposed in the Exposure Draft to reflect the funded value of the balance sheet. This alternative way avoids an annual "roller coaster" effect on the net worth of the organization, particularly for those with overfunded pension plans. This approach has been recommended to the Board in another comment (by Russell Investments). We concur with that comment, but we would like to offer a simplified yet meaningful alternative:

- Any overfunded pension plan (market value of assets exceeding present value of obligations) should neither add nor subtract from the corporate net worth.
- Any underfunded pension plan (present value of obligations exceeding market value of assets) should subtract from the corporate net worth. The net balance sheet liability for the plan should equal the extent of the underfunding.

This "mark-to-market" variation suggested here accomplishes the FASB objective for corporations with underfunded pension plans. We agree that underfunded plans should be recorded as a balance sheet liability at their full level of underfunding.

This approach does two things that the Board wishes to accomplish:

- It recognizes the underfunded status of underfunded plans (while appropriately valuing overfunded plans)
- It encourages employers to fund their underfunded pension plans and to keep overfunded plans from becoming underfunded, because corporations with overfunded plans do not have to go through the net worth “roller coaster” at the end of each year. Further, under current US law, the excess in most overfunded qualified pension plans would significantly diminish from high levels of excise taxes if the employer would attempt claiming it *via* termination and reversion.

The “roller coaster” effect contemplated in the Exposure Draft will have a significant impact on whether employers retain their pension plans. While corporate net worth needs to be reduced for underfunded plans, the idea of “punishing” an employer that is overfunded in each of two consecutive years by reflecting the volatility of the overfunding on its corporate net worth is bad policy.

The new rules should also allow corporations with overfunded pension plans that have accumulated substantial prepaid pension assets on their balance sheets to have an option to write down these assets either in one year upon the implementation of the proposed changes, or over a period of five to ten years. Again, one of the Board’s overriding considerations should be to avoid penalizing overfunded pension plans.

2. Best Measure of Present Value of the Plan’s Obligation

The projected benefit obligation (the “PBO”) is a logical present value of a plan’s obligation when used (in conjunction with service cost) in the actuarial determination of pension cost (or funding requirements). It is *not* a valid obligation for use in a “mark-to-market” development of a plan’s funded status. As it turns out, there *is* an established measure for such an obligation for pension plans. This is the accumulated benefit obligation (the “ABO”).

The PBO attributes total future obligations of a pension plan to past service using an actuarial method, namely, the projected unit credit method. Similarly, there are other measures of actuarial obligation under other actuarial methods, such as the entry age normal method. All these actuarial methods may have a place in the development of pension costs or funding requirements. They have no place in a “mark-to-market” balance sheet.

Congress, currently in the process of developing new funding rules that enhance the solvency of pension plans, contemplates using current liability (essentially, ABO) for this purpose. Why does the Board feel compelled to use an *artificial* measure (the PBO) now after it has successfully used a *meaningful* measure (the ABO) for the last 20 years? In the context of “mark-to-market” disclosure, the use of PBO is *meaningless, contrived and just plain wrong*.

Use of PBO for this purpose may cause pension plans to freeze accruals if they are riding on the edge of their debt covenants. We believe that an unintended consequence of the proposal will be for corporations to freeze their pension plans, enabling them to use ABO instead of PBO.

For postretirement benefit plans, the FAS 106 measure of accumulated postretirement benefit obligation (the "APBO") is not so clear a choice for the obligation because many corporations do not have a legal liability for the continuation of these benefit plans. It is, therefore, strongly recommended that the "mark-to-market" equivalent of ABO for other postretirement benefit plans be the portion of the APBO relating to current retirees and to currently active employees *who are fully eligible to retire*. Other similar measures may also be appropriate in lieu of the full APBO.

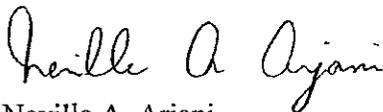
3. Use of Early Measurement Date

We are in agreement with many of the other comments that would allow the continued use of a measurement date up to three months prior to the end of the fiscal year. The administrative value of measurement date flexibility far exceeds the supposed improvement in the quality and consistency of the financial information that would be provided by forcing a single measurement date. While we join in the negative response to the elimination of the early measurement date, we do not want the Board to lose perspective. The other proposed changes, as discussed above, will be much more detrimental to the health of these benefit plans and to the apparent well-being of affected corporations. We encourage the Board to focus on those issues that matter the most.

As always, we appreciate the opportunity to present our views and thank you for your consideration of our comments. We would be pleased to discuss these matters further with you or the FASB staff.

Sincerely,

FINDLEY DAVIES, INC.



Neville A. Arjani
Principal and Chief Actuary

- c: Mr. Robert H. Herz, Chairman FASB
- Mr. George J. Batavick, FASB
- Mr. G. Michael Crooch, FASB
- Ms. Katherine Schipper, FASB Member
- Ms. Leslie F. Seidman, FASB Member
- Mr. Edward W. Trott, FASB Member
- Mr. Donald M. Young, FASB Member
- Ms. Suzanne Q. Bielstein, FASB
- Mr. James J. Leisenring, IASB Member