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

LETTER OF COMMENT NO. 115

Re: "Proposed Statement of Financial Accounting Standards –  
Employers' Accounting for Defined Benefit Pension and Other  
Postretirement Plans"

Dear Director:

On behalf of AgriBank, FCB, one of the Banks in the Farm Credit System, we welcome the opportunity to express our view with respect to the proposed statement of Financial Accounting Standards on employers' accounting for defined benefit pension and other postretirement benefits.

#### Background Information about the Farm Credit System

The Farm Credit System is a federally chartered network of borrower-owned lending institutions comprised of cooperatives and related service organizations. Through its five Banks, including AgriBank, and 96 Associations, the System provides sound and dependable credit to *American farmers, ranchers, producers or harvesters of aquatic products, their cooperatives, and farm-related businesses.* The Associations are cooperatives owned by their borrowers, and the Banks are cooperatives owned by their affiliated Associations and other eligible borrowers. As of March 31, 2006, the System's assets totaled \$143 billion, with \$108 billion of the assets consisting of net loans, and liabilities consisting of Systemwide debt obligations (publicly-traded) of \$120 billion.

The comments that follow are the result of a thorough consideration of issues related to the accounting by employers' for defined benefit pension and other postretirement plans that affect AgriBank. Other System institutions may also submit comments separate from this letter in order to address specific issues not discussed or to clarify or emphasize positions expressed herein.

### Comments

Our comments relate to the issues as set forth in the exposure draft.

#### **Issue 1: Cost of Implementing the Proposed Statement's Requirement to Recognize a Plan's Overfunded or Underfunded Status in the Employers' Statement of Financial Position**

The Board concluded that the costs of implementing the proposed requirement would not be significant. We generally agree; however, in order to apply *retrospective application*, an entity will be required to assess, for the periods covered, the realizability of any incremental deferred tax assets and whether there is a need for a valuation allowance related to those assets. This retrospective application will require a significant amount of work and additional related costs. In addition, if *actuaries and asset managers are required to use a measurement date* that is the financial statement date instead of being allowed the option of up to three months prior for the measurement date, the costs incurred by companies are likely to increase due to the premium third parties are likely to charge for determining and providing such information within a very *brief and time-specific period of time*. Another item that will result in increased costs is the review and potential revision of loan agreements with our customers and related debt covenants that will be necessitated from the implementation of the provisions of the proposed Standard.

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

The Board is proposing that 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 be *eliminated*. We strongly disagree with this proposal. Measurement of the pension information is generally not under management control but relies heavily on third parties, specifically plan trustees and fund managers, for measuring plan assets and actuaries for the projected benefit obligation. Allowing measurement up to 90 days before the statement of financial position *provides additional time for third parties to provide companies with their required data that can then be reviewed and in the case of System Banks, allocated and recorded by various Associations before reporting in the financial statements*. Requiring the measurement date to be the same date as the employer's statement of financial position would *result in a significant lengthening of the "closing process," which could threaten companies' abilities to meet accelerated reporting deadlines*.

The calculation of benefit obligations involves the use of significant estimates taking into account many assumptions. The presumption that not using the actual financial statement date for the measurement date detracts from the accuracy of the calculations overstates the precision of the benefit obligation estimates. We would support an alternative to shorten the provisions in the Statements to permit measurement not more than one month prior to the date of the employer's statement of financial position instead of three months.

### **Issue 3: Effective Dates and Transition**

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

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 deemed impracticable. Certain of our related System institutions have concerns about their ability to determine the realizability of deferred tax assets. In addition, a significant amount of effort would be required for retrospective application with minimal value to be gained.

#### *Issue 3b: Contractual Arrangements*

The Board is interested in how the proposed Statement impacts contractual arrangements other than debt covenants. AgriBank and other System institutions are financial institutions regulated by the Farm Credit Administration. As financial institutions, we are required to comply with certain regulatory capital requirements that would be impacted by the proposed provisions of the Statement. Our regulatory agency will most likely carefully consider whether regulatory relief related to capital requirements may be necessary under the circumstances. This process would take additional time and any relief may not be determined by year-end 2006.

### **Issue 4: Measurement Date**

The proposed Standard 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 a change in measurement date as of the beginning of the fiscal year beginning after December 15, 2006. Converting to a different measurement date can be accomplished but at a cost and at the risk of accurately reporting under accelerated reporting deadlines. As discussed in Issue 2, the significant issue is whether or not the measurement date must be the date of the

statement of financial position. We believe that a provision allowing for an earlier measurement date should continue to be retained in the proposed Standard. We believe this does not diminish the quality of disclosures around benefit obligations.

### **Other Issues**

We agree with the goal of enhancing understandability of accounting and reporting of pensions as contained in the financial statements. However, we do not believe the proposed Statement, as currently written, achieves that goal. Financial Accounting Concept Number 6 defines liabilities as:

*Liabilities are probable future sacrifices of economic benefits arising from **present** obligations of a particular entity to transfer assets or provide services to other entities in the future as a result of **past** transactions or events.*

We do not believe using the Projected Benefit Obligation (PBO) to determine the pension liability is consistent with the definition of a liability. If a pension plan is terminated or curtailed, the plan sponsor's liability is the short fall of plan assets compared to benefits earned through the termination date. The PBO, especially in a final average pay plan, **reflects projected obligations related to future salary increases and future service**. Both future salary increases and the decision to continue to offer a plan, are within the control of the employer. Including estimated liabilities which take these uncertainties into account is inconsistent with the Board's objective of reporting the current economic status of the pension plan. In addition, the PBO is discounted at a current discount rate. This ignores that in many interest rate environments, including the current environment, the existing plan assets are expected to generate a rate of return in excess of the discount rate used to value the PBO. Those earnings on plan assets would be available to offset future obligations; however, the proposed approach does not reflect this. We believe the accumulated benefit obligation (ABO) is a more realistic measure of the current liability.

The exposure draft addresses the lack of comparable measures to the ABO for other post-retirement benefits. The lack of a comparable measure does not seem to justify using a less meaningful measure for the pension obligation. The magnitude of the pension component merits using the most relevant information to best meet the needs of users of the financial statements.

It is likely that if the Exposure Draft is finalized as written that some employers, including ourselves, may determine it necessary to freeze or close their defined benefit plans which would be an unfortunate consequence for employees.

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We appreciate this opportunity to respond and hope our comments prove useful to the Board. If you have any questions with respect to the contents of this response, please call me at (651) 282-8796.

Respectfully,

Jeffrey L. Moore  
Controller  
AgriBank, FCB