



LETTER OF COMMENT NO. 123

May 31, 2006

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

<u>File Reference No. 1025-300: Comments on Proposed FASB Statement on Employers' Accounting</u> for Defined Benefit Pension and Other Postretirement Plans

We appreciate the opportunity to provide our comments to the Financial Accounting Standards Board on 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)." J. C. Penney Company supports the Board's efforts to improve the transparency and understandability of pension and other postretirement plan disclosures. The optimal level and extent of disclosures must be balanced with the overarching concept that financial reporting is designed to provide useful information for decision making, whether for credit, investment or other purposes.

Inherent in accounting for pensions and other postretirement plans is a very long-term time horizon. The period over which the corresponding cash flows occur to fund retirement-related obligations is a time horizon of 50 or more years. This should be taken into account when reflecting both the economic status of retirement benefit plans as of any point in time, as well as the attribution of costs to any particular year. We submit for your consideration what we believe to be the following key points related to the issues raised in the exposure draft.

Measurement Date

J.C. Penney Company, Inc. utilizes a measurement date that is three months prior to the end of our fiscal year. This is a very prevalent practice and one that has been fully debated and considered acceptable under the current pension accounting rules. This timing allows our actuarial firm and pension trust fiduciary time to update the participant census data and work through the mechanics of preparing the asset valuations and estimates related to the retirement obligations. With respect to asset valuations, certain types of investments, such as private equity securities and real estate interests may take several weeks to obtain from qualified third party valuation specialists. Regarding the liability estimates, as the current rules require the discount rate be determined as of the measurement date, an early measurement date permits adequate time to develop a representative portfolio of AA-rate corporate bonds and determine an appropriate discount rate. The use of an early measurement date also allows management and our financial reporting personnel adequate time to develop thoughtful and thorough disclosures related to the Company's pension and other postretirement plans, including sensitivity analysis surrounding certain assumptions. Considerable time is spent reviewing and understanding the estimates and results of the actuarial valuation reports. We consider our accounting policy related to our pension and other retirement plans to be a critical accounting policy due to the significant judgments and estimates involved in the actuarial valuation process. The ability to use an early measurement date is also beneficial in establishing

net periodic pension and other postretirement benefit cost for the coming fiscal year for budgeting purposes.

Currently, we receive pension and related information from our actuarial firm in two phases. Initially, we receive basic information that allows us to record the pension and other postretirement-related amounts in the general ledger as part of the year-end close process in a timely manner. Subsequently, a few weeks after the close, we receive the information necessary for the additional minimum liability calculation, footnote disclosures and management's discussion and analysis of historical performance and sensitivity data.

Estimates are an inherent part of preparing financial statements and the less time that is available to true-up numbers, the more estimates that are necessary to complete the close process in a timely manner. Changing the measurement date to the fiscal year-end date will place an unreasonable burden on actuaries to report data on a timely basis and will create an unnecessary burden on company personnel who would have to wait longer to obtain actuary reports and record data that was previously only required for footnote disclosure. The review and analysis of the actuarial valuation reports will now be delayed into a company's peak year-end close process if the measurement date must equal an employer's balance sheet date.

In an environment in which the expectations are for companies to provide financial information sooner, while at the same time improving the transparency of information, reinforced by the SEC's new rules that will decrease the annual filing deadline to 60 days for "large accelerated filers" beginning with annual reports filed for fiscal years beginning on or after December 15, 2006, companies are searching for further efficiencies in the financial close process, while retaining sufficient time for management review and development of meaningful and transparent financial statement disclosures In addition, we have an extensive certification and Sarbanes-Oxley Section 404 internal control review and testing process. This process could be compromised if basic financial statement analysis and preparation were delayed.

FASB Statement 87, paragraph 52, states that "Requiring that the pension measurements be as of a particular date is not intended to require that all procedures be performed after that date. As with other financial statement items requiring estimates, much of the information can be prepared as of an earlier date and projected forward to account for subsequent events". We currently have a process in place to rollforward the retirement related data from the measurement date to year-end, taking into account significant activity, such as fourth quarter company benefit payments/contributions. Significant events, such as a plan amendment, ordinarily call for an updated measurement under existing rules. As a practical matter, many companies, including J.C.Penney, would have to use an earlier date to estimate pension assets and related obligations in order to meet accelerated filing deadlines without compromising the quality of our financial statement disclosures.

The impact of using an earlier measurement date, up to three months prior to the fiscal year-end date, would show no consistent pattern of over or understating the benefit obligations or fair value of assets given the point-in-time measurement compared to the extremely long-term nature of these obligations. Capturing and reporting assets and liabilities on any one date is simply a "snapshot" that will inevitably change, but these amounts are adjusted and trued up each year. There would be no material impact on assets or liabilities over the 50 year or longer time frame during which companies contribute to pension plans and earn returns on invested plan assets. Since the actuarial determination of pension and other postretirement benefit obligations involve numerous estimates and assumptions, the concern over the exact measurement date implies a false degree of precision with significant costs and no substantive benefits.

Conclusion:

Based on the above, J.C. Penney supports retaining the current rule of allowing a measurement date of up to 90 days prior to a company's year end. This is a practical approach that balances timely reporting with reporting an accurate view of the funded status of a company's retirement plans.

Funded Status of the Pension Plan

The fundamental definition of a liability according to FASB Concepts Statement No. 6, Elements of Financial Statements, is "a probable future sacrifice 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". Based on this definition, we believe that as of the balance sheet date, the accumulated benefit obligation (ABO) should be used as the measure to assess the funded status of retirement benefit plans. Unless an obligation exists to increase future pay levels, it does not seem appropriate to reflect the value of future salary increases directly into the balance sheet. An employer is not obligated to provide future pay increases to employees, nor is an employer obligated to provide a pension plan in the future. In recent months, the trend toward freezing defined benefit plans has accelerated dramatically, underscoring the voluntary and easily-revocable nature of defined benefit plans.

The strongest argument in favor of using the projected benefit obligation (PBO) to assess the funded status of retirement benefit plans is the accounting concept of conservatism. Certainly, a PBO will typically be larger than the corresponding ABO for an ongoing plan. However, measuring a pension obligation including a portion that can be withdrawn by the sponsor at its discretion is not in the best interest of participants nor users of financial statements, just as presenting an inflated measure of assets would be a disservice to users of financial statements. It should be noted that the choice of how to measure the pension obligation for accounting purposes has no impact on the regulatory funding requirements. The goal should be to provide the most representationally faithful portrayal of a company's pension assets and obligations abiding by the accounting conceptual framework crafted by the FASB. We believe that recording the liability that has been incurred as of the balance sheet date, i.e. the ABO, is the most accurate estimate of the pension obligation as of a point in time.

Conclusion:

J.C. Penney supports using the ABO versus the PBO to determine the funded status of defined benefit pension plan for accounting purposes. We believe this is a more accurate reflection of the company's legal obligation as of the balance sheet date.

We appreciate the opportunity to share our thoughts on this important issue. We would be pleased to discuss our comments in greater detail if requested.

Respectfully,

Robert B. Cavanaugh

Executive Vice President and Chief Financial Officer J.C. Penney Company, Inc.