



From: Accounting and Auditing Committee, The Ohio Society of CPAs

To: Director/FASB (director@fasb.org), File Reference No. 1025-300

We have had the opportunity to review the recently issued Draft, Proposed Statement of Accounting Standards on Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans, and have provided several recommendations below for consideration by the Financial Accounting Standards Board. These recommendations include:

LIABILITY MEASUREMENT

- (1) **Recommendation: Use Accumulated benefit obligation ("ABO"), not Projected benefit obligation ("PBO") to measure pension liability at year-end.**

This is consistent with current accounting standards in this area, and measures liabilities based on their current status today, without any incorporation of "future events" into the liability measures. While some analysts might view a PBO based liability measure as the "fullest" measure with all future events anticipated in its view, the more accurate view of pension liability on a statement of financial position is its true liability to the company today. The accumulated benefit obligation is measured with that view in mind.

Why would we measure a liability at a point in time by incorporating future events that have yet to occur (i.e. wage increases)? This does not seem consistent, since we do not attempt to reflect any offsetting measure of future events that make those increases possible (i.e., we do not attempt to project sales or net income increases that would make the wage increases possible.)

Use of the ABO also minimizes the pre-tax impact of this accounting standard change on companies---the exception will be the proposed new treatment to eliminate "intangible pension assets" and have it become an OCI charge through Equity. Use of the ABO approach is consistent with the Financial Accounting Standards Board's ("FASB") view of non-pension related benefit obligations expressed in this draft. Taking the ABO approach should also minimize the "net" new impact from this accounting standard on the view and use of financial information with respect to existing loan agreements and covenants on net worth.

MEASUREMENT DATE

- (2) **Recommendation: Consider alternatives to mandatory year-end measure date for pension and other post retirement benefit obligations.**

Mandatory year-end measurement dates potentially will create a bottleneck in the receipt, review and audit of information related to pension and other post-retirement benefits by publicly held companies in their year-end close process. These companies are already working under accelerated and increased workloads in their year-end reporting to meet SEC and earnings release deadlines. Given the complexity of the computations and the critical nature of the pension and other post-retirement benefit obligations areas, the arrival of information late in the year-end close process impacts both preparers and auditors. **We suggest that FASB further evaluate the overall impact on preparers/auditors and if warranted, should consider an alternative, more flexible approach with optional dates continued, or utilize a single mandatory measurement date earlier than year-end.**

APPROACH ON OVER FUNDED/"EXCESS ASSET" PENSION FUND POSITIONS

- (3) Recommendation: Provide for full inclusion of pension liabilities in the statement of financial position; any "over funded" or excess pension or other post retirement pension asset position should be excluded from the statement of financial position (and included in a footnote disclosure).**

While pension liability views incorporated into a company's statement of financial position makes sense, does it make sense to equally have any "over funded" pension plan reflect itself in the assets a company? Given the legal and economic limitations associated with the sponsor's access to and use of assets held in trust for the Plan, any "excess" position in such a trust might be noteworthy as disclosure, but does not belong in a statement of financial position (balance sheet) for that company. To do so is to potentially mislead financial statement users about the resources effectively available to the company at a point in time.

TREATMENT OF DEFERRED TAX ITEM AND RELATED TAX RESERVE IMPACTS FROM RECORDING OTHER COMPREHENSIVE INCOME/LOSS ITEMS

- (4) Recommendation: Mandate the inclusion of all OCI tax impacts (i.e. related to any tax reserves set up on deferred tax assets created directly via an OCI item) in the OCI presentations through Equity, and not through the regular statement of profit/loss.**

The FASB in the proposed Draft makes a general reference to SFAS109 (Accounting for income taxes), and the deferred tax items and the related accounting for Other Comprehensive Income ("OCI") charges/credits. We believe that on Other Comprehensive Income ("OCI") items, there is a major inconsistency in this area in current accounting standards. If the intent is to make the OCI area more dynamic and inclusive (which this Pension draft will do), then immediate steps by the FASB are appropriate to provide for consistent treatment of OCI tax impacts as part of the OCI area.

If OCI items create deferred tax items by application of SFAS109, current applications lead to any related tax reserves being recognized as a direct charge to regular income statement earnings (and not through the OCI area of equity).

Current accounting standards provide for a regular profit and loss statement reflecting the financial performance of a company over a period of time. At the same time, some additional profit/loss items are defined as OCI and taken initially directly through Equity, then at some future point, these OCI items are reversed as they are recognized in the regular income statement.

If Deferred Tax asset/liabilities are created as a result of a OCI (Other Comprehensive Income) item, then any tax reserves and tax reserve charges on those specific OCI driven Deferred tax asset/liabilities should similarly be treated as an OCI reporting event (as opposed to pushing those OCI related tax reserve charges through the regular income statement).

This recommendation would serve to put consistent logic into accounting for all aspects of other comprehensive income/loss items. Separating the OCI item away from its directly related Deferred tax impact, and offsetting tax reserves, leads to confusion and distortion of the presentations made via the regular profit/loss statement presentation. The clarification and change required to keep all OCI

(including tax reserve impacts) consistently reflected through Equity should be done directly in this proposed Accounting Standard.

THE PROPOSED EXEMPTION IN THE DRAFT ON RETROACTION APPLICATION TO EVALUATING TAX RESERVE IMPACTS IN PRIOR YEARS ON OTHER COMPREHENSIVE INCOME/LOSS ITEMS RECOGNIZED VIA THIS DRAFT ACCOUNTING STANDARD

(5) Recommendation: With the action taken in Recommendation (4), we recommend elimination of the proposed "exemption" in the Draft to retrospectively application of this proposed pension accounting standard to prior years in the area of tax reserve evaluations.

In our opinion, applying the "more likely than not" criteria of SFAS109 on tax reserves can be done for this retrospective application area as easily as it was done when any tax reserve issues were originally evaluated in those prior years. The critical issue is whether that retrospective view changes the measure of prior year Income/loss reporting on the regular income statement. The exemption is called for if, under current interpretations of GAAP (generally accepted accounting principles), such application potentially would alter prior years, by driving any OCI related deferred tax reserves into the regular income statement as a tax reserve charge to earnings. Consistent and complete inclusion of all OCI impacts (including tax reserve impacts) in the same manner through Equity (as an OCI event) should eliminate any concern with "changing" regular statements of profit/loss through retroactive application of this proposed accounting standard. Retroactive application in prior years will impact only the statement of financial position and footnote disclosure.

We appreciate the efforts and work of the Financial Accounting Standards Board, and the opportunity to review and comment on the proposed Draft standard.

If there is additional feedback or clarification we can provide in any of the recommendations outlined above for your consideration, please let us know.

Best Regards,

Glenn A. Roberts, CPA, Chair
Gary L. Sandefur, CPA
Accounting & Auditing Committee
The Ohio Society of CPAs